HSS Financing plc

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

Annual Report 2017

For the 52 weeks ended 30 December 2017

5 April 2018

Table of Contents

Forward-looking statements

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

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

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

These factors include, among others:

- changes in the macroeconomic environment;
- competition in our industry;
- the availability of funds for capital expenditures;
- unexpected periods of decline owing to macroeconomic, industry and operational factors;
- our inability to collect on customer contracts;
- the loss of our key suppliers;
- increased costs of our rental fleet maintenance and replacement;
- depressed market value of our rental fleet;
- decline in our service levels;
- damage to our brands or our reputation;
- insufficient insurance and increases in insurance premiums;
- our inability to effectively maintain or manage our property leaseholds;
- the ability and cost to comply with current or future laws and regulations;
- volatility in fuel costs;
- changes in currency and interest rates;
- loss of our key personnel;
- complaints and litigation;
- tax risks;
- disruptions in our information technology systems;
- our acquisitions may prove unsuccessful or strain our resources;

- risks related to our substantial indebtedness, our structure and our ability to meet our debt service obligations; and
- other factors discussed under “Risk factors”.

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

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

Certain definitions

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

"*ABird*" are to Abird Superior Limited and its wholly-owned subsidiary, Abird Limited, a provider of temporary power generation facilities and associated products and services, that we acquired on 31 October 2012;

"*All Seasons Hire*" are to All Seasons Hire Limited, a specialist heating, ventilation and air-conditioning hire company, that we acquired on 8 May 2015;

"*Apex*" are to Apex Generators Limited, a specialist generator hire business operating primarily across Scotland, that we acquired on 31 March 2014;

"*Clearstream*" are to Clearstream Banking, *société anonyme*;

"*Collateral*" are to the assets securing the obligations of the Issuer and the Guarantors under the Notes, the Note Guarantees and the Revolving Credit Facility Agreement. See "*Description of the Notes—Security*"*;*

"*Company*" are to Hero Acquisitions Limited, a private company limited by shares incorporated under the laws of England and Wales;

"*Customer Distribution Centre(s)*" or "*CDC(s)*" are to the locations across the United Kingdom from which we deliver items of our core hire equipment directly to customer sites, manage the collection of equipment from customer sites at the end of the hire period and undertake testing and repair of larger non-specialist equipment;

"*EU*" are to the European Union;

"*Euroclear*" are to Euroclear Bank SA/NV;

"*Exponent*" are to the investment funds managed by Exponent Private Equity LLP or, when otherwise indicated or where the context otherwise requires, Exponent Private Equity LLP in its own right;

"*Guarantors*" are to the entities guaranteeing the obligations of the Issuer under the Notes;

"*Hampshire Bidco*" are to Hampshire Bidco Limited, an intermediate holding company which was renamed from Havana Bidco Limited to Hampshire Bidco Limited on 23 May 2014;

"*HSS Hire Group plc*", "*HSS*", "*we*", "*our*" *and* "*us*" are to HSS Hire Group plc, a private company limited by shares incorporated in the United Kingdom on 7 January 2015 and re-registered as a public limited company on 19 January 2015, and its direct and indirect subsidiaries. The ordinary share capital of HSS Hire Group plc was admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities under the ticker "HSS" on 9 February 2015;

"*HSS OneCall*" are to our specialist equipment sourcing services;

"*HSS Training*" are to our specialist training services;

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

"*Indenture*" are to the indenture governing the terms of the Notes among the Issuer, the Guarantors, the Trustee and the other parties named therein, to be dated the Issue Date;

"*Intercreditor Agreement*" are to the intercreditor agreement among the Issuer, the Guarantors, the Borrowers, the Trustee, the Security Agent, the facility agent under the Revolving Credit Facility Agreement and the other parties named therein, to be dated on or about the Issue Date;

"*Ireland*" are to the Republic of Ireland;

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

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

"*National Distribution and Engineering Centre*" or "*NDEC*" are to our previously operated operational centre in Cowley, Oxfordshire;

"*Network Reconfiguration*" are to the transformational change towards a more cost-effective supply chain model suited to our network size, which we have implemented after reassessing our business plan in a detailed strategic review in the second half of 2017;

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

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

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

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

"*Revolving Credit Facility Agreement*" are to a revolving credit facility agreement governing a £60.0 million super-senior revolving credit facility to be dated on or about the Issue Date;

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

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

"*TecServ*" are to TecServ Cleaning Equipment Services Limited, a specialist provider of cleaning equipment services that we disposed of to a trade purchaser in November 2017;

"*UK*" are to the United Kingdom;

"*UK Platforms*" are to UK Platforms Ltd and its subsidiary, Access Rentals (UK) Limited, a provider of electric and diesel powered access products, that we acquired on 28 June 2013;

"*United States*", "*US*" and "*U.S.*" are to the United States of America;

"*U.S. Exchange Act*" are to the U.S. Securities Exchange Act of 1934, as amended;

"*U.S. GAAP*" are to accounting principles generally accepted in the United States; and

"*U.S. Securities Act*" are to the U.S. Securities Act of 1933, as amended.

Presentation of financial and other information

IFRS financial information

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

We are permitted under the UK Companies Act of 2006 to prepare our financial statements up to a date that is seven days before or after the applicable accounting reference date for the period. Although our audited financial statements refer to fiscal years ended 31 December, our fiscal year is usually made up of a 52 week period, and as a result does not always correspond to a calendar year ended 31 December. Additionally, from time to time, our fiscal year accounting period covers a 53 week period, which impacts the comparability of results. For the 52 week period in 2015, the period ran from 28 December 2014 to 26 December 2015, for the 53 week period in 2016, the period ran from 27 December 2015 to 31 December 2016 and for the 52 week period in 2017, the period ran from 1 January 2017 to 30 December 2017.

Our consolidated financial statements as at and for the 52 week period ended 26 December 2015, as at and for the 53 week period ended 31 December 2016 and as at and for the 52 week period ended 30 December 2017 are presented in accordance with IFRS.

Our consolidated financial statements as at and for the 52 week period ended 26 December 2015, as at and for the 53 week period ended 31 December 2016 and as at and for the 52 week period ended 30 December 2017 were audited by BDO LLP whose independent auditors reports are contained elsewhere in this annual report. The results of operations for prior years are not necessarily indicative of the results to be expected for any future period.

In accordance with IFRS 3, in the financial statements as at and for the 53 week period ended 31 December 2016, measurement period adjustments have been made to comparative amounts for the 52 week period ended 26 December 2015 relating to provisional values identified for the acquisition of All Seasons Hire in May 2015 which resulted in a restatement of certain amounts previously recognised in the preliminary valuation as at and for the 52 week period ended 26 December 2015. The result of these adjustments changed the provisional goodwill from £7.0 million, as reported at 26 December 2015, to £7.3 million.

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

The annual consolidated financial statements of the Company, included in this annual report, have each been reproduced from the financial statements required by statute in the United Kingdom to be prepared annually. Such statutory annual financial statements are also required to be audited by a registered auditor in the United Kingdom. In respect of the audit reports relating to the annual statutory financial statements which are also reproduced herein, BDO LLP, our independent auditor which conducted its statutory audits in accordance with statute in the United Kingdom, stated the following in accordance with guidance issued by the Institute of Chartered Accountants in England and Wales: “This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members, as a body, for our audit work, for this report, or for the opinions we have formed”.

These statements are intended to disclaim any liability to parties (such as investors in the Notes) other than to the members of the Company with respect to those reports. For this reason, the SEC would not permit the language quoted above to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the U.S. Securities Act, or in a report filed under the U.S. Exchange Act. It is not clear whether a U.S. court (or any other court) would give effect to the language quoted above, therefore the recourse that persons such as purchasers of the Notes may have against the independent auditors could be limited and the inclusion of the language referred to above may limit the ability of persons such as purchasers of the Notes to bring any action against our independent auditors.

References in this annual report to "pound(s) sterling" or "£" are to the lawful currency of the United Kingdom. The financial information and financial statements included in this annual report are presented in pound sterling.

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

The financial information set out in pages 1 to 65 of this document does not constitute the company's statutory accounts for 2017, 2016 or 2015.

Statutory accounts for the financial year ended 30 December 2017 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for 2017 was 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.

Statutory accounts for the financial year ended 31 December 2016 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for 2016 was 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.

Statutory accounts for the financial year ended 26 December 2015 have been reported on by the Independent Auditors. The Independent Auditors' Report on the Annual Report and Financial Statements for 2015 was 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.

Statutory accounts for the financial years ended 31 December 2016 and 26 December 2015 have been filed with the Registrar of Companies. The statutory accounts for the year ended 30 December 2017 will be delivered to the Registrar in due course.

Other non-IFRS financial information

In addition to IFRS financial information, summary unaudited financial data and pro forma financial information and adjustments, we have included certain other non-IFRS financial measures and adjustments in this annual report, including third-party debt, net third-party debt, capital expenditure, EBITDA, Adjusted EBITA and certain other financial measures and ratios. Such other non-IFRS financial measures and ratios are not required by or presented in accordance with IFRS. We have defined below certain of the non-IFRS measures and ratios that we have used in this annual report, including the pro forma EBITDA-based measure that gives pro forma effect to certain cost saving measures.

EBITDA-based measures:

- "*EBITDA*" represents profit or loss for the financial period before finance expense, finance income, income tax expense/credit movement in derivative financial instruments, depreciation, amortisation and hire stock disposals and write offs; and

- "*Adjusted EBITDA*" represents EBITDA adjusted to remove the effects of certain exceptional costs, which we believe are not indicative of our underlying operating performance;

- “*Adjusted EBITA*” represents our Adjusted EBITDA (as defined herein) less depreciation; and

- “*pro forma Adjusted EBITDA*” represents Adjusted EBITDA adjusted to give pro forma effect to certain cost saving measures as if they had been implemented on 1 January 2017.

For reconciliations of these EBITDA-based measures, see “*Summary—Summary consolidated financial and other data*”.

Other accounts-based non-IFRS measures:

- “*capital expenditure*” represents additions to our property, plant and equipment during the applicable periods as set forth in the notes entitled “*Segmental reporting*” to our financial statements included in this annual report;

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

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

- “third-party debt” consists of (i) bank overdrafts, (ii) borrowings under our Existing Revolving Credit Facility, (iii) obligations under our finance leases, (iv) accrued interest, (v) Existing Notes and (vi) unamortised debt issue costs.

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

Industry and market data

We operate in an industry for which it is difficult to obtain precise industry and market information. The market and competitive position data in the sections “Summary”, “Risk factors”, “Operating and financial review”, “Industry” and “Business” of this annual report are in certain instances, estimates by management based on industry publications, and from surveys or studies conducted by third-party industry consultants that are generally believed to be reliable. However, the accuracy and completeness of such information is not guaranteed and has not been independently verified. Additionally, industry publications and such studies generally state that the information contained therein has been obtained from sources believed to be reliable, but the accuracy or completeness of such information is not guaranteed and in some instances the sources do not assume liability for such information. We have obtained certain of the market and industry data presented in this annual report from reports produced by third-party industry specialists such as the European Rental Association. We cannot assure you of the accuracy and completeness of such information, and we have not independently verified such market data. We do, however, accept responsibility for the correct reproduction of this information.

Some of the information herein has also been extrapolated from such market data or reports using our experience and internal estimates. Elsewhere in this annual report, statements regarding the industry in which we operate and our position in this industry are based solely on our experience, internal studies and estimates, and our own investigation of market conditions. We believe that the sources of such information in this annual report are reliable, but there can be no assurance that any of these assumptions is accurate or correctly reflects our position in our industry, and none of our internal surveys or information has been verified by any independent sources. While we are not aware of any misstatements regarding the industry or similar data presented herein, such data involves risks and uncertainties and are subject to change based on various factors, including those discussed under the heading "Risk factors" in this annual report. As a result, we do not make any representation as to the accuracy or completeness of any such information in this annual report.

Management's introduction

2017 was a challenging year for the Group with a significant reduction in Adjusted EBITA at £1.8m for the full year compared to £20.3m in 2016.

The first half of the year was heavily impacted by changes to the operating model made during 2016. Whilst the Services business continued to deliver revenue growth and improve contribution margins, these changes to the model impacted the availability of our highly profitable core rental fleet resulting in a reduction in Rental Revenue as well as resulting in a higher cost base. These factors combined lead to an Adjusted EBITA loss of £7.1m in H1 2017.

Management took decisive action to address this with a number of initiatives designed to improve core Rental Revenue including focusing the whole organization through aligned incentives, improved availability and targeted investment in high demand and highly utilized products. Whilst the total Revenue for the year declined by 1.9%, the growth trend improved as a consequence of these actions leading to an underlying Revenue performance of 1.1% in the second half of the year.

Initiatives were also implemented to address the increasing cost base post the new operating model targeting an annualized cost saving of £13m against the Q1 2017 run rate. These included supplier renegotiations, central headcount reduction, the closure of underperforming branches and targeted efficiencies across the network. All of these actions were fully implemented by the end of the third quarter and resulted in a reduction in the cost base of £4m per quarter when comparing Q4 2017 against Q1 2017. The full profit benefit of these initiatives will be realized in 2018.

As a consequence of these actions, the Group's profitability improved with an EBITA profit of £8.9m in H2 2017.

Our new CEO, Steve Ashmore, joined the business in June 2017 and immediately initiated a thorough review of the Group's strategy. We conducted the most in depth strategic review ever carried out by the Group, reviewing the market opportunity, profitability analysis across 37,000 customers, 1,600 products and 250 locations, and the efficiency of the network model. This review reaffirmed the attractiveness of the markets in which we operate and has resulted in a clear plan which will restore the business to historic levels of performance over the near term, delever the Group and create a leaner more resilient organization.

The strategy has the following three priorities:

Delever the Group

The strategic review identified further annualized cost savings of £10-£14m across the network and central functions over and above those already delivered in 2017.

Cost reduction opportunities of £7-£10m across the network were identified through moving the testing and engineering of fast moving hire stock out of the NDEC and into the branch and CDC network. These changes materially reduce internal distribution movements, utilize excess capacity in the network, improve asset utilization by reducing turnaround time, reduce operational overheads and improve space utilization. Agreement was reached to exit the NDEC in February 2018 with implementation by April 2018. Annualized cost savings of c£11m are now expected.

Further efficiencies of £3-£4m are planned across central functions through the removal of non-profit generating activities, elimination of duplicated activity and process simplification. Actions to deliver c£2m of these benefits were implemented in December 2017 with the remainder scheduled through 2018.The cost actions already taken in 2017 and the further actions identified as part of the Strategic Review have given rise to exceptional items of £66.1m in the financial year being a combination of onerous lease provisions and impairments on closed branches; redundancy costs associated with the cost reduction programme; and the provision of £40.7m to reconfigure the network.

Included within the network reconfiguration provision is £32.6m to cover payments to the third party who previously provided the NDEC service for the unexpired term of their contract, with a cash outflow of c£9m in 2018 followed by broadly equal instalments over the following 7 years until 2026.

Cost action already taken in 2017 and the realization of the savings arising from the Strategic Review will materially reduce net leverage with an indicative pro-forma reduction of 3.2x

Repair the Tool Hire business

The Group has a market leading position in the attractive Tool Hire market through its national branch footprint, broad product offering, knowledgeable staff and customer trust in the brand to provide high quality hire stock available when needed. However revenue and profit performance has declined over the past 3 years reflecting a focus on sales not profitability and an increasing cost base.

Therefore a key element of our strategy is to focus on the Tool Hire business, returning in the short term to historic levels of profitability by focusing on the customer, our product range and branches.

We have identified several areas where we can improve profitability without compromising our customer experience. This includes addressing unprofitable customers through targeted customer renegotiations, aligning pricing and the cost-to-serve in areas such as transport recovery and the reallocation of products to more profitable customer groups.

To improve product profitability, we will selectively increase pricing on unprofitable products or exit and serve through our OneCall business, introduce smart pricing to reflect asset utilization and rationalize the range where appropriate.

Having closed a number of underperforming branches in 2017, we believe the network is in the locations and at the appropriate level to support our growth plans. Within the network there remains a range of performance levels which need to be addressed through a number of actions including developing staffing models and people capability.

A number of actions highlighted above to repair the tool hire business are already underway and will realize commercial benefit as 2018 progresses.

Strengthen the Commercial Proposition

To strengthen our commercial proposition and deliver profitable growth we will focus on customer segmentation, geographic focus and sales channel development.

Customers have differing needs and we need to respond accordingly. We are developing a more detailed customer segmentation approach which identifies the most profitable opportunities, builds a tailored service offer to meet their needs and enables more targeted resource deployment.

We have a clear understanding of the market opportunity by each UK region, our level of penetration and competitive landscape. We will prioritise our focus on regions where we can drive profitable growth over the medium and long term.

Further progress has also been made on developing our sales channels with investment having been made to improve our digital capabilities. We will continue to maximize our digital competitive advantage and look to develop new innovate low-cost channels to meet our customers' needs.

Business overview, strengths and strategies

Overview

We are a leading provider of tool and equipment hire and related services in the United Kingdom and Ireland. We focus on the “maintain” and “operate” segments of the tool and equipment hire market, as opposed to providing large plant and other heavy machinery and equipment geared to heavy construction activities in the “new build” market segment. This is because we believe that the “maintain” and “operate” segments offer us greater opportunities to provide value-added services and generate better and more stable returns. We believe that within our target segments of the market we are the second largest provider of tool and equipment hire and related services in the United Kingdom and Ireland based on revenue. We believe that we are also the second largest provider of powered access equipment in the United Kingdom based on fleet size.

We cater to a long-standing, loyal and diversified customer base built over more than 60 years, comprising on average more than 35,000 “live” accounts. Our customers range from large, blue-chip companies to smaller, local businesses in, among others, the facilities management, retail and commercial fit-out, property services, utilities and waste and infrastructure customer segments throughout the United Kingdom and Ireland. We believe that in excess of 90% of our total revenue is generated from business-to-business (“B2B”) customers. We operate from approximately 255 branches with a delivery fleet of approximately 360 commercial vehicles and have approximately 2,700 employees.

We categorise our business operations into two broad segments. The first segment is “rental and related revenue”, which encompasses our core tool and equipment hire business that we operate mainly under our HSS Hire brand and our specialist rental equipment brands such as Abird, Apex and UK Platforms. This segment comprises the rental income earned from owned tools and equipment, including powered access, power generation as well as heating, ventilation and air-conditioning (“HVAC”) assets, together with directly related revenue such as resale (fuel and other consumables), transport and other ancillary revenue streams.

We believe that the services that we offer help differentiate us from our competitors, embed us more deeply with our customers, capture more of our customers’ potential spending and establish a “one-stop-shop” for our customers. Our extensive offering enables us to cross sell our core and specialist products and services to our customers thereby enabling us, we believe, to meet their requirements to a greater extent than many of our competitors. The key products and services that we offer our customers are summarised below.

We believe that our HSS Hire brand has the strongest recognition in the markets in which we operate. The products and services that we provide are often critical to the business operations of our customers. As a result, our customers are selective about the suppliers with which they work and typically seek suppliers which have a well-established reputation for trust and quality and the ability to meet their requirements at short notice. We believe we are also well- regarded by our customers for our safety management standards, service levels and asset availability which, in our experience, are the most significant criteria based on which customers select their equipment rental provider.

Our rental and related revenue businesses and brands:

- *HSS Hire:* Under our HSS Hire business, we offer an extensive range of tools and equipment across over 1,600 product lines driven by customer demand. We strive to ensure that this equipment is well maintained, fully compliant with health and safety requirements and ready to use. Customers have the option to order our products and services through our branches, our customer service centre, online or through our dedicated account managers.

- *ABird and Apex:* ABird and Apex are our specialist provider of temporary power generation and distribution equipment and services. We operate under the ABird brand in England and Wales and under the Apex brand in Scotland.

- *UK Platforms:* UK Platforms is our specialist provider of powered access equipment and services, offering a full range of diesel and electric aerial work platforms.

- *HVAC Services*: Additionally, we offer specialist HVAC services through All Seasons Hire, our specialist heating, ventilation and air-conditioning hire company.

Our services businesses and brands:

- *HSS OneCall*: Under our HSS OneCall business, in response to customer demand, we work with a network of partners to source equipment that we do not typically hold as a part of our hire fleet. A dedicated in-house team provides advice and manages orders through our branches or through our contact centre, under a single contract and single invoice. Our OneCall suppliers are vetted against a range of quality, reliability and health and safety criteria before being put on an approved supplier list.

- *HSS Training:* The HSS Training business is our specialist training service, offering over 480 industry-recognised technical and safety courses at 49 training venues throughout the United Kingdom and Ireland. Under HSS Training we are able to offer tailored courses to our customers.

Our supply chain model

Our business plan, and therefore the optimal configuration of the network that supports it, has evolved and undergone significant changes in the last few years.

Historically, we operated on a very decentralised, multi-site hire depot model, which locally managed our engineering and logistics functions and required a depot network with a large footprint. Due to the decentralised nature of this network, this model was characterised by relatively high fixed costs per site, low utilisation of rental fleet and limited opportunities for national economies of scale. Beginning in 2011, we started transitioning our operations to an increasingly centralised model, with a view to improving customer experience via a more cost-efficient network. From 2011 to 2016, we operated through a semi-consolidated hub-and-spoke network model, which consolidated engineering and logistics functions through a large network of Customer Distribution Centres ("CDCs") and facilitated engagement with customers through 70 new smaller, lowercost local branches. This hub-and-spoke network model allowed better cost control and improved productivity and utilisation rates.

As part of a significant branch expansion planned from 2015, we made significant investments in further centralising our network. Along with successful improvements in our engineering, one of these initiatives was the establishment of our National Distribution and Engineering Centre ("NDEC"), which we opened in March 2016, and focused on the testing and maintenance of our fast moving core hire fleet and the consolidation of repetitive processes into one production facility. However, we reassessed our business plan in a detailed strategic review in the second half of 2017. As part of that plan, we determined that the current size of the network, approximately 255 locations was the appropriate level for our group. This was much lower than originally envisaged when the NDEC was set up and therefore the NDEC was not cost-effective. Having recognised this, we decided to move back to a more cost-effective supply chain model suited to our network size (the "Network Reconfiguration").

The following strategic actions have been taken to implement the Network Reconfiguration as a result of which the new supply chain model came into effect on 3 April 2018:

- Testing of fast moving core hire fleet has been moved back into the branch and CDC network with engineering consolidated into 8 CDCs, assisting with continued high product utilisation and capital efficiency.

- The fulfilment of hire stock to branches is now being completed by the CDCs overnight, with rebalancing of the stock across England, Wales and Scotland being performed through a new low cost cross-dock capability.

We expect that the Network Reconfiguration will reduce our cost base as a result of fees no longer payable to a third party logistics provider in connection with the NDEC. See "*Recent Developments—Network Reconfiguration*". In addition, we expect that the Network Reconfiguration will lead to improved availability and annualised cost savings of approximately £11 million through a reduction in internal distribution movement, utilisation of excess capacity in the network and improved productivity and asset utilisation.

We continue to operate distribution centres and branches in Northern Ireland and Ireland. In addition, our specialist brands operate from 17 distinct locations, with a large number of these sites used by more than one brand following co-location activities that were implemented through 2016.

Our strengths

Leading market positions in attractive, resilient markets

We are a leading provider of tool and equipment hire and related services in the United Kingdom and Ireland. We focus on the "maintain" and "operate" segments of the tool and equipment hire market, as opposed to providing large plant and other heavy machinery and equipment geared to heavy construction activities in the "new build" market segment. This is because we believe that the "maintain" and "operate" segments offer us greater opportunities to provide value-added services and generate better and more stable returns. When we do operate in the "new build" sector, we often seek to do so through a combination of our own fleet and re-hire, such that we can gain revenue in the sector without committing structural capital expenditure on items of fleet that do not play a primary role in our fleet strategy. We believe that within our target segments of the market we are the second largest provider of tool and equipment hire and related services in the United Kingdom and Ireland based on revenue. We believe that we are also the second largest provider of powered access equipment in the United Kingdom based on fleet size.

Our leading market positions are underpinned by a number of competitive advantages. These include our size and scale, national reach and presence, broad service offering, innovation capabilities, long-standing customer relationships and reputation for quality, reliability and consistency. As a market leader, we are a key partner to our large customers, who tend to work only with a few select suppliers and value our logistical and technological leadership as well as our ability to deliver fully customised services "anywhere, anytime" through our "one-stop-shop" set-up. For example, we have collaborated with some of our customers to develop an innovative model whereby they promote us as a preferred supplier to their sub-contractor base on commercial terms and service levels that have been agreed in advance. As a result, these customers benefit from our consistently high service levels and competitive pricing while we, in turn, benefit from their continued loyalty and repeat business. We have successfully implemented this model with some of our leading customers. We also believe our leading market positions give us a strategic advantage in pursuing attractive acquisition opportunities, as equipment rental businesses which are contemplating a sale of their business are more likely to contact us rather than, or prior to, our smaller or lesser known competitors.

Diversified operations

Our business operations benefit from diversity at various levels including, among others, a broad and diverse customer base, a diverse product and service offering and various end-markets.

- *Diverse customer base:* We have on average over 35,500 "live" accounts, including a significant number of leading blue-chip customers, ranging from key accounts that offer the potential to contribute over £100,000 a year in revenue and are more inclined to use us as a "one-stop-shop"; regional customers who typically contribute between £20,000 and £100,000 a year in revenue; and our local customers who typically generate less than £20,000 a year in revenue. While our top 20 customers generated approximately 26% of our revenue for the 52 week period ended 30 December 2017, the largest single customer generated approximately 10% of our revenue during the period. We estimate that our key account customers typically generate approximately 40% of our annual revenue, our cash customers typically generate approximately 10% of our annual revenue and our regional and local customers typically generate our remaining annual revenue.

- *Diverse product and service offering:* With a strong presence in both the core equipment and specialist rental market coupled with our services offerings, we are able to offer a "one-stop-shop" to our existing and potential equipment hire customers. Our diverse offering, consisting of over 1,600 product lines across 23 equipment categories, has enabled us to satisfy our customers' needs, often in a single customised package. Moreover, our expertise has enabled us to sell multiple add-on services to our customers. Our broad offering and our growing presence in specialist rental markets also protects us against a decline in demand for any one of the product areas or businesses we operate. This has been notable in 2017, where the performance of our specialist businesses has helped to partially offset weaker performance in the tool hire offering.

- *Diverse end-markets:* Our customers' businesses range from facilities management to retail and commercial fit-out, property services, utilities and waste and infrastructure, which has helped us to withstand adverse conditions in any single market segment. A significant portion of our revenue is attributable to customers that undertake maintain and operate projects within the wider market, which has historically exhibited resilience and consequently more predictable revenue flow.

High customer loyalty driven by differentiated service model

Historically, we have won new customers and been successful in maintaining the loyalty of our existing customers by utilising our knowledge of their requirements together with our ability to offer higher value-added services. To provide our customers with a "one-stop-shop", we have developed a range of complementary, value-added specialist services, which has been well received by our customers resulting in an increase in our service revenue by 10.6% for the 52 week period ended 30 December 2017 compared to the 53 week period ended 31 December 2016. For example, our HSS OneCall business has partnered with over 250 suppliers to make equipment we do not own available to our customers, which has enabled us to be a single-source of supply to our customers and provides us with greater visibility of customer demand. This enables us to focus our investment in the areas of highest demand and financial return while allowing us to offer our customers the broadest possible range of tools and equipment. Another value-added service that we offer our customers is specialist training through HSS Training, including courses tailored to their requirements.

We believe that our strong and stable base of suppliers has also been a significant factor in helping us serve our customers' requirements. Our strong relationships with key equipment suppliers notably in the powered access, power generation and drilling and breaking categories have enabled us to benefit from favourable supply terms and to develop innovative solutions for our customers. For example, in collaboration with our suppliers, we have launched remote fleet management technology in our ABird generator fleet and "Activ Shield Bar" technology in our powered access fleet.

We believe that a combination of these factors has helped us establish long-standing relationships with our customers, a number of which have been with us for over 15 years, particularly among our key and regional customer accounts. We have managed to maintain this customer base despite instances of interrupted service during periods of transformational change. For instance, despite our historic change to a more centralised network model in 2016, we have maintained our customer base through improved fleet availability and fast-moving industrialised replenishment. Following the announcement relating to the Network Reconfiguration in 2017, we have been able to further stabilise our customer base, and believe that the changes that we have implemented to our supply chain model are helping us deliver higher customer satisfaction levels. In a survey conducted by Kantar TNS to test certain metrics to help us ascertain customer satisfaction levels of B2B operators across a variety of sectors including manufacturing, service providers, utilities, we are placed in the top third of the Kantar TNS industry benchmark for the first quarter of 2017, which we believe demonstrates the strength of our customer service.

Strong branch and CDC network

We operate from approximately 255 branches throughout the United Kingdom and Ireland, which we believe gives us the ability to serve our customers "anytime, anywhere". Our branch and CDC network comprises our 8 CDCs and our local branches across England, Wales and Scotland. Following the strategic review carried out in the second half of 2017, the fulfilment of hire stock to branches will be completed by the CDCs overnight and rebalancing of the stock across England, Wales and Scotland will be through a new low cost cross-dock capability.

We also operate distribution centres and branches in Northern Ireland and Ireland. In addition, our specialist brands operate from 17 distinct locations, with a large number of these sites used by more than one brand following co-location activities that implemented through 2016.

We believe that our extensive network gives us national reach with a widespread local presence, which allows us to better serve our customers wherever they operate. The use of a national hire fleet and the Network Reconfiguration allows us to open branches with a lower investment level than if each branch was required to maintain a large, stand-alone fleet and to manage its own transport and distribution, making it possible to build our network, access new areas and expand our geographical footprint further than would be sustainable by a conventional network model.

Strong and experienced management team and shareholder support

Our senior management team is led by our chief executive officer, Steve Ashmore, who joined us on 1 June 2017. Mr. Ashmore has considerable leadership experience in a range of industries complementary to ours, including building products supply, logistics and distribution. He has previously held a number of senior leadership roles described in more detail under "*Management*". He is supported by our chief financial officer, Paul Quested, our chief commercial officer, Tom Shorten, and other members of our senior management team, including our business unit leaders and senior function leaders with a range of experience from within the hire industry as well as from other industries, embodying a breadth of capability and disciplines. Our senior management is focused on delivering our strategy and maximising the benefits of our operational model. We also benefit from the extensive market expertise, business relationships and ongoing strong support of our majority shareholders. For example, our majority shareholders contributed £13 million by way of equity to our group in December 2016.

Our strategies

We conducted the most in depth strategic review we have ever carried out in the second half of 2017, reviewing the market opportunity, analysing profitability across 37,000 customer, 1,600 products and 250 branches as well as reviewing the overall efficiency of the historic network model. This review reaffirmed our belief in the attractiveness of the markets in which we operate and has resulted in a clear plan aimed at restoring the business to historic levels of performance over the medium term:

- delevering our group through cost savings initiatives and network optimisation;
- improving our HSS Hire business; and
- strengthening our commercial proposition.

Delever our group

Continue to deliver on cost savings initiatives

We focus on driving efficiency and implementing cost rationalisation measures throughout our business with the expectation to be able to delever our group in the medium term. During 2017, we took a number of cost rationalisation measures which have delivered annualised cost savings of £13 million compared to the run rate for the first quarter of 2017. We achieved these cost savings through reducing central headcount, working with our suppliers to consolidate and renegotiate supply contracts, closing underperforming branches and realising network efficiencies.

We intend to continue implementing cost rationalisation measures in 2018 since a strategic review recently undertaken has identified potential for an additional £10 million to £14 million in annualised cost savings, including up to £10 million related to changes in the supply chain model and a further £3 million to £4 million from central efficiencies through the removal of non-profit generating activities, elimination of duplicated activity and process simplification. We will continue to seek out and implement cost reduction opportunities.

In addition, we expect cost savings as a result of the Network Reconfiguration, which has moved the testing and engineering of fast moving hire stock out of the NDEC and back into the branch and CDC network. This measure is expected to reduce internal distribution movements, enable us to utilise excess capacity in the network and improve productivity and asset utilisation.

Continue to optimise our network

While the rest of our business has been performing well, our core tool hire business has suffered declines in revenue and profit performance over the past three years.

A significant part of the underperformance can be attributed to our over-investment in the network through the NDEC. As well as the higher cost base introduced by the NDEC, the transition to the NDEC itself had a negative impact on our core rental revenue performance, particularly among smaller and medium sized customers, due to interruptions in availability of our hire tools and equipment during the period of transition. The implementation followed a phased approach whereby we actively staggered the roll-out plan, which completed in the first quarter of 2017 to cover the Network Reconfiguration. This meant we were also effectively carrying the costs of operating two systems in parallel for some periods. The longer implementation impacted our hire volumes and our profitability in the second half of 2016 and the first half of 2017. We have now started to implement the Network Reconfiguration.

We have also moved to transfer testing functions to local branches for fast moving equipment. Under the historic network model, equipment was constantly in transit for centralised testing, often when in perfectly good working order, and therefore unavailable for immediate re-hire. We will continue to look for additional opportunities of this sort to improve our network, including the availability and utilisation of our equipment.

Having closed a number of underperforming branches over the course of 2016 and 2017, we believe our network is in the locations and at the appropriate level to support our growth plans. Within the network, we have identified a number of opportunities to improve performance levels, through developing better staffing models and training. For instance, we have recently started training our staff in testing our tools and equipment upon return by the customer. We expect to implement these and other similar measures during 2018.

Improve our HSS Hire business

We believe that we have a market leading position in the attractive tool hire market through our national branch footprint, broad product offering, knowledgeable staff and customer trust in the brand to provide high quality hire stock available when needed. However, we need to work to deploy these advantages more effectively.

We intend to focus on profitability, our customer and our product range. As a first step, we have identified several areas where we can improve profitability without compromising our customer experience. This includes addressing unprofitable customers through targeted sales initiatives and customer renegotiations, including aligning pricing better with our cost-to-serve in areas such as recovery for our cost of transport. We are also actively reallocating products to more profitable customer groups and have started focussing on rental revenue across the whole organisation through aligned incentives. To improve product profitability, we are selectively increasing pricing on unprofitable products, or discontinuing those products while continuing to make them available through our HSS OneCall business. We have also introduced smart pricing to reflect asset utilisation and rationalise the product range where appropriate.

We have already seen the positive effects of this strategy in our preliminary results for 2018. We will continue to implement strategies to improve our business.

Strengthen the commercial proposition

To strengthen our commercial proposition and deliver profitable growth we expect to focus on customer segmentation, geographic focus and sales channel development.

Customers have differing needs and we need to respond accordingly. We are developing a more detailed customer segmentation approach which identifies the most profitable opportunities, builds a tailored service offer to meet their needs and enables more targeted resource deployment.

We have a clear understanding of the market opportunity by each UK region, our level of penetration and competitive landscape. We will prioritise our focus on regions where we can drive profitable growth over the medium and long term.

Further progress has also been made on developing our sales channels with investment having been made to improve our digital capabilities. We will continue to maximise our digital competitive advantage and look to develop new innovate low-cost channels to meet our customers’ needs.

Recent developments

Network Reconfiguration

In February of this year we announced the results of our strategic review, including the details relating to the Network Reconfiguration. This included our expected cost savings from the change, mainly including fees no longer payable to a third party logistics provider in connection with the NDEC amounting to approximately £14 million, minus approximately £3 million of related costs. We also announced a £41 million provision for exceptional costs, including a non-cash impairment of related assets of £7 million. This is expected to lead to a net cash outflow of approximately £3 million in 2018, after giving effect to cost savings, followed by net cash inflows of approximately £8 million annually in the following seven years, again after giving effect to cost savings.

Summary consolidated financial and other data

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

Our consolidated financial statements as at and for the 52 week period ended 30 December 20175 include financial information prepared in accordance with IFRS as at and for the 52 week periods ended 30 December 2017 and 53 weeks ended 31 December 2016 respectively.

Our consolidated financial statements as at and for the 53 week period ended 31 December 2016 include financial information prepared in accordance with IFRS as at and for the 53 week period ended 31 December 2016 and as at and for the 52 week period ended 26 December 2015.

Our consolidated financial statements as at and for the 52 week period ended 26 December 2015 include financial information prepared in accordance with IFRS as at and for the 52 week periods ended 26 December 2015 and 27 December 2014 respectively.

Historical consolidated financial and other data presented in accordance with IFRS

The historical consolidated income statement, balance sheet and cashflow data as at and for the 52 week period ended 30 December 2017 have been extracted or derived from the audited consolidated financial statements of the Company as at and for the 52 week period ended 30 December 2017, including the related notes thereto, which are included elsewhere in this annual report.

The historical consolidated income statement, balance sheet and cashflow data as at and for the 53 week period ended 31 December 2016 have been extracted or derived from the audited consolidated financial statements of the Company as at and for the 53 week period ended 31 December 2016, including the related notes thereto, which are included elsewhere in this annual report.

The historical consolidated income statement, balance sheet and cashflow data as at and for the 52 week period ended 26 December 2015 presented below have been extracted or derived from the audited consolidated financial statements of the Company as at and for the 52 week period ended 26 December 2015, including the related notes thereto, which are included elsewhere in this annual report.

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

	52 week period ended	**53 week period ended**	**52 week period ended**
	26 December 2015	**31 December 2016**	**30 December 2017**
(in millions of £)			
Consolidated income statement data:			
Revenue	**312.3**	**342.4**	**335.8**
Cost of sales	(120.9)	(145.2)	(154.3)
Gross profit	**191.4**	**197.2**	**181.5**
Distribution costs	(41.3)	(45.1)	(46.1)
Administrative expenses	(139.0)	(153.6)	(204.7)
Other operating income	0.9	1.2	0.9
Operating profit / (loss)	**12.0**	**(0.3)**	**(68.5)**
Finance income	5.4	6.9	7.6
Finance expense(1)	(43.0)	(43.2)	(45.5)
Profit/(Loss) on ordinary activities before taxation	**(25.5)**	**(36.6)**	**(106.4)**
Tax on loss on ordinary activities	1.6	3.1	3.6
Profit/(Loss) for the period	**(23.9)**	**(33.6)**	**(102.8)**

	As at 26 December 2015	As at 31 December 2016	As at 30 December 2017
(in millions of £)			
Consolidated balance sheet data:			
Intangible fixed assets	154.3	155.3	151.9
Tangible fixed assets	183.2	178.5	150.9
of which: materials and equipment held for hire	*143.3*	*133.9*	*118.5*
Deferred tax assets	1.9	0.8	0.4
Non-current assets	62.2	68.7	75.9
Current assets	114.5	126.2	121.6
of which: trade receivables	*80.8*	*79.3*	*80.8*
Cash	*1.8*	*2.4*	*2.1*
Total assets(2)	**516.1**	**529.4**	**502.0**
Current liabilities	(149.1)	(170.2)	(179.9)
of which: trade payables	*(48.6)*	*(52.5)*	*(39.7)*
Non-current liabilities	(432.8)	(457.3)	(523.0)
of which: provisions for liabilities and charges	*(13.0)*	*(12.6)*	*(39.3)*
Net liabilities	**(66.0)**	**(98.0)**	**(200.6)**

	52 week period ended	53 week period ended	52 week period ended
	26 December 2015	31 December 2016	30 December 2017
	Company	Company	Company
(in millions of £)			
Consolidated cash flow data:			
Net cash flows from operating activities before changes in hire equipment	**55.6**	**46.8**	**32.8**
Purchase of hire equipment	(56.6)	(22.1)	(22.7)
Cash generated from operations	**(1.0)**	**(24.8)**	**(10.0)**
Net interest paid	(19.0)	(12.9)	(12.4)
Income tax received/(paid)	1.1	(0.4)	(0.0)
Net cash (utilised)/generated from operating activities	**(18.9)**	**11.5**	**2.4**
Net cash used in investing activities	(32.0)	(16.8)	(6.1)
Net cash used in financing activities	45.3	7.5	8.3
Increase/(decrease) in cash	**(5.6)**	**2.1**	**2.1**

	As at and for the 52 week period ended	As at and for the 53 week period ended	As at and for the 52 week period ended
	26 December 2015	31 December 2016	30 December 2017
(in millions of £, except for percentages and ratios or unless otherwise noted)			
Other operating metrics:			
Number of trading branches(3)	327	318	255
Return on assets(5)	14.4%	14.3%	14.7%
Other historical financial data:			
Third-party debt(6)	219.9	234.6	234.9
Cash	1.8	2.4	2.1
Net third-party debt(7)	218.1	232.1	232.8
Capital expenditure(8)	84.0	42.4	34.5
EBITDA(9)	65.3	51.6	(17.2)
Adjusted EBITDA(10)	70.9	68.5	48.8

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

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

(3) Number of trading branches is given at the end date of the period, and does not include our "dark" stores. As at 30 December 2017we held leases to 85 "dark" stores, which are our closed branches awaiting disposal, of which approximately 41% are either fully or partially sublet.

(4) Average revenue per trading branch represents the revenue for the relevant period divided by the average number of trading branches in operation during that period.

(5) Return on assets is defined as Adjusted EBITA divided by the aggregate of average total assets (excluding intangible assets and receivables from other group companies) for the period less average current liabilities (excluding payables to other group companies) for the period. Average total assets and average current liabilities have been calculated based on the arithmetical average of the opening and closing balance sheet positions of assets and liabilities, respectively, for the applicable period. See "Presentation of financial and other information—Non-IFRS and non-UK GAAP financial information".

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

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

	As at		
	26 December 2015	**31 December 2016**	**30 December 2017**
(in millions of £)			
Bank overdraft	1.5	—	—
Revolving credit facility	46.0	66.0	69.0
Obligations under finance leases	32.6	28.7	26.0
Accrued interest	3.8	3.9	3.9
Senior secured note	132.2	133.2	134.2
Debt issue costs	3.8	2.8	1.8
Total third-party debt	**219.9**	**234.6**	**234.9**

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

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

(9) We define EBITDA as income or loss for the financial period before interest payable and similar charges, interest receivable and similar income, tax on ordinary activities, loss or profit on sale of fixed assets and depreciation and amortisation. In evaluating EBITDA, you should be aware that, as an analytical tool, EBITDA is subject to certain limitations. See "Presentation of financial and other information—Non-IFRS and non-UK GAAP financial information". EBITDA is not a measure of performance under IFRS and you should not consider EBITDA as an alternative to (a) operating profit or net profit for the period as a measure of our operating performance, (b) net cash flows from operating activities as a measure of our ability to meet our cash needs or (c) any other measures of performance under IFRS.

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

	52 week period ended	**53 week period ended**	**52 week period ended**
	26 December 2015	**31 December 2016**	**30 December 2017**
(in millions of £)			
Profit/(loss) for the financial year	(23.9)	(33.6)	(102.8)
Income tax (credit)/expense	(1.6)	(3.1)	(3.6)
Finance expense	43.0	43.2	45.5
Finance income	(5.4)	(6.9)	(7.6)
Depreciation, amortisation and hire stock disposals and write offs	53.2	51.9	51.3
EBITDA	**65.3**	**51.6**	**(17.2)**

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

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

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

	52 week period ended	**53 week period ended**	**52 week period ended**
	26 December 2015	**31 December 2016**	**30 December 2017**
(in millions of £)			
EBITDA	**65.3**	**51.6**	**(17.2)**
Exceptional costs (non-finance)[(a)]	5.7	16.9	66.1
Adjusted EBITDA	**70.9**	**68.5**	**48.9**

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 was 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 £4.4 million including goodwill written off of £0.2 million.

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.

As part of the restructuring a number of branches and distribution centres were closed. This led to redundancy costs of £0.5 million.

Given the scale and complexity in the operational change, the decision was made in the 4th quarter 2016 to redesign certain aspects of the project. These non-recurring transitional engineering costs amounted to £0.4 million.

Risk Factors

An investment or continued investment in the Notes involves a high degree of risk. You should carefully consider the following risks, together with the other information provided to you in this annual report, in deciding whether to invest in the Notes. The occurrence of any of the events discussed below could be detrimental to our financial performance. If any of these events occur, the trading price of the Notes could decline, we may not be able to pay all or part of the interest or principal on the Notes, and you may lose all or part of your investment. Additional risks not currently known to us or which are presently deemed immaterial may also harm our business and affect your investment.

This annual report contains “forward-looking” statements that involve risks and uncertainties. Our actual results may differ significantly from the results discussed in such forward-looking statements. Factors that might cause such differences include those discussed below. See “Forward-looking statements”.

Risks related to our business

Risks related to macroeconomic conditions

An economic downturn, and resulting decreases in demand in end-user markets, may adversely affect our revenue and operating results by decreasing the demand for our rental equipment and the prices we could charge.

An economic downturn and consequential decline in construction and other industrial activities may result in the tool and equipment hire market experiencing a corresponding decline in activity and demand. Like most participants in the industry, we experienced weakness in our end-markets and a decreased demand for our equipment during the last global economic downturn in the late 2000s and early 2010s. Although we primarily cater to the “maintain” and “operate” segments rather than the “new-build construction” segment of the equipment hire market, in the event of a slowdown in the construction industry which tends to be cyclical in nature and typically lags the general economic cycle by between 12 and 24 months, we may experience heightened price competition from our competitors seeking to utilise their excess or idle rental equipment. Reactions such as these from our competitors could negatively affect our operating results from both a volume and margin perspective and, because many of our costs are fixed, may negatively impact our cash flow. Adverse macroeconomic conditions may impact our operations in other ways as well. For example, during the last economic downturn, we incurred costs in managing our business which in some cases, such as the ongoing costs of leases on closed down branches, continues to affect us. Additionally, as we operate almost exclusively in the United Kingdom and Ireland, our success is closely tied to general economic developments in the United Kingdom and Ireland and cannot be offset by developments in other markets. Negative developments in, or the general weakness of, the UK and Irish economies and, in particular, higher unemployment, lower household income and lower consumer spending may have a direct negative impact on the spending patterns of both retail and B2B customers.

The following factors, among others, may cause weakness in our end-markets, either temporarily or long-term:

- a decrease in expected levels of infrastructure spending, including lower than expected government funding for economic stimulus projects;
- a decrease in the maintenance budgets of corporations or government entities;
- uncertainty regarding global, national or regional economic conditions;
- a lack of availability of credit; or
- an increase in interest rates.

A downturn in the commercial construction and industrial sectors caused by these or other factors could have a material adverse effect on our business, financial conditions, results of operations and cash flows. In addition, any deterioration in the UK and Irish economic and financial market conditions may:

- cause financial difficulties for our suppliers, which may result in their failure to perform as planned and, consequently, create delays in the delivery of our products and services;

- result in inefficiencies due to our deteriorated ability to forecast developments in the markets in which we operate and failure to adjust our costs appropriately;

- cause reductions in the future valuations of our investments and assets and result in impairment charges related to goodwill or other assets due to any significant underperformance relative to our historical or projected future results or any significant changes in our use of assets or our business strategy;

- result in increased or more volatile taxes, which could negatively impact our effective tax rate, including the possibility of new tax regulations, interpretations of regulations that are stricter or increased effort by governmental bodies seeking to collect taxes more aggressively; or

- result in increased customer requests for reduced pricing.

Political and economic uncertainty surrounding the expected exit of the United Kingdom from the European Union may be a source of instability in international markets, create significant currency fluctuations, and adversely impact current trading and supply arrangements, which could have a material adverse effect on our business, results of operations and financial condition.

The United Kingdom held a referendum on 23 June 2016, to determine whether the United Kingdom should leave the European Union or remain as a member state, and the outcome of that referendum was in favour of leaving the European Union ("Brexit"). Under Article 50 of the 2009 Lisbon Treaty ("Article 50"), the United Kingdom will cease to be a member state when a withdrawal agreement is entered into, or failing that, two years following the notification of an intention to leave under Article 50, unless the European Council (together with the United Kingdom) unanimously decides to extend this period. On 29 March 2017, the United Kingdom formally notified the European Council of its intention to leave the European Union. It is unclear how long it will take to negotiate a withdrawal agreement. As of the date of this annual report, negotiations concerning a range of matters relating to a withdrawal of the United Kingdom from the European Union continue, and, due to a range of factors including domestic political considerations and the nature of the negotiations, there is no certainty as to how, or when, key issues relating to such withdrawal will be resolved. That uncertainty extends to whether agreement is reached on the terms of withdrawal by 29 March 2019 (unless such date is extended) and the consequences of the failure to reach agreement, the length and nature of the rights and obligations of the United Kingdom during an implementation or transitional period following the formal withdrawal from the European Union and the nature of trade, access by companies within the United Kingdom to other aspects of the European Union single market (including the provision of services throughout the European Union), security, defence and other relationships between the United Kingdom and the European Union following any such implementation or transitional period. The future effects of a withdrawal of the United Kingdom from the European Union are expected to be far-reaching and will depend in large part on the terms on which the United Kingdom retains access to European Union markets and the European Union generally. Until the United Kingdom officially exits the European Union, European Union laws and regulations will continue to apply, and changes to the application of these laws and regulations are unlikely to occur during negotiations. However, due to the uncertainty and unpredictability concerning the United Kingdom's legal, political and economic relationship with Europe after the United Kingdom exits, there may continue to be instability in the market, significant currency fluctuations, and/or otherwise adverse effects on trading agreements or similar cross-border cooperation arrangements (whether economic, tax, fiscal, legal, regulatory or otherwise) for the foreseeable future, including beyond the date of the United Kingdom's withdrawal from the European Union.

These developments, or the perception that any of them could occur, have had and may continue to have a material adverse effect on global economic conditions and the stability of global financial markets, and could significantly reduce global market liquidity and restrict the ability of key market participants to operate in certain financial markets. In addition, Brexit may lead to a downturn in the

United Kingdom and could lead to lower levels of spending in the commercial construction and industrial sectors if consumer confidence declines. For instance, the European Rental Association downgraded its forecast for the UK tool and equipment market growth to 1.1% for 2017 and to 0.6% for 2018 as a consequence of market uncertainty following the Brexit vote. Any reduction in our customer's willingness or ability to spend due to Brexit-related or other changes in the economic environment of the United Kingdom could have a material adverse effect on our revenue. A general slow-down in the UK economy due to Brexit may also negatively impact our growth strategies as well as our current and future projections, operating results, financial condition and prospects.

Further, continued or sustained adverse effects on the exchange rate of the pound sterling as compared to foreign currencies and the effective price inflation of certain products sourced from outside of the United Kingdom resulting from Brexit could result in increased costs with respect to the products that we source from outside of the United Kingdom. We cannot guarantee that we would be able to mitigate or otherwise avoid such increased costs, and our inability to do so could have an adverse effect on our operating results, financial condition and prospects. For a further discussion of these matters, see "*—Currency and interest rate fluctuations may have an impact on our business, financial condition and results of operations*".

In addition, a number of our employees are citizens of the European Union but not of the United Kingdom. Accordingly, any restrictions, whether perceived or actual, on the free movement of European Union nationals to and from the United Kingdom could impact our ability to efficiently recruit employees and increase our employment costs which could in turn have an adverse effect on our operating results, financial condition and prospects.

Lack of clarity about future UK laws and regulations as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal, including financial and tax laws and regulations and free trade agreements, may increase costs associated with operating in the United Kingdom. Additionally, any substantial change in the regulations applicable to our business could jeopardise our ability to continue to operate in a manner consistent with our past practice.

Brexit may also have a negative impact on the Irish economy, particularly due to the uncertainty and unpredictability concerning the future trade relationship with the United Kingdom, one of Ireland's top export markets. We derived 8.7% of our revenue in euros from branches located in the Republic of Ireland in the 52 week period ended 30 December 2017. A failure to maintain growth in the Irish economy as a result of Brexit could have a material adverse effect on our earnings and results.

Currency and interest rate fluctuations may have an impact on our business, financial condition and results of operations.

We are a UK-headquartered business with our reporting currency as the pound sterling, but derived 8.7% of our revenue in euros from branches located in the Republic of Ireland in the 52 week period ended 30 December 2017, and certain of our assets, liabilities, revenue and costs are denominated in euros, including, for instance, costs associated with sourcing of equipment. In order to include the results of operations of our Irish businesses in our consolidated financial statements, we must translate those results of operations into pounds sterling at the applicable exchange rate, which fluctuates continuously. Fluctuations in the euro-pound sterling exchange rate have had, and may continue to have, an impact on our financial condition and results of operations as reported in pounds sterling. Currency fluctuations can also have an impact on our consolidated statement of financial position, particularly total equity shareholders' funds, when we translate the financial position of our Irish businesses into pounds sterling.

Furthermore, due to the uncertainty and unpredictability concerning the United Kingdom's legal, political and economic relationship with Europe after Brexit, there may continue to be significant currency fluctuations for the foreseeable future, including beyond the date of the United Kingdom's withdrawal from the European Union. For a further discussion of these matters, see "*—Political and economic uncertainty surrounding the expected exit of the United Kingdom from the European Union may be a source of instability in international markets, create significant currency fluctuations, and adversely impact current trading and supply arrangements, which could have a material adverse effect on our business, results of operations and financial condition*".

Risks related to competition

Our industry is highly competitive and competition may increase.

The equipment rental industry is highly competitive and highly fragmented. Many of the markets in which we operate are served by numerous competitors, ranging from national equipment rental companies, like ourselves, to smaller multi-regional companies and small, independent businesses with a limited number of locations. Competitiveness in the UK equipment rental market has led to frequent excess capacity and resultant pricing pressure. Price is a significant consideration for many customers and, as a result, we are still vulnerable to aggressive price competition. Some of our principal competitors may have greater financial resources, may be more geographically diversified and may be better able to withstand adverse market conditions within the industry. Moreover, consolidation within our industry could also intensify competition by resulting in the formation of industry participants with substantially greater financial, management or marketing resources than we have, and such competitors could utilise their substantially greater resources and economies of scale in a manner that affects our ability to compete effectively in the market. As a result of consolidation, our competitors may be able to adapt more quickly to new technologies and customer needs, devote greater resources to promoting or selling their products and services, initiate and withstand substantial price competition, expand into new markets, hire away our key employees, change or limit access to key information and systems, take advantage of acquisition or other strategic opportunities more readily and develop and expand their product and service offerings more quickly than we are able to. In addition, our competitors may form strategic or exclusive relationships with each other and with other companies in attempts to compete more successfully against us, all of which could have a material adverse effect on our business, financial condition and results of operations.

Our operations require substantial capital expenditures, and if funds for capital expenditures are not available when needed, this could affect our competitiveness, our service to customers and our growth opportunities.

In addition to price, we generally compete on the basis of, among other things, quality and breadth of service (including equipment availability), expertise, reliability and the size, mix and relative attractiveness of our rental equipment fleet, which is significantly affected by the level of our capital expenditure. If we are required to reduce or delay capital expenditure for any reason, the resultant decline in availability of our rental fleet may put us at a disadvantage compared to our competitors and impact our ability, in the medium term, to adequately meet customer demand. Furthermore, an inability to adequately meet customer demand may result in the loss of our customers to our competitors as well as negatively impact our brand and reputation.

Risks related to our supply chain

Operational disruptions and failures to successfully implement or capitalise on operational changes could negatively impact our business and profit performance.

The provision of our service depends on our ability to transport our hire fleet across our network in a timely and cost-effective manner and on the successful operation of our branch and CDC network. Operational disruptions caused by, among others, systems failures, significant damage to our key sites and changes to our supply chain model (or an inability to effectively implement any desired changes to our supply chain model) could hinder our ability to serve our customers and negatively impact our business and profit performance.

For example, as part of a significant branch expansion planned from 2015, we made significant investments in further centralising our network. Along with successful improvements in engineering, one of these initiatives was the establishment of our National Distribution and Engineering Centre ("NDEC"), which we opened in March 2016, and the NDEC focused on the testing and maintenance of our fast moving core hire fleet and the consolidation of repetitive processes into one production facility. The transition to the NDEC had a negative impact on our core rental revenue performance towards the end of 2016 and in the first half of 2017, particularly among smaller and medium sized customers who faced interruptions in availability of our hire tools and equipment during the period of transition. After reassessing our business plan in a detailed strategic review in the second half of 2017, we determined that the current size of the network, 255 locations, was the appropriate level for our group. This was much lower than originally envisaged when the NDEC was set up and therefore the NDEC was not cost-effective. Having recognised this, we decided to move back to a more cost-effective supply chain model suited to our network size (the "Network Reconfiguration"). The Network Reconfiguration and other operational change across our network, which also includes the closure of certain locations and consolidation of older distribution centres into new purpose-built customer distribution facilities, could negatively impact our business and profit performance. Failure to implement these and other operational changes in a timely and cost-effective manner, or a failure to optimally utilise our supply chain model could have a material adverse effect on our results of operation and profitability, including from the failure to achieve cost savings that are expected from the implementation of the Network Reconfiguration.

Additionally, labour shortages, work stoppages or other labour difficulties could also have a material adverse effect on our results of operation and profitability.

Risks related to customer credit and supplier payment

If we are unable to collect on amounts owed to us by customers, our operating results would be adversely affected.

One of the reasons some of our customers find it more attractive to rent equipment than own that equipment is the need to deploy their capital elsewhere. However, some of our customers may have liquidity issues and ultimately may not be able to fulfil the terms of their rental agreements with us. If we are unable to manage credit risk issues adequately, or if a large number of customers should have financial difficulties at the same time, our credit losses could increase above historical levels and our operating results would be adversely affected. In addition, if we experience delays in customers fulfilling their payment obligations or credit losses increase above historical levels, we could face substantial liquidity issues and might be required to look into other sources of funding to meet our own payment obligations. Bad debt and credit losses could also arise due to service issues or fraud. Further, delinquencies and credit losses generally are likely to increase during economic slowdowns or recessions.

Issues relating to supplier payment may result in financial losses or disruption of supply.

Unauthorised, incorrect or fraudulent payments to suppliers could result in financial losses or lead to delays in payment to suppliers, which could adversely affect our relationship with suppliers and lead to a disruption in supply of services or equipment which, in turn, could have a material adverse effect on our business, financial condition or results of operations.

Risks related to our IT infrastructure

Disruptions in our information technology systems could limit our ability to effectively monitor and control our operations and adversely affect our operating results.

Our information technology systems, including our point of sale information technology platforms, facilitate our ability to monitor and control our assets and operations and adjust to changing market conditions and customer needs. We also depend on our information technology systems being appropriately staffed and resourced to support our business, manage our network and successfully assimilate any new acquisitions. Any disruptions in these systems, including at any of our CDCs or offices, or the failure of these systems to operate as expected could, depending on the magnitude of the problem, adversely impact our reputation and affect our operating results by limiting our capacity to effectively monitor and control our assets and operations, including our delivery capabilities, in a timely manner. Specifically, a cyber security attack on our information technology systems could lead to a loss of confidential information and disrupt transactions with our customers and suppliers. In addition, because our systems sometimes contain information about individuals and businesses, our failure to appropriately safeguard the security of the data we hold, whether as a result of our own error or the malfeasance or errors of others, could harm our reputation or give rise to legal liabilities, leading to lower revenue, increased costs and other material adverse effects on our results of operations.

We must continually make capital expenditure in our information technology infrastructure in order to remain competitive. We cannot assure you that in the future we will be able to maintain the level of capital expenditures necessary to support the improvement or upgrading of our information technology infrastructure. Any failure to effectively improve or upgrade our information technology infrastructure and management information systems in a timely manner could have a material adverse effect on our results of operations.

Risks related to equipment supply, maintenance and availability

We are dependent on our relationships with key suppliers to obtain equipment and other supplies for our business on acceptable terms.

We seek to achieve cost savings through our centralisation of equipment and non-equipment purchases. However, as a result, we depend on a group of key suppliers. While we make every effort to evaluate our counterparties prior to entering into significant procurement contracts, we cannot predict the impact on our suppliers of the economic environment and other developments in their respective businesses. Insolvency, financial difficulties or other factors may result in our suppliers not being able to fulfil the terms of their agreements with us. Further, such factors may render suppliers unwilling to extend contracts that provide favourable terms to us, or may force them to seek to renegotiate existing contracts with us. Although we believe we have alternative sources of supply for the equipment and other supplies used in our business, termination of our relationship with any of our key suppliers could have a material adverse effect on our business, financial condition or results of operations in the event that we were unable to obtain adequate equipment or supplies from other sources in a timely manner or at all.

If the average age of our rental fleet increases, our operating costs may increase and we may be unable to pass along such costs to customers, impacting our results of operations.

If our rental equipment ages without a corresponding decrease in fleet utilisation, the costs of maintaining such equipment, if not replaced within a certain period of time, will likely increase. The costs of maintenance may materially increase in the future and could have a material adverse effect on our results of operations.

The costs of new equipment we use in our fleet may increase, requiring us to spend more for replacement equipment or preventing us from procuring equipment on a timely basis.

The cost of new equipment for use in our rental fleet could increase due to increased material costs to our suppliers or other factors beyond our control. Such increases could have a material adverse effect on our business, financial condition and results of operations. Furthermore, changes in customer demand could cause certain of our existing equipment to become obsolete and require us to purchase new equipment at increased costs.

Our rental fleet is subject to residual value risk upon disposition, and may not sell at the prices or in the quantities we expect.

The market value of any given piece of rental equipment could be less than its depreciated value at the time it is sold. The market value of used rental equipment depends on several factors, including:

- the market price for comparable new equipment;
- wear and tear on the equipment relative to its age and the effectiveness of preventive maintenance;
- the time of year when it is sold;
- the supply of similar used equipment on the market;
- the existence and capacities of different sales outlets;

- the age of the equipment, and the amount of usage of such equipment relative to its age, at the time it is sold;
- demand for used equipment;
- the effect of advances and changes in technology in new equipment models; and
- general economic conditions.

Fuel costs could adversely affect our operating results.

We have a large fleet of vehicles and equipment that primarily use diesel fuel. Fuel costs have been very volatile over the last several years. Fuel prices and supplies are influenced by a variety of international, political and economic circumstances. In addition, weather and other unpredictable events may significantly affect fuel prices and supplies. We do not have hedging arrangements in place for our fuel costs and do not hedge our fuel costs annually and, as a result, an increase in fuel prices would increase our costs of doing business and lower our gross profit. Further, if we are unable to effectively pass-through these price increases to our customers that may have an adverse effect on our business, financial condition and results of operations.

Risks related to customer retention and brand reputation

A decline in our service levels could result in a loss of customers and market share, which could harm our revenue and operating results.

Our success depends to a great degree upon retaining our customers. Our customers recognise us, among others, for our high levels of service and strong customer support. If our service levels decline, we could, as a result, experience the loss of a significant number of our customer accounts. If a large group of customers should choose to terminate or not renew their contracts with us, this could have a material adverse effect on our business, financial condition and results of operations.

Our business depends on a strong brand, and any failure to maintain, protect and enhance our brand could have a material adverse effect on our ability to grow our business.

We employ a business model that could allow competitors to duplicate our products and services. We cannot assure you that our competitors will not attempt to copy our business model and that this will not erode our brand recognition and impair our ability to generate significant revenue. In addition, we may not always be able to secure protection for, or stop infringements of, our intellectual property, and may need to resort to litigation in the future to enforce our intellectual property rights. Any litigation could result in substantial costs and a diversion of resources.

If we do not succeed in maintaining a strong brand, our business could be materially harmed. Maintaining and enhancing the quality of our brand may require us to make substantial investments in areas such as marketing, community relations and employee training. We actively engage in print and online advertisements, targeted promotional mailings and email communications, and engage on a regular basis in public relations and sponsorship activities to promote our brand and our business. Nevertheless, factors affecting brand recognition are often outside our control, and these investments may not ultimately have their desired effects. Brand value can be severely damaged even by isolated incidents, involving us directly or involving our customers or business partners, particularly if the incidents receive considerable negative publicity, whether or not founded, or result in litigation such as claims relating to health, safety, welfare or other such matters. Our brand value could diminish significantly if any such incidents or other events erode the confidence of our customers, which could have a material adverse effect on our business, financial condition and results of operations.

Risks related to outsourcing of services

We are subject to risks associated with outsourcing of services.

We outsource certain functions of our business to third parties. If any of the third parties we rely on become unable or refuses to fulfill its obligations in a timely and appropriate manner or at all, or to meet expected service levels or to comply with our policies or standards or applicable laws or regulations, there could be a negative impact on our operations. Furthermore, loss of stock by third parties or inability to repair equipment serviced by third parties could affect our capacity to manage demand, affecting revenue and increasing costs of re-investment in equipment. A violation, or allegations of a violation, of applicable laws or regulations, or failure to achieve particular standards, by any of our outsourcing partners, could lead to adverse publicity or a decline in demand for our products, or require that we incur expenditures or make changes to our operating model and other business arrangements. In addition, our use of third party providers is subject to risks of those third parties, which are outside of our control, such as labour shortages and work stoppages, and any disruption, unanticipated expense or operational failure of these services could negatively affect our business, financial condition, results of operations or prospects.

Risks related to an inability to attract and retain personnel

Turnover of members of our management and staff and our ability to attract and retain key personnel may affect our ability to efficiently manage our business and execute our strategy.

Our business depends on the quality of, and ability to retain, our senior management and staff, and competition in our industry and the business world for top management talent is generally significant. Although we believe we generally have competitive pay packages, we can provide no assurance that our efforts to attract and retain senior management staff will be successful. The loss of services of certain members of our senior management could adversely affect our business until suitable replacements can be found. There may be a limited number of persons with the requisite skills to serve in these positions and we cannot assure you that we would be able to locate or employ such qualified personnel on terms acceptable to us or at all. In addition, we depend upon the quality of our staff personnel, including skilled engineering staff in our refurbishment and maintenance functions. Although we believe we have established competitive pay and benefit packages, as well as the right working environment for our staff, there is no assurance that we can effectively limit staff turnover. A significant increase in such turnover could negatively affect our results of operations and financial performance.

Risks related to legal and regulatory requirements

We have operations throughout the United Kingdom and Ireland, which exposes us to the regulations of the United Kingdom, Ireland and the European Union. Changes in applicable laws, regulations or requirements, or our material failure to comply with any of them, can increase our costs and have other negative impacts on our business.

Our branches located across the United Kingdom and Ireland expose us to different local and regional regulations. These laws and requirements address multiple aspects of our operations, such as worker safety, consumer rights, privacy, employee benefits and may also impact other areas of our business, such as pricing. There are often different requirements in different jurisdictions. Changes in these requirements, or any material failure by our branches to comply with them, may increase our costs, negatively affect our reputation, reduce our business, require significant management time and attention and generally otherwise impact our operations in materially adverse ways.

Furthermore, lack of clarity following Brexit about future UK laws and regulations as the United Kingdom determines which European Union laws to replace or replicate in the event of a withdrawal, including financial and tax laws and regulations and free trade agreements, may increase costs associated with operating in the United Kingdom. Additionally, any substantial change in the regulations applicable to our business could jeopardise our ability to continue to operate in a manner consistent with our past practice. For a further discussion of these matters, see "*—Risks related to macroeconomic conditions—Political and economic uncertainty surrounding the expected exit of the United Kingdom from the European Union may be a source of instability in international markets,* *create significant currency fluctuations, and adversely impact current trading and supply arrangements, which could have a material adverse effect on our business, results of operations and financial condition*".

We could be adversely affected by environmental and safety requirements, which could force us to incur significant capital and other operational costs.

Our operations, like those of other companies engaged in similar businesses, require the handling, use, storage and disposal of certain regulated materials. As a result, we are subject to the requirements of UK and Irish environmental and occupational health and safety laws and regulations. These laws regulate such issues as waste water, solid and hazardous wastes and materials, and air quality. Under these laws, we may be liable for, among other things, the costs of investigating and remediating contamination at our sites as well as sites to which we sent hazardous wastes for disposal or treatment regardless of fault, and fines and penalties for noncompliance. Our operations generally do not raise significant environmental risks, but we use hazardous materials to clean and maintain equipment, dispose of solid and hazardous waste and waste water from equipment washing, and store and dispense petroleum products from storage tanks located at certain of our locations.

We may not be at all times in complete compliance with all such requirements. We could be subject to potentially significant fines or penalties, as well as reputational damage, if we fail to comply with any of these requirements. We have made and will continue to make capital and other expenditures in order to comply with these laws and regulations and we have purchased insurance to cover certain environmental liabilities. However, the requirements of these laws and regulations are complex, change frequently, and could become more stringent in the future. It is possible that these requirements will change or that liabilities that are not covered by our insurance coverage will arise in the future in a manner that could have a material adverse effect on our business, financial condition and results of operations.

Based on the conditions currently known to us, we do not believe that any pending or likely remediation and compliance costs will have a material adverse effect on our business. We cannot be certain, however, as to the potential financial impact on our business if new adverse environmental conditions are discovered or environmental and safety requirements become more stringent. If we are required to incur environmental compliance or remediation costs that are not currently anticipated by us, our business could be adversely affected depending on the magnitude of the cost.

Adverse litigation, judgments or settlements resulting from legal proceedings in which we may be involved in the normal course of our business could reduce our cash flow, harm our financial position and limit our ability to operate our business.

We have been and, from time to time, may continue to become a party to claims and lawsuits incidental to the ordinary course of business. The outcome of legal proceedings cannot be predicted. If any proceedings were to be determined adversely to us or a settlement involving a payment of a material sum of money were to occur, there could be a material adverse effect on our financial condition and results of operations. Additionally, we could become the subject of future claims by third parties, including current or former customers, employees, investors or regulators and litigants of previously acquired businesses. We could also face civil or criminal fines and penalties, or liability to employees and third parties for injuries or death as a result of our tools and equipment malfunctioning. Any significant adverse litigation judgments or settlements would reduce our cash flow and harm our financial position and could limit our ability to operate our business and adversely affect our reputation.

The nature of our business exposes us to various liability claims which may exceed the level of our insurance.

Our business exposes us to claims for personal injury, death or property damage resulting from the use of the equipment we rent and from injuries caused in motor vehicle accidents in which our vehicles are involved. We carry insurance covering a wide range of potential claims at levels we believe are sufficient to cover existing and future claims.

In the United Kingdom and Ireland, our self-insured excess per claim for our major lines of cover, being motor and liability insurance, is nil. Our liability insurance coverage is limited to a maximum of £20 million per claim. Although we have not experienced any material losses that were not covered by insurance, our future claims may exceed the level of our insurance, and such insurance may not continue to be available at the same levels or on economically reasonable terms, or at all.

Failures of our internal control and compliance processes may fail to prevent regulatory penalties and reputational harm.

Effective internal controls are necessary for us to provide reliable financial reports and effectively prevent fraud. Our internal control and compliance processes may not prevent all future breaches of law, accounting standards or our internal codes of conduct. We may experience instances of fraudulent behaviour or dishonesty by our employees, contractors or other agents and because of inherent limitations, internal controls may not prevent or detect misstatements. We may in the future also discover areas of our internal controls that need improvement or constitute weaknesses. Any failure to comply with applicable laws and other standards could subject us to legal proceedings, loss of licenses, fines and reputational harm.

Certain other risks relating to our business

We are subject to risks associated with leasing property under long-term leases.

We currently lease substantially all of our branches. The leases for our local branches and CDCs generally have initial terms of 10 to 15 years. Typically, leases for our local branches and CDCs provide for rent escalations following a certain period of time. As a result, we are susceptible to changes in the property rental market and increases in our rent costs. The majority of our leases are “net” leases, which require us to pay all of the costs of insurance, taxes, maintenance and utilities. We generally cannot cancel these leases early without incurring surrender charges. We extensively rationalised our network between 2004 and 2008 and between the second half of 2016 and 2017 and as at 30 December 2017 we held leases to 79 “dark” stores, which are our closed branches awaiting disposal, of which approximately 24% are fully or partially sublet. We closed these branches mainly as part of restructuring and efficiency improvement programmes. While these stores remain out of use, we are responsible for their costs, which are mainly made up of lease expenses, as well as upfront costs of lease surrenders where we have chosen to reduce the ongoing exposure under leases in exchange for an upfront termination payment. If we are unable to terminate the leasehold of our “dark” stores without incurring significant additional costs or if we fail to negotiate the lease renewal of the properties that we currently have in use either on commercially acceptable terms or at all, that could have a material adverse effect our business, financial condition and results of operations.

Our business could be hurt if we are unable to obtain capital as required, resulting in a decrease in our revenue and cash flows.

We require capital for, among other purposes, purchasing rental equipment to replace existing equipment that has reached the end of its useful life and for growth resulting from establishing new rental locations or branches, completing acquisitions and refinancing existing debt. If the cash that we generate from our business, together with cash that we may borrow under our Revolving Credit Facility, is not sufficient to fund our capital requirements, we will require additional debt and/or equity financing. If such additional financing is not available to fund our capital requirements, we could suffer a decrease in our revenue and cash flows that could have a material adverse effect on our business. Furthermore, our ability to incur additional debt will be limited by, among other things, the covenants contained in the Indenture and the Revolving Credit Facility Agreement. We cannot be certain that any additional financing that we require will be available or, if available, will be available on terms that are satisfactory to us. If we are unable to obtain sufficient additional capital in the future, our business, results of operations and financial condition could be adversely affected.

Our strategies may not succeed, including our strategy to delever our group through cost savings initiatives.

We are implementing strategies to strengthen and improve our business. Our strategies are based on certain assumptions we have made regarding demand for our services in different local markets and general economic conditions. In addition, we implement various initiatives designed to reduce costs and working capital needs on a continual basis in order to optimise our profitability and cash flow generation. However, there is no assurance that any strategies or initiatives or any future strategies or initiatives are sustainable or will be sufficient to effectively counter any negative current or future developments. If we are unable to implement our strategies and initiatives effectively, our business, results of operations and financial condition could be adversely affected. For example, we currently are in the process of implementing cost savings initiatives which would help us to delever our business. As of 30 December 2017, we have achieved annualised cost savings of £13 million and have identified the potential for additional £10 million to £14 million in annualised cost savings across the network and control functions. If we are not able to implement these initiatives and achieve such cost savings we may not be able to achieve our plans to delever our business.

We may make acquisitions that prove unsuccessful or strain or divert our resources.

We may seek to grow our business by acquiring other businesses. For example, we acquired Apex (a specialist provider of generator hire and ancillary services, principally in Scotland) in March 2014 and All Seasons Hire (a specialist heating, ventilation and air-conditioning hire company) in May 2015. Successful growth through future acquisitions is dependent upon our ability to identify suitable acquisition targets, conduct appropriate due diligence, negotiate transactions on favourable terms and ultimately complete such transactions and integrate the acquired business into our group.

If we make acquisitions, there can be no assurance that we will be able to generate expected margins or cash flows, or to realise the anticipated benefits of such acquisitions, including growth or expected synergies. There can be no assurance that our assessments of and assumptions regarding acquisition targets will prove to be correct, and actual developments may differ significantly from our expectations. We may not be able to integrate acquisitions successfully into our business or such integration may require more investment than we expect, and we could incur or assume unknown or unanticipated liabilities or contingencies with respect to customers, employees, suppliers, government authorities or to other parties, which may impact our results of operations. The process of integrating businesses may be disruptive to our operations and may cause an interruption of, or a loss of momentum in, such businesses or a decrease in our results of operations as a result of difficulties or risks, including:

- unforeseen legal, regulatory, contractual and other issues;
- difficulty in standardising information and other systems;
- difficulty in realising operating synergies;
- diversion of management’s attention from our day-to-day business;
- failure to maintain the quality of services that we have historically provided;
- forced divestiture or reduction of the scope of certain acquisitions so as to obtain the necessary regulatory authorisations;
- unforeseen need to write down goodwill, market shares and certain other intangible assets from our statement of financial position if our initial estimates of the value of an acquisition are higher than actual developments; and
- difficulty in retaining key personnel or customer contracts of acquired businesses.

Moreover, any acquisition may result in the incurrence of additional debt, which could reduce our profitability and harm our business.

Risks related to our financial profile

Our substantial leverage and debt service obligations could adversely affect our business and prevent us from fulfilling our obligations with respect to the Notes and the Note Guarantees.

The high level of our indebtedness could have important consequences to holders of the Notes, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of interest on indebtedness, thereby reducing the availability of such cash flow for, and limiting the ability to obtain additional financing to fund, working capital, capital expenditure, acquisitions, joint ventures or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate;
- placing us at a competitive disadvantage compared to our competitors, to the extent that they may not be as highly leveraged; and
- limiting our ability to borrow additional funds and increasing our cost of borrowing.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes.

In addition, our debt under the Revolving Credit Facility Agreement will bear interest at a variable rate which for Sterling denominated loans is based on LIBOR plus an agreed margin. Fluctuations in LIBOR, or the occurrence of certain market disruption events may increase our overall interest burden and could have a material adverse effect on our ability to service our debt obligations.

We may be able to incur substantial additional indebtedness in the future. Although the Indenture and the Revolving Credit Facility Agreement will contain restrictions on the incurrence of additional indebtedness, these restrictions will be subject to a number of significant qualifications and exceptions, and under certain circumstances, the amount of indebtedness that could be incurred in compliance with those restrictions could be substantial. In addition, the Indenture and the Revolving Credit Facility Agreement will not prevent us from incurring obligations that do not constitute indebtedness under those agreements.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.

The Indenture and the Revolving Credit Facility Agreement will restrict, among other things, our ability to:

- incur or guarantee additional indebtedness;
- pay dividends or make other distributions or purchase or redeem our stock;
- make investments or other restricted payments;
- enter into agreements that restrict our restricted subsidiaries' ability to pay dividends;
- transfer or sell assets;
- engage in transactions with affiliates;

- create liens on assets to secure indebtedness;
- impair security interests; and
- merge or consolidate with or into another company.

The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

Our failure to comply with the covenants under the Revolving Credit Facility Agreement or the Indenture, including as a result of events beyond our control, could result in an event of default which could materially and adversely affect our financial condition, financial returns and results of operations.

The Revolving Credit Facility Agreement will require us to maintain a minimum EBITDA, as defined in the Revolving Credit Facility Agreement. Our ability to meet this financial requirement could be affected by deterioration in our operating results, as well as by events beyond our control, including decreases in collections and unfavourable economic conditions, and we cannot assure you that we will be able to meet this test.

Moreover, the Revolving Credit Facility Agreement includes certain events of default and mandatory prepayment events (such as breach of representations and warranties and cross-payment defaults) that are in addition to the events of default set forth in the Indenture. If an event of default occurs under the Revolving Credit Facility Agreement or any other of our debt instruments and is not cured or waived, borrowings under any other debt instruments that we have outstanding, including the Notes, that contain cross-acceleration or cross-default provisions may also be accelerated or become payable on demand, together with accrued and unpaid interest and other fees payable thereunder. In these circumstances, our assets and cash flow may not be sufficient to repay in full all of our indebtedness that has been accelerated, including the Notes then outstanding, which could force us into bankruptcy or liquidation. We might not be able to repay our obligations under the Notes in such an event.

We require a significant amount of cash to service our debt and sustain our operations. Our ability to generate sufficient cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our debt, to fund working capital, and to make capital expenditures, will depend on our future operating performance and ability to generate sufficient cash. This depends, to some extent, on the success of our business strategy and on general economic, financial, competitive, market, legislative, regulatory and other factors, as well as the other factors discussed in these "*Risk factors*", many of which are beyond our control.

We cannot assure you that our business will generate sufficient cash flows from operations, that revenue growth, cost savings and operating improvements will be realised or that future debt and equity financing will be available to us in an amount sufficient to enable us to pay our debts when due, including the Notes, or to fund our other liquidity needs. See "*Operating and financial review*".

If our future cash flows from operations and other capital resources (including borrowings under the Revolving Credit Facility Agreement) are insufficient to pay our obligations as they mature or to fund our liquidity needs, we may be forced to:

- reduce or delay our business activities and any capital expenditures;
- sell assets;
- obtain additional debt or equity capital; or
- restructure or refinance all or a portion of our debt, including the Notes, on or before maturity.

We cannot assure you that we would be able to accomplish any of these alternatives on a timely basis or on satisfactory terms, if at all. Any failure to make payments on the Notes on a timely basis would likely result in a reduction of our credit rating, which could also harm our ability to incur additional indebtedness. In addition, the terms of our debt, including the Notes and the Revolving Credit Facility Agreement, will limit, and any future debt may limit, our ability to pursue any of these alternatives. Any refinancing of our debt could be at higher interest rates and may require us to comply with more onerous covenants, which could further restrict our business, financial condition and results of operations. There can be no assurance that any assets which we could be required to dispose of can be sold or that, if sold, the timing of such sale and the amount of proceeds realised from such sale will be acceptable.

Derivative transactions may expose us to unexpected risk and potential losses.

From time to time, we may be party to certain derivative transactions, such as interest rate swap contracts, with financial institutions to hedge against certain financial risks. Changes in the fair value of these derivative financial instruments that are not cash flow hedges are reported in income, and accordingly could materially affect our reported income in any period. Moreover, economic uncertainty and the potential for financial institution failures, may expose us to the risk that our counterparty in a derivative transaction may be unable to perform its obligations as a result of being placed in receivership or otherwise. In the event that a counterparty to a material derivative transaction is unable to perform its obligations thereunder, we may experience losses that could materially adversely affect our financial condition, financial returns and results of operations.

Risks related to our structure

The Issuer is a wholly owned special purpose finance subsidiary that has no revenue generating operations of its own and will depend on cash from our operating companies to be able to make payments on the Notes.

The Issuer is a wholly-owned special purpose finance subsidiary of the Company with no business operations. The only significant asset of the Issuer is the Proceeds Loan made by it to Hero Acquisitions Limited, in connection with the offering of the Notes, the guarantee of obligations under the Revolving Credit Facility Agreement and any additional debt it may incur in the future. See "*Description of the Notes*" and "*Description of other indebtedness*". As such, the Issuer will be dependent upon payments from Hero Acquisitions Limited to make any payments due on the Notes. If Hero Acquisitions Limited fails to make scheduled payments on the Proceeds Loan, the Issuer will not have any other sources of funds that would allow it to make payments on its indebtedness. In addition, Hero Acquisitions Limited is a holding company that conducts no independent business operations. The Company will be dependent upon payments from other members of the group to meet its obligations, including its obligations under the Proceeds Loan and the Notes.

The amounts available to the Company and the Issuer from the other relevant members of the group will depend on the profitability and cash flows of such members of the group and the ability of such members to make payments to it under applicable law or the terms of any financing agreements or other contracts that may limit or restrict their ability to pay such amounts. The terms of the Intercreditor Agreement also restrict certain intra-group payments. In addition, the members of the group that do not guarantee the Notes have no obligation to make payments with respect to the Notes.

The interests of our shareholders may differ from the interests of the holders of the Notes.

Exponent and certain co-investors indirectly beneficially own approximately 50.3% of the outstanding ordinary shares of the Company. As our controlling shareholder, Exponent is able to control certain matters requiring shareholder approval, including the election and removal of executive or independent non-executive directors, our corporate and management policies, potential mergers or acquisitions, payment of dividends, asset sales and other significant corporate transactions. The interests of Exponent may differ from yours in material respects. For example, if we encounter financial difficulties or are unable to pay our debts as they mature, the interests of Exponent, as ultimate majority shareholder, may be in pursuing acquisitions, divestitures, financings or other transactions that, in their judgment, could enhance their equity investment, even though such transactions might involve risks to you as a holder of Notes. Exponent has no contractual obligations to fund our business and may not have sufficient liquidity to fund our business if we require additional funding. Additionally, the Indenture permits us to pay advisory fees, dividends or make other restricted payments under certain circumstances, and Exponent may have an interest in our doing so.

Additionally, Exponent and its affiliates are in the business of making investments in companies and may from time to time acquire and hold interests in businesses that compete directly and indirectly with us, or with which we conduct business. Exponent and its affiliates may also pursue acquisition opportunities that may be complementary to our business and, as a result, those acquisition opportunities may not be available to us. You should consider that the interests of these holders may differ from yours in material respects. See "*Principal shareholders*" and "*Certain relationships and related party transactions*".

In addition, some stock exchanges have minimum free float level requirements, including the premium listing segment of the Official List of the UK Listing Authority, which has a minimum free float requirement for equity shares of 25%. As a result, if our shareholder concentration remains at current levels, we may be unable to comply with such requirements in the future and remain listed on our preferred stock exchange.

We may not be able to obtain the funds required to repurchase the Notes upon a change of control.

The Indenture contains provisions relating to certain events constituting a "change of control". Upon the occurrence of certain change of control events (subject to certain exceptions), we will be required to offer to repurchase all outstanding Notes at a price equal to 101% of their principal amount, plus accrued and unpaid interest and additional amounts, if any, to the date of repurchase. If a change of control event were to occur, we cannot assure you that we would have sufficient funds available at such time, or that we would have sufficient funds to provide to the Issuer to pay the purchase price of the outstanding Notes or that the restrictions in our Revolving Credit Facility Agreement, the Intercreditor Agreement or our other then-existing contractual obligations would allow us to make such required repurchases. A change of control is a mandatory prepayment event under our Revolving Credit Facility Agreement, and a change of control may result in an event of default under, or acceleration of our other indebtedness. The repurchase of the Notes pursuant to such an offer could cause a default under such indebtedness, even if the change of control itself does not. The ability of the Issuer to receive cash from its subsidiaries to allow it to pay cash to the holders of the Notes following the occurrence of a change of control may be limited by our then existing financial resources. In addition, under the terms of the Revolving Credit Facility Agreement, under certain circumstances, we will be required to repay a proportionate amount of debt under our Revolving Credit Facility Agreement if we repay all or a portion of the principal under the Notes. Sufficient funds may not be available when necessary to make any required repurchases. If an event constituting a change of control event occurs at a time when the group is prohibited from providing funds to the Issuer for the purpose of repurchasing the Notes, we may seek the consent of the lenders under such indebtedness to repurchase the Notes or may attempt to refinance the borrowings that contain such prohibition. If such a consent to repay such borrowings is not obtained, the Issuer will remain prohibited from repurchasing any Notes. In addition, we expect that we would require third-party financing to make an offer to repurchase the Notes upon a change of control. We cannot assure you that the group would be able to obtain such financing. Any failure by the Issuer to offer to purchase the Notes would constitute a default under the Indenture, and to the extent the Trustee becomes entitled to declare the Notes as being due and payable would constitute an event of default under the Revolving Credit Facility Agreement.

The change of control provision contained in the Indenture may not necessarily afford you protection in the event of certain important corporate events, including a re-organisation, restructuring, merger or other similar transaction involving us that may adversely affect you, because such corporate events may not involve a shift in voting power or beneficial ownership or, even if they do, may not constitute a "change of control" as defined in the Indenture. In addition, in certain circumstances a change of control would be deemed not to have occurred if a certain pro forma leverage test is met. Subject to a few exceptions, the Indenture does not contain provisions that would require the Issuer to offer to repurchase or redeem the relevant Notes in the event of a re-organisation, restructuring, merger, recapitalisation or similar transaction.

The definition of “Change of Control” in the Indenture will include a disposition of all or substantially all the assets of the Company and its restricted subsidiaries (if any), taken as a whole, to any person. Although there is a limited body of case law interpreting the phrase “all or substantially all”, there is no established precise definition of the phrase under applicable law. Accordingly, in certain circumstances, there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of “all or substantially all” of the Issuer’s assets and its restricted subsidiaries taken as a whole. As a result, it may be unclear as to whether a change of control has occurred and whether the Issuer is required to make an offer to repurchase the Notes.

Investors may not be able to recover in civil proceedings for U.S. securities law violations.

The Issuer and the Guarantors and their respective subsidiaries are organised outside the United States, and their business is conducted entirely outside the United States. The directors and executive officers of the Issuer and the Guarantors are not residents of the United States. Although the Issuer and the Guarantors will submit to the jurisdiction of certain New York courts in connection with any action under U.S. securities laws or under the Indenture, you may be unable to effect service of process within the United States on the directors and executive officers of the Issuer and the Guarantors. In addition, because all the assets of the Issuer and the Guarantors and their respective subsidiaries and all or a majority of the assets of their directors and executive officers are located outside of the United States, you may be unable to enforce against them judgments obtained in the U.S. courts.

The United States and the United Kingdom currently do not have a treaty providing for the reciprocal recognition and enforcement of judgments (as opposed to arbitration awards) in civil and commercial matters. Consequently, a final judgment for payment rendered by any federal or state court in the United States based on civil liability, whether or not predicated solely upon U.S. federal securities laws, would not automatically be recognised or enforceable in England. In order to enforce any such U.S. judgment in England, proceedings must first be initiated in England. In such an action, to enforce the U.S. judgment the English court would not generally reinvestigate the merits of the original matter decided by the U.S. court and it would usually be possible to obtain summary judgment on such a claim provided that:

- the U.S. court was of competent jurisdiction;
- it was a final and conclusive U.S. judgment on the merits in the sense of being final and unalterable in the court which pronounced it and being for a definite sum of money;
- the U.S. judgment was not for a sum payable in respect of taxes, or other charges of a like nature or in respect of a penalty or fine or otherwise based on a U.S. law that an English court considers to relate to penal or revenue law;
- the U.S. judgment does not contravene English public policy;
- the U.S. judgment has not been arrived at by doubling, trebling or otherwise multiplying a sum assessed as compensation for the loss or damages sustained, is otherwise specified in Section 5 of the Protection of Trading Interests Act 1980 or is based on measures designated by the Secretary of State under Section 1 of the Act;
- the U.S. judgment has not been obtained by fraud or in breach of English principles of natural justice;
- the U.S. judgment is not a judgment on a matter previously determined by an English court or another court whose judgment is entitled to recognition in England or conflicts with an earlier judgment of such court;
- the English enforcement proceedings were commenced within the relevant limitation period; and

- the U.S. judgment was not obtained contrary to an agreement for the settlement of disputes under which the dispute in question was to be settled otherwise than by proceedings in a U.S. court (to whose jurisdiction the judgment debtor did not submit).

There is doubt as to the enforceability in England of U.S. judgments in respect of civil judgments predicated purely on U.S. securities laws.

Subject to the foregoing investors may be able to enforce in England judgments that have been obtained from U.S. federal or state courts. Notwithstanding the preceding, we cannot assure you that those judgments will be recognised or enforceable in England. Further an English court is unlikely to accept jurisdiction if the original action (an action based on U.S. securities law violations) was commenced in England, instead of the United States, and even if it did it is unlikely to impose civil liability if the action was predicated solely upon U.S. federal securities laws.

English insolvency laws and other jurisdictions may provide you with less protection than U.S. bankruptcy law.

The Issuer and other members of the group, including the Guarantors (other than Apex Generators Limited), are incorporated under the laws of England and Wales. Accordingly, insolvency proceedings with respect to any of those entities would be likely, although not necessarily to proceed under, and be governed by, English insolvency law. English insolvency law may not be as favourable to investors as the laws of the United States or other jurisdictions with which investors are familiar. In the event that any one or more of the Issuer or Guarantors experiences financial difficulty, it is not possible to predict with certainty the outcome of insolvency or similar proceedings.

Under English insolvency law, English courts are empowered to order the appointment of an administrator in respect of a company in certain circumstances. An administrator can also be appointed out of court by the company itself, its directors or the holder of a qualifying floating charge and different procedures apply according to the identity of the appointor. During the administration, in general no proceedings or other legal process may be commenced or continued against such company, or security enforced over such company's property, except with leave of the court or the consent of the administrator. The moratorium does not, however, apply to a "security financial collateral arrangement" (such as a charge over cash or financial instruments such as shares, bonds or tradable capital market debt instruments) under the Financial Collateral Arrangements (No. 2) Regulations 2003. Regardless of how the administration procedure is commenced, during the administration process, a creditor would not be able to enforce any security interest (other than security financial collateral arrangements) or guarantee granted by it without the consent of the administrator or the court. In addition, a secured creditor cannot appoint an administrative receiver.

There are circumstances under English insolvency law in which the granting of security and guarantees can be challenged. In general terms, in such circumstances, the courts of England and Wales have the power to make void such transactions, or restore the position to what it would have been if such company had not entered into the transaction. If a court voided any grant of security or giving of any Note Guarantee as a result of it being considered to be a transaction at an undervalue or a preference, or held it unenforceable for any other reason, you would cease to have any security over the grantor or a claim against the Guarantor giving such Note Guarantee.

In the event that any one or more of the Issuer, the Guarantors, any future Guarantors, if any, or any other of our subsidiaries experienced financial difficulty, it is not possible to predict with certainty in which jurisdiction or jurisdictions insolvency or similar proceedings would be commenced, or the outcome of such proceedings. The insolvency and other laws of different jurisdictions may be materially different from, or in conflict with, each other, including in the areas of rights of secured and other creditors, the ability to void preferential transfers, priority of governmental and other creditors, ability to obtain post-petition interest and duration of the proceedings. The application of these laws, or any conflict among them, could call into question whether any particular jurisdiction's laws should apply, adversely affect your ability to enforce your rights under the Note Guarantees or the Collateral in these jurisdictions and limit any amounts that you may receive.

The Notes and the Note Guarantees will be subject to certain limitations on enforcement and may be limited by applicable laws or subject to certain defences that may limit their validity and enforceability.

Generally, a court could subordinate or void the Notes or the Note Guarantees under various corporate purpose or benefit, fraudulent conveyance or transfer, voidable preference, insolvency or bankruptcy challenges, financial assistance, preservation of share capital, thin capitalisation, capital maintenance or similar laws or regulations affecting the rights of creditors generally if, at the time the Notes were issued or one of the Guarantors entered into a Note Guarantee:

- we incurred the debt under the Notes or any of the Guarantors incurred a Note Guarantee with the intent to hinder, delay or defraud any present or future creditor, favoured one or more creditors to the detriment of others in the event of insolvency or we or a Guarantor subsequently entered an insolvency process (a "preference") and we or a Guarantor were insolvent or became insolvent as a result of issuing the Notes or such Note Guarantee;

- we or a Guarantor did not receive fair consideration or reasonably equivalent value in money or money's worth for issuing the Notes or the Note Guarantee and we or a Guarantor subsequently entered an insolvency process (an "undervalue") and we or a Guarantor were insolvent or became insolvent as a result of issuing the Notes or such Note Guarantee; or

- we or a Guarantor incurred debts beyond our or its ability to pay those debts as they matured.

Jurisdictions may have different "hardening" or "claw-back" periods, during which the issue of the Notes and the Note Guarantees can be challenged. Under English law, the relevant periods would be six months, in the case of a preference to an unconnected person, or two years, in the case of an undervalue or a preference to a connected person.

In any such case, the court could void the payment obligations under the Notes or such Note Guarantees or subordinate the Notes or such Note Guarantees to presently existing and future indebtedness of ours or such Guarantor, or require the holders of the Notes to repay any amounts received with respect to the Notes or such Note Guarantees. In the event of a finding that a fraudulent conveyance occurred, you may not receive any repayment on the Notes. Furthermore, the voidance of the Notes could result in an event of default with respect to our other debts and that of our Guarantors that could result in acceleration of such debts.

Generally, an entity would be considered insolvent under English law if (i) the sum of its debts, including all contingent liabilities, was greater than the value of all its present assets, (ii) the present value of its assets was less than the amount that would be required to pay its liability on its existing debts and liabilities, including contingent liabilities, as they become absolute and mature, or (iii) it could not pay its debts as they become due. If the Note Guarantees were legally challenged, any Note Guarantee could also be subject to the claim that, since the Note Guarantee was incurred for our benefit, and only indirectly for the benefit of the Guarantor, the obligations of the applicable Guarantor were incurred for less than fair consideration. A court could thus void the obligations under the Note Guarantees, subordinate them to the applicable Guarantor's other debt or take other action detrimental to the holders of the Notes.

Investors may face foreign exchange risks by investing in the Notes.

The Notes will be denominated and payable in pounds sterling. If investors measure their investment returns by reference to a currency other than pounds sterling, an investment in the Notes will entail foreign exchange related risks due to, among other factors, possible significant changes in the value of pounds sterling relative to the currency by reference to which such investors measure the return on their investments. These changes may be due to economic, political and other factors over which we have no control. Depreciation of pounds sterling against the currency by reference to which such investors measure the return on their investments could cause a decrease in the effective yield of the Notes below their stated coupon rates and could result in a loss to investors when the return on the Notes is translated into the currency by reference to which such investors measure the return on their investments.

There may not be an active trading market for the Notes, in which case your ability to sell the Notes may be limited.

We cannot assure you as to:

- the liquidity of any market in the Notes;
- your ability to sell your Notes; or
- the prices at which you would be able to sell your Notes.

Future trading prices for the Notes will depend on many factors, including, among other things, prevailing interest rates, our operating results and the market for similar securities. Historically, the market for non-investment grade securities has been subject to disruptions that have caused substantial volatility in the prices of securities similar to the Notes. The liquidity of a trading market for the Notes may be adversely affected by a general decline in the market for similar securities and is subject to disruptions that may cause volatility in prices. The trading market for the Notes may attract different investors and this may affect the extent to which the Notes may trade. It is possible that the market for the Notes will be subject to disruptions. Any such disruption may have a negative effect on you, as a holder of the Notes, regardless of our prospects and financial performance. As a result, there is no assurance that there will be an active trading market for the Notes. If no active trading market develops, you may not be able to resell your holding of the Notes at a fair value, if at all.

Although an application will be made to the Authority for the listing of the Notes on the Official List of the Exchange and admission to trade on the Exchange, we cannot assure you that the Notes will be or remain listed. Although no assurance is made as to the liquidity of the Notes as a result of the admission of the Notes to the Official List of the Exchange, failure to be approved for listing or the delisting (whether or not for an alternative admission to listing on another stock exchange) of the Notes, as applicable, from the Official List of the Exchange may have a material effect on a holder's ability to resell the Notes, as applicable, in the secondary market.

In addition, the Indenture will allow us to issue additional Notes in the future, which could adversely impact the liquidity of the Notes.

Credit ratings may not reflect all risks, are not recommendations to buy or hold securities and may be subject to revision, suspension or withdrawal at any time.

One or more independent credit rating agencies may assign credit ratings to the Notes. The credit ratings address our ability to perform our obligations under the terms of the Notes and credit risks in determining the likelihood that payments will be made when due under the Notes. The ratings may not reflect the potential impact of all risks related to the structure, market, additional risk factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension or withdrawal by the rating agency at any time. No assurance can be given that a credit rating will remain constant for any given period of time or that a credit rating will not be lowered or withdrawn entirely by the credit rating agency if, in its judgment, circumstances in the future so warrant. A suspension, reduction or withdrawal at any time of the credit rating assigned to the Notes by one or more of the credit rating agencies may adversely affect the cost and terms and conditions of our financings and could adversely affect the value and trading of the Notes.

The transferability of the Notes may be limited under applicable securities laws.

The Notes and the Note Guarantees have not been, and will not be, registered under the U.S. Securities Act or the securities laws of any state or any other jurisdiction and, unless so registered, may not be offered or sold in the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and the applicable securities laws of any state or any other jurisdiction. See "*Transfer restrictions*". This may adversely affect their liquidity and the price at which they may be sold. It is the obligation of holders of the Notes to ensure that their offers and sales of the Notes within the United States and other countries comply with applicable securities laws.

Investors in the Notes may have limited recourse against our independent auditors.

The annual financial statements of the Company, included in this annual report, have been reproduced from the annual report required by statute in the United Kingdom to be prepared annually. Such statutory annual financial statements are also required to be audited by a registered auditor in the United Kingdom. In respect of the audit reports relating to the annual statutory financial statements which are also reproduced herein, BDO LLP, our independent auditor which conducted its statutory audits in accordance with statute in the United Kingdom, stated the following in accordance with guidance issued by the Institute of Chartered Accountants in England and Wales: “This report is made solely to the company’s members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company’s members those matters we are required to state to them in an auditor’s report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company’s members, as a body, for our audit work, for this report, or for the opinions we have formed”.

These statements are intended to disclaim any liability to parties (such as purchasers of the Notes) other than to the members of the Company with respect to those reports. For this reason, the SEC would not permit the language quoted above to be included in a registration statement or a prospectus used in connection with an offering of securities registered under the U.S. Securities Act, or in a report filed under the U.S. Exchange Act. It is not clear whether a U.S. court (or any other court) would give effect to the language quoted above, therefore the recourse that persons such as purchasers of the Notes may have against the independent auditors could be limited and the inclusion of the language referred to above may limit the ability of persons such as purchasers of the Notes to bring any action against our independent auditors.

The Notes will initially be held in book-entry form and therefore investors must rely on the procedures of the relevant clearing systems to exercise any rights and remedies.

The Notes will initially only be issued in global certificated form and held through Euroclear and Clearstream. Interests in the global Notes will trade in book-entry form only, and Notes in definitive registered form, or definitive registered Notes, will be issued in exchange for book-entry interests only in very limited circumstances. Owners of book-entry interests will not be considered owners or holders of Notes. The common depositary, or its nominee, for Euroclear and Clearstream will be the sole registered holder of the global notes representing the Notes. Payments of principal, interest and other amounts owing on or in respect of the global notes representing the Notes will be made to the Paying Agent, which will make payments to Euroclear and Clearstream. Thereafter, these payments will be credited to participants’ accounts that hold book-entry interests in the global notes representing the Notes and credited by such participants to indirect participants. After payment to the common depositary for Euroclear and Clearstream, the Issuer will have no responsibility or liability for the payment of interest, principal or other amounts to the owners of book-entry interests. Accordingly, if investors own a book-entry interest, they must rely on the procedures of Euroclear and Clearstream, and if investors are not participants in Euroclear and Clearstream, they must rely on the procedures of the participant through which they own their interest, to exercise any rights and obligations of a holder of Notes under the Indenture.

Unlike the holders of the Notes themselves, owners of book-entry interests will not have the direct right to act upon the Issuer’s solicitations for consents, requests for waivers or other actions from holders of the Notes. Instead, if an investor owns a book-entry interest, it will be permitted to act only to the extent it has received appropriate proxies to do so from Euroclear and Clearstream. The procedures implemented for the granting of such proxies may not be sufficient to enable such investor to vote on a timely basis.

Similarly, upon the occurrence of an event of default under the Indenture, unless and until definitive registered Notes are issued in respect of all book-entry interests, if investors own book-entry interests, they will be restricted to acting through Euroclear and Clearstream. The procedures to be implemented through Euroclear and Clearstream may not be adequate to ensure the timely exercise of rights under the Notes.

Operating and financial review

The historical consolidated profit and loss account and cash flow data presented in this discussion and analysis for the 52 week period 30 December 2017, the 53 week period ended 31 December 2016 and the 52 week period ended 26 December 2015 has been extracted or derived from the audited consolidated financial statements of the Company as at and for the 52 week period ended 30 December 2017, as at and for the 53 week period ended 31 December 2016 and as at and for the 52 week periods ended 26 December 2015, including the related notes thereto, which are included elsewhere in this annual report.

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

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

Key factors affecting our results of operations

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

Customers

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

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

In any period, the mix of our customers also impacts our results of operation. Our customers range from our key accounts, who typically represent our higher volume customers with recurring hire needs, to our local cash customers, who typically represent our higher margin customers. Our strategy over the last several years has been to increase the proportion of our revenue derived from our key accounts, which has helped us achieve higher sales volumes although at slightly lower margins. A number of our key account customers have been with us for over 15 years. In 2016, we benefitted from entering into a major contract with Amey, an infrastructure company, which we mobilised in the first quarter of 2016. By continuing to increase our key account customer base, we have been able to achieve repeat business as these customers tend to remain loyal to providers, like us, which provide consistently high levels of service. In order to minimise our exposure to fraud, we have set up an internal investigation team, maintain strict credit control over our diversified customer base and provide our new staff with training in this area.

Trends in customer demand also impact our financial results. Our largest revenue source is rental and related revenue, which represents the rental income earned from owned tools and equipment, including powered access, power generation and HVAC assets, together with directly related revenue such as resale (fuel and other consumables), transport and other ancillary revenue streams. We also generate revenue from services through our HSS OneCall and HSS Training brands. Unlike under our rental operations, under our rehire operations, we incur third-party supplier costs in connection with the procurement of tool and equipment for rehire. As a result, our rehire operations typically deliver lower EBITDA margins than our rental operations. On the other hand, we do not incur capital expenditure in respect of supply of equipment under our rehire operations which, in comparison to our rental operations, typically generate higher cash flows. As a result, if customer demand for our rental and related products increases in a particular period, we would typically generate higher EBITDA margins. On the other hand, if customer demand for our rehire products increases in a particular period, we would generate lower EBITDA margins during that period, although we may benefit from higher cash flows during that period. We have also grown our market share and customer base by penetrating new and attractive market segments with no or low levels of penetration by equipment hire companies (for example, the integrated one-stop-shop supply chain solutions and ground care segments).

Availability

We believe that the availability of our hire tools and equipment is a key driver of our sales. We have focused on increasing availability in terms of the range of products that we offer and in terms of speed of delivery. In terms of the range of products that we offer, we seek to ensure that our hire fleet comprises equipment in sufficient quantities to meet demand. We manage this through ongoing assessment of the quantity of equipment on hire, future orders placed by customers, quantity of our offline equipment (i.e., equipment awaiting test or repair), prevailing levels of equipment write-off and customer loss, and any rehire opportunities. If we identify a shortfall in our hire fleet, we procure additional equipment to add to our hire fleet. Our broad product range has historically enabled us to attract repeat business from our existing customers and maintain customer loyalty. In terms of delivery, we increase the availability of our hire fleet through our ability to respond promptly to customer orders. We constantly monitor stock levels to ensure that our equipment is well-distributed throughout our branch and CDC network to meet customer demand. Where we identified a potential shortfall, historically our hub-and-spoke network distribution model allowed us to move equipment efficiently within twenty-four hours across our network. As a result, our branch and CDC network allowed us to share a floating inventory of hire stock between our locations and, in turn, drives increases in availability. In 2016, we started a programme to centralise and industrialise our high volume engineering into a single facility, the NDEC. This facility consolidated repetitive processes into one production facility with rigorous quality and safety key performance indicators and was supported by regional engineering expertise for larger specialist hire fleet and lower transactional volume products and a retail-like logistics network for separate branch and customer distribution centre replenishment. The implementation followed a phased approach and we actively delayed the original roll-out plan to incorporate our Scottish network in the first quarter of 2017. The longer implementation impacted our hire volumes in the second half of the year and as a result our profitability was lower than forecasted. Furthermore, the transition to the NDEC temporarily impacted the availability of our hire tools and equipment thereby reducing our fulfilment rates, which impacted our core rental revenue performance towards the end of 2016 and in the first half of 2017, particularly among smaller and medium sized customers, due to interruptions in availability of our hire tools and equipment during the period of transition. Post transition the expected benefits of capital efficiency of through improved engineering reducing hire fleet in maintenance and more reliable fulfilment to the CDCs and local branches were achieved, thereby positively affecting our results of operations.

After reassessing our business plan in a detailed strategic review in the second half of 2017, we decided to move back to a more cost-effective supply chain model suited to our network size (the "Network Reconfiguration"). We believe that the Network Reconfiguration will help us to reduce internal distribution movements, enable us to utilise excess capacity in the network and improve our productivity and asset utilisation. We have also continued to complement the internal sourcing of the tools and equipment required by our customers with the external sourcing of products from third parties through our HSS OneCall business.

Availability of our hire stock also impacts our utilisation rates. We measure utilisation as the percentage of available time that an item of hire stock is out on hire. As demand for our products approaches available supply, our utilisation rates rise, which favourably impacts our revenue flow, profitability and return on assets. For example, the utilisation rate of our core fleet has increased from 43% for the twelve months ended 30 March 2013 to 50% for the twelve months ended 30 December 2017. Similarly, the utilisation rate of our specialist fleet has increased from 51% for the twelve months ended 30 March 2013 to 73% for the twelve months ended 30 December 2017. We are led by trends in customer demand in planning our hire fleet and in organising the supply and delivery of equipment to our customers. Our approach to expenditure on hire fleet has centered on retaining sufficient flexibility in response to customer demand. However, the implementation of the Network Reconfiguration has led to decreasing return on assets in 2017. Our return on assets for the 52 week period ended 30 December 2017 and for the 53 week period ended 31 December 2016, was 14.3% and 14.7%, respectively. We expect to return to historic levels of return on assets once the benefits of the Network Reconfiguration are fully realised.

Pricing

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

Investments in our operating model, operational productivity and efficiency

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

This strategy to achieve operational excellence is supported by our investment in processes and technologies that enable us to operate our business in a more efficient manner. Some examples are discussed below.

- Supply chain model: As part of a significant branch expansion planned from 2015, we made significant investments in further centralising our network and established of our National Distribution and Engineering Centre ("NDEC"), which we opened in March 2016, and focused on the testing and maintenance of our fast moving core hire fleet and the consolidation of repetitive processes into one production facility. During the set-up and roll-in phase, we incurred significant implementation costs, including a dedicated project team, warehouse design, running of the original branch and distribution network in parallel with the NDEC and non-recurring transitional and rectification costs. Certain of these costs were recognised as an exceptional expense in order to better reflect the underlying results of the business, having an impact on Adjusted EBITDA and Adjusted EBITA. However, after reassessing our business plan in a detailed strategic review in the second half of 2017, we decided to move back to a more cost-effective supply chain model suited to our network size (the "Network Reconfiguration"). The NDEC has been closed as of 3 April 2018. Testing of fast moving core hire fleet has been moved back into the branch and CDC network with engineering consolidated into 8 CDCs, assisting with continued high product utilisation and capital efficiency. The fulfilment of hire stock to branches is now being completed by the CDCs overnight, with rebalancing of the stock across England, Wales and Scotland being performed through a new low cost cross-dock capability. This cross-dock capability has been fully implemented as of 3 April 2018. We expect that the Network Reconfiguration will reduce our cost base as a result of fees no longer payable to a third party logistics provider in connection with the NDEC. See "*Summary—Recent Developments—Network Reconfiguration*". In addition, we expect that the Network Reconfiguration will lead to improved availability and annualised cost savings of approximately £11 million through a reduction in internal distribution movements, utilisation of excess capacity in the network and improved productivity and asset utilisation. See "*Summary—Recent Developments—Network Reconfiguration*.

- Branch and distribution centre closure: The restructuring costs associated with these non-trading locations comprised onerous leases and dilapidation costs, which have been included in administrative expenses. Associated redundancy costs have been allocated to cost of sales, distribution costs and administrative expenses, as applicable.

Acquisitions and divestitures

From time to time, we acquire providers of hire fleets and specialist products and services that complement our current offering to broaden the range of our hire products and services and increase our presence in existing and new markets, which impacts our financial performance. Through our strategic acquisitions, we believe we have historically been able to increase our capacity and make available to our customers a more expansive and comprehensive range of hire products and services. From time to time, we also make divestments as part of our strategy. Our significant acquisitions and dispositions in the last five years include:

- UK Platforms: On 28 June 2013, we acquired UK Platforms Limited and its subsidiary, Access Rentals (UK) Limited, a provider of electric and diesel powered access products, including scissor lifts, boom lifts and telehandlers. UK Platforms' fleet of powered access equipment has enabled us to offer our customers a wider range of powered access equipment and more comprehensive services.

- MTS and TecServ: We acquired two smaller businesses which are the Irish division of Mobile Traffic Solutions ("MTS") in August 2013 and TecServ in the United Kingdom in November 2013. MTS is a specialist provider of traffic management equipment, supplying traffic and crowd management solutions for hire or purchase to major road contractors, local authorities and event companies throughout Ireland. We have combined the operations of the Irish division of MTS with that of our Irish subsidiary to grow our offering in Ireland. TecServ is a specialist provider of maintenance services for cleaning services, and complemented our Reintec business, which we launched in 2011, to provide fully-outsourced cleaning equipment. Both TecServ and Reintec were sold to a trade purchaser in November 2017.

- Apex: On 31 March 2014, we acquired Apex Generators Ltd, a specialist generator hire business operating primarily across Scotland with customers in the construction, house-building, event, industrial, marine and offshore sectors. This acquisition has enabled us to support our existing specialist power division, which includes the ABird business, and to better service a wider geographical area. It also gives both ABird and Apex greater ability to fulfil national power solution contracts.

- MTS UK: In October 2014 we bought the trade and assets of MTS UK's portable variable messaging sign ("pVMS") hire business, which principally comprises pVMS assets. This acquisition has further expanded the range of products we offer to our event, traffic management and road maintenance customers.

- All Seasons Hire: On 8 May 2015, we acquired All Seasons Hire, a specialist HVAC hire company. This acquisition has enabled us to offer our customers access to temporary bespoke chillers and boilers, typically used in managing heating and cooling during complex building moves and maintenance.

TecServ and Reintec: In November 2017, we divested our TecServ and Reintec businesses, in order to focus on our core business and customer groups.

Seasonality and cyclicality

The seasonality and cyclicality of the equipment rental industry results in variable demand for our products. We typically experience higher demand between July and November of each year and, as a result, we tend to generate slightly higher revenue and cash flow during the second half of each fiscal year as compared to the first half of the year. We typically experience a slowdown in demand during the Christmas season, which partially offsets the increase in our revenue during the second half of the year. The timing of Easter and whether or not it falls into the first quarter of our financial year can also impact our results for such period. We also experience seasonality impacts as a result of the nature of our hire fleet and the distribution of our product lines. A small proportion of our product lines are in demand during different times of the year. Lighting and heating equipment, for instance, typically experience higher levels of demand during the winter season, while gardening and landscaping products experience higher levels of demand in the spring and summer seasons. Weather patterns can exacerbate these trends with particularly cold, hot or wet periods driving higher or lower demand among our product lines.

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

Currency translation

Our reporting currency is the pound sterling. However, a small proportion of our assets, liabilities, revenue and costs are denominated in euros, including, for instance, costs associated with sourcing of equipment. For the 52 week period ended 30 December 2017, we generated 8.7% of our revenue in euros. Fluctuations in the value of the euro with respect to the pound sterling therefore have had, and may continue to have, an impact on our financial condition and results of operations as reported in pound sterling. See “*Risk factors—Risks related to our business—Risks related to macroeconomic conditions—Political and economic uncertainty surrounding the expected exit of the United Kingdom from the European Union may be a source of instability in international markets, create significant currency fluctuations, and adversely impact current trading and supply arrangements, which could have a material adverse effect on our business, results of operations and financial condition*” and “*Risk factors—Risks related to our business—Risks related to macroeconomic conditions—Currency and interest rate fluctuations may have an impact on our business, financial condition and results of operations*”.

Description of key income statement account items

Revenue

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

Cost of sales

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

- hiring equipment from third parties, which is then rehired to our customers;
- resale, representing the purchase cost of diesel and gas supplied to our customers, other hire-related consumables and any other items purchased and subsequently resold to our customers;
- customer training courses operated by third parties on our behalf;
- depreciation of our hire fleet; and
- stock maintenance, representing the costs associated with the testing and repair of our hire fleet.

Distribution costs

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

Exceptional items classified as distribution costs relate primarily to certain of our restructuring costs.

Administrative expenses

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

- branch-based costs such as costs associated with our sales employees, rent and business rates, depreciation (other than of hire fleet) and utilities;
- costs associated with our field-based sales employees;
- costs associated with our customer contact centre including the cost of salaries, rent and utilities;
- the cost of our head office functions including those of our IT, finance, human resource functions; and
- amortisation of goodwill arising from acquisitions.

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

Other operating income

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

Finance income

Finance income represents interest receivable on cash balances.

Finance expense

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

Income tax credit/(expense)

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

Results of operations

The 52 week period ended 30 December 2017 compared to the 53 week period ended 31 December 2016

The table below sets out our results for the 52 week period ended 30 December 2017 compared to the 53 week period ended 31 December 2016:

	53 week period ended 31 December 2016	52 week period ended 30 December 2017	Percentage change
(in millions of £)			
Revenue	**342.4**	**335.8**	**(1.9)%**
of which: Rental and related revenue	262.8	247.8	(5.7)%
of which: Services	79.6	88.0	10.6%
Cost of sales	(145.2)	(154.3)	(6.3)%
Gross profit	**197.2**	**181.5**	**(8.0)%**
Distribution costs	(45.1)	(46.1)	(2.2)%
Administrative expenses	(153.6)	(204.7)	(33.3)%
Other operating income	1.2	0.9	(25.0)%
Operating loss	**(0.3)**	**(68.5)**	**NM(1)**
Finance income	6.9	7.6	10.1%
Finance expense	(43.2)	(45.5)	(5.3)%
Loss before tax	**(36.6)**	**(106.4)**	**NM(1)**
Income tax credit	3.1	3.6	**NM(1)**
Loss for the financial year	**(33.6)**	**(102.8)**	**NM(1)**

(1) Not meaningful because the percentage change is more than 100%.

Revenue

Our revenue decreased by £6.6 million, or 1.9%, to £335.8 million in the 52 week period ended 30 December 2017, from £342.4 million in the 53 week period ended 31 December 2016. Revenue from our rental and related revenue segment decreased by £15 million, or 5.7%, to £247.8 million in the 52 week period ended 30 December 2017 compared to £262.8 million in the 53 week period ended 31 December 2016, primarily due to interruptions in availability of our hire tools and equipment as we completed the establishment our new operating model at the NDEC during the first half of the year.. The longer than anticipated period of implementation impacted our hire volumes and revenue. The decrease in revenue was partially offset in the second half of 2017 when our actions started to impact our business. Revenue from our service segment increased by 10.6% to £88 million in the 52 week period ended 30 December 2017 compared to £79.6 million in the 53 week period ended 31 December 2016, primarily due to growth of our OneCall rehire business and HSS Training.

Cost of sales

Our cost of sales increased by £9.1 million, or 6.3%, to £154.3 million in the 52 week period ended 30 December 2017, from £145.2 million in the 53 week period ended 31 December 2016. This increase was primarily due to the increase in our services revenue (mainly attributable to HSS OneCall and HSS Training) and the associated third-party supply costs incurred to support this activity, together with £3.4 million of exceptional costs relating to the establishment of the NDEC in 2016 which did not repeat.

Gross profit

Our gross profit decreased by £15.7 million, or 8%, to £181.5 million in the 52 week period ended 30 December 2017, from £197.2 million in the 53 week period ended 31 December 2016.

Distribution costs

Our distribution costs increased by £1.0 million, or 2.2%, to £46.1 million in the 52 week period ended 30 December 2017, from £45.1 million in the 53 week period ended 31 December 2016, primarily due to the increased cost base resulting from the NDEC. Distribution costs in the 53 week period ended 31 December 2016 included £1.3 million of exceptional costs relating to the NDEC, largely due to dual running costs as the Group migrated its activity into this new facility. Distribution costs were partially offset by the cost savings programmes implemented in the second half of 2017.

Administrative expenses

Our administrative expenses increased by £51.1 million, or 33.3%, to £204.7 million in the 52 week period ended 30 December 2017, from £153.6 million in the 53 week period ended 31 December 2016. Exceptional costs accounted for a £53.3 million increase year on year. During the 53 weeks ended 31 December 2016 costs of £7.0 million were incurred relating to the establishment of the NDEC including parallel running costs and project management, design and set-up costs. Additionally there was a charge of £4.5 million in recognition of onerous lease provisions in relation to branches closed and £1.6 million related to the cost of group restructuring. During the 52 weeks ended 30 December 2017 exceptional items of £66.6 million comprised onerous lease provisions of £6.9 million, impairment of property, plant and equipment of £8.3 million, a £4.4 million loss on the divestment of the Tecserv and Reintec equipment rental business, a cost reduction programme of £3.4 million, £1.0 million spend on senior management changes. Following a Strategic Review, which cost £1.0 million, a decision was made to reconfigure the operating network and a provision of £40.7 million was recorded.

Other operating income

Our other operating income decreased by £0.3 million, or 25%, to £0.9 million in the 52 week period ended 30 December 2017, from £1.2 million in the 53 week period ended 31 December 2016, primarily due to rental income on our evolving portfolio of “dark” stores (non-trading properties) sublet in the period.

Operating loss

Our operating loss increased by £68.2 million, to a £68.5 million loss in the 52 week period ended 30 December 2017, from £0.3 million loss in the 53 week period ended 31 December 2016.

Finance income

Our finance income increased by £0.7 million, or 10.1%, to £7.6 million in the 52 week period ended 30 December 2017, from £6.9 million in the 53 week period ended 31 December 2016, primarily due to the full 52 week period ended 30 December 2017 benefitting from income received in respect of intragroup loans made by the restricted group to its parent companies following the IPO of HSS Hire Group plc whereas this income was received for only a part of the year for the 53 week period ended 31 December 2016.

Finance expense

Our finance expense increased by £2.3 million to £45.5 million for the 52 week period ended 30 December 2017, compared to £43.2 million in the 53 week period ended 31 December 2016. In addition to cash interest expense on our Existing Notes and our Existing Revolving Credit Facility, this amount included the non-cash interest charged on amounts due to group undertakings.

Loss before tax

Our loss before tax for the 52 week period ended 30 December 2017 was £106.4 million compared to a loss before tax of £36.6 million for the 53 week period ended 31 December 2016.

Income tax credit

Our a net tax credit for the 52 week period ended 30 December 2017 was £3.6 million compared to a £3.1 million income tax credit in the 53 week period ended 31 December 2016. The tax credit for the 52 week period ended 30 December 2017 reflects a tax expense for the Irish part of the business and a credit in respect of the surrender of tax losses to other non-consolidated group entities. The tax credit for the 53 week period ended 31 December 2016 reflects the unwind of deferred tax recognised on utilised prior year losses and the surrender of tax losses to other non-consolidated group entities.

Loss for the financial year

We reported a loss of £102.8 million for the 52 week period ended 30 December 2017 compared to a loss of £33.6 million for the 53 week period ended 31 December 2016.

The 53 week period ended 31 December 2016 compared to the 52 week period ended 26 December 2015

The table below sets out our results for the 53 week period ended 31 December 2016 compared to the 52 week period ended 26 December 2015:

	52 week period ended 26 December 2015	53 week period ended 31 December 2016	Percentage change
(in millions of £)			
Revenue	**312.3**	**342.4**	**9.6%**
of which: Rental and related revenue	262.9	262.8	0.0%
of which: Services	49.5	79.6	60.8%
Cost of sales	(120.9)	(145.2)	20.1%
Gross profit	**191.4**	**197.2**	**3.0%**
Distribution costs	(41.3)	(45.1)	9.2%
Administrative expenses	(139.0)	(153.6)	10.5%
Other operating income	0.9	1.2	33.3%
Operating profit/(loss)	**12.0**	**(0.3)**	**NM**(1)
Finance income	5.4	6.9	27.8%
Finance expense	(43.0)	(43.2)	0.5%
Loss before tax	**(25.5)**	**(36.6)**	**43.5%**
Income tax credit	1.6	3.1	93.8%
Loss for the financial year	**(23.9)**	**(33.6)**	**40.6%**

(1) Not meaningful because the percentage change is more than 100%.

Revenue

Our revenue increased by £30.1 million, or 9.6%, to £342.4 million in the 53 week period ended 31 December 2016, from £312.3 million in the 52 week period ended 26 December 2015. Revenue from our rental and related revenue segment was broadly flat at £262.8 million in the 53 week period ended 31 December 2016 compared to £262.9 million in the 52 week period ended 26 December 2015. While growth among our key account customers was strong, performance amongst our smaller and mid-sized customers was weaker as a result of our change programme in the second half of 2016. Revenue from our service segment increased by 60.8% to £79.6 million in the 53 week period ended 31 December 2016 compared to £49.5 million in the 52 week period ended 26 December 2015, primarily due to strong growth in our rehire business, HSS OneCall, and continued progress in our HSS Training business, both benefiting from significant increases in revenue from our existing and new key account customers.

Cost of sales

Our cost of sales increased by £24.3 million, or 20.1%, to £145.2 million in the 53 week period ended 31 December 2016, from £120.9 million in the 52 week period ended 26 December 2015. This increase was primarily due to the increase in our services revenue (mainly attributable to HSS OneCall and HSS Training) and the associated third-party supply costs incurred to support this activity, together with £3.4 million of exceptional costs relating to the implementation of the historic network model, consisting of £1.8 million NDEC-related exceptional costs and a £1.6 million write-down after the centralisation of resale stock in fewer locations.

Gross profit

Our gross profit increased by £5.8 million, or 3.0%, to £197.2 million in the 53 week period ended 31 December 2016, from £191.4 million in the 52 week period ended 26 December 2015.

Distribution costs

Our distribution costs increased by £3.8 million, or 9.2%, to £45.1 million in the 53 week period ended 31 December 2016, from £41.3 million in the 52 week period ended 26 December 2015, primarily due to increased transport wages and vehicle related costs driven by the phasing-in of the NDEC alongside the historic network model through 2016. Distribution costs in the 53 week period ended 31 December 2016 included £1.3 million of exceptional costs relating to the NDEC, £1.1 million of which related to parallel running costs prior to the fourth quarter of the 53 week period ended 31 December 2016 and £0.2 million of which related to redundancy costs.

Administrative expenses

Our administrative expenses increased by £14.6 million, or 10.5%, to £153.6 million in the 53 week period ended 31 December 2016, from £139.0 million in the 52 week period ended 26 December 2015. Exceptional costs accounted for a £13.3 million increase, of which £7.0 million related to the NDEC (with parallel running costs and project management, design and set-up costs accounting for the majority at £4.1 million and £2.6 million, respectively), £4.5 million related to the recognition of onerous lease provisions in relation to branches closed during the 53 week period ended 31 December 2016 and £1.6 million related to the cost of group restructuring during the 53 week period ended 31 December 2016, moving to a new divisional structure. Increase in administration expenses was slightly reduced as a result of cost savings identified and implemented through the 53 week period ended 31 December 2016.

Other operating income

Our other operating income increased by £0.3 million, or 33.3%, to £1.2 million in the 53 week period ended 31 December 2016, from £0.9 million in the 52 week period ended 26 December 2015, primarily due to rental income on our evolving portfolio of "dark" stores (non-trading properties) sublet in the period.

Operating profit/(loss)

Our operating profit decreased by £12.3 million, to a £0.3 million loss in the 53 week period ended 31 December 2016, from £12.0 million in the 52 week period ended 26 December 2015.

Finance income

Our finance income increased by £1.5 million, or 27.8%, to £6.9 million in the 53 week period ended 31 December 2016, from £5.4 million in the 52 week period ended 26 December 2015, primarily due to the full 53 week period ended 31 December 2016 benefitting from income received in respect of intragroup loans made by the restricted group to its parent companies following the IPO of HSS Hire Group plc whereas this income was received for only a part of the year for the 52 week period ended 26 December 2015.

Finance expense

Our finance expense was broadly flat at £43.2 million for the 53 week period ended 31 December 2016, compared to £43.0 million in the 52 week period ended 26 December 2015. In addition to cash interest expense on our Existing Notes and our Existing Revolving Credit Facility, this amount included the non-cash interest charged on amounts due to group undertakings.

Loss before tax

Our loss before tax for the 53 week period ended 31 December 2016 was £36.6 million compared to a loss before tax of £25.5 million for the 52 week period ended 26 December 2015.

Income tax credit

Our a net tax credit for the 53 week period ended 31 December 2016 was £3.1 million compared to a £1.6 million income tax credit in the 52 week period ended 26 December 2015. The tax credit for the 53 week period ended 31 December 2016 reflects a tax expense for the Irish part of the business and a credit in respect of the surrender of tax losses to other non-consolidated group entities. The tax credit for the 52 week period ended 26 December 2015 reflects the unwind of deferred tax recognised on utilised prior year losses and the surrender of tax losses to other non-consolidated group entities.

Loss for the financial year

We reported a loss of £33.6 million for the 53 week period ended 31 December 2016 compared to a loss of £23.9 million for the 52 week period ended 26 December 2015.

Cash flows

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

	52 week period ended 26 December 2015	53 week period ended 31 December 2016	52 week period ended 30 December 2017
		(audited)	
(in millions of £)			
Net cash flow from operating activities before changes in hire equipment	**55.6**	**46.8**	**32.8**
Purchase of hire equipment	(56.6)	(22.1)	(22.8)
Cash (utilised in)/generated from operating activities	**(1.0)**	**24.8**	**10.0**
Net interest paid	(19.0)	(12.9)	(12.5)
Income tax received/(paid)	1.1	(0.4)	(0.0)
Net cash (utilised in)/generated from operating activities	**(18.9)**	**11.5**	**(2.4)**
Net cash used in investing activities	**(32.0)**	**(16.8)**	**(6.1)**
Net cash received from financing activities	**45.3**	**7.5**	**8.2**
Increase/(decrease) in cash	**(5.6)**	**2.1**	**(0.2)**

Net cash flow from operating activities before changes in hire equipment

In the 52 week period ended 30 December 2017, our net cash flow from operating activities before changes in hire equipment decreased by £14.0 million to £32.8 million, compared to £46.8 million in the 53 week period ended 31 December 2016. This decrease was primarily due to the Adjusted EBITDA performance during the year ended 30 December 2017 which was £19.6 million lower than in the 53 week period ended 31 December 2016.

In the 53 week period ended 31 December 2016, our net cash flow from operating activities before changes in hire equipment decreased by £8.8 million to £46.8 million, compared to £55.6 million in the 52 week period ended 26 December 2015. This decrease was primarily due to the higher non-finance exceptional costs incurred during the 53 week period ended 31 December 2016, slightly offset by a lower investment in working capital in the same period.

Cash generated from/(utilised in) operating activities

In the 52 week period ended 30 December 2017, cash generated from operating activities decreased by £14.8 million to £10.0 million, compared to £24.8 million in the 53 week period ended 31 December 2016. This decrease was primarily due to the Adjusted EBITDA performance during the year ended 30 December 2017 which was £19.6 million lower than in the 53 week period ended 31 December 2016.

In the 53 week period ended 31 December 2016, £24.8 million of cash was generated from operations compared to cash utilised in operations of £1.0 million in the 52 week period ended 26 December 2015. This change was due to the planned reduction of hire fleet asset additions in the 53 week period ended 31 December 2016 compared to the 52 week period ended 26 December 2015 and the timing of cash settlement of our capital expenditure creditors.

Net cash generated from/(utilised in) operating activities

In the 52 week period ended 30 December 2017, net cash generated from operating activities decreased by £13.9 million to a £2.4 million outflow, compared to a £11.5 million inflow in the 53 week period ended 31 December 2016. This decrease was primarily due to the Adjusted EBITDA performance during the year ended 30 December 2017 which was £19.6 million lower than in the 53 week period ended 31 December 2016.

In the 53 week period ended 31 December 2016, net cash generated from operating activities was £11.5 million compared to cash utilised in operating activities of £18.9 million in the 52 week period ended 26 December 2015. This change reflects lower cash interest costs year on year following the partial repayment of the Existing Notes and the incurrence of the early redemption premium associated therewith in the 52 week period ended 26 December 2015, together with the increase in cash generated from operations in the 53 week period ended 31 December 2016.

Net cash used in investing activities

In the 52 week period ended 30 December 2017, our net cash used in investing activities was £6.1 million, a £10.7 million decrease on the £16.8 million net cash used in the 53 week period ending 31 December 2016. This decrease reflects the planned reduction in capital expenditure on non-hire property, plant and equipment in the 52 week period ended 30 December 2017 following a larger than normal spend as the NDEC was established in the previous year and the branch opening roll out completed.

In the 53 week period ended 31 December 2016, our net cash used in investing activities was £16.8 million, a £15.2 million decrease on the £32.0 million net cash used in the 52 week period ending 26 December 2015. This decrease reflects the planned reduction in capital expenditure on non-hire property, plant and equipment in the 53 week period ended 31 December 2016 and the fact that there were no acquisitions in the 53 week period ended 31 December 2016. In contrast, we acquired All Seasons Hire in 2015.

Net cash received from financing activities

Our net cash received from financing activities was £8.2 million for the 52 week period ending 30 December 2017, a £0.7 million increase on the £7.5 million inflow in the 52 week period ending 30 December 2017. In the 52 week period ended 30 December 2017, the cash received relates to the net increase in borrowings from group undertakings and refinancing of hire stock.

Our net cash received from financing activities was £7.5 million for the 53 week period ending 31 December 2016, a £37.8 million decrease on the £45.3 million inflow in the 52 week period ending 26 December 2015. The inflow in the 52 week period ended 26 December 2015 reflects contributions received from our shareholder following the IPO of HSS Hire Group plc together with a net increase in drawings on the Existing Revolving Credit Facility in the 52 week period ended 26 December 2015. In the 53 week period ended 31 December 2016, the cash received relates to the net increase in borrowings after taking repayments under the Existing Revolving Credit Facility as well as finance lease repayments into account.

Capital expenditures

The following table presents, for the periods indicated, our consolidated capital expenditures.

	52 week period ended 26 December 2015	53 week period ended 31 December 2016	52 week period ended 30 December 2017
		(audited)	
(in millions of £)			
Hire stock capital expenditures	65.0	27.3	25.7
of which: attributable to our core business	41.1	20.9	23.1
of which: attributable to our specialist businesses	23.9	6.4	2.6
Non-hire stock capital expenditures	19.0	15.1	8.8
Total capital expenditures	**84.1**	**42.4**	**34.5**

We categorise our capital expenditures as hire stock and non-hire stock capital expenditures. Hire stock capital expenditures relate to purchases of hire stock assets (which we typically finance through a combination of cash and finance leases) whereas non-hire stock capital expenditures relate to expenditures on, for example, the purchase and maintenance of IT software, vehicle trackers, signage, equipment racking, leasehold property improvements and capitalised dilapidations at the inception of a new property lease.

Working Capital

The main components of our working capital are trade debtor balances, representing amounts owed by our account customers, and trade creditor balances, representing amounts owed to our suppliers in respect of our hire stock purchases, third party equipment hire and other expenses, where we obtain deferred payment terms. Other than in respect of timing effects on the payment of hire stock purchases, we do not typically experience significant movements in our working capital between accounting periods. In addition, within working capital, we account for stocks of consumables and fuel held for resale, and stocks of spare parts used to repair our equipment. We do not typically experience material movements in these stock balances between accounting periods. Other working capital balances include amounts owed or due in respect of taxes, prepayments and accruals. A large proportion of our leasehold properties require quarterly rental payments (treated as prepayments). Value-added tax and corporation tax also require quarterly payments. These payments may impact our working capital movements between accounting periods. The change in working capital for the 52 week period ended 30 December 2017 was £40.2 million, the change in working capital for the 53 week period ended 31 December 2016 was negative £4.7 million and the change in working capital for the 52 week period ended 26 December 2015 was negative £9.6 million.

Contractual obligations

The following table summarises our material contractual obligations as at 30 December 2017.

	Within 1 year	**Between 2 and 5 years**	**More than 5 years**	**Total**
(in millions of £)				
Borrowings[1]...	9.1	158.4	579.5	747.0
Finance lease obligations[2]	11.9	14.1	--	26.0
Total...	**21.0**	**172.5**	**579.5**	**773.0**

Maturity profile of nominal values and interest

(2) Finance lease obligations represent hire equipment acquired under our finance lease facilities in respect of our core HSS Hire and specialist businesses.

The Group's operating lease commitments represent our operating leases in respect of the land and buildings, hire stock assets and motor vehicles that we lease, which is set out in the following table.

These include lease obligations in respect of our "dark" stores, the majority of which will lapse in the next four years. As at 30 December 2017 we held leases to 79 "dark" stores, which are our closed branches awaiting disposal, of which approximately 32% are either fully or partially sublet.

The following table summarises our commitments under non-cancellable operating leases as at 30 December 2017.

	Within 1 year	Between 2 and 5 years	More than 5 years	Total
(in millions of £)				
Operating lease obligations	24.1	60.6	33.1	**117.8**

Off-balance sheet arrangements

We have no off-balance sheet arrangements at present.

Financial risk management

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

We have been and, will continue to be exposed to interest rate risk primarily in relation to our debt service obligations under our Revolving Credit Facility.

The drawings under our Revolving Credit Facility will expose us to interest rate risks relating to fluctuations in LIBOR. We may seek to enter into an interest rate swap to hedge our exposure under the Revolving Credit Facility but no assurances can be made that we will be able to enter into a new interest rate swap on acceptable terms, or at all.

Selected critical judgments and estimates

For a discussion of our critical accounting estimates and judgments see and note 1(f) of our financial statements as at and for the 52 week period ended 30 December 2017 appearing on page F-27.

Business

For a discussion of our business strengths and strategies see "Business overview, strengths and strategies".

History

We were founded in 1957 as The Hire Services Company. Starting with a single location, we expanded to six shops by the late 1960s, when we were acquired by the scaffolding conglomerate, Scaffolding Great Britain, and merged with its eight tool rental shops to form Hire Service Shops Limited. We continued to grow organically and by acquisitions and were sold to the Mowlem Group ("Mowlem") in the 1980s. Mowlem continued the expansion of our operations until 1993 when we were sold to the Davis Service Group. In 2004, 3i completed a private equity backed management buy-in of our business from Davis Service Group, following which we initiated a simplification of our corporate structure, an expansion of our business offering and the redesign of our geographic footprint.

In 2007, we were acquired by a consortium of investors, including Och Ziff and Perry Capital, and continued our focus on implementing operational efficiencies and growing our key customer accounts.

In October 2012, we were acquired by Exponent. Under the ownership of Exponent, we continued to invest in our branch and CDC network, technology platforms and in strategic accretive acquisitions that support our organic growth plan. These include the acquisition in 2012 of ABird (a provider of temporary power generation facilities); in 2013 of UK Platforms (a specialist powered access provider), the trade and assets of the Irish division of Mobile Traffic Solutions (MTS) (a visual signboard company based in Ireland) and TecServ (a cleaning equipment technical services provider); in 2014 of Apex (a provider of temporary power generation facilities based in Scotland) and the trade and assets of the UK division of MTS; and in 2015 of the trade and assets of Mitie Engineering Services (a leading facilities management company). These acquisitions were in each case made to further enhance our customer offering, by extending our range of products, accelerating our presence in certain markets and/or extending our technical expertise. Each newly acquired business has been integrated into our operations and we have invested in both equipment and technology in order to facilitate further growth.

In February 2015, the ordinary share capital of the Company's ultimate parent company, HSS Hire Group plc, was admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange's main market for listed securities under the ticker "HSS".

In May 2015, we acquired All Season Hire, a specialist heating, ventilation and air-conditioning hire company headquartered in Andover with satellite operations in Dartford and Birmingham.

In November 2017, after conducting the most in depth strategic review ever carried out by the group, we divested our TecServ and Reintec businesses, in order to focus on our core business and customer groups.

Our operations

We are a leading supplier of tools and equipment for hire in the United Kingdom and Ireland and have provided our equipment hire services in the United Kingdom and Ireland for over 60 years, primarily focussing on the business to business or B2B market. Focused on safety, availability, value and support, we work with our customers to help keep their businesses operating safely and efficiently whilst assisting them in driving down their costs. Alongside traditional equipment hire, we offer a range of complementary, value-added services through our various businesses including, HSS OneCall and HSS Training. We also offer specialist rental equipment, including under our brands ABird, Apex and UK Platforms.

We have a well-invested hire fleet comprising a broad range of tools and equipment and through our HSS OneCall business we also have the ability to procure products from third parties that we choose not to hold in our own fleet. This allows us to focus our investment on what we see as our core fleet range where we experience the greatest demand and most attractive financial returns.

A core part of our operating process is the testing of all equipment that is returned to us by customers. The testing process, which we refer to as “test-and-run”, is carried out within the branch and CDC network for fast moving core hire fleet, with engineering consolidated into 8 CDCs, assisting with continued high product utilisation and capital efficiency. Specialist hire fleet is processed in our specialist depots. Specially trained fitters and engineers ensure that products are maintained and, if necessary, repaired to their full working conditions.

We outsource certain business activities to third parties. Each outsourcing activity is subject to stringent procurement and service criteria and all contracts contain demanding service level agreements which are closely monitored and enforced. We also track certain performance and quality metrics as well as key performance indicators throughout the life of these contracts.

Our businesses and services

We offer our customers tool and equipment rental and related services with our principal focus on customers that operate in the “maintain” and “operate” segments of the market. Our strategy of offering value-added services to complement our primary equipment rental business has increased our addressable market and reinforced customer loyalty.

Our core and specialist services are provided, among others, under our HSS Hire, ABird, Apex and UK Platforms brands:

HSS Hire .... Under our HSS Hire business we offer an extensive range of tools and equipment across over 1,600 product lines driven by customer demand. We ensure that our equipment is well maintained, fully compliant with health and safety requirements and ready to use. Customers have the option to order our products and services through our branches, our customer service centre, online or through our dedicated account managers.

ABird and Apex .... ABird and Apex are our specialist provider of temporary power generation and distribution equipment and services. We operate under the ABird brand in England and Wales and under the Apex brand in Scotland.

UK Platforms .... UK Platforms is our specialist provider of powered access equipment and services, offering a full range of diesel and electric aerial work platforms.

All Seasons Hire....... We offer specialist HVAC services through All Seasons Hire, our specialist heating, ventilation and air-conditioning hire company.

We provide complementary services to our customers primarily under the services brands HSS OneCall and HSS Training:

HSS OneCall .... Under our HSS OneCall business, in response to customer demand, we work with a network of partners to source equipment that we do not typically hold as a part of our hire fleet. A dedicated in-house team provides advice and manages orders through our branches or through our contact centre, under a single contract and single invoice. Our OneCall suppliers are vetted against a range of quality, reliability and health and safety criteria before being put on an approved supplier list.

HSS Training .... HSS Training business is our specialist training service, offering over 480 industry recognised technical and safety courses at 49 training venues throughout the United Kingdom and Ireland. Under HSS Training we are able to offer bespoke courses, tailored to our customers’ requirements. HSS Training is the market leader in training services based on the aggregate of the International Powered Access Federation, Prefabricated

Access Suppliers' & Manufacturers' Association and Ladder Association league tables.

Equipment

We classify the tools and equipment that we offer for hire under three principal categories –major, core and seasonal – based on a combination of factors including the relative importance of the equipment to our customers and its estimated replacement value. Our major category of tools and equipment typically includes access, powered access, lighting and handling, building and site works, lighting and power tools. Our core category of tools and equipment typically include tools and equipment used for breaking, concreting and surface preparation, sawing and cutting, welding, drilling, ventilation and extraction. Our seasonal category of tools and equipment comprises our fleet of cooling, heating, drying and pumping tools and equipment.

Customers

We primarily operate in the "maintain" and "operate" segments of the market with most of our revenue directly or indirectly attributable to our customers involved in property maintenance, refurbishment, fit-out and facilities management. We serve a large and diverse customer base with the largest single customer having accounted for 10% of our total revenue for the 52 week period ended 30 December 2017.

We categorise our customers into three broad categories:

- Key customer accounts who contribute or have the potential to contribute a minimum of £100,000 a year in revenue to us. These customer accounts usually have complex equipment requirements and operate multiple sites across the United Kingdom and Ireland. They are managed by one of our dedicated key account managers/directors, with ultimate accountability for these customers assigned to the group sales and marketing director. Our key customer accounts are also supported by a specific support team in our call centre or a dedicated desk in customer premises.

- Regional customer accounts who typically contribute between £20,000 and £100,000 a year in revenue to us. These customer accounts are managed by an area sales manager, with ultimate accountability for these customers assigned to our regional directors; and

- Local customer accounts and cash customers who typically contribute less than £20,000 a year in revenue to us. Local customer accounts are managed by one of our branches with the ultimate accountability for these customer accounts assigned to a regional sales manager. Our cash customers who comprise a mix of local trades and consumers typically transact through one of our local branches or through our contact centre or www.HSS.com, our website.

We take a disciplined approach to pricing. Customer pricing is set as a discount to list prices as is standard in our industry. In the first instance, we agree prices with our account customers and hold them in our operating system. In general, longer term contracts attract higher discounts than short term contracts and our key and regional customers benefit from better pricing terms owing to volume discounts. We maintain a strict scrutiny of and closely track the discounts that we offer.

Our main key account markets are facilities management, industry, engineering and technology, infrastructure and retail and shopfitting. Our regional and local customer base is diversified and a significant number of our customers are generalists who will move their focus based on where they find new business. Our cash customers are generally served through our contact centre and our website as well as our local branches.

For the 52 week period ended 30 December 2017, our 20 largest customers together accounted for approximately 26% of our total revenue.

Logistics and operations

We respond to our customers' needs for ease of access to tools and equipment by operating our businesses from locations across the United Kingdom and Ireland. As of the date of this annual report, our branch and CDC network comprised 8 CDCs and our local branches across the United Kingdom and Ireland. Our specialist businesses operate from 17 distinct locations, with a large number of these sites used by more than one brand.

Distribution

Central to our operations is our group-wide management of our hire fleet whereby tools and equipment physically located anywhere in our network can be made available to any of our customers in the United Kingdom and Ireland, generally within 24 hours from when a customer places their order. We built a retail like distribution and operating model to facilitate the distribution of our hire fleet.

Our CDCs focus on the delivery of equipment to and the collection of equipment from customer sites, including daily deliveries and returns of fast moving hire fleet. Our CDCs are supported by our extensive fleet of livened delivery vehicles. After reassessing our business plan in a detailed strategic review in the second half of 2017, the fulfilment of hire stock to branches is now also being completed by the CDCs overnight, with rebalancing of the stock across England, Wales and Scotland being performed through a new low cost cross-dock capability.

As a result of this distribution model, our branches concentrate on selling to customers and testing of fast moving core hire fleet, assisting with continued high product utilisation and capital efficiency. In CDCs co-located with a branch, there is clear separation between "behind the blue doors" maintenance and transport management and "in front of the blue doors" selling and customer service.

Engineering

Maintenance, repair and refurbishment of our equipment and tools are critical to maintaining the availability of our hire fleet and maximising the rate of return on our asset base. Following the detailed strategic review carried out in the second half of 2017, testing of fast moving core hire fleet has been moved back into the branch and CDC network with engineering consolidated into 8 CDCs, assisting with continued high product utilisation and capital efficiency. Maintenance and repair of specialist hire fleet is undertaken at the specialist depots. Tools and equipment collected from, or returned by, a customer at the end of their hire period are tested according to a mandatory system-controlled process on our main operating system, Spanner, which aims to ensure quality and safety for the next customer. A product requiring repair or maintenance is worked on by a team of specially trained fitters and engineers who assess the product and, if economically viable, restore the product to its full working condition. Products are prioritised to meet seasonal or specific customer demand thereby supporting our return on assets.

We also employ a team of mobile engineers who are deployed to customer sites to maintain and test larger equipment, returning it to working order. The mobile engineering team is equipped with vans which resemble the workstations of a fitter within a branch, including Spanner, to achieve consistent quality wherever the repair takes place. Mobile engineers are targeted on their "first fix" rate, meaning that equipment is repaired for a customer on their first visit, rather than needing to go back with specific parts or other specialist expertise.

In 2013, recognising that the supply chain for spare parts was delaying our engineers' ability to repair products, we engaged a third—party logistics and engineering partner to manage spare parts on our behalf. This partner works with suppliers to maintain and operate a centralised spares warehouse in Cowley, Oxfordshire, that is designed to enable timely delivery of parts akin to the processes used in the automotive sector.

In addition, through our refurbishment centre in Manchester, we have extended equipment life for certain categories of equipment, such as powered access, power and lighting, reducing our equipment replacement costs by approximately 46% in 2017 (savings equate to cost of refurbishment compared to the replacement cost of asset, and excludes any residual value of the equipment). We relocated our refurbishment centre operations to a purpose built and planned site in late 2015. Generally, our refurbishment activities focus on HSS Hire branded access and lighting equipment, UK Platforms powered access equipment and ABird power generation equipment, although we continue to assess the scope for refurbishment.

Suppliers

We constantly review our equipment fleet to ensure that we are sourcing the right products to meet our customer demand. We purchase our core hire fleet from over 250 suppliers, with the majority of our hire fleet is sourced from a core group of 20 to 30 strategic suppliers, all of whom are based in the United Kingdom and Europe. We have long-established relationships with our key suppliers for new equipment as well as replacement parts to support our ongoing fleet maintenance. In some of our key equipment categories, notably powered access, power generation and breaking and drilling, we have developed strong relationships with certain key suppliers, such as sourcing the majority of our generators for ABird and Apex from Bruno, and many of our power tool products from HILTI. These relationships have enabled us to benefit from attractive pricing terms as well as market-leading product innovation.

We select our equipment suppliers based upon quality, the price of their product, technical support and availability of spare parts. Our HSS OneCall suppliers are chosen based on their product quality, reliability and service levels with respect to delivery, collection and administration; we maintain a broad supplier base in order to maximise fleet availability to meet our customer demand.

Information technology

We have developed a range of IT solutions to support our customers and the operation and control of our business, such as Spanner, our in-house developed enterprise resource planning system that provides total stock and fleet visibility and the ability to manage hire from ‘end to end’. Spanner plays a critical role in the operation of our branch and CDC network, all equipment maintenance processes and records and all customer transactions. This creates an extensive history of information of customer behaviour and asset performance that provides a rich source of operating and sales data to inform our decision-making and strategy. Combining this data with the expertise of our national distribution partner has greatly improved the availability of hire products to our customers and facilitates We have also supplemented Spanner’s core applications with a range of packaged, outsourced and bespoke systems in order to provide us with additional functionality. For instance, customers can access real-time information on Spanner through user-friendly interfaces, such as HSS Reports, which provides our account customers full access to their rental contracts and all related documentation and the ability to terminate a hire agreement instantly online.

Through our multi-brand website, we offer our customers an industry first, mobile enabled and fully transactional web platform offering product and service information, branch details and the ability to look up our stock and order it at all times. Our website won “Website of the Year” at the 2014 Hire Awards of Excellence and more recently “Ecommerce website of the year” for our category at the 2016 Northern Ecommerce Awards. Our website experienced approximately 55.1% of online hire traffic among a defined set of competitors as reported by SimilarWeb for the period from 1 December 2017 to February 28 2018.

Our specialist branded businesses, such as ABird, Apex and UK Platforms, also have branded websites containing a wide range of tools specific to their product set and customer base. For example, customers can view generator performance, monitor usage and order fuel remotely from desktops, tables or mobile through ABird’s RFM-enabled Smart Equipment. HSS Training also has a fully interactive online booking and course scheduling capability, which has the added benefit of supporting customer retention by also serving as a full training records system. All of our websites are supported by a social media strategy, extending customer communication via Facebook and Twitter.

In 2015, we launched a transactional ecommerce platform, which is now effectively integrated alongside our branch and customer service centre to provide a multichannel customer experience. This website is based on the principles of best practice for consumer websites, but modified to serve our B2B customers. Customers are able to hire tools and equipment online at their own previously agreed prices, check stock availability in real-time and manage all aspects of their account via the system. The extensive reporting capabilities aim to reduce costs for customers by allowing them to manage the volume and duration of equipment on hire. The website was built “mobile-first” and is fully responsive in order to better serve the increasing number of customers who visit our website from mobile and tablet devices. We believe that this investment positions us ahead of our competitors for the anticipated movement of B2B services online.

We have global positioning system enabled fleet management systems which help us enhance vehicle productivity. These fleet management systems show our logistics teams and its customers where vehicles are located and we use this information to plan delivery and collection routes.

Our drivers use personal digital assistants to record customer deliveries, similar to those used by standard parcel delivery firms. These records are fully integrated into Spanner so that customers can access the proof of delivery. Spanner also processes all data relating to equipment utilisation, equipment performance and team productivity across our network.

Our business critical systems have resilient hardware, business continuity plans and, where required, third-party support contracts. Its systems operate over a resilient and secure communications network with all key operating sites having back up communication facilities and ongoing network monitoring to minimise operating disruptions. Our key IT infrastructure is also spread over a number of sites to improve overall resilience and to provide disaster recovery capability. In order to detect potential weaknesses in our IT systems and cyber security, disaster recovery and penetration tests are carried out on a regular basis. We invest in our IT systems on an ongoing basis to ensure our mitigating actions are up-to-date to respond to the changing sophistication of cyber-attacks.

Our IT systems are supported by an internal team that provides day-to-day management of the IT servers and databases, desktop, network and voice/data infrastructure, along with developing and supporting our portfolio of business applications. In addition, IT deliver both IT and non-IT operational support together with support for a variety of business-led projects. We believe that our in-house IT expertise allows continuous enhancements to the key system in order to drive customer focus and productivity.

Sales and marketing

Our network enables branch-based staff to concentrate on developing customer relationships and driving sales, instead of also having to manage transport and maintenance of equipment, as in traditional equipment hire business models. In many cases, a sales branch is provided with a liveried sales van so that employees are able to leave the branch and visit local work sites and businesses to develop their customer relationships. All depots for our specialist businesses as well as local branches have their own portfolio of customers as well as targets for cross-selling, new business and discount control.

In addition to employees located at sales branches, we have approximately 120 dedicated field-based sales staff serving as either area sales managers with a regional portfolio, key account managers with a national portfolio across more complex customers or as specialist sales forces for, among others, UK Platforms, ABird, Apex, and to serve the major build and fit out projects in Central London where we operate a temporary “on-site facility”. These field-based sales teams are provided support by on-site project managers and field managers who build customer relationships and provide expertise to customers at the point of equipment use.

Branch sales are also supported by targeted marketing campaigns that communicate our selling points and values both “above the line” with radio, press and outdoor advertising and “below the line” with targeted direct marketing and the bi-annual publication of our catalogues for our core business and specialist brands. Through focused market research, our marketing team positions our brands, helps develop new business propositions and communicates with customers regarding our services, products and innovations through multiple channels including catalogues, websites and email marketing, press relations, exhibitions, trade press advertising, sponsorship and direct marketing. These communications are generally specific to sector and brand but also support our sales force in facilitating cross-selling. The marketing team also seeks to protect the HSS Hire brand through maintenance of a press office and guidelines on brand use.

In addition, we operate a central contact centre in Manchester which handles sales enquiries from its full range of customers, including those of HSS OneCall. The centre has approximately 203 employees (with capacity for more than 300 seats) and handles customer calls and internet enquiries, and also answers customer calls that have been redirected from sales branches.

Employees, staff training and development

Employees

As at 30 December 2017, we had approximately 2,700 employees located throughout the United Kingdom and Ireland. The average number of employees for the 52 week period ended 30 December 2017, the 53 week period ended 31 December 2016 and the 52 week period ended 26 December 2015 were 3,066, 3,254 and 3,346, respectively. Our employees are distributed among our group, regional and branch level locations, with the vast majority being employed at branch level. We also have approximately 120 sales representatives on the road, organised in teams aimed at key accounts, regional customers and specialist customers.

None of our employees are covered by a collective bargaining agreement or represented by a labour organisation. To date, we have not experienced any labour-related work stoppage.

Staff training and development

We offer structured needs based training and development programmes to our employees through our team of in-house learning and development specialists, who supply specific product training. We also organise a programme with our drivers for Driver Certificate of Professional Competence accreditation and support professional skills development for a number of our head office employees in accounting, credit management, marketing and human resources.

Health and safety

Our operations are subject to various health and safety laws in the jurisdictions in which we operate that require us to comply with various security measures and to implement discrete policies.

We have implemented an ongoing safety programme designed to ensure safety “ownership” through every employee. For the 52 week period ended 30 December 2017, there was a reduction in LTIFR (Lost Time injury frequency rate) and RIDDOR (Reporting of Injuries, Diseases and Dangerous Occurrences Regulations) accidents, as recorded in the accident reporting system managed by the health, safety, environmental and quality (“HSEQ”) team. In 2017, the LTIFR rate per 100,000 hours reduced by 26% and the RIDDOR rate per 100,000 hours by 36.5% from the figures we reported in 2016. Employees are required to record all “near misses” as well as accidents in order to inform decisions regarding staff, customer and community safety.

Our operations managers and directors are responsible in the first instance for achieving compliance with our safety objectives under the direction of their divisional managing directors. New employees are given induction training which includes specific training on health and safety procedures and protocols. Furthermore, we ensure that staff who performs potentially hazardous tasks (for example, the testing of lifting equipment) is competent to do so on the basis of appropriate education, specific manufacturers training and/or experience. We use competence control systems through our operating system which locks out employees who are not trained on high hazard tasks for safety critical procedures that may involve such exposure.

We believe we are the only equipment hire company in the United Kingdom to have been awarded a British Safety Council four star award. Most of the companies within our group are accredited to ISO:9001 (Quality Management), IS0:14001 (Environmental Management) and/or OHSAS:18001 (Occupational Health and Safety Management) by the British Standards Institution (BSI). Further accreditations specific to safety held include the hire industry specific “SafeHire” Award from Hire Association Europe (HAE), the Railway Industry Supplier Qualification Scheme (RISQS, previously known as Achilles Link-up) for the rail industry and the Utilities Vendor Database (UVDB) for the utilities industry. We are also a member of IPAF (the International Powered Access Federation), IOSH (the Institute of Occupational Safety and Health) and PASMA (the Prefabricated Access Suppliers and Manufacturers Association), amongst other bodies which define standards for the safe maintenance and operation of equipment. We also hold a ROSPA (Royal Society for the Prevention of Accidents) Gold Award and the British Safety Council International Safety Award.

All equipment is assessed for safety and tested prior to every hire to seek to ensure it is fit for purpose. It is then provided with a safety service checklist and operating and safety instructions before being made available for hire. A dedicated internal audit team works to ensure that safety standards are being met, while the group's HSEQ team works with all areas of the business including staff and customers on targeted actions such as risk assessments, training and accident investigations. In response to a powered access industry problem of entrapment, we have developed the "Activ-Shield Bar" in conjunction with the manufacturer Haulotte. This unique safety feature has been fitted across UK Platform's diesel boom fleet to ensure safety, and is now available to our customers. External auditors conduct regular audits of our health and safety performance, including audits by the United Kingdom Accreditation Service (UKAS), the United Kingdom's largest accreditation body, HAE Safe Hire, the British Standards Institution (BSI), as well as a number of strategic key account customers.

Health and safety information and literature on operating and safety guides for equipment are available for customers via the HSS Hire website, with a comprehensive library of safety audits, risk assessments and safe operating procedures available to all employees via the local intranet site HSS World. A team of regional HSEQ Advisors are available to all of our divisions for HSEQ advice and assistance.

Intellectual property

We own the rights to our most important trademark, "HSS Hire", along with all of the other trade names under which we operate, as well as the accompanying logos and images. Our core intellectual property consists mainly of certain trademarks and trade names that we own. Trademarks of acquired businesses are transferred into the group or registered as necessary.

Properties and lease arrangements

As at 30 December 2017, our property estate consisted of approximately 255 trading locations (excluding agency locations) nationwide held on short leaseholds. One of these locations is solely used as offices.

The following provides an overview of the main properties and leases as of the date of this annual report.

Site	Size (ft^2)	Ownership / Lease	Expiry	Next Break Date
Customer Distribution Centres				
Aylesford	19,000	Short leasehold	28 September 2026	N/A
Aberdeen	20,000	Short leasehold	21 October 2025	1 November 2020
Leeds,	43,278	Short leasehold	6 May 2033	7 May 2023
Beckton	35,280	Short leasehold	15 November 2022	N/A
Bootle	20,000	Short leasehold	28 September 2023	29 September 2018
Crawley	12,702	Short leasehold	29 December 2026	N/A
Derby	18,350	Short leasehold	12 April 2020	N/A
Exeter	22,300	Short leasehold	11 April 2022	N/A
Gateshead	15,500	Short leasehold	10 August 2021	N/A
Harlow	25,505	Short leasehold	10 July 2021	N/A
Heathrow	37,200	Short leasehold	24 December 2020	N/A
Hull	16,000	Short leasehold	19 June 2020	N/A
Inverness	9,000	Short leasehold	17 March 2023	18 March 2018
Manchester Piccadilly	38,408	Shore leasehold	1 October 2017	N/A
Mitcham	26,731	Short leasehold	7 October 2024	N/A
Bristol	32,000	Short leasehold	8 December 2021	N/A
Old Kent Road	29,500	Short leasehold	1 August 2021	N/A
Sheffield	13,300	Short leasehold	3 April 2022	N/A
Solihull	32,522	Short leasehold	25 February 2023	26 February 2018
Southampton	11,541	Short leasehold	28 February 2019	N/A
St. Ives	52,243	Short leasehold	30 April 2020	N/A

Site	Size (ft^2)	Ownership / Lease	Expiry	Next Break Date
Tottenham.........................	34,000	Short leasehold	20 March 2034	21 March 2024
Treforest	49,264	Short leasehold	29 November 2030	N/A
Reading	44,600	Short leasehold	4 November 2029	N/A
Wrexham	30,000	Short leasehold	12 April 2034	N/A
Bellshill..............................	53,000	Short leasehold	29 November 2026	N/A
Local Hire Centres (operates as customer distribution centres in Ireland)				
Belfast...............................	26,500	Short leasehold	17 June 2022	N/A
Dublin................................	22,960	Short leasehold	14 December 2027	N/A
Offices and Refurbishment Centre				
Manchester (Oakland House)	28,000	Short leasehold	15 January 2025	N/A
Mosley Road	33,000	Short leasehold	30 December 2040	31 December 2030
Other major locations				
Wallingford Road	6,000	Short leasehold	28 February 2026	01 March 2021
Sidegate lane	6,000	Short leasehold	11 February 2026	12 February 2021
West Thurrock	5,500	Short leasehold	21 July 2024	N/A

We have a portfolio of "dark" stores which are closed branches awaiting disposal, approximately 24% of which have been sublet. These branches were mainly closed as part of restructuring and efficiency improvement programmes undertaken between 2004 and 2008 and between the second half of 2016. Additionally, we closed 18 stores in 2017 and one CDC between January and March 2018. Moreover, the NDEC was closed on 3 April 2018. Through our ongoing programme of property surrenders we are rationalising our estate to drive operational efficiencies. Surrender payments are negotiated in light of business decisions to exit properties prior to lease closure. Our aim is to provide for a more streamlined supply chain model going forward, with smaller branches acting primarily as sales outlets. To achieve this aim we may continue to opportunistically right-size our network, as leases come to end.

Environmental matters

We believe that we do not have any material environmental compliance costs or environmental liabilities.

Insurance

Our group-wide insurance coverage includes policies for risks associated with our business. These policies provide insurance cover for property damage and business interruption, combined liability (i.e. employers' and public and product liability), third party motor accidents, contractors' plant and airside liability (i.e. in relation to our airport airside operations) in addition to standard corporate insurances including crime, directors and officers and professional indemnity in relation to our training business. Our risk management and brokerage services are provided by Marsh, an insurance broking and risk management firm. Our key insurance providers include Aviva, Liberty, QBE, Chubb and Lloyds Syndicates. We believe that our insurance coverage is sufficient for the risks associated with our operations and that our policies are in accordance with customary industry practices. However, there can be no guarantee that the coverage we maintain will be sufficient to cover the cost of defence or other damages in the event of a significant claim. See "*Risk factors—Risks related to our business*". The nature of our business exposes us to various liability claims which may exceed the level of our insurance.

Litigation

We may from time to time become a party to claims and lawsuits, which typically relate to employment matters, road traffic claims or personal injury claims from employees or third parties, and are considered to be within the ordinary course of business for a company such as ours. To the extent possible, such claims are covered by insurance. We are not currently involved in any legal or arbitration proceedings that are expected to have a material adverse effect on our financial position and, to our knowledge, no such legal or arbitration proceedings are currently threatened.

Management

Board of directors of HSS Financing plc

The Issuer was incorporated on 10 January 2014 as a public limited company under the laws of England and Wales. The following table sets forth, as at 30 December 2017, the name, age and title of each member of the board of directors of the Issuer.

Name	Age	Title
Steve Ashmore	53	Director
Paul Quested	47	Director

Summarised below is a brief description of the experience of the individuals who serve as members of the board of directors of the Issuer.

Steve Ashmore joined us as the chief executive officer on 1 June 2017. Mr. Ashmore has considerable leadership experience in a range of industries complementary to our group, including building products supply, logistics and distribution. He previously held a number of senior roles at Exel, a supply chain and third party logistics provider, before working in a number of senior leadership positions, including UK Managing Director, at Wolseley, a distributor of plumbing and heating products and supplier of building materials. More recently, he was the UK Managing Director of Brammer, a specialist distributor of industrial products. Mr. Ashmore was previously a director of Brammer plc, now Brammer Limited following its delisting in February 2017, and resigned on 19 October 2016.

Paul Quested joined us as chief financial officer in August 2016. Before joining the group, Mr. Quested was chief corporate development officer for Electrocomponents plc and held a number of senior positions within Electrocomponents, including those of corporate development officer, global strategy director, general manager (RS UK) and head of finance (RS UK). Prior to Electrocomponents plc, Mr. Quested worked at InBev for 10 years, where he served as finance director. Before InBev, Mr. Quested worked at Coopers & Lybrand, where he was an Audit Manager for FTSE 100 clients.

Board of directors of HSS Hire Group plc

HSS Hire Group plc, the indirect parent company of the Company, was incorporated as a private company limited by shares in the United Kingdom (HSS Hire Group Limited) on 7 January 2015 and re-registered as a public limited company on 19 January 2015. The ordinary share capital of HSS Hire Group plc was admitted to the premium listing segment of the Official List of the UK Listing Authority and to trading on the London Stock Exchange's main market for listed securities under the ticker "HSS" on 9 February 2015. The board of directors of HSS Hire Group plc is entrusted with the ultimate direction of our group as well as the supervision of management. The following table sets forth, as at 30 December 2017, the name, age and title of each member of the board of directors of HSS Hire Group plc.

Name	Age	Title
Steve Ashmore	53	Director
Alan Peterson	70	Director
Amanda Burton	59	Director
Douglas Robertson	64	Director
Thomas Sweet-Escott	60	Director
Paul Quested	47	Director

Summarised below is a brief description of the experience of the individuals not already described who serve as members of the board of directors of HSS Hire Group plc.

Alan Peterson has been serving as chairman since December 2012. He also served as the chairman of the Company between 2004 and 2007. Mr. Peterson's experience over the last 25 years includes involvement in a number of public and private equity-backed businesses across the United Kingdom, Europe and North America. He is currently chairman of BBI Group and Pattonair Holdings and has also held the role of chief executive officer and chairman in a number of manufacturing, industrial and retail companies, such as Enterprise Group PLC, Azelis Holdings SA, Rockware Group and Meyer International PLC. Mr. Peterson became 3i's first Industrialist in Residence in 2001, serving until 2005. Mr. Peterson is a graduate of Loughborough University and is a Companion of the Chartered Management Institute.

Amanda Burton was appointed a director on 9 January 2015. Mrs. Burton is the senior independent non-executive director of Monitise PLC and a non-executive director of Countryside Properties PLC, and she chairs the remuneration committee for both companies. She is also a non-executive director of the Skipton Building Society. Until December 2014, she served as the chief operating officer of Clifford Chance LLP. She was also previously the senior independent non-executive director of Galliford Try PLC and a non-executive director of Fresca Group Limited.

Douglas Robertson was appointed a director on 9 January 2015. Mr. Robertson retired as finance director of SIG plc on 28 February 2017. He was previously finance director of Umeco plc from 2007 until 2011, and finance director of Seton House Group Limited from 2002 until 2007. He has also held a variety of divisional finance director roles within Williams plc and was previously managing director of Tesa Group, Chubb's hotel security division.

Thomas Sweet-Escott co-founded Exponent in 2004. Mr. Sweet- Escott is primarily responsible for investments in the financial services sector and also serves on the board of Pattonair, ENRA and Photobox. He has previously served on the boards of Trainline, V.Group and Lowell. Mr. Sweet-Escott previously worked for 3i in London and in Madrid. He has a master's degree in natural sciences from Cambridge University.

Management of HSS Hire Group plc

The following table sets forth, as at 30 December 2017, the name, age and title of the key members of the senior management of HSS Hire Group plc.

Name	Age	Title
Steve Ashmore	53	Chief executive officer
Paul Quested	47	Chief financial officer
Tom Shorten	47	Chief commercial officer
Max Morgan	51	Group human resources director

Summarised below is a brief description of the experience of the individuals not already described who serve as key members of the senior management of HSS Hire Group plc.

Tom Shorten was appointed as chief commercial officer in January 2017. Prior to joining us, Mr. Shorten held a number of senior board level roles during a ten year career with the high street retailer Phones4u. He was closely involved in Phones4u's growth and evolution and as a member of the management team completed the management buyout with Providence Equity in 2006 and subsequent sale to BC Partners in 2011. Mr. Shorten joined Regus Plc in March 2015 as interim chief commercial officer and recently completed a consulting agreement for Dixons Carphone and Sprint in North America.

Max Morgan joined us as group human resources director in February 2017. Prior to joining us, Ms. Morgan was group human resources director for Findel plc and before that served for four years as human resources director for the UK Division of Arla Foods amba and, between 2004 and 2007, as human resources director for the regulated divisions of United Utilities plc. Prior to that, Ms. Morgan held a number of senior specialist and generalist human resources positions across a range of sectors including aerospace (where she worked as human resources development manager for Rolls Royce plc), utilities and public health.

Committees

Our governance framework is designed to provide strong oversight across our business. Our group-level committees are composed at the level of HSS Hire Group plc and comprise our Audit and Risk

Committee, our Remuneration Committee, our Nomination Committee and our Market Disclosure Committee.

Audit and Risk Committee

Our Audit and Risk Committee is chaired by Douglas Robertson and is composed of Douglas Robertson and Amanda Burton. The Audit Committee is responsible for overseeing the financial reporting and internal financial controls of the group, for reviewing the group's internal control and risk management systems, and for maintaining an appropriate relationship with the external auditor of the group.

Remuneration Committee

Our Remuneration Committee is chaired by Amanda Burton and is composed of Amanda Burton Douglas Robertson. The Remuneration Committee recommends the group's policy on executive remuneration, determines the levels of remuneration for executive directors and the chairman and other senior executives and prepares an annual remuneration report for approval by the group's shareholders at the annual general meeting.

Nomination Committee

The Nomination Committee is chaired by Alan Peterson. The members of the Nomination Committee are Alan Peterson, Amanda Burton and Douglas Robertson. The Nomination Committee reviews the structure, size and composition of the board of HSS Hire Group plc. It is also responsible for reviewing succession plans for the directors, including the chairman and chief executive and other senior executives.

Market Disclosure Committee

The Market Disclosure Committee was formed to ensure that HSS Hire Group plc complies with disclosure and transparency rules. The Market Disclosure Committee is chaired by Amanda Burton. The membership of the Market Disclosure Committee is flexible in order to facilitate speed of action in the event of market-sensitive information arising at short notice, but in any event will comprise at least the chair and one executive director.

Conflicts of interest

We believe that there are currently no conflicts of interest between the duties owed by executive management to us and their private interests. Certain of the directors are representatives of Exponent, which is our indirect majority shareholder. In certain situations, the interests of Exponent, as indirect majority shareholder, may differ from the interests of our other shareholders. See "*Risk factors—Risks related to our structure—The interests of our shareholders may differ from the interests of the holders of the Notes*".

Share ownership

Certain members of our board of directors and senior management have a beneficial ownership interest in HSS Hire Group plc, our indirect parent company. See "Principal shareholders".

Principal Shareholders

The Issuer's entire issued and outstanding share capital is held by the Company, a wholly-owned indirect subsidiary of HSS Hire Group plc. HSS Hire Group Limited was incorporated as a private company limited by shares in the United Kingdom on 7 January 2015 and re-registered as a public limited company (HSS Hire Group plc) on 19 January 2015.

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

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

Exponent and the Exponent shareholders who were collectively previously, indirectly, the majority shareholders of the Company became substantial shareholders in HSS Hire Group plc following the initial public offering of the ordinary share capital of HSS Hire Group plc and certain reorganisation that followed. As at 30 December 2017, Exponent and the Exponent shareholders controlled 50.3% of the issued share capital of HSS Hire Group plc. For a description of the relationship agreement among the Company, Exponent and the Exponent shareholders, see "—*Relationship agreement*".

The following table sets forth certain beneficial ownership information regarding the holders of over 5% of the ordinary shares in HSS Hire Group plc and the percentage owned by each shareholder based on the most recent available TR1 filings.

Share Class	Number of ordinary shares of 1p	% holding
Exponent[(1)]	85,681,709	50.34%
Toscafund Asset Management LLP[(2)]	45,812,070	26.92%
Standard Life Capital Partners LLP	13,958,979	8.20%

(1) Comprises shareholdings held by Exponent Private Equity Partners GP Ltd (UK) and Exponent Havana Co-Invest Partners (UK).

(2) Comprises shareholdings held by the Tosca Mid-Cap fund, the Tosca Opportunity fund and the Pegasus fund.

Information about our principal shareholder

Exponent is a leading London-based private equity firm that manages funds with total commitments of over £2.2 billion. Exponent invests in UK headquartered businesses with an initial enterprise value of between £75 million and £350 million. Exponent targets companies that are prominent in their market and capable of operational improvement, seeking to create long-term value through proactively building and supporting strong management teams.

Relationship agreement

On 22 January 2015, HSS Hire Group plc, Exponent and the Exponent shareholders entered into a relationship agreement which regulates the ongoing relationship among them (the "Relationship Agreement"). The principle purpose of the Relationship Agreement is to ensure that HSS Hire Group plc and its subsidiaries are capable of carrying on their business independently of Exponent and the Exponent shareholders, that transactions and relationships with Exponent and the Exponent shareholders (including any transactions and relationships with any member of HSS Hire Group plc or its subsidiaries) are at arm's length and on normal commercial terms, and that the goodwill, reputation and commercial interests of HSS Hire Group plc are maintained.

In addition, the Relationship Agreement contains undertakings from Exponent and the Exponent shareholders that neither it nor they will: (i) take any action that would have the effect of preventing HSS Hire Group plc from complying with its obligations under the applicable listing rules or (ii) propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the applicable listing rules.

The Relationship Agreement will continue for so long as (a) the shares of Hire Group plc are listed on the premium listing segment of the Official List and traded on the London Stock Exchange's main market for listed securities and (b) Exponent and the Exponent shareholders together are entitled to exercise or to control the exercise of 10% or more of the votes able to be cast on all or substantially all matters at general meetings of HSS Hire Group plc.

Under the Relationship Agreement, Exponent is able to appoint a non-executive director to the board of HSS Hire Group plc for so long as the Exponent shareholders are entitled to exercise or to control the exercise of 10% or more of the votes able to be cast on all or substantially all matters at general meetings. The first such appointee is Mr. Sweet-Escott. In addition, under the Relationship Agreement, Exponent is able to appoint an observer to attend board meetings.

Certain relationships and related party transactions

We enter into transactions with our shareholders and other entities owned by, or affiliated with, our direct and indirect shareholders in the ordinary course of business. These transactions include, among others, professional advisory, consulting and other corporate services. The following discussion is a brief summary of certain material arrangements, agreements and transactions we have with related parties.

Hampshire Bidco structure and acquisition of the Company

Hero Acquisitions Limited is a wholly-owned subsidiary of Hampshire Bidco, which acquired the Company in October 2012. Prior to the initial public offering of HSS Hire Group plc, Hampshire Bidco was indirectly owned by Exponent. Following the initial public offering of HSS Hire Group plc, Hampshire Bidco remains indirectly majority-owned by Exponent. See "*Principal Shareholders*".

Thomas Sweet-Escott, Oliver Bower and Thomas Lightowler, who are members of Exponent, were directors on the board of Hampshire Topco Limited during 2014, to represent Exponent's interests in our business. Mr. Sweet-Escott, Mr. Bower and Mr. Lightowler all resigned from the board of Hampshire Topco Limited on 12 February 2015. Mr. Sweet-Escott was appointed to be a director on the board of HSS Hire Group Limited on 9 January 2015.

Relationship agreement

HSS Hire Group plc, Exponent and the Exponent shareholders are party to the Relationship Agreement which regulates the ongoing relationship between them. See "*Principal Shareholders—Relationship agreement*".

Intragroup loans with parent companies

For a description of our intragroup loans with parent companies, see "*Description of other indebtedness—Intragroup loans with parent companies*".

Description of other indebtedness

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

Revolving Credit Facility

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

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

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

On 13 February 2018 the Company agreed an extension of the expiry of the Revolving Credit Facility from 6 February 2019 until 6 July 2019.

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

Subordinated shareholder loans

Our subordinated shareholder loans ("Subordinated Shareholder Loans") represent certain intercompany loans between other group undertakings and the Company with an aggregate nominal amount of £294.2 million as at 31 December 2016. The Subordinated Shareholder Loans were due to mature in December 2022.

Intercreditor Agreement

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

Index to financial statements

Hero Acquisitions Limited

Annual report and financial statements
Year ended 30 December 2017

Registered number 06209511

Contents

Directors and advisers
Year ended 30 December 2017

Directors

A.E. Peterson	
J. Gill	(resigned 23 May 2017)
S. Ashmore	(appointed 1 June 2017)
P. Quested	
F. Perrin	(resigned 23 January 2017)

Registered office

Oakland House
76 Talbot Road
Old Trafford
Manchester
M16 0PQ

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Bankers

Barclays Bank PLC
1 Churchill Place
Canary Wharf
London
E14 5HP

HSBC Bank Plc
8 Canada Square
London
E14 5HQ

Group strategic report

CHIEF EXECUTIVE OFFICER'S STATEMENT

Overview of my first year
I was honoured to be asked to lead HSS Hire. It is 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, 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 7 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 multi-channel 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 with 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 according to AMA market research estimates. The market is highly fragmented with the vast majority of registered hire companies employing fewer than 50 staff and serving their local geography often from one, and usually from fewer than ten locations. The Group is one of a small number of 'nationals'. We are placed second or third 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 European Rental Association 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.

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

5 April 2018

Group strategic report (continued)

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 £7.1m 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 £8.8m 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.

Financial highlights

	Revenue		**Contribution**(1)		**Adjusted EBITDA** (2)		**Adjusted EBITA** (2)		**Operating loss** (2)	
£m	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016	**2017**	2016
Rental	**£247.8**	£262.8	**£158.1**	£179.4						
Services	**£88.0**	£79.6	**£11.9**	£10.3						
Group	**£335.8**	£342.4	**£169.9**	£189.7	**£48.9**	£68.5	**£1.7**	£20.3	**(68.5)**	(£0.3)

1) Contribution is defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs (for each segment)

2) These measures are not reported on a segmental basis because branch and selling costs, central costs and exceptional items (non-finance) are allocated centrally rather than to each reportable segment

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 Services revenues, up 10.6% year on year to £88.0m, mainly driven by performance in 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, they provide us with a measure of our 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.

Group strategic report (continued)

LTM core utilisation remained level at 50% (FY16: 50%) and LTM specialist brand utilisation was lower at 73% (FY16: 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 by 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 by 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 with £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 with £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 by £51.1m (33.3%) to £204.7m (FY16: £153.6m). Exceptional costs accounted for a £53.3m 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, 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 £4.4m loss on disposal of the Reintec and TecServ cleaning equipment and maintenance business which were sold in November 2017.

Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA for 2017 was £48.9m, 28.6% lower than in FY16 (£68.5m) driven by the decline in Rental and related revenues 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 £1.7m (FY16: £20.3m). 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 sub-letting of non-trading stores. This decreased by £0.3m year on year as the portfolio of non-trading stores fully or partially sub-let 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 £0.3m in 2016 to £68.5m in 2017, driven by lower revenue and increased operating costs including £66.1m of exceptional costs.

The £49.1m growth in exceptional items to £66.1m (FY16: £17.0m), and the reduction in Adjusted EBITDA from £68.5m 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 forward in the coming years. These totalled £66.1m. 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 £4.4m.

Finance costs
Net finance expense (finance expenses less finance income) increased to £37.9m (FY16: £36.3m), driven by increased intercompany borrowings, offset by a reduction 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 £3.6m compared with a credit of £3.1m in FY16. The Group made an overall loss for tax purposes in the UK, and the credit represents current tax suffered in Ireland offset by group relief receivable.

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.

Cash (outflow)/ generated from/utilised in operations
Cash outflow from operating activities of £2.5m compared to cash generated of £11.5m for FY17, a decrease of £14.0m over the prior year. 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 comprises third party borrowings and inter-group borrowings. Total net debt (stated gross of issue costs) increased by £46.2m to £578.1m. Looking at third party borrowings alone these increased by £4.0m from £199.2m to £203.2m. This was driven by increased borrowings under the Revolving Credit Facility. As at 30 December 2017 the Group had access to £29.7m of combined liquidity from available cash and undrawn committed borrowing facilities. Our leverage, calculated as third party 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.

Group strategic report (continued)

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 (APMs) to assess the Group's ongoing performance. The main APMs we use are Adjusted EBITDA, Adjusted EBITA, Adjusted profit before tax, 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.

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.

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

5 April 2018

CORPORATE & SOCIAL RESPONSIBILITY

Overview

As a large national company, we are aware that we have responsibilities to our customers, our colleagues and our local communities, as well as to the wider economy and the environment. We build on the sustainable nature of our business model with an equally responsible approach to how we conduct our business activities, both inside and outside of our organisation.

Our primary responsibility is, as always, safety – of our colleagues, our customers and of the equipment we hire – and making sure that HSS is a safe place for people to work in and to hire from. We are also focused on ensuring that we operate with transparency and integrity, and on delivering a sound economic performance whilst reducing our impact on the environment, supporting our colleagues and our customers, and playing a positive role in our local communities.

Our full Corporate Responsibility Report is published at www.hsshiregroup.com/corporate-responsibility and the following summarises our activities and achievements.

Economic performance and governance

A responsible company generates and shares wealth in order to perform for its stakeholders – delivering a financial return for shareholders as well as ensuring continuity of supply and support for its customers and secure employment and development for its colleagues. As this Report details, HSS generated revenues of £335.8m which was shared amongst the various stakeholders in our business including our suppliers and their own supply chains, our colleagues and investors, the government and our local communities as well as a retained element to help fund future investment and growth.

We operate with integrity and transparency to ensure the highest levels of environmental and social governance with a strong management team and robust governance structures in place. We work to – and are audited against – a number of external accreditations, including the British ISO standards for health and safety and the environment. We are Safe Hire accredited and members of the British Safety Council and Considerate Constructors Scheme. We are FORS accredited for our commercial vehicle fleet.

Listening to our customers

We recognise that HSS plays an important and vital role in the supply chain and operations of our customers, so we take a responsible approach towards ensuring that we deliver a service which meets their expectations. Part of this commitment includes surveying our customers at all levels and industries on a regular basis to assess the service they receive from us, and where they believe there is scope to improve. For a number of years we have partnered with TNS to conduct thorough, impartial NPS interviews with our customer base twice each year. This insight has directly impacted our strategy and operations, and led to positive change which improves the hire experience we offer our customers. The NPS score we achieved this year is significantly higher than the industry benchmark of 21.

Reducing environmental impact through our product lifecycle

There are environmental and social impacts at every stage of the product lifecycle of all the equipment in our fleet, so we are committed to sourcing, operating and disposing of our equipment in the most responsible way possible. Our innovative, purpose-built refurbishment centre in Manchester has provided the capacity for us to significantly increase our refurbishment capability, and in 2017 we further increased the number of machines going through the centre each year. On average, each machine refurbished at the centre sees its useable life extended by at least five years.

Reducing environmental impact though our operations

We work responsibly to limit potential negative environmental impacts which arise from our day-to-day business operations. We are committed to driving energy efficiency within our built environment as well as through our operational networks. We work to, and are accredited against, industry recognised environmental standards, and work hard to regulate our use of natural resources, reduce polluting emissions and minimise waste.

We are accredited to ISO and OHSAS standards:

- 9001 Quality
- 14001 Environment
- 18001 Health and Safety Policy (OHSAS)

From April 2018 the 9001 and 14001 accreditations will be audited against the revised standards criteria. The OHSAS 18001 standard is transferring to the new ISO 45001 standard later in 2018. We are currently working towards our reaccreditation.

The Group reports on all of the emission sources required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013. We use GHG Protocol Corporate Accounting and Reporting Standard data gathered to fulfil the reporting requirements under the CRC energy efficiency scheme and Defra conversion factors to calculate all building and transport emissions within the three reporting scopes:

- all direct greenhouse gas emissions from sources owned or controlled by the Company;
- indirect greenhouse gas emissions from the consumption of purchased electricity, heat or steam; and
- other indirect emissions; here we report business travel.

Unless otherwise stated all data is provided for the period 1 April 2016 to 31 March 2017. This reporting period does not cover the same period covered by the Financial Statements, but has been adopted to allow the majority of data used to be actual recorded data rather than estimated consumption.

The total emissions produced by the Group during this period were 27,854 TCO_2 (2016: 28,116).

The UK Government established ESOS (the Energy Savings Opportunity Scheme) to implement Article 8 (4 to 6) of the EU Energy Efficiency Directive (2012/27/EU). The ESOS Regulations 2014 give effect to the scheme and the Environment Agency is the UK scheme administrator. ESOS is a mandatory energy assessment scheme for organisations in the UK that meet the qualification criteria.

Colleagues

Central to the successful delivery of our strategy are our people. Our colleagues make HSS, so we are committed to ensuring we create a diverse workforce, representative of the communities in which we operate. Colleague safety is our utmost priority, and we aim to provide for and protect their wellbeing and invest in their training and development to ensure that they are both appropriately skilled and motivated. In 2017 we were pleased to see a continued reduction in RIDDOR occurrences from 0.40 to 0.39. Our calculation is the number of RIDDOR incidents multiplied by 100,000, divided by the total number of hours worked. This is driven by an increased internal focus on safe working practices. Our commitment to offering continued training and development for our colleagues at all levels saw us move to a blended approach to learning, encompassing training courses delivered online, through the management population, as well as more traditional classroom or depot-based learning. Colleagues involved in professional diploma or certification programmes are allowed time away from their roles to complete these each year.

Group strategic report (continued)

As of 31 December 2017, 15% of all of our colleagues were female. Despite this figure being in line with many other companies in our industry, we recognise the need to improve this. Our gender pay gap report has demonstrated our commitment to rewarding all colleagues at a fair and equal level regardless of gender.

The Group's equality and diversity policy applies across all levels of the business, including at Board level, and is designed to reflect the importance that we believe promoting equal opportunities and diversity plays in the long-term success of HSS.

Communities

Our extensive branch and operations network allows us to play a part in hundreds of communities across the UK and Ireland, and we are committed to making a positive impact wherever we can. Our head office in Manchester regularly holds dress down days to raise money for our charity partners, and we donate the 5p charge from all our carrier bags to Dementia UK. We are also committed to supporting educational efforts in our communities and offer work placements in our head office support teams to students from some of the local universities.

GOVERNANCE

The Company is managed as a part of a larger group of companies whose parent undertaking is HSS Hire Group plc, a company listed on the London Stock Exchange. The Board of HSS Hire Group plc are committed to high standards of corporate governance and as such complied with the UK Corporate Governance Code during the FY17 reporting year. The management and governance of the Company is integrated with HSS Hire Group plc and the Directors of the Company at the year-end are also Directors of HSS Hire Group plc.

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations, and as set out in the Directors' Responsibility Statement the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess HSS's position and performance, business model and strategy.

The Board has overall responsibility for determining the nature and extent of the principal risks it is willing to take to achieve its strategic objectives and for establishing and maintaining a sound system of risk management and internal control, and then reviewing its effectiveness.

The principal risks and uncertainties facing the Company and how these are being managed/mitigated are detailed on pages 10 to 13.

The Group's risk management and internal control system is designed to manage the risks facing the Group and safeguard its assets. No system of internal control can provide absolute assurance against material misstatement or loss. The Group's system is designed to provide the Directors with reasonable assurance that issues are identified on a timely basis and are dealt with appropriately. These activities are supported by the activities of the Group's parent company HSS Hire Group plc, whose Audit Committee assists the Board in reviewing the effectiveness of the Group's risk management and internal controls, including financial, operational and compliance controls and risk management systems.

Whistleblowing

The Company has a formal whistleblowing process, whereby any colleague may, in complete anonymity, contact certain nominated members of senior management to raise any concerns. These concerns are then investigated independently and the results shared with the whistleblower for further discussion if appropriate/possible. This process is communicated to all colleagues at least annually to their home addresses, and the policy and relevant details are also made available to colleagues on a dedicated section of the Group intranet, HSS World.

Modern Slavery Act 2015

The Group published its Modern Slavery Act statement for the financial year ended 31 December 2016 on its website in 2017.

Group strategic report (continued)

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 propostiion

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

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 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	**Unchanged**

	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 construction sector, it focuses on the non-construction portion of the market, with specific exposure in the facilities management, retail, 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	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	**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**

	disruption in supply. Continuing losses of the Group or delays in the implementation of cost savings may lead to a lack of liquidity.	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.	**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	The Group has established and maintains competitive pay and benefit packages, as well as the right working environment for its	**Unchanged**

	affect its ability to efficiently manage its business and execute its strategy.	colleagues. Training for colleagues is provided within branches of excellence. The Group is reviewing colleague incentives in 2018.	
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**

Approval of the Strategic Report

The Strategic Report on pages 2 to 13 was approved by the Board of Directors on 5 April 2018 and is signed on its behalf by:

Steve Ashmore
Director

5 April 2018

Directors' report

The directors present their report and the audited financial statements of the Hero Acquisitions Limited group (the Group) and Hero Acquisitions Limited (the Company) for the year ended 30 December 2017.

Directors

The directors of the Company who served during the year ended 30 December 2017 are listed on page 1. The company has arranged qualifying third party indemnity for all of its directors.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;
• make judgements and accounting estimates that are reasonable and prudent;
• state whether the group financial statements have been prepared in accordance with IFRSs as adopted by the European Union and the Company financial statements have been prepared in accordance with UK GAAP, subject to any material departures disclosed and explained in the financial statements; and
• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' statement as to the disclosure of information to auditors

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

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Future developments

Future developments are discussed in the strategic report.

Financial risk management

The information on financial risk management objectives and policies is included in note 20.

Employee involvement

It is the group's policy to provide employees, on a regular basis, with financial and other information on matters of concern to them, by means of house journals and news sheets.

Every endeavour is made to consult, wherever possible, with employees, so that their views can be taken into account in making decisions which are likely to affect their interests. Employees participate in consultations to help facilitate this process.

Directors' report (continued)

Disabled employees

The group's policy on employment of disabled persons is:

1. To give full and fair consideration to applications for employment with the group made by disabled persons, having regard to their particular aptitudes and abilities.
2. Where practical, to continue the employment of and arrange appropriate training for employees of the company who become disabled during their employment with the group.
3. To encourage training and career development for all personnel employed by the group, including disabled persons.

Dividend

The directors do not recommend the payment of dividend for the year ended 30 December 2017 (2016: Nil). No interim dividends were paid during the year (2016: Nil).

By order of the board

S. Ashmore
Director

5 April 2018

Independent auditors' report to the members of Hero Acquisitions Limited

INDEPENDENT AUDITOR'S REPORT TO MEMBERS OF HERO ACQUISITIONS LIMITED

Opinion

We have audited the financial statements of Hero Acquisitions Limited ("the Parent Company") and its subsidiaries ("the Group") for the year ended 30 December 2017 which comprise the the consolidated income statement, the consolidated statement of comprehensive income, the consolidated and company statement of financial position, consolidated and company statement of changes in equity, the consolidated statement of cash flows and the notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard FRS 101 *Reduced Disclosure Framework* (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 December 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

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

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the Strategic report and Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and Directors' report have been prepared in accordance with applicable legal requirements.

Independent auditors' report to the members of Hero Acquisitions Limited (continued)

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic report and Directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion;

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located at the Financial Reporting Council's website at:

https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Kieran Storan (Senior Statutory Auditor)
For and on behalf of BDO LLP, statutory auditor
London
5 April 2018

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

Consolidated income statement
For the year ended 30 December 2017

	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		**(204,737)**	(153,576)
Other operating income	3	**882**	1,151
Operating loss		**(68,504)**	(338)
Adjusted EBITDA[(1)]	2	**48,898**	68,460
Less: Depreciation[(1)]		**(47,159)**	(48,175)
Adjusted EBITA[(1)]		**1,739**	20,285
Less: Exceptional items (non-finance)	4	**(66,056)**	(16,883)
Less: Amortisation[(1)]	6	**(4,187)**	(3,740)
Operating loss		**(68,504)**	(338)
Finance income	5	**7,642**	6,878
Finance expense	5	**(45,532)**	(43,169)
Loss before tax		**(106,394)**	(36,629)
Adjusted loss before tax		**(36,151)**	(16,006)
Less: Exceptional items (non-finance)	4	**(66,056)**	(16,883)
Less: Amortisation	6	**(4,187)**	(3,740)
Loss before tax		**(106,394)**	(36,629)
Income tax credit	9	**3,584**	3,054
Loss for the financial period		**(102,810)**	(33,575)
Loss attributable to:			
Owners of the company		**(102,810)**	(33,575)

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

The notes on pages 23 to 61 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 30 December 2017

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Loss for the financial period	**(102,810)**	(33,575)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**104**	1,537
Other comprehensive profit for the period, net of tax	**104**	1,537
Total comprehensive loss for the period	**(102,706)**	(32,038)
Attributable to owners of the Company	**(102,706)**	(32,038)

The notes on pages 23 to 61 form part of these financial statements.

Hero Acquisitions Limited

Consolidated statement of financial position

At 30 December 2017

	Note	**30 December 2017**	31 December 2016
	Note	**£000s**	£000s
ASSETS			
Non-current assets			
Intangible assets	10	**151,978**	155,263
Property, plant and equipment	11	**150,915**	178,473
Deferred tax assets	18	**358**	780
Trade and other receivables	13	**75,860**	68,744
		379,111	403,260
Asset held for resale	25	**1,500**	-
Current assets			
Inventories	12	**5,519**	7,898
Trade and other receivables	13	**114,012**	115,854
Cash	14	**2,132**	2,425
		121,663	126,177
Total assets		**502,274**	529,437
LIABILITIES			
Current liabilities			
Trade and other payables	15	**(82,313)**	(88,875)
Borrowings	16	**(80,852)**	(74,361)
Provisions	17	**(16,684)**	(6,431)
Current tax liabilities		**(90)**	(501)
		(179,939)	(170,168)
Non-current liabilities			
Trade and other payables	15	**(14,105)**	(17,266)
Borrowings	16	**(469,538)**	(427,417)
Provisions	17	**(36,510)**	(10,712)
Deferred tax liabilities	18	**(2,797)**	(1,890)
		(522,950)	(457,285)
Total liabilities		**(702,889)**	(627,453)
Net liabilities		**(200,615)**	(98,016)
EQUITY			
Share capital	19	**8,591**	8,591
Share premium		**-**	-
Foreign exchange translation reserve		**429**	325
Retained deficit		**(209,635)**	(106,932)
Total deficit attributable to owners of the company		**(200,615)**	(98,016)

The notes on pages 23 to 61 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 5 April 2018 and were signed on its behalf by:

P Quested
Director
5 April 2018

Consolidated statement of changes in equity

For the year ended 30 December 2017

	Share capital	Foreign exchange translation reserve	Accumulated deficit	Total equity
	£000s	**£000s**	**£000s**	**£000s**
At 1 January 2017	8,591	325	(106,932)	(98,016)
Total comprehensive loss for the period				
Loss for the period	-	-	(102,810)	(102,810)
Foreign currency translation differences arising on consolidation of foreign operations	-	104	0	104
Total comprehensive loss for the period	-	104	(102,810)	(102,706)
Share based payment charge	-	-	107	107
At 30 December 2017	**8,591**	**429**	**(209,635)**	**(200,615)**

	Share capital	Foreign exchange translation reserve	Accumulated deficit	Total equity
	£000s	£000s	£000s	£000s
At 26 December 2015	8,591	(1,212)	(73,357)	(65,978)
Total comprehensive loss for the period				
Loss for the period	-	-	(33,575)	(33,575)
Foreign currency translation differences arising on consolidation of foreign operations	-	1,537	-	1,537
Total comprehensive loss for the period	-	1,537	(33,575)	(32,038)
At 31 December 2016	8,591	325	(106,932)	(98,016)

The notes on pages 23 to 61 form part of these financial statements.

Hero Acquisitions Limited

Consolidated statement of cash flows

For the year ended 30 December 2017

	Note	**Year ended 30 December 2017**	Year ended 31 December 2016
		£000s	£000s
Cash flows from operating activities			
Loss before income tax		**(106,394)**	(36,629)
Adjustments for:			
– Amortisation		**4,187**	3,740
– Depreciation		**37,006**	37,729
– Accelerated depreciation relating to hire stock customer losses and hire stock write offs		**10,066**	9,762
– Impairment of property, plant and equipment		**11,230**	-
– Impairment of intangible assets		**1,239**	-
– Loss on disposal of property, plant and equipment		**87**	684
– Loss on disposal of subsidiary		**4,408**	-
– Loss on disposal of intangible assets		**2**	-
– Share based payment charge		**107**	-
– Finance income		**(7,642)**	(6,878)
– Finance expense		**45,532**	43,169
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		**804**	1,197
– Trade and other receivables		**6,464**	(6,195)
– Trade and other payables		**(5,766)**	1,446
– Provisions		**31,504**	(1,187)
Net cash flows from operating activities before changes in hire equipment		**32,834**	46,838
Purchase of hire equipment		**(22,787)**	(22,085)
Cash generated from operating activities		**10,047**	24,753
Net interest paid		**(12,451)**	(12,930)
Income tax paid		**(59)**	(373)
Net cash generated from operating activities		**(2,463)**	11,450
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 borrowings (third parties)		**18,000**	31,000
Proceeds from borrowings (group undertakings)		**19,267**	-
Repayments of borrowings (third parties)		**(15,000)**	(11,000)
Repayments of borrowings (group undertakings)		**(6,500)**	-
Cash received from refinancing hire stock		**5,030**	-
Capital element of finance lease payments		**(12,505)**	(12,498)
Net cash received from financing activities		**8,292**	7,502
Net (decrease)/ increase in cash		**(293)**	2,148
Cash at the start of the period		**2,425**	277
Cash at the end of the period	14	**2,132**	2,425

The notes on pages 23 to 61 form part of these financial statements.

1. Accounting policies

a) Reporting entity

The Company is incorporated and domiciled in the United Kingdom. These consolidated financial statements comprise the Company and its subsidiaries (the Group). The Group is primarily involved in providing tool and equipment hire and related services in the United Kingdom and the Republic of Ireland. The Group and Company financial statements were approved by the Board of Directors on 5 April 2018.

b) Statement of compliance

The Group financial statements of Hero Acquisitions Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the Companies Act 2006.

The directors have taken advantage of the option within section 390 of the Companies Act 2006 to prepare their financial statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts therefore cover the period from 1 January 2017 to 30 December 2017 (2016: 27 December 2015 to 31 December 2016).

c) Functional and presentational currency

These financial statements are presented in pounds Sterling (£), which is the Group's presentational currency. The functional currency of the parent and subsidiaries is pounds sterling, except for those that are incorporated in the Republic of Ireland, which have the euro as their functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

d) Basis of preparation

The financial statements have been prepared on a historical cost basis, with the exception of derivative financial instruments which are measured at fair value on each reporting date.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

e) New accounting standards and accounting standards not yet effective

There were no new IFRSs or IFRICs that had to be implemented during the year that significantly affect these financial statements.

Standards effective in future periods

The following new standards, amendments and interpretations to existing standards, which are applicable to the Group, have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2018.

- IFRS 15 Revenue from Contracts with Customers, which provides guidance on the recognition, timing and measurement of revenue, and is effective for periods beginning on or after 1 January 2018.
- IFRS 16 Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases, effective for periods beginning on or after 1 January 2019.
- IFRS 9 Financial Instruments, which replaces IAS39 Financial Instruments: Recognition and Measurement in its entirety, and is effective for periods beginning on or after 1 January 2018.

IFRS 15 Revenue from contracts with customers. This will replace IAS 18 which covers revenue arising from the sale of goods and the rendering of services and IAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption. The group will adopt the new standard from 31 December 2017. The Group is of the opinion that IFRS 15 does not have any material impact on the financial statements as what is required by the standard is already applied as accounting policy by the Group. The Group also confirm that it does not expect to restate or recognise the cumulative effect to the previous year's financial statement as at the date of the application of IFRS 15.

e) New accounting standards and accounting standards not yet effective (continued)

IFRS 16 Leases. The Group is in the process of assessing the impact that the application of IFRS 16 will have on the Financial Statements, but it is expected to be material given the number of operating leases the Group has entered into, as detailed in note 21. IFRS 16 will require the Group to recognise a liability and right of use asset for the majority of the leases currently treated as operating. This will affect fixed assets, current and non-current liabilities, and the measurement and disclosure of expenses associated with the leases (depreciation and interest expense compared to operating lease rentals currently). The standard will also impact a number of statutory measures such as operating profit and cash generated from operations and alternative non-IFRS financial performance measures used by the Group. It is not practicable to provide a reasonable estimate of the effects of the adoption of IFRS 16 until a detailed review has been completed, given the complexity of the standard and volume of leases. The full impact of IFRS 16 will greatly depend on the facts and circumstances at the time of adoption. Accounting requirements for lessors are substantially unchanged from IAS 17. The group will adopt the standard from 30 December 2018.

IFRS 9 Financial Instruments addresses the classification, measurement and de-recognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The group will adopt IFRS 9 from 31 December 2017. The standard introduces:

- New requirements for the classification and measurement of financial assets and financial liabilities
- A new model for recognising provisions based on expected credit losses: and
- Simplified hedge accounting by aligning hedge accounting more closely with an entities risk management methodology.

The adoption of IFRS 9 is unlikely to have a material impact on the consolidated results of the Group.

f) Critical accounting estimates and judgements

In preparing these Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amount of assets, liabilities, income, expenses and other disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new or further information. Such changes are recognised in the period in which the estimate is revised.

Key assumptions about the future and key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities over the next year are set out below.

Estimates
Useful economic life and residual value of assets – see note 1(k)
Impairment of goodwill, intangible assets and property, plant and equipment – see note 1(l)
Onerous lease provision – see note 1(y)
Dilapidations provisions – see note 1(y)
Restructuring provisions – see note 1 (y)

Judgements
Recoverability of trade receivables – see note 1(o)
Onerous contract provision – see note 1(y)
Exceptional items – see note 1(cc)

g) Going concern

Note 20 include the Group's objectives, policies and processes for capital management and for financial risk management including market risk, credit risk, liquidity risk and asset risk.

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, as detailed in notes 16 and 20.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, and senior debt and interest repayments falling due, as detailed in note 16, 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.

h) Basis of consolidation

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred.

Unless merger accounting has been adopted in specific circumstances, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date, any gains or losses arising from such re-measurement are recognised in the profit or loss.

Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

i) Segment reporting

IFRS 8 Operating segments requires operating segments to be reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management team, including the Chief Executive Officer, Chief Financial Officer and Chief Commercial Officer. Details of the Group's segments are given in note 2.

j) Foreign currency translation

Foreign currency transactions are translated into an entity's functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign currency translation gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or finance expense. All other foreign currency translation gains and losses are presented in the income statement within administrative expenses.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign currency exchange rates ruling at the reporting date.

The revenues and expenses of foreign operations are translated at an average rate for the period, which approximates the foreign currency exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are reported in other comprehensive income. Where required, any translation into the Group's presentational currency follows the policy for foreign operations.

k) Property, plant and equipment

Use of estimates - Useful economic life and residual value of assets
The Group's policy for applying useful economic lives and residual values of assets has been determined through applying historical experience and taking into consideration the nature of assets and their intended use, and achieved values on sale when disposed.

The net book value of materials and equipment held for hire was £118.6 million at 30 December 2017 (2016: £133.9 million) and the related depreciation charge was £29.0 million (2016: £27.9 million). The majority of hire stock items are given no residual value. Certain plant (powered access and power generation) have residual values of between 10 and 20% of original cost.

No sensitivity analysis has been given in relation to the useful economic life and residual value of assets held for hire due to the volume of the items involved and the complexities of the current system used by the group to record property, plant and equipment. Instead, the directors regularly review useful economic lives and residual values to ensure that the depreciation charge is appropriate. The Group will also be introducing a new property, plant and equipment recording system during 2018 which will be able to capture additional data to the one that is currently in use. Land and buildings comprise leasehold and freehold branches, workshops and offices, and are stated at cost, less depreciation or provision for impairment where appropriate. Land is not depreciated and depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Material and equipment held for hire:

Tools and general equipment	Two to ten years
Powered access	Five to ten years
Power generation	Five to ten years
Climate control	Two to ten years

Non-hire assets:

Leasehold properties with less than fifty years unexpired	Over unexpired period of lease
Freehold buildings and long leasehold properties	Over fifty years
Plant & machinery	Two to ten years

The Group reviews its depreciation policy annually. The effect of changes in the depreciation rates applied to specific assets in 2017 has resulted in an increase in depreciation charge of £0.8 million (2016: a reduction of £4.2 million).

Materials and equipment held for hire purposes are stated at cost, less depreciation or provision for impairment where appropriate. Materials and equipment are written off over their useful economic life to the asset's residual value which is estimated at between 20% of cost and nil. Residual values are only applied to powered access and power generation assets. Profits or losses arising when customers are invoiced for loss of equipment held for hire purposes are calculated by reference to average written down values.

Gains and losses on disposals of materials and equipment held for hire are calculated as the difference between the proceeds received and the carrying amount of the asset and are recognised in profit or loss.

Impairment reviews are undertaken whenever events or changes in circumstances indicate the carrying value of property, plant and equipment may not be recoverable. If the fair value of a tangible asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate, but restricted so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Any impairment losses or reversals are recognised immediately in the income statement.

l) Intangible assets

Use of estimates - impairment of goodwill, intangible assets and property, plant and equipment

These assets are reviewed annually or more frequently if there is an indication of impairment to ensure that they are not carried above their estimated recoverable amounts. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary from such estimates of discounted future cash flows. Such calculations require assumptions related to the appropriate discount rate, the long term growth rate and also short term performance and cash flows. The directors consider historic performance as well as referencing to external information to arrive at these assumptions. Further details of the impairment reviews undertaken, assumptions and sensitivities are given in note 10.

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the difference between the fair value of the consideration transferred and the fair value of the acquired assets, liabilities and contingent liabilities.

Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGUs.

Goodwill impairment reviews are undertaken annually. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Intangible assets acquired on acquisition

When an acquisition is completed intangible assets are separately identified from goodwill and measured at fair value. Brands are valued using the relief from royalty method. Customer relationships are valued using the excess of earnings method.

The directors have assessed the brands of ABird, UK Platforms and Apex and estimated that they have useful economic lives of 20 years. The directors have estimated the customer relationship intangible assets recognised on the acquisition of Apex Generators Limited as having useful economic lives of 10 years. The directors have estimated the brand and customer relationship intangible assets recognised on the acquisition of All Seasons Hire Limited as having useful economic lives of 10 and 12 years respectively. Amortisation is charged to administrative expenses.

Software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed four years.

Other intangible assets

Other intangible assets that are acquired by the Group that have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Other intangible assets are amortised over their useful economic life, and the amortisation charge is included within administrative expenses.

Impairment of intangible assets (excluding goodwill and intangible assets with indefinite lives)

Impairment reviews are undertaken whenever events or changes in circumstances indicate their carrying value may not be recoverable. If the fair value of an intangible asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate, but restricted so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Any impairment losses or reversals are recognised immediately in the income statement.

m) Derivative financial instruments

Historically the Group has used a derivative financial instrument to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than one year and is not expected to be realised or settled within one year. Where this is not the case, derivatives are presented as current assets or current liabilities. The Group did not have any derivative financial instruments in the current or prior year.

n) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for those inventory items where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historical experience and assumptions regarding estimated future sales value.

o) Trade receivables

Judgements - recoverability of trade receivables

Judgements are required in assessing the recoverability of overdue trade receivables and determining whether a provision against those receivables is required. The Group monitors the risk profile of debtors and makes provisions for amounts that may not be recoverable based on past default experience and the directors' assessment of the economic environment. The recoverability of overdue receivables is considered together with the sales credit note provision. The Group makes provision for credit notes raised and expected to be raised after the end of the reporting period that relate to customer invoices raised before the end of the period, net of any impairment charges relating to the customer invoices. The Group's bad debt and credit note provision is disclosed in note 13.

Trade and other receivables are recognised initially at fair value, which is deemed to be the transaction price. Subsequently, trade and other receivables are measured at amortised cost using the effective interest method, less any provision for impairment.

Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivables. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

p) Cash

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with maturities of three months or less and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

q) Share capital and reserves

Ordinary shares
Financial instruments used by the Group are classified as equity only to the extent that they do not meet the definition of a financial asset or a financial liability. The Group's ordinary shares and preference shares are classified as equity instruments. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Retained earnings/accumulated deficit
Cumulative net gains and losses recognised in the income statement.

Foreign exchange reserve
This is the amount of gains/losses arising on retranslating the net assets of overseas operations into sterling. In prior years, the balance was included in retained earnings but the directors have decided to show it in a separate component of equity this year. The 2016 comparative has been restated accordingly

Dividends

Dividends on ordinary share capital are recognised as a liability in the Group's Financial Statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid and in the case of final dividends these are declared when authorised by the shareholders.

r) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost. Trade payables are classified as current liabilities if payment is due within one year or less, otherwise they are presented as non-current liabilities.

s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

t) Cost of sales, distribution costs and administrative expenses

Cost of sales includes direct costs associated with the Group's principal business of equipment hire. Such costs include hire stock rehire, cost of reselling plant and equipment, maintenance, depreciation, amortisation and asset write-off and disposals. Distribution expenses comprise vehicle costs and transport wages. Administrative expenses comprise principally staff and property costs and costs of acquisitions.

u) Non-IFRS financial measures

Earnings before interest, taxation, depreciation and amortisation (EBITDA) and Adjusted EBITDA, earnings before interest, tax and amortisation (EBITA) and Adjusted EBITA

EBITDA, Adjusted EBITDA, EBITA and Adjusted EBITA are non-IFRS and non-Generally Accepted Accounting Practice (GAAP) performance measures used by the directors and management to assess the operating performance of the Group.

- EBITDA is defined as operating profit before depreciation, and amortisation. 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. Exceptional items are excluded from EBITDA to calculate Adjusted EBITDA.
- EBITA is defined by the Group as operating profit before amortisation. Exceptional items are excluded from EBITA to calculate Adjusted EBITA.

The Group discloses Adjusted EBITDA and Adjusted EBITA as supplemental non-IFRS financial performance measures because the directors believe they are useful metrics by which to compare the performance of the business from period to period and such measures similar to Adjusted EBITDA and Adjusted EBITA are broadly used by analysts, rating agencies and investors in assessing the performance of the Group. Accordingly, the directors believe that the presentation of Adjusted EBITDA and Adjusted EBITA provides useful information to users of the Financial Statements.

As these are non-IFRS measures, Adjusted EBITDA and Adjusted operating profit measures used by other entities may not be calculated in the same way and are hence not directly comparable.

v) Finance income and expense

Finance income comprises interest receivable on cash balances.

Finance expense comprises interest payable on borrowings, interest payable on finance leases, amortisation and write-off of debt issuance costs and the unwinding of the discount on non-current provisions.

Interest is recognised in profit or loss as it accrues, using the effective interest rate. Interest payable on borrowings includes a charge in respect of attributable transaction costs, which are recognised in profit or loss over the period of the borrowings on an effective interest basis. The interest expense component of finance lease payments is recognised in the income statement using the lease's implicit interest rate.

Notes to the consolidated financial statements (continued)

For the year ended 30 December 2017

w) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

x) Employee benefits

Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Pension obligations

The Group operates employee optional stakeholder retirement and death benefit schemes. Both employees and employers are required to make contributions, with the employer’s contributions for each employee determined by the level of contribution made by the employee and the employee’s length of service within the Group or subsidiary company. The employer’s contributions are charged to profit and loss in the year in which the contributions are due.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 1 year after the end of the reporting period are discounted to their present value.

Share based payments

Share based payments transactions in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share based payments. The grant date fair value of the share based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employee becomes unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model where required, taking into account the terms and conditions upon which the options were granted and is charged to the income statement on a straight-line basis over the vesting period of the award.

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

y) Provisions

Use of estimates – onerous leases

Provisions have been made for onerous leases on non-trading stores associated with the Group's property portfolio. The carrying amount of the onerous lease provision will be affected by changes in the discount rate. The discount rate used to calculate these provisions is based on UK gilt yields to approximate a risk free rate and as at 30 December 2017 was 0.752% (2016: 0.48 %). The interest rate used in discounting the cash flows is reviewed annually. Further details of the assumptions and sensitivities are given in note 17.

The need for provisions for onerous leases against non-trading stores, measured net of expected rental income, is assessed when the leased property becomes vacant and is no longer used in the operations of the Group or when a decision has formally been made to do so. These provisions are recognised on a lease by lease basis. The determination of the onerous lease provision requires management, in conjunction with its third party property advisers, to make estimates about the ultimate cost to the Group, including the nature, timings and cost of exiting a lease, and any additional unavoidable costs, and the level of sublease income, if applicable.

The actual costs and timing of cash flows are dependent on future events and market conditions. Any difference between management estimates and actual costs is accounted for in the period when such determination is made.

Provisions for onerous leases, restructuring costs and legal claims are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Use of estimates - dilapidations provisions

Leasehold dilapidations relate to the estimated cost of returning a leasehold property to its original state at the end of the lease in accordance with the lease terms. The cost is recognised as depreciation of leasehold improvements over the remaining term of the lease. The main uncertainty relates to estimating the cost that will be incurred at the end of the lease. Provisions for dilapidations are estimated based on surveyors' report where available and remaining properties are covered by estimates based on gross internal area. The Group's dilapidation provision is disclosed in note 17.

Provisions for dilapidation are recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property. The timing and amounts of future cash flows related to lease dilapidations are subject to uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and third party surveyors reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change. The amount recognised is the estimated cost of dilapidations, discounted to its net present value, and since the cash outflow can take place many years in the future, the carrying amount of the provision is reviewed regularly and adjusted to take account of changing facts and circumstances, including, the age and condition of the property, experience of actual spending, third party surveyors' reports commissioned for specific properties, the Group's specific lease obligations, market practice generally and any agreements specifically reached with landlords in respect of any given property. Changes in the estimated timing of dilapidations or dilapidations cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dilapidations provision is included as a finance expense.

Use of estimates – restructuring provisions

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Judgements – onerous contract provisions

Contracts are considered to be onerous when cash is paid to third party but the Group derives no economic benefit. In the case of the Group's relationship with Unipart, following the agreement to cease the NDEC in December 2017 and the subsequent revisions to the contracts between the parties, £33.8 million will be payable over the period 2018 to 2026 for which the Group will receive no services. Accordingly this has been treated as an onerous contract.

z) Revenue recognition

The Group's activities consist of supplying hire and equipment services within the UK and the Republic of Ireland. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, including compensation for damaged or lost hire stock, stated net of discounts, rebates, returns and value added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured and when it is probable that future economic benefits will flow to the entity. Revenue is recognised as follows:

- hire and rehire activities — over the period of hire on a straight-line basis;
- resale and ancillary revenue to hire including fuel and consumables — when the significant risks and rewards of ownership have been transferred to the buyer
- ex-hire fleet asset sales — when the significant risks and rewards of ownership have been transferred to the buyer
- damaged/lost hire stock compensation — when the loss or damage is identified; and
- training course and support services — when a right to consideration arises on the delivery of the training course or support service.

aa) Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of useful life and lease term with any impairment being recognised in accumulated depreciation. Leased assets are recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of finance leases. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the statement of financial position and analysed between current and non-current amounts. The interest elements of the obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Lease incentives are recorded as a liability and then recognised over the lease term on a straight-line basis in the income statement as a reduction of rental expense.

bb) Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of the valuation method of the Group's financial instruments:

The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within level 1 that are observable, for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

Fair values have been determined for measurement purposes based on the following methods:

Derivative instruments (level 2)

The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

The fair value of interest rate swap contracts are calculated by management based on external valuations received from the Group's bankers and is based on anticipated future interest yields.

cc) Exceptional items

Judgements - Exceptional items

The Group has classified a number of income statement items as exceptional during the year because of their size or nature or because they are non-recurring.

Exceptional items are disclosed separately in the income statement where it is necessary to do so to provide further understanding of the underlying financial performance of the Group. Exceptional items are items of income or expense that have been shown separately due to the significance of their nature or amount. During the year ended 30 December 2017 these include the cost of onerous leases (net of sub-let rental income) and the impairment of fixed assets related to closed branches, the cost reduction programme, senior management changes, preparatory refinancing costs, the strategic review and the costs of the network reconfiguration. Additionally in 2016 exceptional costs included the cost of the establishment of the National Engineering & Distribution Centre (NDEC), pre-opening costs, IPO fees and a resale stock impairment. These are more fully discussed in note 4.

2. Segmental reporting

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

- Rental and related revenue.
- Services.

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

Services comprise the Group's rehire business 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).

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

2. Segmental reporting (continued)

	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	-	-	(82,468)	(82,468)
Central costs	-	-	(38,574)	(38,574)
Adjusted EBITDA				48,898
Less: Exceptional items	-	-	(66,056)	(66,056)
Less: Depreciation and amortisation	(39,392)	(311)	(11,643)	(51,346)
Operating profit				(68,504)
Net finance expense				(37,890)
Loss before tax				(106,394)

	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	145,430	290	6,258	151,978
Unallocated corporate assets				
Asset held for resale			1,500	1,500
Non-current deferred tax assets			358	358
Non-current Trade and other receivables			75,860	75,860
Current assets			121,663	121,663
Current liabilities			(179,939)	(179,939)
Non-current liabilities			(522,950)	(522,950)
				(200,615)

2. Segmental reporting (continued)

	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	-	-	(31,992)	(31,992)
Adjusted EBITDA				68,460
Less: Exceptional items			(16,883)	(16,883)
Less: Depreciation and amortisation	(38,074)	(267)	(13,574)	(51,915)
Operating loss				(338)
Net finance expense				(36,291)
Loss before tax				(36,629)

	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	4,591	4,740
Non-current assets net book value				
Property, plant and equipment	133,922	387	44,164	178,473
Intangibles	146,256	542	8,465	155,263
Unallocated corporate assets				
Non-current deferred tax assets			780	780
Non-current Trade and other receivables			68,744	68,744
Current assets			126,177	126,177
Current liabilities			(170,168)	(170,168)
Non-current liabilities			(457,285)	(457,285)
				(98,016)

3. Other operating income

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Other operating income	**882**	1,151
	882	1,151

Other operating income includes £0.9 million (2016: £1.2 million) in respect of sub-let rental income received on vacant properties, which has been recognised within exceptional items (note 4).

4. Exceptional items

Items of income or expense have been shown as exceptional either because of their size or nature or because they are non-recurring.

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 £66.1 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	-	-	4,408	-	4,408
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**	**66,631**	**(882)**	**66,056**

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

4. Exceptional items (continued)

During the year ended 31 December 2016, the Group has recognised total exceptional costs, analysed as follows:

	Included in cost of sales	Included in distribution costs	Included in administrative expenses	Included in other operating income	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
Branch and distribution centre closure 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	-	-	-	-	-
Acquisitions	-	-	-	-	-
Sub-let rental income on onerous leases	-	-	-	(1,137)	(1,137)
Exceptional items	3,398	1,304	13,318	(1,137)	16,883

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.

4. Exceptional items (continued)

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 was 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 £4.4 million including goodwill written off of £0.2 million. Further details on the disposal can be found in note 22.

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.

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

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.

As part of the restructuring a number of branches and distribution centres were closed. This led to redundancy costs of £0.5 million.

Given the scale and complexity in the operational change, the decision was made in the 4th quarter 2016 to redesign certain aspects of the project. These non-recurring transitional engineering costs amounted to £0.4 million.

5. Finance income and expense

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Interest on amounts due from group undertakings	**(7,642)**	(6,875)
Interest received on cash deposits	**-**	(3)
Finance income	**(7,642)**	(6,878)
Bank loans and overdrafts	**2,075**	1,995
Interest on amounts due to group undertakings	**31,832**	28,524
Senior secured notes	**9,155**	9,331
Finance leases	**1,392**	1,792
Interest unwind on discounted provisions	**31**	484
Debt issue cost	**1,047**	1,043
Finance expense	**45,532**	43,169
Net finance expense	**37,890**	36,291

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

6. Operating profit

Operating profit is stated after charging / (crediting):

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Amortisation of intangible assets	**4,187**	3,740
Depreciation of property, plant and equipment	**37,006**	37,729
Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	**10,153**	10,446
Loss on disposal of subsidiary	**4,408**	-
Impairment loss on tangible assets	**11,230**	-
Impairment loss on intangible assets	**1,239**	-
Loss on disposal of intangible assets	**2**	-
Operating lease rentals		
- land and buildings	**19,907**	19,463
- motor vehicles	**8,821**	9,393
- hire stock	**1,742**	748
Sublease rental income	**(882)**	(1,151)
Foreign currency translation (gains)/losses	**(116)**	85

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Auditors' remuneration		
- audit of Group and Company financial statements	**38**	36
- audit of subsidiary financial statements	**176**	196
- audit assurance services	-	-
- corporate finance services	-	-
- taxation compliance services	**2**	-
	216	232

7. Employees

The average number of people employed by the Group (including directors) during the year was as follows:

	Year ended 30 December 2017	Year ended 31 December 2016
	Number	Number
Distribution	**566**	593
Hire stock and inventory maintenance	**391**	391
Sales and administration	**2,109**	2,270
	3,066	3,254

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

7. Employees (continued)

The aggregate remuneration costs of these employees were as follows:

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Wages and salaries	**79,994**	83,434
Social security costs	**8,228**	7,386
Pension costs	**1,486**	1,665
Share-based payment expense	**107**	-
	89,815	92,485

IAS 24 *Related party transactions* (IAS 24), requires the Group to disclose all transactions and outstanding balances with the Group's key management personnel. IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The key management personnel of the Group comprise the directors along with senior managers from central support services and divisional and regional operations.

The aggregate remuneration costs of key management personnel were as follows:

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Wages and salaries	**2,506**	1,905
Employer's national insurance contributions and similar taxes	**305**	243
Compensation for loss of office	**720**	-
Other pension costs	**118**	99
	3,649	2,247

At 30 December 2017 there were no amounts due to key management personnel (2016: £nil).

8. Directors' remuneration

The remuneration costs of the Company's directors were:

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Aggregate emoluments	**792**	850
Bonuses not paid	**-**	(16)
Pension costs	**56**	56
Directors' emoluments	**848**	890

Compensation for loss of office of £0.4 million is being paid by instalments to a former director and has been fully accrued during the year ended 30 December 2017 (2016: £nil).

The remuneration of the highest paid director was:

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Aggregate emoluments	**284**	348
Pension costs	**24**	33
Directors' emoluments	**308**	381

9. Income tax credit

(a) Analysis of tax credit in the year

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Current tax credit		
UK corporation tax on the loss for the year	**(4,168)**	(3,977)
Adjustments in respect of prior years	**(788)**	26
Total current tax credit	**(4,956)**	(3,951)
Deferred tax charge		
Deferred tax charge for the year	**1,421**	943
Deferred tax charge/(credit) impact of change in tax rate	**-**	(45)
Adjustments in respect of prior years	**(49)**	(1)
Total deferred tax charge	**1,372**	897
Income tax credit	**(3,584)**	(3,054)

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

9. Income tax credit (continued)

(b) Factors affecting the tax 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	**(106,394)**	(36,629)
Loss before tax multiplied by the effective standard rate of corporation tax of 19.25% (2016: 20%)	**(20,481)**	(7,326)
Effects of:		
Expenses not deductible for tax purposes	**1,079**	478
Adjustments in respect of prior years	**(838)**	25
Difference in foreign tax rate	**444**	389
Unprovided deferred tax movements on short term temporary differences	**16,212**	3,425
Impact of change in tax rates	**-**	(45)
Income tax credit	**(3,584)**	(3,054)

(c) Factors that may affect future tax charges

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 £12.7 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%.

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

10. Intangible assets

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 31 December 2016	142,398	2,982	2,242	19,967	167,589
Foreign exchange differences	2	-	-	-	2
Additions	-	-	-	2,857	2,857
Sale of business	(244)	(738)	(40)	(240)	(1,262)
Disposals	-	-	-	(2,101)	(2,101)
At 30 December 2017	**142,156**	**2,244**	**2,202**	**20,483**	**167,085**
Amortisation					
At 31 December 2016	-	684	389	11,253	12,326
Charge for the period	-	312	143	3,732	4,187
Impairment loss	-	-	-	1,239	1,239
Sale of business	-	(356)	(8)	(183)	(547)
Disposals	-	-	-	(2,098)	(2,098)
At 30 December 2017	**-**	**640**	**524**	**13,943**	**15,107**
Net book value					
At 30 December 2017	**142,156**	**1,604**	**1,678**	**6,540**	**151,978**

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 26 December 2015	142,825	2,544	2,242	14,997	162,608
Foreign exchange differences	11	-	-	-	11
Additions	-	-	-	4,740	4,740
Transfers	(438)	438	-	230	230
At 31 December 2016	142,398	2,982	2,242	19,967	167,589
Amortisation					
At 26 December 2015	-	256	232	7,868	8,356
Charge for the period	-	428	157	3,155	3,740
Transfers	-	-	-	230	230
At 31 December 2016	-	684	389	11,253	12,326
Net book value					
At 31 December 2016	142,398	2,298	1,853	8,714	155,263

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.

10. Intangible assets (continued)

Analysis of goodwill, customer relationships and brands by cash generating units (CGUs)

	Goodwill	Customer relationships	Brands	Total
	£000s	£000s	£000s	£000s
Allocated to				
HSS Core	124,662	-	301	124,963
Powered access	4,114	-	681	4,795
Climate control	7,327	1,043	462	8,832
Power generation	6,053	561	234	6,848
At 30 December 2017	**142,156**	**1,604**	**1,678**	**145,438**

	Goodwill	Customer relationships	Brands	Total
	£000s	£000s	£000s	£000s
Allocated to				
HSS Core	124,904	491	354	125,749
Powered access	4,114	-	725	4,839
Climate control	7,327	1,156	525	9,008
Power generation	6,053	651	249	6,953
At 31 December 2016	142,398	2,298	1,853	146,549

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.

10. Intangible assets (continued)

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 £110.2 million. The directors' sensitivity analysis with regard to HSS Core shows that an increase in the discount rate by 3.3%, to 13.3%, or a reduction in the long term growth rate to a decline of 4.2%, or a reduction in the short to medium term growth rate to a decline of 4.9% would eliminate the headroom shown. Additionally if planned cost savings from the Strategic Review are £8m less than anticipated the headroom would be eliminated. The short to medium term growth rate reduction equates to a reduction in EBITDA of between £3 million to £7 million annually over the medium term.

Notes to the consolidated financial statements (continued)

For the year ended 30 December 2017

11. Property, plant and equipment

	Land & Buildings	Plant & Machinery	Materials & Equipment held for hire	Total
	£000s	£000s	£000s	£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)
Disposal of business	(93)	(463)	(5,504)	(6,060)
Other 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)
Disposal of business	(33)	(409)	(3,164)	(3,606)
Other 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	Plant & Machinery	Materials & Equipment held for hire	Total
	£000s	£000s	£000s	£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

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

The net book value of materials and equipment held for hire includes an amount of £46.1million (2016: £42.3 million) in respect of assets held under finance leases. The depreciation charge for assets held under finance leases in the year ended 30 December 2017 was £6.5 million (2016: £5.3 million).

12. Inventories

	30 December 2017	31 December 2016
	£000s	£000s
Goods for resale	**3,455**	5,016
Spares	**2,460**	3,250
Total inventories	**5,915**	8,266
Provision for impairment	**(396)**	(368)
Inventories	**5,519**	7,898

	30 December 2017	31 December 2016
Provision for impairment of inventories	**£000s**	£000s
Balance at the beginning of the year	**368**	340
Impairment provisions recognised during the year	**28**	28
Balance at the end of the year	**396**	368

The cost of inventories recognised as an expense and included in cost of sales is £25.2 million (2016 £26.7 million).

13. Trade and other receivables

	30 December 2017	31 December 2016
Non-current	**£000s**	£000s
Amounts due from group undertakings	**75,860**	68,744
	75,860	68,744

	30 December 2017	31 December 2016
Current	**£000s**	£000s
Gross trade receivables	**85,271**	83,072
Less provision for impairment	**(4,429)**	(3,740)
Net trade receivables	**80,842**	79,332
Other debtors	**271**	578
Prepayments and accrued income	**15,361**	23,707
Amounts due from group undertakings	**17,538**	12,237
	114,012	115,854

Non-current amounts due from group undertakings are due in 2020 with interest receivable at a fixed rate of 10%.

Amounts receivable from group undertakings classified as current are unsecured and repayable on demand with interest receivable based on 3 month LIBOR.

The provision for impairment of trade receivables is estimated based upon past default experience and the directors' assessment of the current economic environment, including provisions for credit notes raised and

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

expected to be raised after year end for customer invoices issued before year end (see note 1(o)). The overall provision for bad debts and credit notes amounts to 5.2% of trade receivables at 30 December 2017 (2016: 4.5%). A 0.5% increase in the rate of provision required would give rise to an increased provision of £0.4 million. The creation and release of bad debt receivables provision is charged/ (credited) to administrative expenses in the income statement, and the credit note provision is charged/ (credited) to revenue.

The following table details the movements in the provision for impairment of trade receivables:

	30 December 2017	31 December 2016
	£000s	£000s
Balance at the beginning of the period	**(3,740)**	(4,000)
Movement in provision	**(689)**	260
Balance at the end of the period	**(4,429)**	(3,740)

The provision for impairment of trade receivables is comprised, as follows:

	30 December 2017	31 December 2016
	£000s	£000s
Bad debt provision	**(3,042)**	(2,286)
Credit note provision	**(1,387)**	(1,454)
	(4,429)	(3,740)

The ageing profile of debtors that are overdue but not impaired is:

	30 December 2017	31 December 2016
Days overdue	**£000s**	£'000s
1 to 30 days	**5,926**	4,919
31 to 60 days	**3,180**	2,885
61 to 90 days	**2,053**	1,625
Over 90 days	**2,465**	3,602
	13,624	13,031

These amounts have not been impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable.

14. Cash

	30 December 2017	31 December 2016
	£000s	£000s
Cash (statement of financial position)	**2,132**	2,425
Cash and cash equivalents	**2,132**	2,425

Notes to the consolidated financial statements (continued)

For the year ended 30 December 2017

15. Trade and other payables

	30 December 2017	31 December 2016
	£000s	£000s
Current		
Obligations under finance leases	**11,891**	11,448
Trade payables	**39,728**	52,505
Other taxes and social security costs	**5,792**	5,686
Other creditors	**916**	276
Accrued interest on borrowings	**3,904**	3,859
Accruals and deferred income	**20,082**	15,101
	82,313	88,875

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

Finance leases principally relate to hire fleet assets.

The maturity profile of the Group's finance leases is as follows:

	30 December 2017	31 December 2016
	£000s	£000s
Less than one year	**11,891**	11,448
Two to five years	**14,105**	17,266
Over five years	**-**	-
	25,996	28,714

The following table gives a reconciliation of the minimum lease payments to the carrying value of the finance lease creditor:

	30 December 2017	31 December 2016
	£000s	£000s
Less than one year	**12,948**	12,639
Two to five years	**14,741**	18,133
Over five years	**-**	-
	27,689	30,772
Less future interest payments	**(1,693)**	(2,058)
Carrying value of lease liabilities	**25,996**	28,714

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

16. Borrowings

	30 December 2017 £000s	31 December 2016 £000s
Current		
Revolving credit facility	**69,000**	66,000
Amounts due to group undertakings	**11,852**	8,361
	80,852	74,361
Non-current		
Senior secured note	**134,242**	133,212
Amounts due to group undertakings	**335,296**	294,205
	469,538	427,417

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

	30 December 2017 £000s	31 December 2016 £000s
Secured senior note	**136,000**	136,000
Amounts due to group undertakings	**347,148**	302,566
	483,148	438,566

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.

Non-current amounts due to group undertakings fall due in 2022 (2016: falling due in 2022).

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

	30 December 2017 % above LIBOR	31 December 2016 % above LIBOR
Amounts due to group undertakings	-	-
Revolving credit facility	**2.50%**	2.25%

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

16. Borrowings (continued)

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

	30 December 2017	31 December 2016
	Fixed rate	Fixed rate
Secured senior note	**6.75%**	6.75%
Amounts due to group undertakings	**10% & 6.75%**	10% & 6.75%
Weighted average interest rate on borrowings	**8.20%**	8.06%

The Group's borrowings have the following maturity profile:

	30 December 2017	31 December 2016
	£000s	£000s
Less than one year	**9,180**	9,180
Two to five years	**158,368**	429,264
Over five years	**579,460**	174,128
	747,008	612,572
Less interest cash flows:		
Senior secured note	**(18,360)**	(27,540)
Amounts due to group undertakings	**(245,500)**	(146,466)
Total principal cash flows	**483,148**	438,566

The Group had undrawn committed borrowing facilities of £27.6 million at 30 December 2017 (2016: £27.0 million). Including net cash balances (note 14), the Group had access to £29.7 million of combined liquidity from available cash and undrawn committed borrowing facilities at 30 December 2017 (2016: £29.4 million).

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

17. 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.

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

18. Deferred tax

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

	Tax losses	Property, plant and equipment and other items	Acquired intangible assets	Total
	£000s	£000s	£000s	£000s
At 31 December 2016	780	(1,204)	(686)	(1,110)
(Charge) / credit to the income statement	(422)	(1,078)	128	(1,372)
Eliminated on disposal	-	-	43	43
At 30 December 2017	358	(2,282)	(515)	(2,439)
Deferred tax assets	**358**	**-**	**-**	**358**
Deferred tax liabilities	**-**	**(2,282)**	**(515)**	**(2,797)**
At 30 December 2017	**358**	**(2,282)**	**(515)**	**(2,439)**
At 26 December 2015	1,900	(1,265)	(849)	(214)
(Charge) / credit to the income statement	(1,120)	61	163	(896)
Arising on acquisition	-	-	-	-
At 31 December 2016	780	(1,204)	(686)	(1,110)
Deferred tax assets	780	-	-	780
Deferred tax liabilities	-	(1,204)	(686)	(1,890)
At 31 December 2016	780	(1,204)	(686)	(1,110)

At 30 December 2017 £2.8 million (2016: £1.8 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 £12.7 million (2016: £1.4 million).

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.

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

19. Share capital

Nominal value of ordinary shares

	Ordinary shares of £1 each	'A' Ordinary shares of £0.0001 each	Total
	£000s	£000s	£000s
At 31 December 2016	8,496	95	8,591
At 30 December 2017	**8,496**	**95**	**8,591**

Number of ordinary shares

	Ordinary shares of £1 each	'A' Ordinary shares of £0.0001 each	Total
	£000s	£000s	£000s
At 31 December 2016	8,496,112	953,884,022	962,380,134
At 30 December 2017	**8,496,112**	**953,884,022**	**962,380,134**

The voting rights and restrictions attached to the Ordinary and ‘A’ Ordinary shares are as described in the Articles of Association of Hero Acquisitions Limited, and in summary the holders of Ordinary and ‘A’ Ordinary shares are entitled to dividend distributions in proportion to the number of shares held, and all shares rank pari passu for voting rights. All shares are fully paid up.

Notes to the consolidated financial statements (continued)

For the year ended 30 December 2017

20. inancial instruments

Financial risk management

The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using share capital, revenue and borrowings.

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk.

Risk management is carried out under policies approved by the board of directors. Financial risk management is carried out by the Chief Financial Officer under a policy approved by the board. The board approves written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and liquidity risk and receives regular reports on such matters. The Group does not engage in trading or speculative activities using derivative financial instruments.

Market risk

Market risk is the risk that may change prices, such as foreign exchange rates and interest rates. They will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk of a change in the Group's cash flows due to a change in interest rates.

The Group's fixed rate borrowings are now principally the Senior Secured notes. In addition the Group enters into finance leases in respect of hire stock assets and these carry a fixed rate of interest set at lease inception.

The Group is only exposed to interest rate risk on its variable interest borrowings, such as the Revolving credit facility, the Group's overdraft and other short term borrowings. The most recent inflation report from the Bank of England (February 2018) indicates that the market-implied path for the UK Bank Rate is now higher than reported in the February 2017 report, with base rates now at 0.5% and expected to reach 1% by the end of 2019. A year ago rates were not expected to reach 0.7% before Q1 2020. Despite this increase in the forecast the directors do not consider this to be a significant risk to the Group. The directors will continue to monitor developments in market interest rates on a regular basis. The effect of a 1% increase in interest rates on the Group's variable loans would be to increase the interest charge by £0.7 million.

Interest rate sensitivity

The table below demonstrates the sensitivity to reasonably possible changes in interest rates on income and equity for the year when this movement is applied to the carrying value of financial assets and liabilities.

	Profit Before Tax		**Equity**	
Effect on:	**30 December 2017**	31 December 2016	**30 December 2017**	31 December 2016
	£ million	£ million	**£ million**	£ million
100 basis points increase	**0.7**	0.7	**0.7**	0.7
200 basis points increase	**1.4**	1.4	**1.4**	1.4

Refinancing risk

The Group manages its refinancing risk by not letting its borrowings run to their maturity. There is a risk that market conditions might preclude a refinancing if this is not done. The existing Senior Secured Notes mature in 2019 and the Revolving Credit Facility expires shortly before. The Group maintains good relations with debt investors and has incurred £0.7m of exceptional expenses during the year exploring its options ahead of these refinancing obligations.

Foreign exchange risk

Foreign exchange risk is the risk of a change in the Group's cash flows due to a change in foreign currency exchange rate. The Group is exposed to foreign currency exchange rate risk on the cash flows and carrying values of its Republic of Ireland subsidiaries. Given the relative small size of the Republic of Ireland operations compared to the Group the directors do not consider this to be a significant risk to the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

20. Financial instruments (continued)

The directors consider the Group's credit risk from cash, cash equivalents and deposits to be low as the Group only enters transactions with banks or financial institutions with a credit rating of A or above.

The Group has policies in place to manage potential credit risk from trade receivables. Customer credit terms are determined using independent ratings agency data and regularly updated to reflect any changes in customer circumstances or trading conditions. If no independent rating is available an internal assessment is made of the credit quality of the customer, taking into account their financial position and past trading history of the Group. The directors do not expect any significant losses of receivables that have not been provided for as shown in note 13.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group finance department regularly monitors forecasts of the Groups liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 16) at all times so that borrowing limits or covenants on borrowing facilities are not breached.

The financial covenant in place on the Group's revolving credit facility at 30 December 2017 is a minimum Adjusted EBITDA of £35 million on a rolling twelve month basis.

Asset risk
Asset risk is the risk of loss or damage to asset adding to financial loss to the Group. Customers may damage hire equipment if they don't have the appropriate skills to use the equipment or lack a duty of care while using it. The cost of repairing or replacing the equipment can be substantial depending on the type of asset and in turn can lead to a loss of revenue until the asset is again available to be hired.

Capital Management
The Group relies on capital for organic and acquisitive growth, the purchase of rental equipment to replace equipment that has reached the end of its useful economic life and to secure and establish new rental locations and branches.

The Group defines capital as equity as shown in the statement of financial position plus net debt (total borrowings less cash) and seeks to achieve an acceptable return on gross capital.

The Group manages its capital structure using a number of measures and taking into account its future strategic plans. Such measures include ensuring the Group maintains sufficient liquidity and compliance with a bank covenant. In addition to the cash that the Group has generated from its operations, over recent years it has renegotiated its debt structure including the issue of a fixed interest rate bond, fixed term loan notes and secured shorter term bank borrowing through a revolving credit facility.

The principal bank covenant is to maintain an adjusted rolling EBITDA of £35.0 million. For the year ended 30 December 2017, Adjusted EBITDA was £48.9 million (2016: £68.4 million).

Fair value
All financial assets at the balance sheet date which comprise trade and other receivables, cash and cash equivalents are classified as loans and receivables.

All financial liabilities which comprise trade and other payables, obligations under finance leases and borrowings are classified as financial liabilities at amortised cost.

The following table shows the fair value of financial assets and financial liabilities within the Group, including their level in the fair value hierarchy. It does not include fair value information for financial assets or financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	30 December 2017	31 December 2016
	£000s	£000s
Financial liabilities		
Senior secured note	**128,778**	137,700
	128,778	137,700

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

The Senior secured notes are classified as Level 1 in the fair value hierarchy, as they are listed on the Luxembourg stock exchange and have been valued at their market value at the year end.

21. 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

Other operating leases predominantly comprise hire stock assets and motor vehicles.

The Group's future minimum sub-lease rental income expected to be received under non-cancellable operating leases is as follows:

	30 December 2017	31 December 2016
Sub-lease rental income	**£000s**	£000s
Within one year	**452**	713
Between two and five years	**1,121**	1,181
After five years	**403**	274
	1,976	2,168

22. 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:

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

Descriptions of assets and liabilities	**£000s**
Intangible assets	**472**
Property, plant and equipment	**2,454**
Inventories	**1,575**
Trade and other receivables	**1,042**
Cash	**19**
Trade and other payables	**(132)**
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	**(244)**
Loss on disposal	**(4,408)**
Proceeds of disposal less costs	**1,157**
Cash disposed of	**(19)**
Net cash inflow	**1,138**

23. Related party transactions

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

At 30 December 2017 the group owed £339.1 million (2016: £89.1 million) to Hampshire Bidco Limited, the Company's immediate holding company, of which £3.8 million is classified as current (2016: £3.5 million) and £335.3 million (2016: £77.3 million) is non-current.

At 30 December 2017 the group owed £Nil (2016: £107.9 million) to Hampshire Topco Limited, the Company's intermediate holding company. At 30 December 2017, Hampshire Topco owed the group £8.5 million (2016: £6.0 million).

At 30 December 2017 the group owed £8.0 million (2016: £102.2 million) to HSS Hire Group Plc, the Company's ultimate holding company in which it is consolidated, of which £8.0 million is classified as current (2016: £1.5 million) and £ Nil (2016: £100.7 million) is non-current. HSS Hire Group Plc owed the company £5.7 million (2016: Nil) all of which is current.

At 30 December 2017 the group was owed £79.3 million (2016: £71.6 million) by Hampshire Midco Limited, the Company's intermediate holding company, of which £3.4 million is classified as current (2016: £2.9 million) and £75.9 million (2016: £68.7 million) is non-current.

During the year the Group paid interest of £31.8 million (2016: £28.5 million) to other group companies.

During the year the Group received interest of £7.6 million (2016: £6.9 million) from other group companies.

During the year the Group charged HSS Hire Group Plc a management charge of £0.8 million (2016: £0.9 million) and was charged a management fee of £1.3 million (2016: £1.8 million).

Related party transactions with key management personnel are disclosed in note 7.

Notes to the consolidated financial statements (continued)

For the year ended 30 December 2017

24. Note supporting statement of cash flows

	At 1 January 2017 £000s	Cash Flows £000s	Other Non-cash Movements £000s	**At 30 December 2017 £000s**
Cash	2,425	(293)	-	**2,132**
Inter-group borrowings	(302,566)	-	(44,582)	**(347,148)**
Third party borrowings(1)	(199,212)	(3,000)	(1,030)	**(203,242)**
Finance lease liabilities	(28,714)	12,505	(9,787)	**(25,996)**
Total	**(528,067)**	**9,212**	**(55,399)**	**(574,254)**
Accrued interest on borrowings	(3,859)	(12,451)	12,406	**(3,904)**
Debt issue costs(1)	(2,788)		1,030	**(1,758)**
HSS Net debt calculation(2)	**(534,714)**	**(3,239)**	**(41,963)**	**(579,916)**

[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

25. 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.

Notes to the consolidated financial statements (continued)
For the year ended 30 December 2017

26. 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	**(68,504)**	(338)
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	**4,187**	3,740
EBITDA	**(17,158)**	51,577
Add: Exceptional items	**66,056**	16,883
Adjusted EBITDA	**48,898**	68,460

Adjusted EBITA is calculated as follows:

	Year ended 30 December 2017	Year ended 31 December 2016
	£000s	£000s
Operating loss	**(68,504)**	(338)
Add: Amortisation	**4,187**	3,740
EBITA	**(64,317)**	3,402
Add: Exceptional items	**66,056**	16,883
Adjusted EBITA	**1,739**	20,285

Company statement of financial position
At 30 December 2017

	Note	30 December 2017 £000s	31 December 2016 £000s
ASSETS			
Non-current assets			
Investments	2	**256,459**	256,459
Other receivables	3	**82,533**	65,236
		338,992	321,695
Current assets			
Other receivables	3	**165,485**	153,479
Total assets		**504,477**	475,174
LIABILITIES			
Current liabilities			
Other payables	4	**(5,489)**	(3,225)
Borrowings	5	**(68,658)**	(65,658)
		(74,147)	(68,883)
Non-current liabilities			
Borrowings	5	**(475,269)**	(433,672)
Total liabilities		**(549,416)**	(502,555)
Net liabilities		**(44,939)**	(27,381)
EQUITY			
Share capital	6	**8,591**	8,591
Share premium	6	**-**	-
Retained deficit		**(53,530)**	(35,972)
Total deficit attributable to owners of the company		**(44,939)**	(27,381)

As permitted by Section 408(3) of the Companies Act 2006, the Company's income statement and statement of comprehensive income and related notes have not been presented.

The Company made a post-tax loss for the year of £17,667,000 (2016: loss of £27,438,000).

The notes on pages 64 to 67 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 5 April 2018, and were signed on its behalf by:

P Quested
Director
5 April 2018

Company statement of changes in equity
At 30 December 2017

	Note	Share capital £000s	Share premium £000s	Retained earnings £000s	Total equity £000s
At 31 December 2016		8,591	-	(35,972)	(27,381)
Loss for the year		-	-	(17,667)	(17,667)
Total comprehensive loss for the year		-	-	(17,667)	(17,667)
Transactions with owners recorded directly in equity					
Share based payment charge		-	-	109	109
At 30 December 2017		8,591	-	(53,530)	(44,939)
At 27 December 2015		8,591	-	(8,534)	57
Loss for the year		-	-	(27,438)	(27,438)
Total comprehensive loss for the year		-	-	(27,438)	(27,438)
Transactions with owners recorded directly in equity		-	-	-	-
At 31 December 2016		8,591	-	(35,972)	(27,381)

The notes on pages 64 to 67 form part of these financial statements.

Notes to the Company financial statements
For the year ended 30 December 2017

1. Accounting policies

Hero Acquisitions Limited (the "Company") is a company incorporated and domiciled in the United Kingdom. The Company's registered office is 76 Talbot Road, Old Trafford, Manchester, M16 0PQ.

Accounting convention and statement of compliance

The Company complies with the accounting policies defined in note 1 to the Group consolidated statements on pages 23 to 33 except as disclosed below. In addition, the following disclosures are made in respect of the Company financial statements.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006.

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

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

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

- Share based payments;
- Financial instruments (other than certain disclosures required as a result of recording financial Instruments at fair value); or
- Fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value).

The directors have taken advantage of the option within section 390 of the Companies Act 2006 to prepare their financial statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts therefore cover the period from 1 January 2017 to 30 December 2017 (2016: 27 December 2015 to 31 December 2016).

Basis of preparation

The directors have prepared the accounts on the going concern basis. For further information on the directors assessment that the Company and Group has adequate resources to continue trading on a going concern basis for the foreseeable future refer to note 1(g) in the consolidated financial statements.

Investments

Investments are included in the balance sheet at cost less amounts written-off, representing impairment in value. Impairment charges are recorded if events or changes in circumstances indicate that the carrying value may not be recoverable.

Capital instruments

Finance costs on debt are allocated to periods over the terms of the debt at a constant rate of return on the carrying amount. Debt is initially recorded in the balance sheet based on the net proceeds received. Issue costs are spread forward in the profit and loss account over the term of the debt.

Notes to the Company financial statements (continued)
For the year ended 30 December 2017

2. Investments

	30 December 2017 £000s	31 December 2016 £000s
Investment in subsidiaries	**256,459**	256,549
	256,459	256,549

The Company's subsidiaries, including subsidiaries held by indirect holding companies, are:

Company	Holding	Country of incorporation	Principal activity	Ordinary shares held
HSS Hire Service Holdings Limited	Direct	United Kingdom	Intermediate holding company	100%
HSS Hire Service Finance Limited	Indirect	United Kingdom	Intermediate holding company	100%
Bannagroe Limited	Indirect	Republic of Ireland	Intermediate holding company	100%
ABird Superior Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Group Limited	Indirect	United Kingdom	Hire and equipment services	100%
A1 Hire & Sales Limited	Indirect	United Kingdom	Hire and equipment services	100%
Laois Hire Services Limited	Indirect	Republic of Ireland	Hire and equipment services	100%
ABird Limited	Indirect	United Kingdom	Hire and equipment services	100%
Apex Generators Limited	Indirect	United Kingdom	Hire and equipment services	100%
UK Platforms Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Financing plc	Direct	United Kingdom	Financing	100%
HSS Training Limited	Indirect	United Kingdom	Training services	100%
1st Collection Services Limited	Indirect	United Kingdom	Administration of group debtors	100%
All Seasons Hire Limited	Indirect	United Kingdom	Hire and equipment services	100%
Access Rentals (UK) Limited	Indirect	United Kingdom	Dormant	100%

The registered office of the subsidiaries listed above is 76 Talbot Road, Old Trafford, Manchester, M16 0PQ, except for the following:

- Apex Generators Ltd,125 West Regent Street, Glasgow, G2 2SA
- Laois Hire Services Limited, Abbeyleix Road, Portlaoise, Co. Laois, Eire
- Bannagroe Limited, Clonminam Industrial Estate, Portlaoise, Co. Laois, Eire

Notes to the Company financial statements (continued)
For the year ended 30 December 2017

3. Other receivables

	30 December 2017 £000s	31 December 2016 £000s
Amounts due from group undertakings	**165,485**	153,429
Other debtors	**-**	50
	165,485	153,479

Non current

	30 December 2017 £000s	31 December 2016 £000s
Amounts due from group undertakings	**82,533**	65,236
	82,533	65,236

4. Other payables

Current	**30 December 2017 £000s**	31 December 2016 £000s
Amounts due to group undertakings	**5,347**	3,144
Accrued interest	**81**	11
Accruals and deferred income	**61**	70
Other Creditors	**-**	-
	5,489	3,225

5. Borrowings

Maturity profile of creditors

	30 December 2017	31 December 2016
Due within one year	**£000s**	£000s
Revolving credit facility	**69,000**	66,000
Facility costs to be amortised	**(342)**	(342)
	68,658	65,658
Due after more than one year		
Revolving credit facility	**-**	-
Facility costs to be amortised	**(26)**	(381)
Amounts due to group undertakings	**475,295**	434,053
	475,269	433,672

6. Share capital

The details of the Company's share capital are set out in note 19 to the consolidated financial statements.

7. Related party transactions

The Company's related party transactions are set out in note 23 to the consolidated financial statements.

8. Financial instruments

Details of the Group's financial instruments policies are set out in note 20 to the consolidated financial statements.

9. Employee and Director costs

The Directors are the only employees of the Company. Their costs are borne by a subsidiary company HSS Hire Service Group Limited. Details of the director's remuneration are set out in note 8 to the consolidated financial statements.

Hero Acquisitions Limited

Annual report and financial statements
Year ended 31 December 2016

Registered number 06209511

Hero Acquisitions Limited

Contents

Hero Acquisitions Limited

Directors and advisers
Year ended 31 December 2016

Directors

A.E. Peterson
J.B. Gill
P. Quested (appointed 22 August 2016)
F. Perrin (resigned 23 January 2016, re-appointed on 11 May 2016, resigned 23 January 2017)
S. Trowbridge (resigned 20 April 2016)

Registered office

25 Willow Lane
Mitcham
Surrey
CR4 4TS

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Bankers

Barclays Bank PLC
1 Churchill Place
Canary Wharf
London
E14 5HP

HSBC Bank Plc
8 Canada Square
London
E14 5HQ

Group strategic report

CHIEF EXECUTIVE OFFICER'S STATEMENT

Overview

In 2016 we invested heavily in our network to drive future operational and capital efficiency through centralised, industrialised engineering and logistics processes for our high volume product lines. This new capability is supported by regional engineering expertise for larger specialist hire fleet and lower transactional volume products and a retail-like logistics network replenishing our equipment in our national network of local branches. Our objective is to ensure certainty of kit availability through a very clear customer proposition delivered via a cost-efficient network.

The change programme was ambitious; we took the decision to delay implementation of the final element (Scotland) into early 2017 and I am pleased to say that the process is now complete, but we will continue to refine and right-size our network going forward as part of our culture of continuous improvement. We should start to see the benefits over the medium term.

The investment and extended period of change impacted our profit performance. Whilst we delivered strong revenue growth in Services and via our larger customer accounts, both of which are earnings enhancing, performance in our local and regional customers was weaker than expected, leading to lower profits than anticipated at the start of the year. We are now well-positioned to leverage our investment through the implementation of sales plans that will win back customers impacted by the change. We are therefore, focused hard on ensuring profitable Rental revenue growth in our core customer base of smaller and regional accounts. We have invested in our senior management team, with the creation of a new post of Chief Commercial Officer, to drive this forward in 2017.

The HSS difference

HSS continues to strive to innovate in our markets. Our research shows that our customers' top priority is product availability: easy access to the tools and equipment they need for their task. We have therefore positioned and stocked our network of local branches and customer distribution centres (CDCs) to ensure that we have a clear competitive advantage through greater availability of equipment for customers to pick up, order to collect or for delivery to site.

Our customers also require support and our expertise and excellence in customer service is reflected in our customer satisfaction metrics, with our NPS scores continuing to be well above the industrial and services sector benchmark. We also responded during the year to their need for value, via strategic price reductions in our Trade Essentials range and a wider simplification of pricing, to the benefit of customers and colleagues. Safety, of course, is our primary concern and we continue to drive a culture that ensures we all own, and are accountable for, safety for colleagues and customers.

Our performance

We continued to grow our Group revenue well above the European Rental Association's forecast for the UK marketplace of 2.8% in 2016, suggesting further market share gains through the year. Rental revenue was flat YOY and Services revenue, which includes Training and our Rehire operation, HSS OneCall, grew significantly at 60.8%.

Our Adjusted EBITA performance reflects the scale and complexity of the operational change programme implemented across the Group in the year, including the launch of the National Distribution and Engineering Centre (NDEC), which opened in March 2016, and impacted our core rental revenue performance. We also opened 11 branches during the year in specific markets where we are under-represented and closed 18 in locations which were underperforming or not cost-efficient to serve. This programme of active network optimisation continues.

Our markets

We operate throughout the UK and Ireland, where we believe we are the second largest tool and equipment hire provider. The European Rental Association ("ERA") estimates that the UK plant, tool and equipment rental market grew 2.8% in 2016 and generated total turnover of c. £5.7bn. The ERA notes that their research suggests that 'political uncertainty has put industry growth on hold' citing a downward revision in their forecast for 2017 to 1.9% 'due to the unknown effects of the Brexit vote'. HSS has yet to see any specific impacts of Brexit on our larger customers; but it may be that the softness in the RMI markets reported by others in the sector is a consequence of Brexit and is impacting our performance with smaller and mid-sized customers. We are however, aware that our change programme had an impact within these latter customer groups in the second half of the year.

Group strategic report (continued)

HSS focuses on the fit-out, operation and maintenance of the built environment – airports, retailers and facilities managers for example – through both our core businesses and specialist brands. The ERA notes that the split of rental demand between construction and non-construction is estimated at 60%:40% with the 'share of non-construction demand in the UK being one of the most important in Europe.'

We benefit from strong customer propositions in the 'non-construction' segment, from our Reintec business, where we offer hire, sales and service of cleaning equipment, through to our Managed Service Provider (MSP) offer where we manage complex supply chains for some of our largest customers, often using HSS OneCall to supplement our hire fleet offering.

We also serve certain construction markets through HSS OneCall, our rehire operation – providing for example, diggers and dumpers and plant for ground-up construction – through a simple one-stop-shop model. Our powered access and power generation businesses also support a wide-range of construction environments and our 'Trade Essentials' range is aimed at local tradespeople who move between building and maintenance of local domestic and commercial premises.

Our resilience is underpinned by our diverse range of customers, from blue-chip organisations through to individual consumers and importantly, through the ability to supply more of their equipment needs, through both our own complementary brands and through the efficient, one-stop-shop rehire of other providers' assets. Frequently, we are a major channel to market for many of these members of our supply chain and our customers benefit from one point of contact and contract.

The ERA notes that the 'UK market is relatively concentrated' but this is only in contrast to the highly 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 efficiency benefits for customers, and enhanced returns to shareholders.

HSS is at the forefront of many of the next-generation market initiatives identified by the ERA and other market reports including online investment – where we have continued to invest in our market-first, mobile-enabled, fully-transactional and award-winning web platform www.hss.com. The ERA also notes that rental companies in the UK are reacting to ongoing price pressure with projects to optimise fleet utilisation – again, HSS has continued to evolve our network over a number of years, centralising engineering for capital and operational efficiency. We continue to review and refine our operating model.

Our strategy

Our strategy continues to be centred on three priorities which are inherent to the creation of long term shareholder value through a strong focus on the scalable benefits of operational and capital efficiency and enhanced customer service.

1. Win new, and deepen existing, customer relationships

We made good progress in our key accounts over the year, benefiting specifically from a major contract win with infrastructure company, Amey, which we mobilised in the first quarter of 2016, as well as strong growth in our larger strategic accounts. Many of these organisations increasingly see HSS as a one-stop-shop for equipment hire both via our core offering and through our specialist brands such as UK Platforms and our power generation brands Apex in Scotland and ABird in England and Wales. We also manage complex supply chains on behalf of larger customers through our Managed Service Provider offering, where we deploy our systems and people to manage volume and duration of hire and decrease supply costs over time.

Services revenue growth was strong in the year, particularly in our rehire operation, HSS OneCall and in our leading Health and Safety training business, HSS Training, which now operates from 46 centres nationwide and delivers over 250 different courses which complement our equipment offering. We also saw strong growth in our Irish business across all customer groups. In addition, we continued to move our specialist businesses forward following the large fleet investment made over the last few years.

We were however, impacted in the year by a lack of growth in our medium-sized and smaller customers, due principally to the impact of the extended implementation of the network changes which inhibited availability in some markets for short periods. With the most extensive branch network in the UK, and having completed a major period of change, we are now focused on ensuring customers have the best possible access to the equipment they need.

2. Optimising our branch and distribution network

In 2016 we started the programme to centralise and industrialise our high volume engineering into a single National Distribution and Engineering Centre. This facility consolidates repetitive processes into a production facility with rigorous quality and safety KPIs and is supported by a retail-like logistics network for separate branch and customer distribution centre replenishment. We took a phased approach to the implementation and, as previously announced, actively delayed the original roll-out plan to incorporate our Scottish network in the first quarter of 2017. The longer implementation impacted our hire volumes in the second half of the year and the investment was a contributor to our profitability being lower than our original plans for the year. The rollout is now complete – although we will continue to refine it – and we move to a period where we can focus on starting to deliver the efficiency and customer service benefits.

The NDEC is just part of a considerable programme of change across our network. We closed 18 underperforming branches in the year and consolidated older distribution centres into new purpose-built customer distribution facilities at Aberdeen, Treforest in South Wales and Cork, Ireland. Our latest consolidation is Bellshill in the central belt of Scotland, which will be fully operational in Q2 of this year.

This significant change created challenges but leaves HSS well-positioned to benefit from the operational and capital efficiencies which are at the heart of the strategic rationale for the programme.

3. Continued development and growth of our specialist businesses

Our specialist businesses continued to benefit from investment during the year. Specifically, we opened two new strategically-placed co-located depots, at Thurrock in East London and Iver in West London, to efficiently supply powered access, power generation and mini-plant – via a new relationship with Kubota – into the fast-moving and fast-growing London markets. These depots concentrate engineering resource and create transport efficiencies, and we will continue to look for strategic sites for larger depots for our specialist businesses as we go forward, further consolidating our network.

We have invested in our most recent acquisition, All Seasons Hire, our specialist Heating Ventilation and Air Conditioning business, expanding its depot reach to Scotland and Manchester during 2016 and investing significantly in the fleet. The business continues to grow benefiting, as all our specialist brands do, from closer links to, and cross-selling opportunities from being part of, the HSS Group.

Our five strategic enablers

These three strategic priorities are driven by our values which are our customers' requirements for safety, value, availability and support. It is also important that we consider each element of our plan in line with our five strategic enablers, set out below, which support continued business growth and shareholder value creation.

1. Ensuring safe, sustainable working environments for colleagues and customers

Our RIDDOR frequency ratio – one measure of safety related to reportable accidents – was 0.40 in 2016. During the year an enhanced accident reporting system was implemented and our 2015 RIDDOR calculated using this system was 0.48, suggesting an improvement in safety year on year. We continue to put an emphasis on the ownership of safety from the Board through to every colleague. We also take seriously our commitment to sustainability and have made good progress throughout 2016 with our industry-leading refurbishment centre which extends the life of large assets – typically powered access – by up to five years, therefore contributing to a reduction in manufacturing emissions and contributing to the 'circular economy'.

2. Deliver value and quality to our customers

We continually strive to improve our customer experience and measure it daily through customer feedback. In late 2016, while we continued to enjoy very high satisfaction scores, we saw some impact in our availability measures from the transformational changes made to our distribution and engineering network. Post-implementation we have moved into a continuous improvement phase to reduce the likelihood of any such impacts going forward. We underpinned our commitment to value with simplified pricing and our successful, everyday low price Trade Essentials range.

Group strategic report (continued)

3. Focus on profitability and growth

Despite operating in a fragmented and competitive marketplace, we have continued to grow our revenues and build market share by offering new and existing customers access to a broad range of well-maintained products and complementary value-adding services. During 2016, this did not translate into sufficient profit growth, due to the short term impact that the operational changes had on our business. It is therefore appropriate that none of the Executive Directors are receiving a bonus in respect of 2016. Moving into 2017 we have completed the implementation phase and have moved into one of continuous improvement, with a real focus on supporting profitable revenue growth with enhanced cost control to drive improved Group profitability.

4. Drive availability and operational efficiency

The operational changes implemented during 2016 were designed and implemented to enable us to drive improvements to our customer availability proposition, supporting our ‘delivering the kit you need, anytime, anywhere’ offer, which we believe sets us apart from our competitors. In 2016 these changes impacted performance as we moved through their implementation. We are now leveraging the experience gained from 2016 to refine and enhance our operations to ensure that we deliver the availability improvements targeted through operational and capital efficiency.

Executed effectively, our focus on profitability and growth, together with increased efficiency will enable us to improve our cash generation and de-leverage the business through 2017 and beyond.

5. Invest in our colleagues

During the year we launched our formal talent management ‘stretch’ programmes, which invite colleagues at multiple levels within the business to study for management qualifications (typically from the Institute of Leadership and Management) to help them develop both personally and professionally, to the benefit of the individual and the Group. The first cohorts from this initiative – colleagues from across all business areas and all geographies – have now graduated from the programmes inspiring others to apply.

Our Branches of Excellence programme is in operation throughout our core business, providing induction courses and ongoing training to colleagues across the network. In addition, we continually develop our colleagues’ skills in customer service as well as the technical and safety requirements of the roles they undertake every day. Our colleague engagement survey in June 2016 showed high levels of engagement but also highlighted a number of areas for improvement. In particular we are now taking feedback from our colleagues more frequently and improving our communication with them.

I would like to thank our colleagues for these great ideas and for the roles they individually play every day in building our business.

Outlook

Having completed a year of change, we are now concentrating on extracting the efficiencies that result from our investment and continuing the refinement of our operating model. This means maintaining a culture of continuous improvement to support our customer availability promise, but it also means a necessary and heavy focus on cost control, cash generation and delivering the operational and capital efficiencies which will determine future shareholder return. The trading environment remains competitive but we are well-positioned to outperform our markets and to facilitate scalable growth in the medium term. We expect the benefits of the transformation and our sales plans to accrue in H2 17.

John Gill

Chief Executive Officer

FINANCIAL REVIEW

Overview

2016 has been a year of significant change for the Group, setting up our new operating model with central distribution and engineering capability. The scale and complexity of this change has required considerable investment and impacted reported performance, , which is reflected in our costs; implementation and set-up costs, parallel running of two networks, and the costs of branch closures. Our focus over 2017 is to right size the network, reducing costs as we drive greater operational efficiency.

Since joining the business in August, I have taken the opportunity to meet colleagues, customers and suppliers. This has reinforced my belief that the changes made in 2016 and the early part of 2017 will enhance and differentiate our customer service through greater availability.

Whilst performance in 2016 is not where it should be, I remain confident that leveraging this investment in the future will deliver improved sustainable returns in the medium term.

Financial highlights

	Revenue		Contribution(1)		Adjusted EBITDA (2)		Adjusted EBITA (2)		Operating profit (2)	
£m	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Rental	**£262.8m**	£262.9m	**£179.4m**	£182.1m						
Services	**£79.6m**	£49.5m	**£10.3m**	£6.1m						
Group	**£342.4m**	£312.3m	**£189.7m**	£188.2m	**£68.5m**	£70.9m	**£20.3m**	£20.2m	**(£0.3m)**	£12.0m

1) *Contribution is defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs (for each segment)*
2) *These measures are not reported on a segmental basis because branch and selling costs, central costs and exceptional items (non-finance) are allocated centrally rather than to each reportable segment*

Revenue

Group revenue grew 9.6% to £342.4m (2015: £312.3m) significantly ahead of the UK tool and equipment hire market growth rate of 2.8% for 2016 as estimated by the ERA. The main drivers of this result were:

- Continued strong growth in our Services revenues, up 60.8% year on year to £79.6m, mainly driven by performance in our rehire business, HSS OneCall, complemented with the continued development of our HSS Training business;
- Significant increases in revenues from Key Account customers, both new and existing, with headline revenues of £148.1m, 43.9% higher than in 2015. This includes revenue from a number of new customers including Amey; and
- Rental and related revenues remained broadly flat, with growth amongst our specialist brands, whilst small and mid-sized customers of our core rental offering in particular were impacted through the second half of the year by the operational changes implemented

Combined with estimates of market size and growth rates, revenue provides us with a measure of our evolving market share. Pleasingly we continued to grow revenues at a faster rate than the UK tool and equipment hire market suggesting that we continued to increase our market share.

As detailed in the CEO review, one of our three strategic objectives is to *win new, and deepen existing, customer relationships*. The simplest way to measure this is to review our average spend (revenue) per account customer. In 2016 average spend per account customer increased to £8.7k (from £8.1k in 2015), largely driven by strong growth in our Key Account customers, particularly new customers, during the year.

Segmental performance

Rental (and related revenues)

Our rental revenues were broadly flat year on year at £262.8m (FY15: £262.8m) and accounted for 76.8% of Group revenue (FY15: 84.2%). Performance in the second 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.

Contribution, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs of £179.4m was 1.5% lower year on year (FY15: £182.1m) reflecting the change in revenue mix and growth in costs as we worked through the implementation of our new operating model.

LTM core utilisation improved to 50% (2015: 48%) and LTM specialist brand utilisation remained in the mid 70%'s at 75% (2015: 76%). Our utilisation rates remain at the top end of the industry range, with the performance of the core business being particularly pleasing given the seasonal nature of some kit and the availability issues in the second half.

In early Q1 17 we put in place sales plans to win back customers impacted by our operational changes and to reinvigorate and drive profitable growth amongst the smaller and regional accounts. This has included adding to our senior management team with the appointment of a Chief Commercial Officer to drive these initiatives.

Services

Services revenues increased 60.8% to £79.6m (FY15: £49.5m) and accounted for 23.2% (FY15: 15.8%) of Group revenues. This was principally due to strong growth in HSS OneCall, but also due to 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 68.2% to £10.3m (FY15: £6.1m), slightly ahead of the revenue growth rate, reflecting 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 £24.3m (20.1%) during the year to £145.2m, 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, together with £3.4m of exceptional costs relating to the implementation of the new operating model: £1.8m of NDEC parallel running and a £1.6m write down of resale stock. As part of the NDEC set up and branch and distribution centre closures, inventory held for sale has been centralised into fewer locations. Based on the excess quantity and age profile of the consolidated inventory and a decision to streamline certain stock ranges, estimated future sales value is deemed to be lower than cost. Accordingly an impairment of £0.9m has been recognised within cost of sales. In addition, stock losses arising from the centralisation of resale stock and associated branch and distribution centre closures amounted to £0.7m which is also included within cost of sales.

Our distribution costs increased by £3.8m (9.1%) from £41.3m to £45.1m. This is largely due to the increased transport wages and vehicle related costs driven by the phasing in of the NDEC alongside the existing distribution network through 2016. Distribution costs in FY16 include £1.3m of exceptional costs relating to the NDEC, £1.1m of which relates to parallel running costs prior to Q4, and £0.2m of which relates to redundancy costs. As reported in our trading update in November 2016 as we intentionally delayed the implementation of the new centralised operating model in Scotland to Q1 17.

Our administrative expenses grew £14.6m (10.5%) to £153.6m. Exceptional costs accounted for a £13.3m increase: £7.0m relate to the NDEC, with parallel running costs and project management, design and set-up costs accounting for the majority at £4.1m and £2.6m respectively; £4.5m relates to the recognition of onerous lease provisions in relation to branches closed during the current and previous year. These provisions represent the discounted value of future rent payments on properties we are not trading from until lease expiry; and £1.6m relates to the cost of implementing the cost reduction plan during the year, moving to a new divisional structure. Growth in administration costs was slightly reduced as a result of cost savings identified and implemented through the year.

Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA for 2016 was £68.5m, 3.4% lower than in FY15 (£70.9m) reflecting the mix of revenue and costs of the new network from Q4, before the right sizing of the old network takes place to mitigate this increase. As a result, combined with the growth in group revenue, the Group's Adjusted EBITDA margin for FY16 was 20.0% (FY15: 22.7%).

Our Adjusted EBITA grew 0.5% to £20.3m (FY15: £20.2m). The small increase year on year reflects the positive contribution of our Services revenue growth offset by the parallel running costs of the network in the final quarter of 2016 at the point that these were no longer classed as exceptional. The Group's resulting Adjusted EBITA margin was 5.9% (FY15: 6.5%).

Other operating income

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

Operating profit / (loss)

Our operating profit decreased by £12.3m, from a £12.0m profit in FY15 to a £0.3m loss in FY16. The £11.2m growth in non-finance exceptional costs to £16.9m (FY15: £5.7m), accounts for the majority of this decline.

Group strategic report (continued)

Finance costs

Net finance expense (finance expenses less finance income) reduced £1.2m year on year to £36.3m (FY15: £37.5m). This small decrease reflects the impact of the partial repayment of the senior secured notes following the IPO of parent company HSS Hire Group plc in February 2015 and the associated £4.3m early redemption premium paid on the senior secured notes in 2015. This partial redemption of the senior secured notes also resulted in a £1.6m decrease in debt issue costs year on year. Drawings on our RCF and Finance leases increased during the year to finance the investment in the new operating model and this led to a small increase in the amount of interest payable on both. Non cash interest charges on net amounts owed to group undertakings grew year on year reflecting the post IPO funds flow.

Taxation

We reported a net tax credit of £3.1 million for the 53 week period ended 31 December 2016, compared to a £1.6 million income tax credit in the 52 week period ended 26 December 2015. The FY16 tax credit reflects a tax charge for the Irish part of the business and a credit in respect of the surrender of tax losses to other non-consolidated group entities.

Capital expenditure

Fixed asset additions in the year (excluding any assets acquired on acquisition) were £42.4m, a £41.6m or 49.5% decline year on year. Within this £27.3m was spent on hire fleet (2015: £65.0m) reflecting the managed reduction of spend in these areas after two years of significant expenditure. The remaining £15.1m was spent on non-hire additions (land, buildings, plant and machinery) (2015: £19.0m). The changes to the Group's operating model implemented through 2016 and the actions and initiatives underway in Q1 2017 are designed to promote and support enhanced capital and operational efficiency across the Group. Executed effectively, this should require lower levels of growth capital expenditure to support further revenue growth, although this will vary depending on the evolution of the Group's revenue mix and the asset categories which are being purchased.

Return on Assets ('ROA')

Our ROA for FY16 was 14.3% compared to 14.4% for FY15. ROA is calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets and amounts due from group undertakings) less average current liabilities (excluding amounts owed to group undertakings). Whilst we grew Adjusted EBITA 0.5% year on year, the average capital employed by the Group also increased from the level calculated at the end of 2015, principally reflecting the full year impact of significant fixed asset additions in FY15.

Cash generated from / utilised in operations

Cash generated from operations was £24.7m for FY16, an increase of £25.7m over the prior year (FY15: £1.0m cash utilised in operations). This reflects the planned reduction in hire fleet asset capital expenditure and the lower associated cash settlement compared to FY15.

Leverage and net debt

Net debt (stated gross of issue costs) increased by £14.0m to £232.1m (FY15: £218.1m). This increase mainly reflects the significant investment in the new operating model during 2016. Our leverage, calculated as net debt divided by Adjusted EBITDA, increased from 3.1x in FY15 to 3.4x at the end of FY16 reflecting the investment and the lower Adjusted EBITDA generated in FY16.

Paul Quested

Chief Financial Officer

Group strategic report (continued)

PRINCIPAL RISKS AND UNCERTAINTIES

The Board of HSS Hire Group plc 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 CEO and CFO, who have ownership of risk in reporting to the Board of Directors of HSS Hire Group plc.

The Group then manages its risk through a group risk register which is maintained by the Risk and Assurance Director. This is subject to regular quarterly review by the Audit Committee of HSS Hire Group plc, where changes to the risk landscape, risk ratings (regarding likelihood and impact) and assurance activity are documented.

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 of HSS Hire Group plc 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.

The Board has carried out a robust assessment of the principal financial and operating risks facing the Group, based on its three strategic priorities, which are: to optimise our branch and distribution network; to deepen our customer relationships and win new accounts; and the continued development and growth of our specialist businesses. Those risks, how they have changed and how they are mitigated, are shown overleaf.

Key risks	Strategic Enabler	Description and impact	Mitigation	Risk change
Macro economic conditions	Focus on profitability and growth Drive availability and operational efficiency	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 'fi t-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, commercial fi t-out, property, utilities and waste, infrastructure and energy services markets.	Increased – due to market and industry uncertainty caused by Brexit
Competitor challenge	Focus on profitability and growth Drive availability and operational efficiency	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 number two in its main markets and the resulting economies of scale enable it to be highly competitive, whilst the fragmented nature of the market may offer consolidation opportunities enabling the continued growth of specialist businesses within the Group. The Group's highly developed distribution service model provides improved customer availability and increases the efficiency of its operations.	Unchanged

Group strategic report (continued)

Key risks	Strategic Enabler	Description and impact	Mitigation	Risk change
Operational disruption	Focus on profitability and growth Drive availability and operational efficiency	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 distribution and branch network.	The Group established a National Distribution and Engineering Centre ("NDEC") in 2016 which provides distribution of a number of key fast moving products to the Customer Distribution Centres ("CDCs") and branch network. There is flexibility built in below this where CDCs can service the Group's customers if failure occurs.	Increased in 2016 during the transition to, and implementation phase of, the new operating model. Risk expected to reduce in 2017 as operating model fully embedded.
IT infrastructure	Deliver value and quality to our customers Focus on profitability and growth	The Group requires an IT system that is appropriately resourced to support the business, managing the growing network and successful assimilation of any acquisitions. Any IT systems malfunction or disruption at the NDEC, any of the Group's CDCs or offices may impact on the ability to manage its operations and distribute its hire fleet to service its 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. This review also included assurance that there is adequate knowledge resource available to support the system in future. Disaster recovery tests are carried out on a regular basis including with our third party partners who run the NDEC. 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. Ongoing investment takes place to ensure our mitigating actions are updated to respond to the changing sophistication of cyber-attacks.	Unchanged
Customer credit / Supplier payment	Focus on profitability and growth Drive availability and operational efficiency	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.	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, and all new staff are provided with training in this area. Payments and amendments should only be made in line with a regularly reviewed authorisation matrix.	Unchanged.

Group strategic report (continued)

Key risks	Strategic Enabler	Description and impact	Mitigation	Risk change
Equipment supply, maintenance & availability	Deliver value and quality to our customers Focus on profitability and growth Drive availability and operational efficiency	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 on 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 operating model impacted 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. The changes to group's operating model during the year, principally the opening of the new NDEC, are designed to increase the efficiency and effectiveness of the Group's supply chain to ensure appropriate service standards are provided to its customers. The 2017 fleet plan is based on improving the availability of products, by efficiently investing against demonstrable demand patterns to drive profitability.	Increased in 2016 during the transition to, and implementation phase of, the new operating model. Risk expected to reduce in 2017 as operating model fully embedded.
Customer retention and brand reputation	Deliver value and quality to our customers Focus on profitability and growth Invest in our colleagues	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 has developed extensive plans as part of its regular planning process to improve availability, flexibility in service and delivery to promise post the implementation of the new operating model and on an ongoing basis. Service levels are tracked via the Group's innovative Customer Delight programme. The Group invests substantially 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 print and online advertisements, targeted promotional mailings and email communications, and engages on a regular basis in public relations and sponsorship activities to promote its brands and its business.	Increased in 2016 during the transition to, and implementation phase of, the new operating model. Risk expected to reduce in 2017 as operating model fully embedded.

Group strategic report (continued)

Key risks	Strategic Enabler	Description and impact	Mitigation	Risk change
Outsourcing of services	Ensure safe sustainable working environments for colleagues and customers Deliver value and quality to our customers Focus on profitability and growth Drive availability and operational efficiency	The Group outsources certain activities of its business to third parties, with the NDEC being the most significant. 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 could lead to adverse publicity and a decline in demand. Inability to repair equipment will affect the ability to manage demand, affecting revenue and increasing costs of re-investment in equipment.	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.	Increased in 2016 during the transition to, and implementation phase of, the new operating model. Risk expected to reduce in 2017 as operating model fully embedded.
Inability to attract and retain personnel	Focus on profitability and growth Invest in our colleagues	Turnover of members of the Group's management and colleagues and its ability to attract 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 will be provided within branches of excellence whilst the Training Academy facility provides development training for management, a process that is mirrored at more senior management levels by various tailored development programmes. The Group supports personal development with the provision of appropriate training courses. A colleague survey was undertaken and reported in 2016; this covered a wide range of subjects considered important to colleague satisfaction.	Unchanged
Legal and regulatory requirements	Ensure safe sustainable working environments for colleagues and customers Focus on profitability and growth Invest in our colleagues	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

Group strategic report (continued)

Strategic report signed on behalf of the Board

J.B. Gill
Director
5 April 2017

Directors' report

The directors present their report and the audited financial statements of the Hero Acquisitions Limited group (the Group) and Hero Acquisitions Limited (the Company) for the year ended 31 December 2016.

Directors

The directors of the Company who served during the year ended 31 December 2016 are listed on page 1. The company has arranged qualifying third party indemnity for all of its directors.

Statement of directors' responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

• select suitable accounting policies and then apply them consistently;
• make judgements and accounting estimates that are reasonable and prudent;
• state whether the group financial statements have been prepared in accordance with IFRSs as adopted by the European Union and the Company financial statements have been prepared in accordance with UK GAAP, subject to any material departures disclosed and explained in the financial statements; and
• prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

Directors' statement as to the disclosure of information to auditors

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

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Future developments

Future developments are discussed in the strategic report.

Financial risk management

The information on financial risk management objectives and policies is included in note 20.

Employee involvement

It is the group's policy to provide employees, on a regular basis, with financial and other information on matters of concern to them, by means of house journals and news sheets.

Every endeavour is made to consult, wherever possible, with employees, so that their views can be taken into account in making decisions which are likely to affect their interests. Employees participate in consultations to help facilitate this process.

Directors' report (continued)

Disabled employees

The group's policy on employment of disabled persons is:

1. To give full and fair consideration to applications for employment with the group made by disabled persons, having regard to their particular aptitudes and abilities.
2. Where practical, to continue the employment of and arrange appropriate training for employees of the company who become disabled during their employment with the group.
3. To encourage training and career development for all personnel employed by the group, including disabled persons.

Dividend

The directors do not recommend the payment of a final dividend for the year ended 31 December 2016 (2015: Nil). No interim dividends were paid during the year (2015: Interim dividends of 2.75p per ordinary share, and 2.75p per A ordinary share).

By order of the board

J.B. Gill
Director

5 April 2017

Independent auditors' report to the members of Hero Acquisitions Limited

We have audited the financial statements of Hero Acquisitions Limited for the year ended 31 December 2016 which comprise the consolidated income statement, consolidated statement of comprehensive income, consolidated and company statement of financial position, consolidated and company statement of changes in equity, the consolidated statement of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in their preparation of the parent company financial statements is applicable law and United Kingdom Accounting standards (United Kingdom Generally Accepted Accounting Practise), including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the state of the groups and company's affairs as at 31 December 2016 and of its loss for the year then ended;
- the groups financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practise; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the directors' report.

Independent auditors' report to the members of Hero Acquisitions Limited (continued)

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kieran Storan (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
5 April 2017

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

Consolidated income statement
For the year ended 31 December 2016

	Note	Year ended 31 December 2016	Year ended 26 December 2015
		£000s	£000s
Revenue	2	**342,410**	312,333
Cost of sales		**(145,232)**	(120,884)
Gross profit		**197,178**	191,449
Distribution costs		**(45,091)**	(41,315)
Administrative expenses		**(153,576)**	(138,984)
Other operating income	3	**1,151**	869
Operating (loss)/ profit		**(338)**	12,019
Adjusted EBITDA(1)	2	**68,460**	70,907
Less: Depreciation (1)		**(48,175)**	(50,702)
Adjusted EBITA(1)		**20,285**	20,205
Less: Exceptional items (non-finance)	4	**(16,883)**	(5,654)
Less: Amortisation(1)		**(3,740)**	(2,532)
Operating (loss)/ profit		**(338)**	12,019
Finance income	5	**6,878**	5,441
Finance expense	5	**(43,169)**	(42,966)
Loss before tax		**(36,629)**	(25,506)
Adjusted loss before tax		**(16,006)**	(11,392)
Less: Exceptional items (non-finance)	4	**(16,883)**	(5,654)
Less: Exceptional items (finance)	4	**-**	(5,928)
Less: Amortisation	6	**(3,740)**	(2,532)
Loss before tax		**(36,629)**	(25,506)
Income tax (expense)/ credit	9	**3,054**	1,643
Loss for the financial period		**(33,575)**	(23,863)
Loss attributable to:			
Owners of the company		**(33,575)**	(23,863)

(1) Adjusted EBITDA is defined as operating profit before depreciation, amortisation and exceptional items. For this purpose depreciation and amortisation includes customer losses, hire stock write offs and hire stock asset disposals. Adjusted EBITA is defined as operating profit before amortisation and exceptional items.

The notes on pages F94 to F133 form part of these financial statements.

Consolidated statement of comprehensive income
For the year ended 31 December 2016

	Year ended 31 December 2016	Year ended 26 December 2015
	£000s	£000s
Loss for the financial period	**(33,575)**	(23,863)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**1,537**	(478)
Other comprehensive profit / (loss) for the period, net of tax	**1,537**	(478)
Total comprehensive loss for the period	**(32,038)**	(24,341)
Attributable to owners of the Company	**(32,038)**	(24,341)

The notes on pages F94 to F133 form part of these financial statements.

Hero Acquisitions Limited

Consolidated statement of financial position
At 31 December 2016

	Note	**31 December 2016**	26 December 2015, restated
	Note	**£000s**	£000s
ASSETS			
Non-current assets			
Intangible assets	10	**155,263**	154,252
Property, plant and equipment	11	**178,473**	183,213
Deferred tax assets	18	**780**	1,900
Trade and other receivables	13	**68,744**	62,189
		403,260	401,554
Current assets			
Inventories	12	**7,898**	9,095
Trade and other receivables	13	**115,854**	103,605
Cash	14	**2,425**	1,811
		126,177	114,511
Total assets		**529,437**	516,065
LIABILITIES			
Current liabilities			
Trade and other payables	15	**(88,875)**	(89,179)
Borrowings	16	**(74,361)**	(55,744)
Provisions	17	**(6,431)**	(3,822)
Current tax liabilities		**(501)**	(520)
		(170,168)	(149,265)
Non-current liabilities			
Trade and other payables	15	**(17,266)**	(21,583)
Borrowings	16	**(427,417)**	(398,230)
Provisions	17	**(10,712)**	(10,851)
Deferred tax liabilities	18	**(1,890)**	(2,114)
		(457,285)	(432,778)
Total liabilities		**(627,453)**	(582,043)
Net liabilities		**(98,016)**	(65,978)
EQUITY			
Share capital	19	**8,591**	8,591
Share premium		**-**	-
Retained deficit		**(106,607)**	(74,569)
Total deficit attributable to owners of the company		**(98,016)**	(65,978)

The notes on pages F94 to F133 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 5 April 2017 and were signed on its behalf by:

P Quested
Director
5 April 2017

Consolidated statement of changes in equity

For the year ended 31 December 2016

	Note	Share capital	Share premium	Accumulated deficit	Total equity
		£000s	£000s	£000s	£000s
At 26 December 2015		8,591	-	(74,569)	(65,978)
Total comprehensive loss for the period					
Loss for the period		-	-	(33,575)	(33,575)
Foreign currency translation differences arising on consolidation of foreign operations		-	-	1,537	1,537
Total comprehensive loss for the period		-	-	(32,038)	(32,038)
At 31 December 2016		**8,591**	**-**	**(106,607)**	**(98,016)**

	Note	Share capital	Share premium	Accumulated deficit	Total equity
		£000s	£000s	£000s	£000s
At 27 December 2014		14,222	143,068	(172,427)	(15,137)
Total comprehensive profit for the period					
Profit for the period		-	-	(23,863)	(23,863)
Foreign currency translation differences arising on consolidation of foreign operations		-	-	(478)	(478)
Total comprehensive profit for the period		-	-	(24,341)	(24,341)
Transactions with owners recorded directly in equity					
Bonus issue of shares capitalised out of reserves	19	80,591	-	(80,591)	-
Capital reduction	19	(86,222)	(143,068)	229,290	-
Dividends paid to immediate parent company	24	-	-	(26,500)	(26,500)
At 26 December 2015		8,591	-	(74,569)	(65,978)

The notes on pages F94 to F133 form part of these financial statements.

Consolidated statement of cash flows

For the year ended 31 December 2016

	Note	**Year ended 31 December 2016**	Year ended 26 December 2015
Cash flows from operating activities		**£000s**	£000s
Loss before income tax		**(36,629)**	(25,506)
Adjustments for:			
– Amortisation		**3,740**	2,532
– Depreciation		**37,729**	39,379
– Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals		**9,762**	11,217
– Loss on disposal of property, plant and equipment		**684**	106
– Finance income		**(6,878)**	(5,441)
– Finance expense		**43,169**	42,966
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):			
– Inventories		**1,197**	(2,180)
– Trade and other receivables		**(6,195)**	(12,354)
– Trade and other payables		**1,446**	8,512
– Provisions		**(1,187)**	(3,589)
Net cash flows from operating activities before changes in hire equipment		**46,838**	55,642
Purchase of hire equipment		**(22,085)**	(56,642)
Cash generated from/ (utilised in) operating activities		**24,753**	(1,000)
Net interest paid		**(12,930)**	(19,026)
Income tax (paid)/ received		**(373)**	1,143
Net cash generated from/ (utilised in) operating activities		**11,450**	(18,883)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	22	**-**	(11,710)
Purchases of non hire property, plant, equipment and software		**(16,804)**	(20,278)
Net cash used in investing activities		**(16,804)**	(31,988)
Cash flows from financing activities			
Proceeds from borrowings (third parties)		**31,000**	57,000
Proceeds from borrowings (group undertakings)		**-**	118,909
Repayments of borrowings		**(11,000)**	(94,500)
Capital element of finance lease payments		**(12,498)**	(9,620)
Dividends paid		**-**	(26,500)
Net cash received from financing activities		**7,502**	45,289
Net increase/ (decrease) in cash		**2,148**	(5,582)
Cash at the start of the period		**277**	5,858
Cash at the end of the period	14	**2,425**	276

The notes on pages F94 to F133 form part of these financial statements.

Notes to the consolidated financial statements
For the year ended 31 December 2016

1. Accounting policies

a) Reporting entity

The Company is incorporated and domiciled in the United Kingdom.

These consolidated financial statements comprise the Company and its subsidiaries (the Group).

The Group is primarily involved in providing tool and equipment hire and related services in the United Kingdom and the Republic of Ireland.

The Group and Company financial statements were approved by the Board of Directors on 5 April 2017.

b) Statement of compliance

The Group financial statements of Hero Acquisitions Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the Companies Act 2006.

The directors have taken advantage of the option within section 390 of the Companies Act 2006 to prepare their financial statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts therefore cover the period from 27 December 2015 to 31 December 2016 (2015: 28 December 2014 to 26 December 2015).

c) Functional and presentational currency

These financial statements are presented in pounds Sterling (£), which is the Group's presentational currency. The functional currency of the parent and subsidiaries is pounds sterling, except for those that are incorporated in the Republic of Ireland, which have the euro as their functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

d) Basis of preparation

The financial statements have been prepared on a historical cost basis, with the exception of derivative financial instruments which are measured at fair value on each reporting date.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

e) New accounting standards and accounting standards not yet effective

There were no new IFRSs or IFRICs that had to be implemented during the year that significantly affect these financial statements.

Standards effective in future periods
The following new standards, amendments and interpretations to existing standards, which are applicable to the Group, have been published and are mandatory for the Group's accounting periods beginning after 1 January 2017 or later and which the Group has decided not to adopt early.

- IFRS 9 Financial Instruments, which replaces IAS 39 Financial Instruments: Recognition and Measurement in its entirety, and is effective for periods beginning on or after 1 January 2018.
- IFRS 15 Revenue from Contracts with Customers, which provides guidance on the recognition, timing and measurement of revenue, and is effective for periods beginning on or after 1 January 2018.
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 – Disclosure Initiative
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- Annual Improvements to IFRS (2014-2016 Cycle)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

1. Accounting policies (continued)

e) New accounting standards and accounting standards not yet effective (continued)

The Directors anticipate that adoption of these Standards and Interpretations in future periods will not have a material impact on the financial statements of the Group.

- IFRS 16 Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases, effective for periods beginning on or after 1 January 2019.

The Group is in the process of assessing the impact that the application of IFRS 16 will have on the financial statements, but it is expected to be material given the number of operating leases the Group has entered into, as detailed in note 21. IFRS 16 will require the Group to recognise a liability and right of use asset for the majority of the leases currently treated as operating. This will affect fixed assets, current and non-current liabilities, and the measurement and disclosure of expenses associated with the leases (depreciation and interest expense compared to operating lease rentals currently). It is not practicable to provide a reasonable estimate of the effects of the adoption of IFRS 16 until a detailed review has been completed, given the complexity of the standard and volume of leases.

f) Critical accounting estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amount of assets, liabilities, income, expenses and other disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new or further information. Such changes are recognised in the period in which the estimate is revised.

Key assumptions about the future and key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities over the next year are set out below.

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

These assets are reviewed annually or more frequently if there is an indication of impairment to ensure that they are not carried above their estimated recoverable amounts. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary from such estimates of discounted future cash flows. Such calculations require assumptions related to the appropriate discount rate, the long term growth rate and also short term performance and cash flows. The directors consider historic performance as well as referencing to external information to arrive at these assumptions. Further details of the impairment reviews undertaken, assumptions and sensitivities are given in note 10.

Onerous lease provision

Provisions have been made for onerous leases on non-trading stores associated with the Group's property portfolio. The carrying amount of the onerous lease provision will be affected by changes in the discount rate. The discount rate used to calculate these provisions is based on UK gilt yields to approximate a risk free rate and as at 31 December 2016 was 0.48 % (2015: 1.90 %). The interest rate used in discounting the cash flows is reviewed annually. Further details of the assumptions and sensitivities are given in note 17.

The need for provisions for onerous leases against non-trading stores, measured net of expected rental income, is assessed when the leased property becomes vacant and is no longer used in the operations of the Group or when a decision has formally been made to do so. These provisions are recognised on a lease by lease basis. The determination of the onerous lease provision requires management, in conjunction with its third party property advisers, to make judgements and estimates about the ultimate cost to the Group, including the nature, timings and cost of exiting a lease, and any additional unavoidable costs, and the level of sublease income, if applicable.

The actual costs and timing of cash flows are dependent on future events and market conditions. Any difference between management estimates and actual costs is accounted for in the period when such determination is made.

1. Accounting policies (continued)

f) Critical accounting estimates and judgements (continued)

Useful economic life and residual value of assets

The Group's policy for applying useful economic lives and residual values of assets has been determined through applying historical experience and taking into consideration the nature of assets and their intended use, and achieved values on sale when disposed.

The net book value of materials and equipment held for hire was £133.9 million at 31 December 2016 (2015: £143.3 million) and the related depreciation charge was £27.9 million (2015: £31.8 million). The majority of hire stock items are given no residual value. Certain plant (powered access and power generation) have residual values of between 10 and 20% of original cost.

Recoverability of trade receivables

Judgements are required in assessing the recoverability of overdue trade receivables and determining whether a provision against those receivables is required. The Group monitors the risk profile of debtors and makes provisions for amounts that may not be recoverable based on past default experience and the directors' assessment of the economic environment. The recoverability of overdue receivables is considered together with the sales credit note provision.

The Group's bad debt and credit note provision is disclosed in note 13.

Exceptional items

The Group has classified a number of expenses as exceptional during the year because of their size or nature or because they are non-recurring. The Group incurred costs restructuring the business and its operating model, including commencement of operations at the National Distribution and Engineering centre ("NDEC"). The Group has recognised certain of these costs as exceptional to better reflect the underlying results of the business. This allocation to exceptional costs involved considerable judgement. 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 has determined that a reasonable approximation of these parallel running costs to be the total costs incurred in operating the NDEC up to the point where 50% of the operational volumes were processed through the NDEC rather than the original branch and distribution network.

The Groups exceptional items are disclosed in note 4.

g) Going concern

Note 20 includes the Group's objectives, policies and processes for capital management and for financial risk management including market risk, credit risk and liquidity risk.

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 financial covenants relating to the revolving credit facility secured by the Group, and as detailed in note 16 and 20.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, and senior debt and interest repayments falling due as detailed in note 16, 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.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

1. Accounting policies (continued)

h) Basis of consolidation

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date, any gains or losses arising from such re-measurement are recognised in the profit or loss.

Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

i) Restatements

On 8 May 2015, the Group acquired the entire share capital of All Seasons Hire Limited, one of the leading heating, ventilation and air-conditioning ("HVAC") hire companies in the UK. At 26 June 2015 and 26 December 2015, a provisional fair valuation of the identifiable assets and liabilities was recorded.

In accordance with IFRS 3, measurement period adjustments have now been made to provisional values which result in a restatement of amounts previously recognised at 26 December 2015. The result of these adjustments changes the provisional goodwill from £7.0 million, as reported at 26 December 2015, to £7.3 million.

Further details may be found in note 22.

j) Segment reporting

IFRS 8 *Operating segments* requires operating segments to be reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management team, including the Chief Executive Officer, Chief Financial Officer and Chief Commercial Officer. Details of the Group's segments are given in note 2.

1) Accounting policies (continued)

k) Foreign currency translation

Foreign currency transactions are translated into an entity's functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign currency translation gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or finance expense. All other foreign currency translation gains and losses are presented in the income statement within administrative expenses.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign currency exchange rates ruling at the reporting date.

The revenues and expenses of foreign operations are translated at an average rate for the period, which approximates the foreign currency exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are reported in other comprehensive income. Where required, any translation into the Group's presentational currency follows the policy for foreign operations.

l) Property, plant and equipment

Land and buildings comprise leasehold and freehold branches, workshops and offices, and are stated at cost, less depreciation or provision for impairment where appropriate. Land is not depreciated and depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Material and equipment held for hire:	
- Tools and general equipment	Two to ten years
- Powered access	Five to ten years
- Power generation	Five to ten years
- Climate control	Two to ten years
Non-hire assets:	
- Leasehold properties with less than fifty years unexpired	Over unexpired period of lease
- Freehold buildings and long leasehold properties	Over fifty years
- Plant & machinery	Two to ten years

The Group reviews its depreciation policy annually. Effective 27 December 2015, the directors have assessed that the residual values of certain powered access assets should be changed from 10% to 20% and residual values of 10% should be introduced for power generation assets. As a result of these changes, which have been applied prospectively from the beginning of the year, the depreciation charge for the year ending 31 December 2016 has been reduced by £4.2 million. During the year ended 26 December 2015, the directors aligned the useful lives of powered access and power generation assets across the group, resulting in a reduction of the depreciation charge for the year ended 26 December 2015 of £2.0 million.

Materials and equipment held for hire purposes are stated at cost, less depreciation or provision for impairment where appropriate. Materials and equipment are written off over their useful economic life to the asset's residual value which is estimated at between twenty percent of cost and nil. Residual values are only applied to powered access and power generation assets. Profits or losses arising when customers are invoiced for loss of equipment held for hire purposes are calculated by reference to average written down values.

Gains and losses on disposals of materials and equipment held for hire are calculated as the difference between the proceeds received and the carrying amount of the asset and are recognised in profit or loss.

Impairment reviews are undertaken whenever events or changes in circumstances indicate the carrying value of property, plant and equipment may not be recoverable. If the fair value of a tangible asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate, but restricted so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Any impairment losses or reversals are recognised immediately in the income statement.

1) Accounting policies (continued)

m) Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the difference between the fair value of the consideration transferred and the fair value of the acquired assets, liabilities and contingent liabilities.

Impairment of goodwill

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGUs.

Goodwill impairment reviews are undertaken annually. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Intangible assets acquired on acquisition

When an acquisition is completed intangible assets are separately identified from goodwill and measured at fair value. Brands are valued using the relief from royalty method. Customer relationships are valued using the excess of earnings method.

The directors have assessed the brands of ABird, UK Platforms, TecServ and Apex and estimated that they have useful economic lives of 20 years. The directors have estimated the customer relationship intangible assets recognised on the acquisition of TecServ Cleaning Equipment Services Limited and Apex Generators Limited as having useful economic lives of 10 years. Brands and customer relationships are amortised on a straight line basis over their useful economic life.

During 2015 the Group acquired All Seasons Hire Limited (note 22). The directors have assessed the brand and the customer relationship intangible assets recognised on acquisition to have useful economic lives of 10 and 12 years respectively.

Software development costs

Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed four years.

Other intangible assets

Other intangible assets that are acquired by the Group that have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Other intangible assets are amortised over their useful economic life, and charged to administrative expenses.

Impairment of intangible assets (excluding goodwill)

Impairment reviews are undertaken whenever events or changes in circumstances indicate their carrying value may not be recoverable. If the fair value of an intangible asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate, but restricted so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Any impairment losses or reversals are recognised immediately in the income statement.

1) Accounting policies (continued)
n) Derivative financial instruments

Historically the Group has used a derivative financial instrument to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than one year and is not expected to be realised or settled within one year. Where this is not the case, derivatives are presented as current assets or current liabilities. The Group did not have any derivative financial instruments in the year.

o) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for those inventory items where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historical experience and assumptions regarding estimated future sales value.

p) Trade receivables

Trade and other receivables are recognised initially at fair value, which is deemed to be the transaction price. Subsequently, trade and other receivables are measured at amortised cost using the effective interest method, less any provision for impairment.

Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivables. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

q) Cash

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with maturities of three months or less and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

r) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share premium
The amount subscribed for share capital in excess of nominal value, less any costs directly attributable to the issue of new shares

Retained earnings/accumulated deficit
Cumulative net gains and losses recognised in the income statement.

Dividends
Dividends on ordinary share capital are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid and in the case of final dividends these are declared when authorised by the shareholders.

s) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost. Trade payables are classified as current liabilities if payment is due within one year or less, otherwise they are presented as non-current liabilities.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

1) Accounting policies (continued)
t) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

u) Cost of sales, distribution costs and administrative expenses

Cost of sales includes direct costs associated with the Group's principal business of equipment hire. Such costs include hire stock rehire, cost of reselling plant and equipment, maintenance, depreciation, amortisation and asset write off and disposals. Distribution expenses comprise vehicle costs and transport wages. Administrative expenses comprise principally staff and property costs and costs of acquisitions.

v) Non-IFRS financial measures

Earnings before interest, taxation, depreciation and amortisation (EBITDA) and Adjusted EBITDA
Earnings before interest, taxation and amortisation (EBITA) and Adjusted EBITA

EBITDA, Adjusted EBITDA, EBITA and Adjusted EBITA are non-IFRS and non-Generally Accepted Accounting Practice (GAAP) performance measures used by the directors and management to assess the operating performance of the Group.

EBITDA is defined by the Group as operating profit before depreciation, amortisation and hire stock disposals and write offs. Exceptional items are excluded from EBITDA to calculate Adjusted EBITDA.

EBITA is defined by the Group as operating profit before amortisation. Exceptional items are excluded from EBITA to calculate Adjusted EBITDA.

The Group discloses adjusted EBITDA and adjusted EBITA as supplemental non-IFRS financial performance measures because the directors believe they are useful metrics by which to compare the performance of the business from period to period and such measures similar to adjusted EBITDA and adjusted EBITA are broadly used by analysts, rating agencies and investors in assessing the performance of the Group. Accordingly, the directors believe that the presentation of adjusted EBITDA and adjusted EBITA provides useful information to users of the financial statements.

As these are non-IFRS measures, Adjusted EBITDA and Adjusted operating profit measures used by other entities may not be calculated in the same way and are hence not directly comparable.

w) Finance income and expense

Finance income comprises interest receivable on cash balances.

Finance expense comprises interest payable on borrowings, interest payable on finance leases, amortisation and write off of debt issuance costs and the unwinding of the discount on non-current provisions.

Interest is recognised in profit or loss as it accrues, using the effective interest rate. Interest payable on borrowings includes a charge in respect of attributable transaction costs, which are recognised in profit or loss over the period of the borrowings on an effective interest basis. The interest expense component of finance lease payments is recognised in the income statement using the lease’s implicit interest rate.

x) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

1. Accounting policies (continued)

x) Current and deferred income tax (continued)

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

y) Employee benefits

Short term employee benefits

Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Pension obligations

The Group operates employee optional stakeholder retirement and death benefit schemes. Both employee and employers are required to make contributions with the employers' contributions for each employee determined by the level of contribution made by the employee and the employee's length of service within the Group or subsidiary company. The employer's contributions are charged to profit and loss in the year in which the contributions are due.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 *Provisions, contingent liabilities and contingent assets* (IAS 37) and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 1 year after the end of the reporting period are discounted to their present value.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

1. Accounting policies (continued)

z) Provisions

Provisions for onerous leases, restructuring costs and legal claims are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions for dilapidation are recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property. The timing and amounts of future cash flows related to lease dilapidations are subject to uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and third party surveyors reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change. The amount recognised is the estimated cost of dilapidations, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of dilapidations or dilapidations cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dilapidations provision is included as a finance expense.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

1. Accounting policies (continued)
aa) Revenue recognition

The Group's activities consist of supplying hire and equipment services within the UK and the Republic of Ireland. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, including compensation for damaged or lost hire stock, stated net of discounts, rebates, returns and value added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured when it is probable that future economic benefits will flow to the entity. Revenue is recognised as follows:

- hire activities	over the period of hire on a straight line basis,
- damaged/lost hire stock compensation	when the loss or damage is identified,
- training and support services	when a right to consideration arises on the delivery of the training course.

Revenue arising from the sale of ex-hire fleet assets, fuel and consumables is recognised in the income statement within the revenue line when the significant risks and rewards of ownership have been transferred to the buyer.

bb) Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of useful life and lease term with any impairment being recognised in accumulated depreciation. Leased assets are recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of finance leases. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the statement of financial position and analysed between current and non-current amounts. The interest elements of the obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Lease incentives are recorded as a liability and then recognised over the lease term on straight line basis in the income statement as a reduction of rental expense.

cc) Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of the valuation method of the Group's financial instruments:

The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable, for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair values have been determined for measurement purposes based on the following methods:

Derivative instruments (level 2)

The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

The fair value of interest rate swap contracts are calculated by management based on external valuations received from the Group's bankers and is based on anticipated future interest yields.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

1. Accounting policies (continued)
dd) Exceptional items

Exceptional items are disclosed separately in the income statement where it is necessary to do so to provide further understanding of the underlying financial performance of the Group. Exceptional items are items of income or expense that have been shown separately due to the significance of their nature or amount and include IPO costs (see note 1ee) below) acquisition costs, restructuring costs and accelerated debt issuance costs. Restructuring costs incurred in 2016 primarily relate to costs associated with the implementation and ramp-up of the Group's new operating model, principally the National Distribution & Engineering Centre ("NDEC"). The NDEC is more fully discussed in our financial review and in note 4.

ee) Credit note provision

The Group makes provision for credit notes raised and expected to be raised after the end of the reporting period that relate to customer invoices raised before the end of the period, net of any impairment charges relating to the customer invoices.

2. Segmental reporting

For management purposes, the Group's operations have historically been segmented into HSS Core and HSS Specialist, as follows:

- HSS Core – the provision of tool and equipment hire and related services.
- HSS Specialist – the provision of generator, climate control, powered access and cleaning equipment hire and the provision of cleaning maintenance services, under specialist brands.

These segments distinguished between the long-standing tool and equipment hire business of the Group and the specialist businesses, enabling visibility of their performance post acquisition. Now that the Specialist businesses are more integrated into the Group and with the increase in the Group's rehire business, changes have been made to the way segmental analysis is presented to enable improved understanding of contribution relative to revenue.

Accordingly for the year ended 31 December 2016, the Group's operations are segmented into the following new reportable segments:

- Rental and related revenue.
- Services.

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

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

The comparative segmental reporting has therefore been adjusted to reflect these new reportable segments.

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 no single external customers that provide more than 10% of Group turnover.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

2. Segmental reporting (continued)

	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			(31,992)	(31,992)
Adjusted EBITDA				68,460
Less: Exceptional items (non-finance)			(16,883)	(16,883)
Less: Depreciation and amortisation	(38,075)	(267)	(13,573)	(51,915)
Operating profit				(338)
Finance income				6,878
Adjusted finance expense				(43,169)
Exceptional finance expenses				-
Loss before tax				(36,629)

	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	4,591	4,740
Acquired on acquisitions				
Intangibles	-	-	-	-
Non-current assets net book value				
Property, plant and equipment	133,922	387	44,164	178,473
Intangibles	146,256	542	8,465	155,263
Unallocated corporate assets				
Non current deferred tax assets			780	780
Non current Trade and other receivables			68,744	68,744
Current assets			126,177	126,177
Current liabilities			(170,168)	(170,168)
Non current liabilities			(457,285)	(457,285)
				(98,016)

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

2. Segmental reporting (continued)

	Year ended 26 December 2015			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	262,850	49,483	-	312,333
Contribution	182,101	6,134	-	188,235
Branch and selling costs			(86,012)	(86,012)
Central costs			(31,316)	(31,316)
Adjusted EBITDA				70,907
Less: Exceptional items (non-finance)			(5,654)	(5,654)
Less: Depreciation and amortisation	(43,251)	(170)	(9,813)	(53,234)
Operating profit				12,019
Finance income				5,441
Adjusted finance expense				(37,038)
Exceptional finance expenses				(5,928)
Loss before tax				(25,506)

	Rental (and related revenue) £000s	**Services £000s**	**Central £000s**	**Total £000s**
Additions to non-current assets				
Property, plant and equipment	65,020	240	18,779	84,039
Intangibles	-	577	4,503	5,080
Acquired on acquisitions				
Intangibles	9,762	-	-	9,762
Non-current assets net book value				
Property, plant and equipment	143,260	396	39,557	183,213
Intangibles	147,114	601	6,537	154,252
Unallocated corporate assets				
Non current deferred tax assets			1,900	1,900
Non current Trade and other receivables			62,189	62,189
Current assets			114,511	114,511
Current liabilities			(149,265)	(149,265)
Non current liabilities			(432,778)	(432,778)
				(65,978)

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

3. Other operating income

	Year ended 31 December 2016	Year ended 26 December 2015
	£000s	£000s
Other operating income	**1,151**	869
	1,151	869

Other operating income includes £1.2 million (2015: £0.9 million) in respect of sub-let rental income received on vacant properties, which has been recognised within exceptional items (note 4).

4. Exceptional items

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

During the year ended 31 December 2016, the Group has 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**
Branch and distribution centre closure 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	-	-	-	-	-
Acquisitions	-	-	-	-	-
Sub-let rental income on onerous leases	-	-	-	(1,137)	(1,137)
Exceptional items (non-finance)	**3,398**	**1,304**	**13,318**	**(1,137)**	**16,883**
Refinancing costs					
Included in finance expense	-	-	-	-	-
Exceptional items (finance)	-	-	-	-	-
Total exceptional items	**3,398**	**1,304**	**13,318**	**(1,137)**	**16,883**

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

4. Exceptional items (continued)

During the year ended 26 December 2015, the Group has recognised total exceptional costs, analysed as follows:

	Included in cost of sales	Included in distribution costs	Included in administrative expenses	Included in other operating income	Year ended 26 December 2015
	£000s	£000s	£000s	£000s	£000s
NDEC exceptional costs					
Project management, design, set-up	-	-	1,856	-	1,856
Parallel running	-	-	-	-	-
Non-recurring transitional engineering costs	-	-	-	-	-
Branch and CDC closure redundancies	-	-	-	-	-
Total NDEC exceptional costs	-	-	1,856	-	1,856
Branch and distribution centre closure onerous leases	-	-	2,627	-	2,627
Group restructuring	-	-	-	-	-
Resale stock impairment	-	-	-	-	-
Pre-opening costs	-	-	215	-	215
Cost reduction programme	-	-	1,571	-	1,571
Acquisitions	-	-	254	-	254
Sub-let rental income on onerous leases	-	-	-	(869)	(869)
Exceptional items (non-finance)	-	-	6,523	(869)	5,654
Refinancing costs					
Included in finance expense	-	-	-	-	5,928
Exceptional items (finance)	-	-	-	-	5,928

Exceptional items (non-finance)
<u>Changes to the operating model</u>

During the year ended 31 December 2016, the Group incurred costs restructuring the business and its operating model, including the commencement of operations at the National Distribution and Engineering Centre (“NDEC”), closure of branches and distribution centres across England, Wales and Scotland, centralisation of activity into fewer locations and creating a new divisional structure.

NDEC

The NDEC is a centralised engineering and replenishment centre set-up to serve our branch and distribution network which will provide improved customer experience, operational and capital efficiency. This replaces the former hub and spoke model deployed by the Group.

After an initial implementation planning period, operations began at the NDEC in March 2016 with the phased national roll-in of operational activities from branches and distribution centres across England, Wales and Scotland. During the set-up and roll-in phase, the Group has incurred significant implementation costs, including a dedicated project team, warehouse design, running of the original branch and distribution network in parallel with the NDEC and non-recurring transitional and rectification costs associated with enabling the NDEC to become operationally efficient. The Group has recognised certain of these costs as an exceptional expense in order to better reflect the underlying results of the business, This allocation to exceptional costs involved considerable judgement by the Directors but it has no impact on operating profit nor on the net assets of the Group as the only impact is on Adjusted EBITDA and Adjusted EBITA. The Directors consider that their allocation results in a meaningful measure to help gauge the underlying trend of the business following a significant change in the business model as discussed in more detail below.

4. Exceptional items (continued)

A dedicated project team comprising HSS and third party employees was set up at the outset of the project to oversee the implementation covering operational, system and people changes. Operational changes included warehouse design, stock re-profiling, logistic route planning and overseeing the roll-in of operations from each branch and distribution centre. This also required systems integration between HSS and our third party provider involving specialist IT resource being utilised throughout the project. Associated costs incurred amounted to £3.1 million, of which £0.5 million has been included within cost of sales, and £2.6 million within administrative expenses. This includes £0.5 million, within cost of sales, which was incurred in Q4 2016 relating to the redesign of warehouse systems. Included in exceptional items within administrative expenses for the year ended 26 December 2015 was £1.9 million in relation to set-up costs of the NDEC.

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 has 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 are processed through the NDEC rather than the original branch and distribution network. At this point in time the Group would be reasonably able to reduce the costs of the old operating model to offset the increased costs of the NDEC. By the end of July 2016, 50% of the branches had rolled in, but the point where 50% of operational volumes were processed through the NDEC was not reached until the beginning of October 2016. Accordingly all related NDEC costs have been included to this point in October 2016, which amounted to £6.2 million of which £1.0 million has been included within cost of sales, £1.1 million within distribution costs, and £4.1 million within administrative expenses.

Given the scale and complexity in the operational change, the decision was made in the 4th quarter 2016 to redesign certain aspects of the project. As a consequence of this decision further non-recurring costs were incurred principally related to the implementation of new engineering processes for the testing and maintaining of assets. This has resulted in a further £0.5m being included in project management, design and set up costs within cost of sales. This also resulted in additional costs being incurred in rectifying the issues and resultant operational backlogs. These non-recurring transitional engineering costs amounted to £0.3 million, of which £0.1 million has been included within cost of sales and £0.2 million within administrative expenses.

Branch and distribution centre closure

As part of the business restructuring a number of branches and distribution centres were closed. The restructuring costs associated with these non-trading locations comprised onerous leases and dilapidations costs of £4.5 million (2015: £2.6 million) which has been included within administrative expenses.

Associated redundancy costs of £0.5 million have been allocated within total NDEC exceptional items above of which £0.2 million has been included within cost of sales, £0.2 million within distribution costs, and £0.1 million within administrative expenses.

Group restructuring

In parallel with the implementation of the NDEC, the Group changed its operating model moving to a new divisional structure. This resulted in a reduction in headcount leading to a redundancy cost of £1.6 million which has been included within administrative expenses.

Resale stock impairment

As part of the NDEC set up and branch and distribution centre closures, inventory held for sale has been centralised into fewer locations. Based on the excess quantity and age profile of the consolidated inventory and a decision to streamline certain stock ranges, estimated future sales value is deemed to be lower than cost. Accordingly an impairment of £0.9 million has been recognised which has been included within cost of sales. Additionally, experience of stock losses arising from the centralisation of resale stock and associated branch and distribution centre closures amounted to £0.7 million which has been included within cost of sales.

Pre-opening costs

Included in exceptional items (non-finance) is £0.2 million (2015: £0.2 million) relating to costs of new branch openings and relocations. These amounts have been included within administrative expenses.

Cost reduction programme

Included in exceptional items (non-finance) for the year ended 26 December 2015 is £1.6 million of exceptional expenses incurred by the Group executing its cost reduction plan, principally redundancies, which have been included within administrative expenses.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

4. Exceptional items (continued)

Acquisition fees

During 2015 the Group incurred £0.3 million relating to acquisitions. Principally, these costs related to legal and professional fees associated with the acquisitions. In accordance with IFRS, these were expensed as incurred.

Exceptional items (finance)

Refinancing costs

On 12 February 2015, the Group made an early redemption of £64.0 million of its 6.75% senior secured notes as described in note 26. This gave rise to a bond redemption premium of £4.3 million and the acceleration of the write off of debt issuance costs of £1.6 million.

5. Finance income and expense

	Year ended 31 December 2016	Year ended 26 December 2015
	£000s	£000s
Interest on amounts due from group undertakings	**(6,875)**	(5,417)
Interest received on cash deposits	**(3)**	(24)
Finance income	**(6,878)**	(5,441)
Bank loans and overdrafts	**1,995**	1,269
Interest on amounts due to group undertakings	**28,524**	23,544
Senior secured notes	**9,331**	9,711
Finance leases	**1,792**	1,410
Interest unwind on discounted provisions	**484**	55
Debt issue cost	**1,043**	2,657
Bond redemption premium	**-**	4,320
Finance expense	**43,169**	42,966
Net finance expense	**36,291**	37,525

The bond redemption premium charged in to profit and loss in 2015 relates to the early partial redemption of the senior secured note using part of the funds raised from the IPO. Debt issue costs in 2015 include £1.6m of accelerated write off of previous debt issuance costs due to the partial redemption.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

6. Operating profit

Operating profit is stated after charging / (crediting):

	Year ended 31 December 2016 £'000s	Year ended 26 December 2015 £'000s
Amortisation of intangible assets	**3,740**	2,532
Depreciation of property, plant and equipment	**37,729**	39,379
Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	**10,446**	11,323
Operating lease rentals		
- land and buildings	**19,463**	16,762
- motor vehicles	**9,393**	8,530
- hire stock	**748**	-
Sublease rental income	**(1,151)**	(869)
Foreign currency translation (gains)/losses	**85**	7
	80,453	77,664

	Year ended 31 December 2016 £'000s	Year ended 26 December 2015 £'000s
Auditors' remuneration		
- audit of Group and Company financial statements	**36**	30
- audit of subsidiary financial statements	**196**	195
- audit assurance services	**-**	-
- corporate finance services	**-**	72
	232	297

7. Employees

The average number of people employed by the Group (including directors) during the year was as follows:

	Year ended 31 December 2016 Number	Year ended 26 December 2015 Number
Distribution	**593**	614
Hire stock and inventory maintenance	**391**	460
Sales and administration	**2,270**	2,270
	3,254	3,344

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

7. Employees (continued)

The aggregate remuneration costs of these employees were as follows:

	Year ended 31 December 2016	Year ended 26 December 2015
	£000s	£000s
Wages and salaries	**83,434**	81,447
Social security costs	**7,386**	7,486
Pension costs	**1,665**	1,596
	92,485	90,529

IAS 24 *Related party transactions*, requires the Group to disclose all transactions and outstanding balances with the group's key management personnel. IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The key management personnel of the Group comprise the directors along with senior managers from central support services and divisional and regional operations.

The aggregate remuneration costs of key management personnel were as follows:

	£000s	£000s
Wages and salaries	**1,905**	1,489
Employer's national insurance contributions and similar taxes	**243**	234
Compensation for loss of office	**-**	470
Other pension costs	**99**	71
	2,247	2,264

At 31 December 2016 there were no amounts due to key management personnel (2015: £nil).

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

8. Directors' remuneration

The remuneration costs of the Company's directors were:

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Aggregate emoluments	**850**	1,331
Bonuses not paid	**(16)**	-
Pension costs	**56**	71
Directors' emoluments	**890**	1,402

The remuneration of the highest paid director was:

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Aggregate emoluments	**348**	330
Pension costs	**33**	29
Directors' emoluments	**381**	359

9. Income tax credit

(a) Analysis of tax credit in the year

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Current tax (credit)/ charge		
UK corporation tax on the loss for the year	**(3,977)**	(2,406)
Adjustments in respect of prior years	**26**	(90)
Total current tax credit	**(3,951)**	(2,496)
Deferred tax charge/(credit)		
Deferred tax charge/(credit) for the year	**943**	853
Deferred tax charge/(credit) impact of change in tax rate	**(45)**	-
Adjustments in respect of prior years	**(1)**	-
Total deferred tax charge	**897**	853
Income tax credit	**(3,054)**	(1,643)

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

9. Income tax credit (continued)

(b) Factors affecting the tax 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 31 December 2016 £000s	Year ended 26 December 2015 £000s
Loss before tax	**(36,629)**	(25,506)
Loss before tax multiplied by the standard rate of corporation tax of 20% (2015: 20.25%)	**(7,326)**	(5,165)
Effects of:		
Expenses not deductible for tax purposes	**478**	867
Adjustments in respect of prior years	**25**	(90)
Difference in foreign tax rate	**389**	188
Unprovided deferred tax movements on short term temporary differences	**3,425**	2,557
Impact of change in tax rates	**(45)**	-
Income tax credit	**(3,054)**	(1,643)

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Group's profits for the year ended 26 December 2015 were taxed at an effective rate of 20.25%.

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £14.8 million (2015: £11.4 million) and relating to losses £1.4 million (2015: £3 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.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

10. Intangible assets

	Goodwill	Customer relationships	Brands	Software	Total
	£000s	£000s	£000s	£000s	£000s
Cost					
At 26 December 2015 [1]	142,825	2,544	2,242	14,997	162,608
Foreign exchange differences	11	-	-	-	11
Additions	-	-	-	4,740	4,740
Transfers [2]	(438)	438	-	230	230
At 31 December 2016	142,398	2,982	2,242	19,967	167,589
Amortisation					
At 26 December 2015	-	256	232	7,868	8,356
Charge for the period	-	428	157	3,155	3,740
Transfers	-	-	-	230	230
At 31 December 2016	-	684	389	11,253	12,326
Net book value					
At 31 December 2016	**142,398**	**2,298**	**1,853**	**8,714**	**155,263**
At 26 December 2015 [1]	142,825	2,288	2,010	7,129	154,252

[1] Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 22).
[2] Reclassification in respect of minor acquisitions in prior year.

	Goodwill	Customer relationships	Brands	Software	Total
	£000s	£000s	£000s	£000s	£000s
Cost					
At 27 December 2014	135,039	1,200	1,610	10,032	147,881
Additions	-	-	-	5,080	5,080
Acquired on acquisition [1]	7,786	1,344	632	-	9,762
Disposals	-	-	-	(115)	(115)
At 26 December 2015 [1]	142,825	2,544	2,242	14,997	162,608
Amortisation					
At 27 December 2014	-	101	109	5,729	5,939
Charge for the period	-	155	123	2,254	2,532
Disposals	-	-	-	(115)	(115)
At 26 December 2015	-	256	232	7,868	8,356
Net book value					
At 26 December 2015 [1]	142,825	2,288	2,010	7,129	154,252
At 27 December 2014	135,039	1,099	1,501	4,303	141,942

[1] Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 22).

On the acquisition of All Seasons Hire Limited on 8 May 2015 the Group acquired £1.3m of customer lists and £0.6m of brand intangibles.

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

10. Intangible assets (continued)

Analysis of goodwill by cash generating units (CGUs)

	Goodwill	Total
	£000s	£000s
Allocated to		
HSS Core	124,904	124,904
Powered access	4,114	4,114
Climate control	7,327	7,327
Power generation	6,053	6,053
At 31 December 2016	**142,398**	**142,398**

	Goodwill	Total
	£000s	£000s
Allocated to		
HSS Core	125,331	125,331
Powered access	4,114	4,114
Climate control	7,327	7,327
Power generation	6,053	6,053
At 26 December 2015 (1)	142,825	142,825

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 22).

The remaining life of intangible assets other than goodwill is between three to eighteen 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 (2015: five 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 6% for HSS Core and 4% for the remaining CGUs (2015: between 5 and 12%). The directors believe that it is prudent to lower the growth rate assumptions from prior year because of the transitional effects on trading that have occurred as a result of the commencement and ramp-up of the new operating model, as more fully explained in note 4. HSS Core's growth rate at 6% is higher than the other CGUs because the change in operating model in 2016 negatively impacted HSS Core to a greater degree, which however, is reflected by a higher relative growth rate of HSS Core in 2017 – 2020 as HSS Core enjoys the benefit of leveraging the new operating model to drive growth off a lower base.
- Cash flows beyond 2020 (ie after four years) have been determined based on a long term growth rate of 2.5% (2015: 2.5%).
- A pre-tax discount rate of 9.1% (2015: 10.3%), calculated by reference to a market based weighted average cost of capital (WACC). The non-IFRS pre-tax WACC of the Company, referenced to its own capital structure was 7.6% and applying this discount rate would generate a VIU with an excess of £171 million above the threshold where the VIU and the segmental assets of HSS Core would be in balance.

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.

10. Intangible assets (continued)

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 31 December 2016, 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 31 December 2016, the headroom between VIU and carrying value of the related assets was £101.9 million. The directors' sensitivity analysis with regard to HSS Core shows that an increase in the discount rate by 2.65%, to 11.8%, or a reduction in the long term growth rate to (1.33)%, or a reduction in the short to medium term growth rate to 5.5% would eliminate the headroom shown.

Other intangible assets

No impairment tests were considered to be required at 31 December 2016 and the carrying value of other intangible assets is considered to be appropriate.

11. Property, plant and equipment

	Land & Buildings £000s	Plant & Machinery £000s	Materials & Equipment held for hire £000s	Total £000s
Cost				
At 26 December 2015 [1]	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 period	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 [1]	28,055	11,898	143,260	183,213

[1] Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 22).

	Land & Buildings £000s	Plant & Machinery £000s	Materials & Equipment held for hire £000s	Total £000s
Cost				
At 27 December 2014	49,985	51,122	222,577	323,684
Foreign exchange differences	(4)	(68)	(708)	(780)
Additions	13,694	5,325	65,020	84,039
Acquired on acquisition [1]	32	217	2,669	2,918
Disposals	(394)	(682)	(33,350)	(34,426)
At 26 December 2015 [1]	63,313	55,914	256,208	375,435
Accumulated depreciation				
At 27 December 2014	31,533	41,136	103,802	176,471
Foreign exchange differences	-	(48)	(477)	(525)
Charge for the period	4,119	3,505	31,755	39,379
Disposals	(394)	(577)	(22,132)	(23,103)
At 26 December 2015	35,258	44,016	112,948	192,222
Net book value				
At 26 December 2015 [1]	28,055	11,898	143,260	183,213
At 27 December 2014	18,452	9,986	118,775	147,213

[1] Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 22).

The net book value of materials and equipment held for hire includes an amount of £42.3 million (2015: £38.8 million) in respect of assets held under finance leases. The depreciation charge for assets held under finance leases in the year ended 31 December 2016 was £5.3 million (2015: £7.3 million).

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

12. Inventories

	31 December 2016	26 December 2015
	£000s	£000s
Goods for resale	**5,016**	5,716
Spares	**3,250**	3,719
Total inventories	**8,266**	9,435
Provision for impairment	**(368)**	(340)
Inventories	**7,898**	9,095

	31 December 2016	26 December 2015
Provision for impairment of inventories	**£000s**	£000s
Balance at the beginning of the year	**340**	1,457
Impairment provisions recognised/ (utilised) during the year	**28**	(1,117)
Balance at the end of the year	**368**	340

The cost of inventories recognised as an expense and included in cost of sales is £26.7 million (2015 £26.4 million).

13. Trade and other receivables

Non-current	**31 December 2016**	26 December 2015, restated[1]
	£000s	£000s
Amounts due from group undertakings	**68,744**	62,189
	68,744	62,189

Current	**31 December 2016**	26 December 2015, restated[1]
	£000s	£000s
Gross trade receivables	**83,072**	84,763
Less provision for impairment	**(3,740)**	(4,000)
Net trade receivables	**79,332**	80,763
Other debtors	**578**	390
Prepayments and accrued income	**23,707**	16,312
Corporation tax	**-**	-
Amounts due from group undertakings	**12,237**	6,140
	115,854	103,605

[1] Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 22).

The provision for impairment of trade receivables is estimated based upon past default experience and the directors' assessment of the current economic environment, including provisions for credit notes raised and expected to be raised after year end for customer invoices issued before year end (see note 1ee). The overall provision for bad debts and credit notes amounts to 4.5% of trade receivables at 31 December 2016 (2015: 4.7%, as restated). Should the level of provision required ultimately be at the same level as 2015 this would result in an additional provision of £180,000. The creation and release of bad debt receivables provision is charged/ (credited) to administrative expenses in the income statement, and the credit note provision is charged/ (credited) to revenue.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

13. Trade and other receivables (continued)

The following table details the movements in the provision for impairment of trade receivables:

	31 December 2016	26 December 2015, restated(1)
	£000s	£000s
Balance at the beginning of the period	**(4,000)**	(3,514)
Movement in provision	**260**	(486)
Balance at the end of the period	**(3,740)**	(4,000)

The provision for impairment of trade receivables is comprised, as follows:

	31 December 2016	26 December 2015, restated(1)
	£000s	£000s
Bad debt provision	**(2,286)**	(2,077)
Credit note provision	**(1,454)**	(1,923)
	(3,740)	(4,000)

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 22).

The ageing profile of debtors that are overdue but not impaired is:

	31 December 2016	26 December 2015
Days overdue	**£000s**	£'000s
1 to 30 days	**4,919**	7,020
31 to 60 days	**2,885**	3,925
61 to 90 days	**1,625**	1,796
Over 90 days	**3,602**	4,203
	13,031	16,944

These amounts have not been impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable.

14. Cash

	31 December 2016	26 December 2015
	£000s	£000s
Cash (statement of financial position)	**2,425**	1,811
Bank overdrafts (note 16)	**-**	(1,535)
Cash and cash equivalents	**2,425**	276

The Group's banking arrangements are subject to a master netting arrangement with their principal bankers. The net balance of a portfolio of accounts, some of which may be in overdraft and some may be in credit, represents the balance held.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

15. Trade and other payables

	31 December 2016	26 December 2015, restated
	£000s	£000s
Current		
Obligations under finance leases	**11,448**	11,050
Trade payables	**52,505**	48,554
Other taxes and social security costs	**5,686**	10,284
Other creditors	**276**	1,714
Accrued interest on borrowings	**3,859**	3,755
Accruals and deferred income	**15,101**	13,822
	88,875	89,179

	31 December 2016	26 December 2015
	£000s	£000s
Non-current		
Obligations under finance lease	**17,266**	21,583
	17,266	21,583

The maturity profile of the Group's finance leases is as follows:

	31 December 2016	26 December 2015
	£000s	£000s
Less than one year	**11,448**	11,050
Two to five years	**17,266**	14,303
Over five years	**-**	7,280
	28,714	32,633

The following table gives a reconciliation of the minimum lease payments to the carrying value of the finance lease creditor:

	31 December 2016	26 December 2015
	£000s	£000s
Less than one year	**12,639**	12,430
Two to five years	**18,133**	15,314
Over five years	**-**	7,533
	30,772	35,277
Less future interest payments	**(2,058)**	(2,644)
Carrying value of lease liabilities	**28,714**	32,633

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

16. Borrowings

	31 December 2016	26 December 2015
	£000s	£000s
Current		
Revolving credit facility	**66,000**	46,000
Bank overdraft	**-**	1,535
Amounts due to group undertakings	**8,361**	8,209
	74,361	55,744
Non-current		
Senior secured note	**133,212**	132,189
Amounts due to group undertakings	**294,205**	266,041
	427,417	398,230

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

	31 December 2016	26 December 2015
	£000s	£000s
Secured senior note	**136,000**	136,000
Amounts due to group undertakings	**302,566**	274,250
	438,566	410,250

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

Non-current amounts due to group undertakings fall due between 2020 and 2022 (2015: falling due between 2020 and 2022). The secured senior note is a 6.75% fixed rate bond maturing in 2019, and is listed on the Luxembourg stock exchange. The Group's Super Senior RCF is a revolving credit facility maturing in 2019.

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

	31 December 2016	26 December 2015
	% above LIBOR	% above LIBOR
Amounts due to group undertakings	-	3.75%
Revolving credit facility	**2.25%**	2.00%

16. Borrowings (continued)

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

	31 December 2016	26 December 2015
	Fixed rate	Fixed rate
Secured senior note	**6.75%**	6.75%
Amounts due to group undertakings	**10% & 6.75%**	10% & 6.75%
Weighted average interest rate on borrowings	**8.06%**	8.18%

The Group's borrowings have the following maturity profile:

	31 December 2016	26 December 2015
	£000s	£000s
Less than one year	**9,180**	9,180
Two to five years	**429,264**	433,778
Over five years	**174,128**	175,039
	612,572	617,997
Less interest cash flows:		
Senior secured note	**(27,540)**	(36,720)
Amounts due to group undertakings	**(146,466)**	(171,027)
Total principal cash flows	**438,566**	410,250

The Group has undrawn committed borrowing facilities of £27.0 million at 31 December 2016 (2015: £35.0m). Including net cash balances (note 14), the Group had access to £29.4 million of combined liquidity from available cash and undrawn committed borrowing facilities at 31 December 2016 (2015: £35.3 million).

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

17. Provisions

	Non-trading stores £000s	Dilapidations £000s	Other £000s	Total £000s
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**
At 27 December 2014	7,017	7,854	21	14,892
Additions	311	3,336	-	3,647
Utilised during the period	(2,101)	(669)	-	(2,770)
Unwind of provision	(80)	112	-	32
Released	(610)	(497)	(21)	(1,128)
At 26 December 2015	4,537	10,136	-	14,673
Of which:				
Current	1,228	2,594	-	3,822
Non current	3,309	7,542	-	10,851
	4,537	10,136	-	14,673

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 8 years with the weighted average being 2.8 years (2015: 3.5 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 0.48% (2015: 1.9%). A 1% increase in the discount rate at 31 December 2016 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 £2.3 million at 31 December 2016 (2015: £0.9 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 its onerous leases prior to their expiry the provision would increase by £2.3 million at 31 December 2016.

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 a general provision based on gross internal area. The weighted average dilapidations provision at 31 December 2016 was £3.10 psf (2015: £3.12 psf). A £0.50 psf increase in the dilapidations provision would lead to an increase in the provision at 31 December 2016 of £1.7 million.

The dilapidations provision has been discounted at a rate of 1.45% (2015: 1.9%) at 31 December 2016 based on 10 year UK gilt yields. A 1% increase in the discount rate at 31 December 2016 would increase the dilapidations provision by £0.5 million and associated dilapidation fixed asset by £0.5 million, respectively.

Notes to the consolidated financial statements (continued)

For the year ended 31 December 2016

18. Deferred tax

Deferred tax is provided in full on taxable temporary differences under the liability method using applicable tax rates. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Tax losses	Property, plant and equipment and other items	Acquired intangible assets	Total
	£000s	£000s	£000s	£000s
At 26 December 2015	1,900	(1,265)	(849)	(214)
(Charge) / credit to the income statement	(1,120)	61	163	(896)
Arising on acquisition	-	-	-	-
At 31 December 2016	780	(1,204)	(686)	(1,110)
Deferred tax assets	**780**	**-**	**-**	**780**
Deferred tax liabilities	**-**	**(1,204)**	**(686)**	**(1,890)**
At 31 December 2016	**780**	**(1,204)**	**(686)**	**(1,110)**
At 27 December 2014	2,400	(625)	(467)	1,308
(Charge) / credit to the income statement	(500)	(409)	56	(853)
Arising on acquisition	-	(231)	(438)	(669)
At 26 December 2015	1,900	(1,265)	(849)	(214)
Deferred tax assets	1,900	-	-	1,900
Deferred tax liabilities	-	(1,265)	(849)	(2,114)
At 26 December 2015	1,900	(1,265)	(849)	(214)

At 31 December 2016 £1.8 million (2015: £2.0 million) of the deferred tax liability is expected to crystallise after more than one year.

At 31 December 2016 the Group had an unrecognised deferred tax asset relating to trading losses of £1.4 million (2015: £0.8 million).

The Group also has an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £14.8 million (2015: £12.3 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.

19. Share capital

Nominal value of ordinary shares

	Ordinary shares of £1 each £000s	'A' Ordinary shares of £0.0001 each £000s	Total £000s
At 26 December 2015	8,496	95	8,591
At 31 December 2016	**8,496**	**95**	**8,591**

	Note	Ordinary shares of £1 each £000s	'A' Ordinary shares of £0.0001 each £000s	Total £000s
At 27 December 2014		14,208	14	14,222
Bonus issue of shares capitalised out of reserves	26	80,510	81	80,591
Capital reduction	26	(86,222)	-	(86,222)
At 26 December 2015		8,496	95	8,591

Number of ordinary shares

	Ordinary shares of £1 each Number	'A' Ordinary shares of £0.0001 each Number	Total Number
At 26 December 2015	8,496,112	953,884,022	962,380,134
At 31 December 2016	**8,496,112**	**953,884,022**	**962,380,134**

		Ordinary shares of £1 each Number	'A' Ordinary shares of £0.0001 each Number	Total Number
At 27 December 2014		14,207,723	143,082,605	157,290,328
Bonus issue of shares capitalised out of reserves	26	80,510,419	810,801,417	891,311,836
Capital reduction	26	(86,222,030)	-	(86,222,030)
At 26 December 2015		8,496,112	953,884,022	962,380,134

The voting rights and restrictions attached to the Ordinary and ‘A’ Ordinary shares are as described in the Articles of Association of Hero Acquisitions Limited, and in summary the holders of Ordinary and ‘A’ Ordinary shares are entitled to dividend distributions in proportion to the number of shares held, and all shares rank pari passu for voting rights. All shares are fully paid up.

20. Financial instruments

Financial risk management
The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using share capital, revenue and borrowings.

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk.

Risk management is carried out under policies approved by the board of directors. Financial risk management is carried out by the Chief Financial Officer under a policy approved by the board. The board approves written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and liquidity risk and receives regular reports on such matters.

The Group does not engage in trading or speculative activities using derivative financial instruments.

Market risk
Market risk is the risk that changes in prices, such as foreign exchange rates and interest rates, will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk
Interest rate risk is the risk of a change in the Group's cash flows due to a change in interest rates. On 9 February 2015 the Group, its ultimate parent company and its previous ultimate parent company executed a number of board approved loans which allowed the Group to discharge existing loan notes as well as to effect an early redemption of £64 million of its 6.75% senior secured notes as summarised in Note 4.

The Group's fixed rate borrowings are now principally the Senior Secured notes and amounts owed to group undertakings. In addition the Group enters into finance leases in respect of hire stock assets and these carry a fixed rate of interest set at lease inception.

The Group is only exposed to interest rate risk on its variable interest borrowings, such as the Revolving credit facility, the Group's overdraft and other short term borrowings. Given the most recent inflation report from the Bank of England (February 2017) which indicates that the market-implied path for the UK Bank Rate is now considerably lower than reported in the February 2016 report, and is not currently expect to reach 0.7% before Q1 2020 (previously expected in Q3 2017 in the February 2016 report), the directors do not consider this to be a significant risk to the Group. The directors will continue to monitor developments in market interest rates on a regular basis. The effect of a 1% increase in interest rates on the Group's variable loans would be to increase the interest charge by £0.7 million.

Foreign exchange risk
Foreign exchange risk is the risk of a change in the Group's cash flows due to a change in foreign currency exchange rate. The Group is exposed to foreign currency exchange rate risk on the cash flows and carrying values of its Republic of Ireland subsidiaries. Given the relative small size of the Republic of Ireland operations compared to the Group the directors do not consider this to be a significant risk to the Group.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fail to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The directors consider the Group's credit risk from cash, cash equivalents and deposits to be low as the Group only enters transactions with banks or financial institutions with a credit rating of A or above.

The Group has policies in place to manage potential credit risk from trade receivables. Customer credit terms are determined using independent ratings agency data and regularly updated to reflect any changes in customer circumstances or trading conditions. If no independent rating is available an internal assessment is made of the credit quality of the customer, taking into account their financial position and past trading history of the Group. The directors do not expect any significant losses of receivables that have not been provided for as shown in note 13.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group finance department regularly monitors forecasts of the Groups liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 16) at all times so that borrowing limits or covenants on borrowing facilities are not breached.

20. Financial instruments (continued)

The financial covenant in place on the Group's revolving credit facility at 31 December 2016 is a minimum Adjusted EBITDA of £35 million on a rolling twelve month basis (2015: a minimum Adjusted EBITDA of £35 million).

Capital Management

The Group relies on capital for organic and acquisitive growth, the purchase of rental equipment to replace equipment that has reached the end of its useful economic life and to secure and establish new rental locations and branches.

The Group defines capital as equity as shown in the statement of financial position plus net debt (total borrowings less cash) and seeks to return an acceptable return on gross capital.

The Group manages its capital structure using a number of measures and taking into account its future strategic plans. Such measures include ensuring the Group maintains sufficient liquidity and compliance with a bank covenant. In addition to the cash that the Group has generated from its operations, over recent years it has renegotiated its debt structure including the issue of a fixed interest rate bond, fixed term loan notes and secured shorter term bank borrowing through a revolving credit facility.

The principal bank covenant is to maintain an adjusted rolling EBITDA of £35 million. For the year ended 31 December 2016, Adjusted EBITDA was £68.5 million (2014: £70.9 million).

Fair value

All financial assets at the balance sheet dates which comprise trade and other receivables, and cash and cash equivalents are classified as loans and receivables.

All financial liabilities at the balance sheet date which comprise trade and other payables, obligations under finance leases, and borrowings are classified as financial liabilities at amortised cost.

The following table shows the fair value of financial assets and financial liabilities within the Group, including their level in the fair value hierarchy. It does not include fair value information for financial assets or financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 December 2016 £000s	26 December 2015 £000s
Financial liabilities		
Senior secured note	**137,700**	135,568
	137,700	135,568

The Senior secured notes are classified as Level 1 in the fair value hierarchy, as they are listed on the Luxembourg stock exchange and have been valued at their market value at the year end.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

21. Commitments and contingencies

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

	31 December 2016	26 December 2015
	£000s	£000s
Land and buildings		
Within one year	16,140	15,910
Between two and five years	48,447	47,953
After five years	35,562	30,799
	100,149	94,662
Other		
Within one year	9,142	7,607
Between two and five years	15,952	13,021
After five years	321	-
	25,415	20,628
	125,564	115,290

Other operating leases predominantly comprise hire stock assets and motor vehicles.

The Group's future minimum sub-lease rental income expected to be received under non-cancellable operating leases is as follows:

	31 December 2016	26 December 2015
Sub-lease rental income	£000s	£000s
Within one year	713	862
Between two and five years	1,181	1,704
After five years	274	376
	2,168	2,942

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

22. Business combinations

On 8 May 2015, the Group acquired the entire share capital of All Seasons Hire Limited, one of the leading heating, ventilation and air-conditioning ("HVAC") hire companies in the UK.

In accordance with IFRS 3, measurement period adjustments have now been made to provisional values which result in a restatement of amounts previously recognised at 26 December 2015 and 27 June 2015. The result of these adjustments changes the provisional goodwill from £7.0 million, as reported at 26 December 2015, to £7.3 million.

The adjustments to the provisional amounts recognised during the measurement period, as reported at 26 December 2015, are as follows:

	As reported at 26 December 2015	Adjustments to provisional values	Restated
	£000s	£000s	£000s
Intangible assets	1,976	-	1,976
Materials & equipment held for hire	2,699	(30)	2,669
Property, plant and equipment	211	38	249
Trade and other receivables	1,219	(184)	1,035
Cash at bank and in hand	317	-	317
Creditors and provisions	(2,022)	(130)	(2,152)
Deferred tax liabilities	(623)	-	(623)
Net assets acquired	3,777	(306)	3,471
Goodwill	7,021	306	7,327
Total consideration	10,798	-	10,798

As a result of the acquisition accounting being finalised, the Group has restated comparative amounts in the balance sheet as follows:

	As reported at 26 December 2015	Adjustments to provisional values	Restated
	£000s	£000s	£000s
Intangible assets	153,946	306	154,252
Property plant and equipment	183,205	8	183,213
Trade and other receivables	103,789	(184)	103,605
Trade and other payables	(89,049)	(130)	(89,179)

Acquisition related costs of £0.25 million were charged to administrative expenses in the income statement during the year ended 26 December 2015. In addition a further immaterial acquisition was made in the year ended 26 December 2015 for £0.5m and gave rise to goodwill of £0.4 million.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

23. Related party transactions

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

At 31 December 2016 the group owed £89.1 million (2015: £80.5 million) to Hampshire Bidco Limited, the Company's immediate holding company, of which £3.5 million is classified as current (2015: £3.2 million) and £85.6 million (2015: £77.3 million) is non-current.

At 31 December 2016 the group owed £107.9 million, classified as non-current (2015: £97.6 million) to Hampshire Topco Limited, the Company's intermediate holding company. At 31 December 2016, Hampshire Topco owed the group £6.0 million (2015: £3.7 million).

At 31 December 2016 the group owed £102.2 million (2015: £96.1 million) to HSS Hire Group Plc, the Company's ultimate holding company in which it is consolidated, of which £1.5 million is classified as current (2015: £5.0 million) and £100.7 million (2015: £91.1 million) is non-current.

At 31 December 2016 the group was owed £71.6 million (2015: £64.6 million) by Hampshire Midco Limited, the Company's intermediate holding company, of which £2.9 million is classified as current (2015: £2.4 million) and £68.7 million (2015: £62.2 million) is non-current.

During the year the Group paid interest of £28.5 million (2015: £23.5 million) to other group companies.

During the year the Group received interest of £6.9 million (2014: £5.4 million) from other group companies.

During the year the Group charged Hampshire Bidco Limited a management charge of £Nil (2015: £0.1 million) and was charged a management fee of £Nil million (2015: £0.01 million).

During the year the Group charged HSS Hire Group Plc a management charge of £0.9m (2015: £0.8m) and was charged a management fee of £1.8m (2015: £1.3m).

Related party transactions with key management personnel are disclosed in note 7.

24. Dividends

	31 December 2016	**26 December 2015**
	£000s	£000s
Interim dividend of nil (2015: 2.75p) per ordinary share paid during the year	**-**	234
Interim dividend of nil (2015: 2.75p) per ordinary A share paid during the year	**-**	26,266
	-	**26,500**

25. Note supporting statement of cash flows

Significant non cash transactions in the year in respect of financing activities comprised £8.6 million of assets acquired under new finance leases (2015: £29.9 million), and unpaid interest rolled up into the loan notes principal of £28.5 million (2015: £23.5 million).

26. Capital reconstruction

In February 2015 HSS Hire Group Plc undertook an IPO resulting in £103m of gross proceeds being raised. As part of the IPO process, the Company passed special resolutions giving effect to the capital reconstruction outlined below.

A bonus issue of Ordinary and A Ordinary shares was made out of reserves totalling £80.6m

A capital reduction was undertaken, under which the share premium of the company of £143.1m was reduced to nil, and £86.2m of the ordinary £1 shares were cancelled and extinguished, the reduction monies arising being credited to distributable reserves.

Notes to the consolidated financial statements (continued)
For the year ended 31 December 2016

26. Capital reconstruction (continued)

On 9 February 2015, the Group, HSS Hire Group Plc and Hampshire Topco Limited executed a number of board approved loans which allowed the Group to discharge existing loans as well as to effect the early redemption of £64 million of its 6.75% bond as summarised in note 16.

On 10 February 2015 the following intra group dividends were paid in full from distributable reserves:

- HSS Hire Service Holdings Ltd paid an interim 2015 dividend of £80.6m to its immediate parent company Hero Acquisitions Limited; and.
- Following the capital reconstruction of Hero Acquisitions Limited, it paid an interim 2015 dividend of £26.5m to its immediate parent company Hampshire Bidco Limited.

27. Post balance sheet events

In the period subsequent to 31 December 2016, the Group has closed 37 branches resulting in an additional onerous lease provision of £1.6 million. The directors made the decision to close the affected branches in 2017, and therefore, the store branch closures are a non-adjusting post balance sheet event which will be recognised in the subsequent period.

28. Adjusted EBITDA and Adjusted EBITA

Adjusted EBITDA is calculated as follows:

	Year ended 31 December 2016	Year ended 26 December 2015
	£000s	£000s
Operating (loss)/ profit	**(338)**	12,019
Add: Depreciation of property, plant and equipment	**37,729**	39,379
Add: Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	**10,446**	11,323
Add: Amortisation	**3,740**	2,532
EBITDA	**51,577**	65,253
Add: Exceptional items (non-finance)	**16,883**	5,654
Adjusted EBITDA	**68,460**	70,907

Adjusted EBITA is calculated as follows:

	Year ended 31 December 2016	Year ended 26 December 2015
	£000s	£000s
Operating (loss)/ profit	**(338)**	12,019
Add: Amortisation	**3,740**	2,532
EBITA	**3,402**	14,551
Add: Exceptional items (non-finance)	**16,883**	5,654
Adjusted EBITA	**20,285**	20,205

Company statement of financial position

At 31 December 2016

	Note	**31 December 2016 £000s**	26 December 2015 £000s
ASSETS			
Non-current assets			
Investments	2	**256,459**	256,459
Other receivables	3	**65,236**	59,015
		321,695	315,474
Current assets			
Other receivables	3	**153,479**	138,190
Total assets		**475,174**	453,664
LIABILITIES			
Current liabilities			
Other payables	4	**(3,225)**	(2,921)
Borrowings	5	**(65,658)**	(45,663)
		(68,883)	(48,584)
Non-current liabilities			
Borrowings	5	**(433,672)**	(405,023)
Total liabilities		**(502,555)**	(453,607)
Net (liabilities)/ assets		**(27,381)**	57
EQUITY			
Share capital	6	**8,591**	8,591
Share premium	6	**-**	-
Retained deficit		**(35,972)**	(8,534)
Total (deficit)/ equity attributable to owners of the company		**(27,381)**	57

As permitted by Section 408(3) of the Companies Act 2006, the Company's income statement and statement of comprehensive income and related notes have not been presented.

The Company made a post-tax loss for the year of £27,438,000 (2015: profit of £60,182,000).

The notes on pages F136 to F139 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 5 April 2017, and were signed on its behalf by:

P Quested
Director
5 April 2017

Statement of changes in equity
At 31 December 2016

	Note	Share capital £000s	Share premium £000s	Retained earnings £000s	Total equity £000s
At 27 December 2015		8,591	-	(8,534)	57
Profit for the year		-	-	(27,438)	(27,438)
Total comprehensive profit for the year		-	-	(27,438)	(27,438)
Transactions with owners recorded directly in equity		-	-	-	-
At 31 December 2016		8,591	-	(35,972)	(27,381)
At 27 December 2014		14,222	143,068	(190,915)	(33,625)
Profit for the year		-	-	60,182	60,182
Total comprehensive profit for the year		-	-	60,182	60,182
Transactions with owners recorded directly in equity					
Bonus issue of shares capitalised out of reserves		80,591	-	(80,591)	-
Capital reduction		(86,222)	(143,068)	229,290	-
Dividends		-	-	(26,500)	(26,500)
At 26 December 2015		8,591	-	(8,534)	57

The notes on pages F136 to F139 form part of these financial statements.

Notes to the Company financial statements
For the year ended 31 December 2016

1. Accounting policies

Hero Acquisitions Limited (the "Company") is a company incorporated and domiciled in the United Kingdom. The Company's registered office is 25 Willow Lane, Mitcham, Surrey, CR4 4TS.

Accounting convention and statement of compliance

The Company complies with the accounting policies defined in Note 1 to the Group consolidated statements. In addition, the following disclosures are made in respect of the Company financial statements.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements ("FRS 100") and Financial Reporting Standard 101 Reduced Disclosure Framework ("FRS 101") and the Companies Act 2006.

Disclosure exemptions adopted
In preparing these financial statements the company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these financial statements do not include:
- certain comparative information as otherwise required by EU endorsed IFRS
- certain disclosures regarding the company's capital
- a statement of cash flows
- the effect of future accounting standards not yet adopted
- the disclosure of the remuneration of key management personnel
- disclosure of related party transactions with other wholly owned members of the HSS Hire Group Plc group of companies.

In addition, and in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the company's consolidated financial statements. These financial statements do not include certain disclosures in respect of:
- Share based payments;
- Financial instruments (other than certain disclosures required as a result of recording financial Instruments at fair value); or
- Fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value).

The directors have taken advantage of the option within section 390 of the Companies Act 2006 to prepare their financial statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts therefore cover the period from 27 December 2015 to 31 December 2016 (2015: 27 December 2014 to 26 December 2015).

As permitted by Section 408(2) of the Companies Act 2006, information about the Company's employee numbers and costs have not been presented.

Basis of preparation

The directors have prepared the accounts on the going concern basis. For further information on the directors assessment that the Company and Group has adequate resources to continue trading on a going concern basis for the foreseeable future refer to note 1g) in the consolidated financial statements.

Investments

Investments are included in the balance sheet at cost less amounts written-off, representing impairment in value. Impairment charges are recorded if events or changes in circumstances indicate that the carrying value may not be recoverable.

Capital instruments

Finance costs on debt are allocated to periods over the terms of the debt at a constant rate of return on the carrying amount. Debt is initially recorded in the balance sheet based on the net proceeds received. Issue costs are spread forward in the profit and loss account over the term of the debt.

Notes to the Company financial statements (continued)
For the year ended 31 December 2016

2. Investments

	31 December 2016 £000s	26 December 2015 £000s
Investment in HSS Hire Service Holdings Limited	**256,459**	256,549
	256,459	256,549

The Company's subsidiaries, including subsidiaries held by indirect holding companies, are:

Company	Holding	Country of incorporation	Principal activity	Ordinary shares held
HSS Hire Service Holdings Limited	Direct	United Kingdom	Intermediate holding company	100%
HSS Hire Service Finance Limited	Indirect	United Kingdom	Intermediate holding company	100%
Bannagroe Limited	Indirect	Republic of Ireland	Intermediate holding company	100%
ABird Superior Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Group Limited	Indirect	United Kingdom	Hire and equipment services	100%
A1 Hire & Sales Limited	Indirect	United Kingdom	Hire and equipment services	100%
Laois Hire Services Limited	Indirect	Republic of Ireland	Hire and equipment services	100%
ABird Limited	Indirect	United Kingdom	Hire and equipment services	100%
Apex Generators Limited	Indirect	United Kingdom	Hire and equipment services	100%
UK Platforms Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Financing plc	Indirect	United Kingdom	Hire and equipment services	100%
HSS Training Limited	Indirect	United Kingdom	Training services	100%
1st Collection Services Limited	Indirect	United Kingdom	Administration of group debtors	100%
TecServ Cleaning Equipment Services Limited	Indirect	United Kingdom	Cleaning equipment services	100%
All Seasons Hire Limited	Indirect	United Kingdom	Hire and equipment services	100%
Access Rentals (UK) Limited	Indirect	United Kingdom	Dormant	100%
Reintec Limited	Indirect	United Kingdom	Dormant	100%

The registered office of the subsidiaries listed above is 25 Willow Lane, Mitcham, Surrey, CR4 4TS, except for the following:

- Apex Generators Ltd,125 West Regent Street, Glasgow, G2 2SA
- Laois Hire Services Limited, Abbeyleix Road, Portlaoise, Co. Laois, Eire
- Bannagroe Limited, Clonminam Industrial Estate, Portlaoise, Co. Laois, Eire
- Project Heath (Jersey) Limited at 44 Esplanade, St Helier, Jersey, JE4 9WG

Notes to the Company financial statements (continued)
For the year ended 31 December 2016

3. Other receivables
Current

	31 December 2016 £000s	26 December 2015 £000s
Amounts due from group undertakings	**153,429**	138,140
Other debtors	**50**	50
	153,479	138,190

Non current

	31 December 2016 £000s	26 December 2015 £000s
Amounts due from group undertakings	**65,236**	59,015
	65,236	59,015

4. Other payables

Current	**31 December 2016 £000s**	26 December 2015 £000s
Amounts due to group undertakings	**3,144**	2,839
Accrued interest	**11**	58
Accruals and deferred income	**70**	24
Other Creditors	**-**	-
	3,225	2,921

Notes to the Company financial statements (continued)
For the year ended 31 December 2016

5. Borrowings

Maturity profile of creditors

	26 December 2015	26 December 2015
Due within one year	**£000s**	£000s
Revolving credit facility	**66,000**	46,000
Facility costs to be amortised	**(342)**	(337)
	65,658	45,663
Due after more than one year		
Revolving credit facility	**-**	-
Facility costs to be amortised	**(381)**	(715)
Amounts due to group undertakings	**434,053**	405,738
	433,672	405,023

6. Share capital

The details of the Company's share capital are set out in note 19 to the consolidated financial statements.

Hero Acquisitions Limited

Annual report and financial statements
Year ended 26 December 2015

Registered number 06209511

Hero Acquisitions Limited

Contents

Hero Acquisitions Limited

Directors and advisers
Year ended 26 December 2015

Directors

A.E. Peterson
J.B. Gill
S.N. Trowbridge
J.C. Davies (resigned 28 September 2015)
F. Perrin (resigned 18 January 2016)

Registered office

25 Willow Lane
Mitcham
Surrey
CR4 4TS

Auditors

BDO LLP
55 Baker Street
London
W1U 7EU

Bankers

Barclays Bank PLC
1 Churchill Place
Canary Wharf
London
E14 5HP

HSBC Bank Plc
8 Canada Square
London
E14 5HQ

Group strategic report

Chief Executive Officer's statement

Overview

In 2015, we invested in the growth and development of our local branch network and our specialist businesses. Whilst our customers' end markets were more variable than expected, we delivered revenue growth of 10%, ahead of the overall equipment rental market.

In light of our performance in the first 8 months of this year, the Board and I have reviewed the overall strategy in considerable detail and concluded that our strategic objectives continue to be the right ones to generate shareholder return, but with some modifications which allow us to respond more rapidly to market conditions. Specific areas of focus include the rebasing of our cost structure, increased focus on capital efficiency and an ongoing drive for operational efficiency. These are central to our objectives as we move forward.

Revenues in our Specialist businesses grew 30% year on year, materially ahead of the wider market. This partially reflects the acquisition of All Seasons Hire in May 2015 but is principally due to us starting to realise the benefits of our continued investment in the hire fleets, depot network and sales teams of ABird, Apex and UK Platforms through 2014 and 2015.

The HSS difference

HSS continues to be strongly differentiated within its markets. Our focus starts with the needs of our diverse customer base and they tell us that they prioritise Safety, Value, Availability and Support. During the year we worked hard to further improve our customer service in support of these values, and drive our operational efficiency, which in itself results in further customer satisfaction, as well as cost benefits. The growth in our externally assessed Net Promoter Score to 36 reflects this difference and continues to be well above the industrial and services sector benchmark.

Our performance

Despite less favourable market conditions, we continued to grow our revenues strongly. Revenues in our Core businesses continued to grow faster than our market at 7% and revenues in our Specialist businesses grew by 30% year on year. Our Adjusted EBITA performance in the year reflects the increase in depreciation charges resulting from our investment plans, including the opening of 50 new low cost local branches and further investments in our specialist businesses and hire fleet. These are investments to ensure we have the right network and rental fleet to support demand over the coming years.

Our markets

We operate in the UK tool and equipment hire market, which the European Rental Association (the "ERA") estimate had a total turnover of £5.7bn in 2015. It is worth noting the ERA's assessment that non-construction (operating environments and business) demand for rental is 40% of sales versus 60% from construction; with non-construction one of the highest shares in Europe.

Our market focus in is non-construction, the operation of the built environment where our work for many major blue-chip companies – facilities management, airports and retail customers for example – benefits both our Core and Specialist divisions and is backed by strong customer propositions, from our Reintec cleaning equipment offer through to 'Total Equipment Management' where we manage entire fleets of equipment for some of our largest customers. Here customers recognise the benefits of rental in operational efficiency and maintaining a flexible cost base.

The ERA also notes that c.50% of the market is held by regional and/or independent tool hire operators. HSS is directly targeting this opportunity to win share in local markets through the expansion of our low cost, local branch footprint. This is backed by a retail-like distribution network which supports our customers' number one priority – availability – through both a range of products designed to be hired instantly and access to our entire range next-day.

HSS is also well positioned to target the construction segment of the equipment rental market through our Core tools and equipment offer focused on later-cycle "build, maintain and operate" customers and through our rehire division which provides a single point of contact, order and invoice for third party plant and equipment, some of which is used in early-cycle construction. Our Specialist divisions too, benefit from ongoing construction growth supplying powered access and power generation to civil engineering and residential and commercial construction.

During 2015 we successfully launched the first transactional mobile-enabled e-commerce platform from a national tool and equipment hire company, which enables out of hours ordering, click and collect, local stock availability checks and instant access to bespoke pricing for local trades. This commitment to a multi-channel offer positions us well to meet the expectations of our customers, offering convenience and seamless service. It also helps drive up the utilisation of our equipment, making our use of capital more efficient.

Group strategic report (continued)

Our strategy

Having examined our strategy in depth during the year, the Board is confident that, with modifications to rebase our costs and ensure a deeper focus on operational productivity and capital efficiency, it continues to be the right one to create shareholder return over the medium term. These modifications will allow us to respond to market conditions with more flexibility while protecting investment and margins.

Optimising our branch and distribution network

During 2015, we opened 50 new low cost local branches in new markets, extending our availability promise to our customers and winning share from both national and local competitors. These branches are part of our strategy to become “the local tool hire company with a national presence” and are backed by continual development of our distribution system. This is continuing to evolve in 2016, with the opening in the first quarter of our new National Distribution and Engineering Centre, operated on our behalf by our long term partners, Unipart, alongside our existing network of Customer Distribution Centres across the UK. This latest evolution is designed to deliver clear competitive advantage through enhanced availability of equipment to branches and customer sites in support of our multichannel offer. It also drives utilisation and capital efficiency in our core business.

The roll out plan for local branches has been successful and we will continue to open new local branches during 2016, but with flexibility in the speed of roll out in line with prevailing market conditions. We will continue to refine the format, using the lessons learnt from the top performers in the portfolio to further improve the operating model for the entire estate. Our extensive network now comprises over 300 branches and operating locations ensuring that we provide convenience to our customer base.

Win new, and deepen existing, customer relationships

We have focused hard on being able to provide more of the equipment and services that our customers need to enable us to grow revenue with a greater share of their spend. Our Specialist businesses support our ability to be a “one-stop-shop” for customers across many segments. Our OneCall rehire division also supports our growth through the ease of ordering via HSS from a supply chain selected for quality and safety. Following lower than expected growth in key accounts in the first half of the year, we increased our focus on winning new customer accounts in the last quarter.

Continued development and growth of our specialist businesses

Our strategy has been to acquire and integrate specialist acquisitions, and then invest in fleet and depot expansion to drive growth. During 2015 this contributed to revenue growth for the Group while at the same time depreciation from these investments impacted profitability. We acquired specialist heating and cooling provider, All Seasons Hire, and can now offer our customers access to temporary bespoke chillers and boilers, typically used in managing heating and cooling during complex building moves and maintenance. As with our other specialist businesses we are now focused on expanding All Seasons Hire’s reach via depot and fleet expansion. Having completed two years of significant investment in our Specialist businesses, our focus in 2016 will be on organic growth and margin improvement.

In order to support our three strategic priorities, we focus on five strategic enablers which are:

a) Focus on profitability and growth;
b) Deliver value and quality to our customers;
c) Invest in our colleagues;
d) Drive availability and operational efficiency; and
e) Ensure safe, sustainable working environments for colleagues and customers
f) These are measured by our KPIs which will be set out in our forthcoming Annual Report.

Safety and the environment

We believe in a culture which states that “safety is the way we do things round here” and continue to put an emphasis on the ownership of safety from the Board through to every colleague.

We also deliver innovations in safety – a good example is our anti-entrapment system Activ’ Shield Bar which was fitted onto the 1000th UK Platforms’ diesel boom during the year. We understand well the role that hire plays in making more efficient use of resources through a reduction in materials used in manufacturing. The opening of our purpose-built refurbishment centre in Manchester has significantly increased our capacity to refurbish more machines. This extension of asset lives is a strong example of our commitment to our role in the “circular economy”, making effective use of the world’s resources and our own capital.

Group strategic report (continued)

Our people

Our Training Academy at Reading delivered training to 526 delegates throughout the year. Building on that success we are extending the Academy's reach into our branch network creating Branches of Excellence throughout our operation to deliver ongoing colleague training, while the Academy concentrates on the development of our managers. Training days per colleague is a KPI for our business as we continually develop our colleagues' skills in customer service as well as the technical and safety requirements of the roles they undertake every day. I am continually impressed by the energy, enthusiasm and customer commitment of our colleagues and would like to thank them wholeheartedly for the roles they individually play every day in building our business.

Outlook

Following the challenges of 2015, we are taking a highly disciplined approach to managing our growth, with a focus on cost and operational efficiency, on improving productivity and on delivering higher standards of customer service. Our absolute priority is the creation of shareholder value and we have put in place the foundations for future profitable growth in 2016 and beyond.

John Gill
Chief Executive Officer

FINANCIAL REVIEW

Overview
Following a good start to 2015, with Q1 revenues ahead of budget, full year revenues did not develop as expected. We reported this to this market and took action through the second half of 2015 to address the lower than expected revenue growth in Q2 and Q3. At the revenue level this included investment in our key account teams to enable us to build a larger pipeline and to win and convert more attractive contract opportunities.

At the cost level we reduced our cost base through refining our branch organisational structure, honing our sales teams, and reorganising our customer support and central functions thereby driving efficiency through the business. As a result of actions to date cost savings in Q4 15 were £2.4m, in line with the guidance of £1.5m to £3.0m provided to the market in August 2015.

As indicated in my 2014 Financial Review, we completed our IPO in February 2015. The associated conversion of investor loan notes and accrued interest into equity and partial repayment of our Senior Secured Notes and drawn revolving credit facility balances enabled us to de-gear the business. Since the IPO we have increased the leverage in the business through continued investment in expanding our core and specialist hire fleets to meet customer demand. We also increased the headroom in our existing facilities in November 2015 to give us additional flexibility to execute our plans.

Group financial performance

Revenue
Group revenue grew 10% to £312.3m (2014: £284.6m) as we expanded our core business and invested in our specialist offerings. Particular drivers of this result were:

- the increasing maturity of our new local branches opened through 2014, and the initial revenue performance from the 50 local branches opened during 2015;
- continued revenue growth in our HSS Training and HSS OneCall businesses (28% and 16% growth year on year respectively);
- further double digit organic growth in ABird/Apex and UK Platforms (22% and 15% respectively); and
- the revenue contributed from All Seasons Hire, the heating and cooling specialist we acquired in May 2015.

Revenue growth for 2015 was lower than achieved in 2014 (25.5%), principally reflecting more challenging market trading conditions widely cited by listed peers and a number of our listed customers, but also reflecting a lower level of acquisitions and the associated full year effect of such acquisitions. In 2014 acquisitions accounted for 6.8% of the revenue growth, compared to 1.3% in 2015.

Growth in revenues from our Key Account customers whilst positive (+10.3%), was below the level we had expected given our achievements in growing these revenues through 2013 and 2014. We referenced this in our interim results published in August 2015 and took action to reorganise and invest in our business development capabilities to ensure we build and convert a larger pipeline of attractive client opportunities.

Group strategic report (continued)

Revenue (continued)
This renewed focus on winning and deepening customer relationships was applied to all of our customer groups. Across the group as a whole the average spend per account customer increased to £8.1k (from £7.7k in 2014) reflecting both an increase in revenue from trade accounts and an increase in live accounts through the year.

In respect of wider market growth, the annual ERA European Equipment Rental Industry report estimates that the UK market grew at 1.5% in 2015. This rate of growth was two thirds lower than they had forecast for 2015 at the outset of the year and mirrored the tougher trading conditions previously mentioned. On this basis, we continue to grow at a faster rate than the wider UK tool and equipment market and will continue to target outperformance through 2016.

£m	**Revenue**		**Adjusted EBITDA**		**Adjusted EBITA**	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**
Core	£261.7m	£245.6m	£45.6m	£51.2m		
Specialist	£50.6m	£39.0m	£25.4m	£19.9m		
Group	**£312.3m**	**£284.6m**	**£70.9m**	**£71.1m**	**£20.3m**	**£31.2m**

Costs
Our cost of sales increased by £17.9m (17.4%) to £120.9m. Approximately £1.7m of this growth was due to the annualisation of the March 2014 Apex Generators acquisition and the purchase of All Seasons Hire in May 2015.

The primary driver of the growth in cost of sales was higher depreciation charges (+£9.4m) relating to our larger hire fleet. This reflects two years of demand led investment to support growth in the core business and to expand our specialist businesses. Strong growth in HSS OneCall (rehire) and HSS Training revenues and the corresponding increase in related third party supplier costs accounted for £2.1m and £1.0m respectively and stock maintenance costs also increased by £3.0m due to the increased size of the fleet.

Our distribution costs increased by £4.1m (11.0%) to £41.3m. This increase was primarily driven by the growth in volume of customer deliveries and collections, across both the core and specialist businesses. £0.5m relates to the annualisation of Apex Generators and All Seasons Hire acquisitions.

Our administrative expenses increased by £22.3m (18.3%) to £144.2m. The Apex and All Seasons acquisitions accounted for c. £1.2m of this growth. Staff costs also increased due to the branch openings, as well as growth in field-based sales staff. The growth in Key Accounts, HSS Training and HSS Onecall also required additional headcount to be recruited. 2015 was also the first year of life of the Group as a plc, with the additional Board and governance costs that are required. The remaining cost increase was driven largely by the annualisation of the 2014 new branch openings combined with the 50 opened in 2015 contributing to an increase in rent and rates costs of £3.4m.

In H2 15 we took the opportunity to review and refine our staffing model across the business, reorganising our operations to reduce cost. The opening of the NDEC in Q1 16 and the new purpose built refurbishment centre in late 2015 will also bring the opportunity to further improve productivity and operational and capital efficiency.

Our Adjusted EBITDA was broadly flat at £70.9m (FY14: £71.1m) reflecting the increases in our cost bases set out above. Our Adjusted EBITDA margin for FY15 was 22.7% (FY14: 25.0%).

Our Adjusted EBITA was £20.3m (FY14: £31.2m). This decrease year on year principally reflects the increase in depreciation during the year, from £39.9m in FY14 to £50.7m in FY15, which arose primarily as a function of our fleet investment through FY14 and FY15.

Group strategic report (continued)

Core performance
During 2015 the Core businesses delivered revenue of £261.7m (FY14: £245.6m) and Adjusted EBITDA of £46.1m (FY14: £51.2m) and together accounted for 84% of Group revenue and 65% of the Group's Adjusted EBITDA.

Revenue growth, and as a result of our operational gearing, earnings in our core business were impacted by softer than expected market conditions, price competition and lower than expected growth amongst our customers.

Our cost base increased through the year reflecting increased revenues and associated distribution and stock maintenance costs, the opening and associated running cost of the 50 new immature local branches, ongoing wage inflation, investment in staff in anticipation of certain levels of revenue growth and investment in plc related headcount.

During the year we invested £41.3m in our core hire fleet (2014: £41.9m) and LTM utilisation improved to 48% (2014: 47%).

Specialist performance
During 2015 the Specialist businesses delivered revenue of £50.6m (FY14: £39.0m) and Adjusted EBITDA of £25.0m (FY14: £19.9m) and together accounted for 16% of Group revenue and 35% of the Group's Adjusted EBITDA.

During the year we invested £23.7m in our Specialist hire fleet (2014: £30.0m) and LTM utilisation improved to 76% (2014: 70%). The considerable investment in our Specialist businesses over the last few years has enabled us to build modern well-invested fleets, and to establish a UK wide Specialist depot network, a number of which are co-located with other Specialist businesses or existing HSS locations. This gives us more flexibility for the levels of hire fleet capital expenditure in our Specialist businesses through 2016.

Other income
Other income of £0.9m relates to income received from sub-let non-trading stores. This fell £0.2m compared to the prior period as concerted efforts were made to shrink the non-trading property estate through head lease expiries and targeted surrenders.

Operating profit
Operating profit was £12.0m in FY15 (FY14: £28.3m) principally reflecting the £11.9m increase in depreciation and amortisation charges together with the £4.3m year on year increase in non-finance related exceptional costs.

Finance costs
Our net finance expense increased by £7.1m, or 23.3%, from £30.4m in 2014 to £37.5m. This growth reflects the £4.3 million early redemption premium paid on the Senior Secured Notes in February 2015 and the higher net interest balances payable to parent companies as a result of the post IPO funds flow. These increases were partially offset by lower interest payable on the Senior Secured Notes following the partial redemption made in February 2015. The finance expenses for the year ended 27 December 2014 also include £6.6m of accelerated debt issue costs in relation to the refinance of existing borrowings through the issue of the Senior Secured Notes in February 2014. The accelerated debt issue costs relating to the partial redemption of the Senior Secured Notes in February 2015 were £1.6m.

Taxation
The Group has incurred an income tax credit of £1.6m in FY15, compared to a £3.3m income tax credit in FY14. The FY15 tax charge reflects principally the origination of unprovided temporary differences. The FY14 tax credit principally related to the recognition of a £2.4m deferred tax asset (on prior year losses) together with the release of deferred tax on intangible assets acquired.

Cash utilised in / generated from operations
Cash utilised in operations was £1.0m for FY15, a £17.4m decrease from the prior period (FY14: cash generated of £16.4m). This movement principally reflects the £17.4m increase in cash settled purchases of hire equipment in FY15 (extended payment terms from 2014 and purchases made in 2015), together with the increase in exceptional costs in FY15.

Group strategic report (continued)

Capital expenditure

Fixed asset additions during the period (excluding assets acquired on acquisition) were £84.0m, slightly higher than in 2014 (£83.6m). Of this total, £65.0m represented additions of materials and equipment held for hire (2014: £71.9m) and £16.0m represented additions to non-hire equipment (land, buildings, plant and machinery) (2014: £11.7m) with a further £3.0m related to the accounting for dilapidations on new properties. The increase in non-hire equipment additions principally reflects the opening and fit out of 50 new low cost local branches and relocated distribution centres such as in Reading and St Ives.

Fleet investment continued to exceed depreciation, consistent with 2014, and reflects the substantial investment made in growing both our Core and Specialist hire fleets over the last two years. This investment together with the opening of the new National Distribution and Engineering Centre, which is designed to further enhance availability across our branch network, enables us to reduce our capital expenditure in 2016 in line with softer customer demand.

Return on Assets ("ROA")

Our ROA for FY15 is 14.4%, 12 percentage points lower than in FY14 (25.9%). This decrease is primarily due to the lower EBITA generated during FY15, the reasons for which are set out above, but also reflects the significant investment in our fleet through FY14 and FY15 which together materially increased the average net book value of hire fleet in use by £33.2m. ROA is calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets) subtracted by average current liabilities.

Leverage and net debt

Net third party debt (stated gross of issue costs and excluding amounts due to group undertakings) decreased by £13.5m to £218.1m. This decrease principally reflects the repayment of £64.0m of our Senior Secured Notes, partially offset by increases in our finance leases and RCF drawings through the year as we have settled capital expenditure creditors from 2014 and through 2015. Our third party leverage, calculated as net third party debt divided by Adjusted EBITDA decreased from 3.3x in FY14 to 3.1x at the end of FY15.

Steve Trowbridge
Chief Financial Officer

Group strategic report (continued)

Principal risks and uncertainties

Overall responsibility for the Group's risk management and internal control systems lies with the Board of directors. During the year the board delegated key elements of the oversight of the Group's risk management framework to the HSS Hire Group Plc Audit Committee.

The Group has historically managed risk through a risk register maintained by the Company Secretary, updated annually through confirmation from operational, commercial and financial risk owners. The risk register is shared with the Internal Audit Director who prioritises the residual risks to guide an annual Internal Audit Plan.

Principal risks

The board has carried out a robust assessment of the principal financial and operating risks facing the Group. Those risks, how they have changed and how they are mitigated, are shown below.

Key risks	Strategic Enabler	Description and impact	Mitigation	Risk change
Macro economic conditions	Focus on profitability and growth Drive availability and operational efficiency	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 market strength of potential acquisitions may be reduced, affecting the viability of purchase and integration.	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, commercial fit-out, property, utilities and waste, infrastructure and energy services markets.	Unchanged
Competitor challenge	Focus on profitability and growth Drive availability and operational efficiency	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 ability of competitors to replicate HSS' systems or unique services may reduce competitive advantage in regard to systems or knowledge.	The Group is ranked number two in its main markets and the resulting economies of scale enable it to be highly competitive, whilst the fragmented nature of the market may offer consolidation opportunities enabling the continued growth of specialist business within the Group. The Group's highly developed distribution service model increases the efficiency of its operations.	Increased – due to increased pricing pressure

Group strategic report (continued)

Principal risks (continued)

Key risks	Strategic Enabler	Description and impact	Mitigation	Risk change
Operational disruption	Focus on profitability and growth Drive availability and operational efficiency	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 functioning of its retail-like distribution network. Any information technology (IT) systems failure or disruption, accident, industrial dispute or other interruption or malfunction at any of the Group's distribution centres or offices may impact the Group's ability to manage its operations and distribute its hire fleet to service its customers, affecting revenue and reputation.	The Group has robust backup plans in place, in the event of IT systems failure or disruption. There is a flexible distribution model, whereby various distribution centres can service customers in the event of the failure of another distribution centre.	Increased – due to new distribution model for 2016
Local branch strategy is incorrectly implemented	Deliver value and quality to our customers Focus on profitability and growth	Part of the Group's strategy involves further developing the reach of its network by continuing its branch roll-out in new locations in the UK. If this strategy is incorrectly implemented, the planned associated business growth will not occur and the service we provide to our customers may be affected.	The Group's property department works closely with operational management to ensure that new branches are located appropriately and on favourable lease terms. Extensive market research ensures that the right customer base exists in a catchment area, and branch sales and profitability targets are closely monitored. Branches of excellence are being established which will provide training and highlight best practice.	Unchanged
Customer credit/supplier payment	Focus on profitability and growth Drive availability and operational efficiency	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. 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, and all new staff are provided with training in this area. Payments and amendments should only be made in line with a regularly reviewed authorisation matrix.	Unchanged

Group strategic report (continued)

Principal risks (continued)

Key risks	Strategic Enabler	Description and impact	Mitigation	Risk change
Equipment supply, maintenance & availability	Deliver value and quality to our customers Focus on profitability and growth Drive availability and operational efficiency	The Group is dependent on its relationships with key suppliers to obtain equipment and other services on acceptable terms. Any disruption in supply could affect its ability to service its customers to the expected service levels, with the risk of lost customers or reduced trading levels. As the average age of the Group's hire fleet increases, its operating costs may increase and it may be unable to pass on such costs to customers.	The Group makes every effort to evaluate its counterparties prior to entering into significant procurement contracts and seeks to maintain a range of suppliers. In order to maximise the economic life of its hire fleet, the Group undertakes a programme of regular maintenance and replacement. Strategic acquisitions are designed to expand the breadth and depth of the Group's hire fleet, reducing reliance on third-party hire suppliers. The Group is working with outside consultants to increase the efficiency of its workshops, logistics and supply chain to ensure appropriate service standards to customers.	Increased – changes recommended by external consultants will take time to be established
Customer retention and brand reputation	Deliver value and quality to our customers Focus on profitability and growth Invest in our colleagues	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 invests substantially in areas such as marketing, community relations and colleague training, aimed at delivering the highest standards of customer service and colleague engagement. The maintenance of high levels of service and strong customer support is considered vital, and all new employees undergo specific induction in this area at the Group's branches of excellence. Service levels are tracked via the Group's innovative Customer Delight programme. The Group actively engages in print and online advertisements, targeted promotional mailings 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	Ensure safe sustainable working environments for colleagues and customers Deliver value and quality to our customers Focus on profitability and growth Drive availability and operational efficiency	The Group outsources certain functions 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 could lead to adverse publicity and a decline in demand. Inability to repair equipment will affect the ability to manage demand, affecting revenue and increasing costs re investment in equipment.	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.	Increased – due to increased work taken on by third party providers

Group strategic report (continued)

Principal risks (continued)

Key risks	Strategic Enabler	Description and impact	Mitigation	Risk change
Inability to attract and retain personnel	Focus on profitability and growth Invest in our colleagues	Turnover of members of the Group's management and colleagues and its ability to attract and retain key personnel may affect its ability to efficiently manage its business and execute its strategy. The Group's business depends on the quality of, and ability to retain, its senior management and colleagues. Competition in the Group's industry is significant and the loss of experienced colleagues could lead to loss of customers or inadequately exploiting revenue opportunities.	The Group has established and maintains competitive pay and benefit packages, as well as the right working environment for its colleagues. Training will be provided within the planned branches of excellence whilst the Training Academy facility provides development training for management, a process that is mirrored at more senior management levels by various tailored development programmes. The Group supports personal development with the provision of appropriate training courses.	Unchanged
Legal and regulatory requirements	Ensure safe sustainable working environments for colleagues and customers Focus on profitability and growth Invest in our colleagues	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 noncompliance.	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 health and safety team and an internal investigation and fraud prevention team.	Unchanged – Separately identified and managed

Strategic report signed on behalf of the board

S N Trowbridge
Director
6 April 2016

Directors' report

The directors present their report and the audited financial statements of the Hero Acquisitions Limited group (the Group) and Hero Acquisitions Limited (the Company) for the year ended 26 December 2015.

Directors
The directors of the Company who served during the year ended 26 December 2015 are listed on page 1.

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

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP) and applicable law. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss of the Group for that period.

In preparing these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the group financial statements have been prepared in accordance with IFRSs as adopted by the European Union and the Company financial statements have been prepared in accordance with UK GAAP, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

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

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

Financial statements are published on the Group's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements which may vary from legislation in other jurisdictions. The maintenance and integrity of the Group's website is the responsibility of the directors. The directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

Future developments
Future developments are discussed in the strategic report.

Financial risk management
The information on financial risk management objectives and policies is included in note 20.

Employee involvement
It is the group's policy to provide employees, on a regular basis, with financial and other information on matters of concern to them, by means of house journals and news sheets.

Every endeavour is made to consult, wherever possible, with employees, so that their views can be taken into account in making decisions which are likely to affect their interests. Employees participate in consultations to help facilitate this process.

Directors' report (continued)

Disabled employees
The group's policy on employment of disabled persons is:

1. To give full and fair consideration to applications for employment with the group made by disabled persons, having regard to their particular aptitudes and abilities.
2. Where practical, to continue the employment of and arrange appropriate training for employees of the company who become disabled during their employment with the group.
3. To encourage training and career development for all personnel employed by the group, including disabled persons.

Dividend
The directors do not recommend the payment of a final dividend for the year ended 26 December 2015 (2014: Nil). Interim dividends of 2.75p per ordinary share, and 2.75p per A ordinary share were paid during the year (2014: Nil).

By order of the board

S N Trowbridge
Director
6 April 2016

Independent auditors' report to the members of Hero Acquisitions Limited

We have audited the financial statements of Hero Acquisitions Limited for the year ended 26 December 2015 which comprise the consolidated and company statement of financial position, the consolidated statement of comprehensive income, the consolidated statement of cash flows, the consolidated and company statement of changes in equity and the related notes. The financial reporting framework that has been applied in the preparation of the consolidated financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) including Financial Reporting Standard 101 'Reduced Disclosure Framework'.

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

Respective responsibilities of directors and auditors

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

Scope of the audit of the financial statements

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

Opinion on financial statements

In our opinion:
- the financial statements give a true and fair view of the state of the group's and the parent company's affairs as at 26 December 2015 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the strategic report and directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Kieran Storan (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
United Kingdom
6 April 2016

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

Hero Acquisitions Limited

Consolidated income statement
For the year ended 26 December 2015

	Note	**Year ended 26 December 2015 £000s**	Year ended 27 December 2014 £000s
Revenue	2	**312,333**	284,559
Cost of sales		**(120,884)**	(103,029)
Gross profit		**191,449**	181,530
Distribution costs		**(41,315)**	(37,155)
Administrative expenses		**(138,984)**	(117,104)
Other operating income	3	**869**	1,100
Operating profit		**12,019**	28,371
Adjusted EBITDA(1)	2	**70,907**	71,108
Less: Exceptional items (non-finance)	4	**(5,654)**	(1,363)
Less: Depreciation and amortisation(1)		**(53,234)**	(41,374)
Operating profit		**12,019**	28,371
Finance income	5	**5,441**	17
Finance expense	5	**(42,966)**	(29,294)
Movement in derivative financial instruments	4	**-**	(1,154)
Loss before tax		**(25,506)**	(2,060)
Adjusted (loss) / profit before tax		**(11,392)**	8,522
Less: Exceptional items (non-finance)	4	**(5,654)**	(1,363)
Less: Exceptional items (finance)	4	**(5,928)**	(7,775)
Less: Amortisation	6	**(2,532)**	(1,444)
Loss before tax		**(25,506)**	(2,060)
Income tax credit		**1,643**	3,368
(Loss) / profit for the financial year		**(23,863)**	1,308
Loss / (profit) attributable to:			
Owners of the company		**(23,863)**	1,308

(1) Adjusted EBITDA is defined as operating profit before depreciation, amortisation and exceptional items. For this purpose depreciation and amortisation includes customer losses, hire stock write offs and hire stock asset disposals.

The notes on pages F-161 to F-190 form part of these financial statements.

Consolidated statement of comprehensive income

For the year ended 26 December 2015

	Year ended 26 December 2015	Year ended 27 December 2014
	£000s	£000s
Loss for the financial period	**(23,863)**	1,308
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**(478)**	(510)
Other comprehensive loss for the year, net of tax	**(478)**	(510)
Total comprehensive loss for the year	**(24,341)**	798
Attributable to owners of the Company	**(24,341)**	798

The notes on pages F-161 to F-190 form part of these financial statements.

Hero Acquisitions Limited

Consolidated statement of financial position
At 26 December 2015

	Note	**26 December 2015 £000s**	27 December 2014 £000s
ASSETS			
Non-current assets			
Intangible assets	10	**153,946**	141,942
Property, plant and equipment	11	**183,205**	147,212
Deferred tax assets	18	**1,900**	2,462
Trade and other receivables	13	**62,189**	-
		401,240	291,616
Current assets			
Inventories	12	**9,095**	6,823
Trade and other receivables	13	**103,789**	87,099
Cash	10	**1,811**	5,858
		114,695	99,780
Total assets		**515,935**	391,396
LIABILITIES			
Current liabilities			
Trade and other payables	15	**(89,049)**	(96,587)
Provisions	17	**(3,822)**	(3,879)
Borrowings	16	**(55,744)**	(22,347)
Current tax liabilities		**(520)**	(561)
		(149,135)	(123,374)
Non-current liabilities			
Trade and other payables	15	**(21,583)**	(7,033)
Borrowings	16	**(398,230)**	(263,960)
Provisions	17	**(10,851)**	(11,013)
Deferred tax liabilities	18	**(2,114)**	(1,154)
		(432,778)	(283,160)
Total liabilities		**(581,913)**	(406,534)
Net liabilities		**(65,978)**	(15,138)
EQUITY			
Share capital	19	**8,591**	14,222
Share premium		**-**	143,068
Retained deficit		**(74,569)**	(172,428)
Total deficit attributable to owners of the company		**(65,978)**	(15,138)

The notes on pages F-161 to F-190 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 6 April 2016 and were signed on its behalf by:

S N Trowbridge
Director
6 April 2016

Consolidated statement of changes in equity

For the year ended 26 December 2015

	Note	Share capital	Share premium	Accumulated deficit	Total equity
		£000s	£000s	£000s	£000s
At 27 December 2014		14,222	143,068	(172,427)	(15,137)
Total comprehensive loss for the period					
Loss for the period		-	-	(23,863)	(23,863)
Foreign currency translation differences arising on consolidation of foreign operations		-	-	(478)	(478)
Total comprehensive loss for the period		-	-	(24,341)	(24,341)
Transactions with owners recorded directly in equity					
Bonus issue of shares capitalised out of reserves	18, 25	80,591	-	(80,591)	-
Capital reduction	18, 25	(86,222)	(143,068)	229,290	-
Dividends paid to immediate parent company	24	-	-	(26,500)	(26,500)
At 26 December 2015		**8,591**	**-**	**(74,569)**	**(65,978)**

	Share capital	Share premium	Accumulated	Total equity
	£000s	£000s	£000s	£000s
At 28 December 2013	14,222	143,068	(173,226)	(15,936)
Total comprehensive profit for the period				
Profit for the period	-	-	1,308	1,308
Foreign currency translation differences arising on consolidation of foreign operations	-	-	(510)	(510)
Total comprehensive profit for the period	-	-	798	798
Transactions with owners recorded directly in equity				
At 27 December 2014	14,222	143,068	(172,428)	(15,138)

The notes on pages F-161 to F-190 form part of these financial statements.

Consolidated statement of cash flows
For the year ended 26 December 2015

	Note	**Year ended 26 December 2015**	Year ended 27 December 2014
Cash flows from operating activities		**£000s**	£000s
Loss before income tax		**(25,506)**	(2,060)
Adjustments for:			
– Amortisation		**2,532**	1,444
– Depreciation		**39,379**	31,768
– Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals		**11,217**	7,992
– (Profit)/Loss on disposal of property, plant and equipment		**106**	170
– Loss on financial instruments at fair value through profit or loss		**-**	1,154
– Finance income		**(5,441)**	(17)
– Finance expense		**42,966**	29,294
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):			
– Inventories		**(2,180)**	(948)
– Trade and other receivables		**(12,354)**	(16,356)
– Trade and other payables		**8,512**	3,949
– Provisions		**(3,589)**	(802)
Net cash flows from operating activities before changes in hire equipment		**55,642**	55,588
Purchase of hire equipment		**(56,642)**	(39,226)
Cash (utilised)/generated from operations		**(1,000)**	16,362
Net interest paid		**(19,026)**	(18,059)
Income tax received/(paid)		**1,143**	(245)
Net cash utilised in operating activities		**(18,883)**	(1,942)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	22	**(11,710)**	(6,796)
Purchases of non hire property, plant, equipment and software		**(20,278)**	(14,596)
Net cash used in investing activities		**(31,988)**	(21,392)
Cash flows from financing activities			
Proceeds from borrowings (third parties)		**57,000**	216,500
Proceeds from borrowings (group undertakings)		**118,909**	-
Repayments of borrowings		**(94,500)**	(186,018)
Capital element of finance lease payments		**(9,620)**	(4,161)
Dividends paid	24	**(26,500)**	-
Net cash received from financing activities		**45,289**	26,321
Net decrease in cash		**(5,582)**	2,987
Cash at the start of the period		**5,858**	2,871
Cash at the end of the period	14	**276**	5,858

The notes on pages F-161 to F-190 form part of these financial statements.

Notes to the consolidated financial statements

1. Accounting policies

a) Reporting entity

The Company is incorporated and domiciled in the United Kingdom.

These consolidated financial statements comprise the Company and its subsidiaries (the Group).

The Group is primarily involved in providing tool and equipment hire and related services in the United Kingdom and the Republic of Ireland.

The Group and Company financial statements were approved by the Board of Directors on 6 April 2016.

b) Statement of compliance

The Group financial statements of Hero Acquisitions Limited have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the Companies Act 2006.

As permitted by Section 408(2) of the Companies Act 2006 information about the Company's employee numbers and costs have not been presented.

The directors have taken advantage of the option within section 390 of the Companies Act 2006 to prepare their financial statements up to a date seven days either side of the Company's accounting reference date of 31 December 2015, and these accounts therefore cover the period from 28 December 2014 to 26 December 2015 (2014: 29 December 2013 to 27 December 2014).

As permitted by Section 408(3) of the Companies Act 2006, the Company's profit and loss account and statement of recognised gains and losses and related notes have not been presented.

c) Functional and presentational currency

These financial statements are presented in pounds Sterling (£), which is the Group's functional and presentational currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

d) Basis of preparation

The financial statements have been prepared on a historical cost basis, with the exception of derivative financial instruments which are measured at fair value on each reporting date.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

e) New accounting standards and accounting standards not yet effective

The following new standards, amendments to standards and interpretations issued by the International Accounting Standards Board (IASB) became effective during the year ended 26 December 2015. The accounting policies adopted in the presentation of the Group financial statements reflect the adoption of the following amendments to standards and interpretations as of 26 December 2015.

Annual improvements to IFRSs 2010-2012 Cycle and 2011-2013 Cycle (effective 1 January 2015)

The Group has applied the improvements to the IFRSs included in the *Annual Improvements to IFRSs 2010-2012 Cycle* and *2011-2013 Cycle* for the first time in the current year. These have not had any material impact on the financial statements.

One of the annual improvements requires entities to disclose judgements made by management in applying the aggregation criteria set out in paragraph 12 of IFRS 8 Operating Segments. The Group has aggregated operating segments into two categories as disclosed in Note 2. The amendment had no impact to the reported figures.

Standards effective in future periods

Certain new standards, amendments and interpretations to existing standards have been published that are relevant to the Group's activities and are mandatory for the Group's accounting periods beginning after 1 January 2016 or later and which the Group has decided not to adopt early.

- **Clarification of Acceptable Methods of Depreciation and Amortisation** (Amendments to IAS 16 and IAS 8 will become effective for accounting periods starting on or after 1 January 2016)

1. Accounting policies (continued)

e) New accounting standards and accounting standards not yet effective (continued)

Standards effective in future periods (continued)

- **Annual Improvements to IFRSs (2014–2016 Cycle)** (published November 2015 - effective date not yet determined)
- **Disclosure Initiative: Amendments to IAS 1** (will become effective for accounting periods starting on or after 1 January 2016)
- **IFRS 15 Revenue from Contracts with Customers** (will become effective for accounting periods starting on or after 1 January 2018 following IASB's decision to delay by 12 months)
- **IFRS 9 Financial Instruments** (will become effective for accounting periods starting on or after 1 January 2018).
- **IFRS16 Leases** (will become effective for accounting periods starting on or after 1 January 2019)

The impact of these standards is currently being assessed.

f) Critical accounting estimates and judgements

In preparing these financial statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amount of assets, liabilities, income, expenses and other disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or further information. Such changes are recognised in the period in which the estimate is revised.

Key assumptions about the future and key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities over the next year are set out below.

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

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

Onerous lease provision

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

Useful economic life of assets

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

Fair value of acquired assets

When the Group acquires an entity the fair value of the acquired tangible and intangible assets needs to be estimated by management.

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

g) Going concern

Note 20 includes the Group's objectives, policies and processes for capital management and for financial risk management including market risk, credit risk and liquidity risk.

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 financial covenants relating to the revolving credit facility secured by the Group, and as detailed in note 16 and 20.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, and senior debt and interest repayments falling due as detailed in note 16, 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.

h) Basis of consolidation

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred.

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date, any gains or losses arising from such re-measurement are recognised in the profit or loss.

Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognised in profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

i) Segment reporting

IFRS 8 *Operating segments* requires operating segments to be reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management team, including the Chief Executive Officer, Chief Operating Officer and Chief Financial Officer.

For management purposes, the Group is organised into segments based on services provided, and information is provided to the management team on these segments for the purposes of resource allocation and segment performance management and monitoring.

The management team considers there to be two reportable segments:

- ***HSS Core*** – the provision of tool and equipment hire and related services,
- ***HSS Specialist*** - the provision of generator, climate control, powered access and cleaning hire equipment and the provision of cleaning maintenance services, under specialist brands.

All trading activity and operations are in the United Kingdom and the Republic of Ireland.

Notes to the consolidated financial statements (continued)

1) Accounting policies (continued)

j) Foreign currency translation

Foreign currency transactions are translated into Sterling, the Group's functional currency, using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign currency translation gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement. Foreign currency translation gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within finance income or finance expense. All other foreign currency translation gains and losses are presented in the income statement within administrative expenses.

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on consolidation, are translated to the Group's presentational currency, Sterling, at foreign currency exchange rates ruling at the reporting date.

The revenues and expenses of foreign operations are translated at an average rate for the period, which approximates the foreign currency exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are reported in other comprehensive income.

k) Property, plant and equipment

Land and buildings comprise leasehold and freehold retail outlets, workshops and offices, and are stated at cost, less depreciation or provision for impairment where appropriate. Land is not depreciated and depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

- Leasehold properties with less than fifty years unexpired	Over unexpired period of lease
- Freehold buildings and long leasehold properties	Over fifty years
- Plant & machinery	Two to ten years
- Materials and equipment held for hire	Two to ten years

Materials and equipment held for hire purposes are stated at cost, less depreciation or provision for impairment where appropriate. Materials and equipment are written off over their useful economic life to the asset's residual value which is estimated at between ten percent of cost and nil. Profits or losses arising when customers are invoiced for loss of equipment held for hire purposes are calculated by reference to average written down values.

Gains and losses on disposals of materials and equipment held for hire are calculated as the difference between the proceeds received and the carrying amount of the asset and are recognised in profit or loss.

l) Intangible assets

Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the difference between the fair value of the consideration transferred and the fair value of the acquired assets, liabilities and contingent liabilities.

Impairment of goodwill
For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash generating units (CGUs), or groups of CGUs that is expected to benefit from the synergies of the combination. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGUs.

Goodwill impairment reviews are undertaken annually. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Intangible assets acquired on acquisition
When an acquisition is completed intangible assets are separately identified from goodwill and measured at fair value. Brands are valued using the relief from royalty method. Customer relationships are valued using the excess of earnings method.

The directors have assessed the brands of ABird, UK Platforms, TecServ and Apex and estimated that they have useful economic lives of 20 years. The directors have estimated the customer relationship intangible assets recognised on the acquisition of TecServ Cleaning Equipment Services Limited and Apex Generators Limited as having useful economic lives of 10 years.

During the year the Group acquired All Seasons Hire Limited (note 22). The directors have assessed the brand and the customer relationship intangible assets recognised on acquisition to have useful economic lives of 10 and 12 years respectively.

Notes to the consolidated financial statements (continued)

1) Accounting policies (continued)

l) Intangible assets (continued)

Software development costs
Costs associated with maintaining computer software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Computer software development costs recognised as assets are amortised over their estimated useful lives, which does not exceed four years.

Other intangible assets
Other intangible assets that are acquired by the Group that have finite useful lives are measured at cost less accumulated amortisation and any accumulated impairment losses. Other intangible assets are amortised over their useful economic life, and charged to administrative expenses.

Impairment of intangible assets (excluding goodwill)
Impairment reviews are undertaken whenever events or changes in circumstances indicate their carrying value may not be recoverable. If the fair value of an intangible asset is estimated to be less than its carrying amount, the carrying amount is reduced to its recoverable amount. Where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate, but restricted so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Any impairment losses or reversals are recognised immediately in the income statement.

m) Derivative financial instruments

Historically the Group has used a derivative financial instrument to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. The resulting gain or loss is recognised in profit or loss immediately. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

A derivative is presented as a non-current asset or non-current liability if the remaining maturity of the instrument is more than one year and is not expected to be realised or settled within one year. Where this is not the case, derivatives are presented as current assets or current liabilities.

n) Inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Provision is made for those inventory items where the net realisable value is estimated to be lower than cost. Net realisable value is based on both historical experience and assumptions regarding estimated future sales value.

o) Trade receivables

Trade and other receivables are recognised initially at fair value, which is deemed to be the transaction price. Subsequently, trade and other receivables are measured at amortised cost using the effective interest method, less any provision for impairment.

Impairment provisions are recognised when there is objective evidence that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivables. On confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision.

Notes to the consolidated financial statements (continued)

1) Accounting policies (continued)

p) Cash

In the statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short term highly liquid investments with maturities of three months or less and bank overdrafts. In the statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

q) Share capital

Ordinary shares
Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Share premium
The amount subscribed for share capital in excess of nominal value, less any costs directly attributable to the issue of new shares

Retained earnings/accumulated deficit
Cumulative net gains and losses recognised in the income statement.

Dividends
Dividends on ordinary share capital are recognised as a liability in the Group's financial statements in the period in which they are declared by the Company. In the case of interim dividends, these are considered to be declared when they are paid and in the case of final dividends these are declared when authorised by the shareholders.

r) Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised cost. Trade payables are classified as current liabilities if payment is due within one year or less, otherwise they are presented as non-current liabilities.

s) Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

t) Cost of sales, distribution costs and administrative expenses

Cost of sales includes direct costs associated with the Group's principal business of equipment hire. Such costs include hire stock rehire, cost of reselling plant and equipment, maintenance, depreciation, amortisation and asset write off and disposals. Distribution expenses comprise vehicle costs and transport wages. Administrative expenses comprise principally staff and property costs and costs of acquisitions.

u) Earnings before interest, taxation, depreciation and amortisation (EBITDA) and Adjusted EBITDA

EBITDA and Adjusted EBITDA are non-IFRS and non-Generally Accepted Accounting Policy (GAAP) performance measures used by management to assess the operating performance of the Group. EBITDA is defined as operating profit before depreciation, amortisation and hire stock disposals and write offs. Exceptional items are excluded from EBITDA to calculate Adjusted EBITDA. The directors primarily use the Adjusted EBITDA measure when making decisions about the Group's activities. As these are non-GAAP measures, Adjusted EBITDA and Adjusted operating profit measures used by other entities may not be calculated in the same way and are hence not directly comparable.

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

v) Finance income and expense

Finance income comprises interest receivable on cash balances.

Finance expense comprises interest payable on borrowings, interest payable on finance leases, amortisation and write off of debt issuance costs and the unwinding of the discount on non-current provisions.

Interest is recognised in profit or loss as it accrues, using the effective interest rate. Interest payable on borrowings includes a charge in respect of attributable transaction costs, which are recognised in profit or loss over the period of the borrowings on an effective interest basis. The interest expense component of finance lease payments is recognised in the income statement using the lease's implicit interest rate.

w) Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statement of financial position date. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the statement of financial position. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liabilities where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised. Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

x) Employee benefits

Short term employee benefits
Short-term employee benefits are expensed as the related service is provided. A liability is recognised for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Pension obligations
The Group operates employee optional stakeholder retirement and death benefit schemes. Both employee and employers are required to make contributions with the employers' contributions for each employee determined by the level of contribution made by the employee and the employee's length of service within the Group or subsidiary company. The employer's contributions are charged to profit and loss in the year in which the contributions are due.

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

y) Employee benefits (continued)

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 *Provisions, contingent liabilities and contingent assets* (IAS 37) and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 1 year after the end of the reporting period are discounted to their present value.

z) Provisions

Provisions for onerous leases, restructuring costs and legal claims are recognised when:

- the Group has a present legal or constructive obligation as a result of past events;
- it is probable that an outflow of resources will be required to settle the obligation; and
- the amount has been reliably estimated.

Provisions for dilapidation are recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property. The amount recognised is the estimated cost of dilapidations, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of dilapidations or dilapidations cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dilapidations provision is included as a finance expense.

Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

aa) Revenue recognition

The Group's activities consist of supplying hire and equipment services within the UK and the Republic of Ireland. Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods and services supplied, including compensation for damaged or lost hire stock, stated net of discounts, rebates, returns and value added taxes.

The Group recognises revenue when the amount of revenue can be reliably measured when it is probable that future economic benefits will flow to the entity. Revenue is recognised as follows:

- hire activities	over the period of hire on a straight line basis,
- damaged/lost hire stock compensation	when the loss or damage is identified,
- training and support services	when a right to consideration arises on the delivery of the training course.

Revenue arising from the sale of ex-hire fleet assets, fuel and consumables is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer.

Notes to the consolidated financial statements (continued)

1. Accounting policies (continued)

bb) Leases

Assets held under finance leases, which are leases where substantially all the risks and rewards of ownership of the asset have transferred to the Group, and hire purchase contracts are capitalised in the balance sheet and are depreciated over the shorter of useful life and lease term with any impairment being recognised in accumulated depreciation. Leased assets are recorded at an amount equal to the lower of its fair value and the present value of the minimum lease payments at the inception of finance leases. The capital elements of future obligations under leases and hire purchase contracts are included in liabilities in the statement of financial position and analysed between current and non-current amounts. The interest elements of the obligations are charged to the income statement over the periods of the leases and hire purchase contracts so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the lease term.

Lease incentives are recorded as a liability and then recognised over the lease term on straight line basis in the income statement as a reduction of rental expense.

cc) Fair value measurement

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Set out below is an analysis of the valuation method of the Group's financial instruments:

The different levels in the fair value hierarchy have been defined as follows:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within level 1 that are observable, for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Fair values have been determined for measurement purposes based on the following methods:

Derivative instruments (level 2)

The fair values of interest rate swaps are calculated as the present value of the estimated future cash flows based on the terms and maturity of each contract and using market interest rates as applicable for a similar instrument at the measurement date. Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Group entity and counterparty where appropriate.

The fair value of interest rate swap contracts are calculated by management based on external valuations received from the Group's bankers and is based on anticipated future interest yields.

dd) Exceptional items

Exceptional items are disclosed separately in the income statement where it is necessary to do so to provide further understanding of the financial performance of the Group. Exceptional items are items of income or expense that have been shown separately due to the significance of their nature or amount and include acquisition costs, fair value movements on derivative financial instruments, restructuring costs and accelerated debt issuance costs.

ee) Credit note provision

The Group makes provision for credit notes raised after the end of the reporting period that relate to customer invoices raised before the end of the period, net of any impairment charges relating to the customer invoices.

Notes to the consolidated financial statements (continued)

2. Segmental reporting

As explained in Note 1 i), the management team considers the operating and reportable segments to be HSS Core and HSS Specialist. 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 no single external customers that provide more than 10% of the group's turnover.

	Year ended 26 December 2015		
	HSS Core £000s	HSS Specialist £000s	Total £000s
Total revenue from external customers	**261,716**	**50,617**	**312,333**
Adjusted EBITDA	**45,495**	**25,412**	**70,907**
Depreciation and amortisation	**(39,552)**	**(13,682)**	**(53,234)**
Exceptional items (note 4)	**(5,377)**	**(277)**	**(5,654)**
Segment operating (loss)/profit	**566**	**11,453**	**12,019**
Finance income			**5,441**
Adjusted finance expense			**(37,038)**
Exceptional finance expense (note 4)			**(5,928)**
Loss before tax			**(25,506)**
Income tax credit			**1,643**
Loss after tax			**(23,863)**
Total assets	**419,453**	**96,482**	**515,935**
Total liabilities	**(505,112)**	**(76,801)**	**(581,913)**
Additions to non-current assets in the period (including acquisitions)			
Intangible assets	**5,466**	**9,072**	**14,538**
Property, plant and equipment			
- additions	**56,028**	**28,011**	**84,039**
- acquired on acquisitions	**-**	**2,910**	**2,910**
Total	**61,494**	**39,993**	**101,487**

Notes to the consolidated financial statements (continued)

2. Segmental reporting (continued)

	Year ended 27 December 2014		
	HSS Core £000s	HSS Specialist £000s	Total £000s
Total revenue from external customers	245,578	38,981	284,559
Adjusted EBITDA	51,207	19,901	71,108
Depreciation and amortisation	(30,007)	(11,367)	(41,374)
Exceptional items (note 4)	(641)	(722)	(1,363)
Segment operating profit	20,559	7,812	28,371
Finance income			17
Finance expense			(29,294)
Movement in derivative financial instruments			(1,154)
Loss before tax			(2,060)
Income tax credit			3,368
Profit after tax			1,308
Total assets	307,904	83,492	391,396
Total liabilities	368,652	37,882	406,534
Additions to non-current assets in the period (including acquisitions)			
Intangible assets	2,950	5,129	8,079
Property, plant and equipment			
- additions	52,418	31,174	83,592
- acquired on acquisitions	351	3,579	3,930
Total	55,719	39,882	95,601

3. Other operating income

	Year ended 26 December 2015 £000s	Year ended 27 December 2014 £000s
Property rental income	**869**	1,100
	869	1,100

4. Exceptional items

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

	Year ended 26 December 2015	Year ended 27 December 2014
	£000s	£000s
Restructuring and Acquisition costs		
Included in administrative expenses	**5,654**	1,363
	5,654	1,363
Exceptional items (non-finance)	**5,654**	1,363
Refinancing costs		
Included in finance expense	**5,928**	6,621
	5,928	6,621
Fair value movement on derivative financial instruments		
Included in finance expense	**-**	1,154
	-	1,154
Exceptional items (finance)	**5,928**	7,775
Total exceptional items	**11,582**	9,138

Restructuring and Acquisition costs
During the year the Group incurred costs of £5.3m (2014: £1.1m) in relation to the restructuring of the business and its operations. Of the £5.3m incurred in 2015, £2.0m related to onerous leases on non-trading stores, £1.8m related to set-up costs of the NDEC as we accelerated its development and £1.5m related to the cost reduction plan, principally redundancies.

During the year the group has incurred £0.3m (2014: £0.2m) relating to acquisitions. Principally these costs have related to legal and professional fees associated with the acquisitions. In accordance with IFRS these have been expensed as incurred.

The tax effect of these items in the year ended 26 December 2015 was to reduce the tax charge by £1.2m (2014: £0.7m).

Refinancing costs
On 12 February 2015 the Group, made an early redemption of £64m of its 6.75% senior secured notes as described in note 27. This gave rise to a bond redemption premium of £4.3m and the acceleration of the write off of debt issue costs of £1.6m

In the year ended 27 December 2014 the Group incurred costs associated with restructuring its debt. These costs include £6.6m in relation to the acceleration of the write off of previous debt issuance costs, net of a receipt £0.5m for the early termination of a swap agreement.

The tax effect of this was to reduce the tax charge by £1.2m (2014: £1.3m).

Fair value movement on derivative financial instruments
The Group took out an interest rate swap in 2012 to fix LIBOR interest at 0.959% in respect of £120 million of the senior debt which was due to expire on 26 November 2016. The movements in the fair value of the interest rate swap have been taken to profit and loss and presented as exceptional items. The interest rate swap was cancelled early as part of the 2014 debt restructuring. The tax effect of these items in the year ended 27 December 2014 was to reduce the tax charge by £0.2 million. There is no corresponding transaction to be reported for 2015.

Notes to the consolidated financial statements (continued)

5. Finance income and expense

	Year ended 26 December 2015	Year ended 27 December 2014
	£000s	£000s
Interest on amounts due from group undertakings	**(5,417)**	-
Interest received on cash deposits	**(24)**	(17)
Finance income	**(5,441)**	(17)
Bank loans and overdrafts	**1,269**	1,365
Interest on amounts due to group undertakings	**23,544**	6,915
Senior secured notes	**9,711**	12,021
Finance leases	**1,410**	970
Interest unwind on discounted provisions	**55**	220
Debt issue cost	**2,657**	7,803
Bond redemption premium	**4,320**	-
Finance expense	**42,966**	29,294
Net finance expense	**37,525**	29,277

The bond redemption premium charged in to profit and loss in 2015 relates to the early partial redemption of the senior secured note using part of the funds raised from the IPO. Debt issue costs in 2015 include £1.6m of accelerated write off of previous debt issuance costs due to the partial redemption.

The debt issue cost charged to profit and loss in 2014 arose as a result of the bond issue and refinancing undertaken, and includes £6.6 million of accelerated write off of previous debt issuance costs and a net receipt of £0.5m for the early termination of a swap agreement.

6. Operating profit

Operating profit is stated after charging / (crediting):

	Year ended 26 December 2015 £'000s	Year ended 27 December 2014 £'000s
Amortisation of intangible assets	**2,532**	1,444
Depreciation of property, plant and equipment	**39,379**	31,768
Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	**11,323**	8,162
Operating lease rentals		
- land and buildings	**16,762**	16,407
- motor vehicles	**8,530**	7,147
Sublease rental income	**(869)**	(1,100)
Foreign currency translation (gains)/losses	**7**	(14)
	77,664	63,814

	Year ended 26 December 2015 £'000s	Year ended 27 December 2014 £'000s
Auditors' remuneration		
- audit of Group and Company financial statements	**30**	27
- audit of subsidiary financial statements	**195**	164
- audit assurance services	-	-
- corporate finance services	**72**	61
	297	252

7. Employees

The average number of people employed by the Group (including directors) during the year was as follows:

	Year ended 26 December 2015 Number	Year ended 27 December 2014 Number
Distribution	**614**	615
Hire stock and inventory maintenance	**460**	401
Sales and administration	**2,270**	1,880
	3,344	2,896

The aggregate remuneration costs of these employees were as follows:

	Year ended 26 December 2015 £'000s	Year ended 27 December 2014 £'000s
Wages and salaries	**81,447**	69,131
Social security costs	**7,486**	6,713
Pension costs	**1,596**	1,538
Share-based payments	**-**	4
	90,529	77,386

IAS 24 *Related party transactions*, requires the Group to disclose all transactions and outstanding balances with the group's key management personnel. IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The key management personnel of the Group comprise the directors along with senior managers from central support services and divisional and regional operations.

The aggregate remuneration costs of key management personnel were as follows:

	Year ended 26 December 2015 £'000	Year ended 27 December 2014 £'000
Wages and salaries	**1,489**	2,653
Employer's national insurance contributions and similar taxes	**234**	336
Compensation for loss of office	**470**	-
Other pension costs	**71**	114
	2,264	3,103

At 26 December 2015 there were no amounts due to key management personnel (27 December 2014: £nil)

Notes to the consolidated financial statements (continued)

8. Directors' remuneration

The remuneration costs of the Company's directors were:

	Year ended 26 December 2015 £'000	Year ended 27 December 2014 £'000
Aggregate emoluments	**1,331**	1,587
Pension costs	**71**	66
	1,402	1,653

The remuneration of the highest paid director was:

	Year ended 26 December 2015 £'000	Year ended 27 December 2014 £'000
Aggregate emoluments	**330**	549
Pension costs	**29**	10
	359	559

9. Income tax expense

(a) Analysis of (credit) in the year

	Year ended 26 December 2015 £'000s	Year ended 27 December 2014 £'000s
Current tax (credit)		
UK corporation tax on the loss for the year	**(2,406)**	(723)
Adjustments in respect of prior years	**(90)**	(275)
Total current tax (credit)	**(2,496)**	(998)
Deferred tax charge/(credit)		
Deferred tax charge/(credit) for the year	**853**	(2,370)
Total deferred tax charge/(credit)	**853**	(2,370)
Income tax (credit)	**(1,643)**	(3,368)

Notes to the consolidated financial statements (continued)

9. Income tax expense (continued)

(b) Factors affecting the tax expense 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 26 December 2015 £'000s	Year ended 27 December 2014 £'000s
(Loss)/profit before tax	**(25,506)**	(2,060)
Profit before tax multiplied by the standard rate of corporation tax of 20.25% (2014: 21.5%)	**(5,165)**	(443)
Effects of:		
Expenses not deductible for tax purposes	**867**	169
Adjustments in respect of prior years	**(90)**	(275)
Difference in foreign tax rate	**188**	120
Movements in unprovided deferred tax	**1,812**	(2,939)
Income tax (credit)	**(2,388)**	(3,368)

(c) Factors that may affect future tax charges

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Group’s profits for the year ended 26 December 2015 were taxed at an effective rate of 20.25%.

The standard rate of corporation tax in the UK changed from 23% to 21% with effect from 1 April 2014. Accordingly, the Group’s profits for the year ended 27 December 2014 were taxed at an effective rate of 21.5%.

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £11.4m (2014: 7.9m) and relating to losses £3m (2014: £5m).

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.

Notes to the consolidated financial statements (continued)

10. Intangible assets

	Goodwill	Customer relationships	Brands	Software	Total
	£000s	£000s	£000s	£000s	£000s
Cost					
At 27 December 2014	135,039	1,200	1,610	10,032	147,881
Additions	-	-	-	5,080	5,080
Acquired on acquisition	7,480	1,344	632	-	9,456
Disposals	-	-	-	(115)	(115)
At 26 December 2015	142,519	2,544	2,242	14,997	162,302
Amortisation					
At 27 December 2014	-	101	109	5,729	5,939
Charge for the period	-	155	123	2,254	2,532
Disposals	-	-	-	(115)	(115)
At 26 December 2015	-	256	232	7,868	8,356
Net book value					
At 26 December 2015	**142,519**	**2,288**	**2,010**	**7,129**	**153,946**

	Goodwill	Customer relationships	Brands	Software	Total
	£000s	£000s	£000s	£000s	£000s
Cost					
At 28 December 2013	131,100	300	1,320	7,084	139,804
Additions	-	-	-	2,950	2,950
Acquired on acquisition	3,939	900	290	-	5,129
Disposals	-	-	-	(2)	(2)
At 27 December 2014	135,039	1,200	1,610	10,032	147,881
Amortisation					
At 28 December 2013	-	3	48	4,432	4,483
Charge for the period	-	98	61	1,285	1,444
Disposals	-	-	-	12	12
At 27 December 2014	-	101	109	5,729	5,939
Net book value					
At 27 December 2014	135,039	1,099	1,501	4,303	141,942

On the acquisition of All Seasons Hire Limited on 8 May 2015 the Group acquired £1.3m of customer lists and £0.6m of brand intangible.

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

Analysis of goodwill by cash generating units (CGUs)

	Goodwill	Total
	£000s	£000s
Allocated to		
HSS Core	125,331	125,331
Powered access	4,114	4,114
Climate control	7,021	7,021
Power generation	6,053	6,053
At 26 December 2015	**142,519**	**142,519**

10. Intangible assets (continued)

	Goodwill	Total
	£000s	£000s
Allocated to		
HSS Core	124,872	124,872
Powered access	4,114	4,114
Power generation	6,053	6,053
At 27 December 2014	**135,039**	**135,039**

The Group estimates the recoverable amount of a CGU using a value in use model; projecting pre-tax cash flows for the next five 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 forecast revenue and EBITDA.

The five year plans used in the impairment models are based on management's past experience and future expectations of performance.

The key assumptions used for all material CGUs are a pre tax discount rate of 10.3% (2014: 11.4%) a short to medium term growth rate of between 5% and 12% (2014: between 5% and 17%), and a long term growth rate of 2.5% (2014: 3%).

The pre-tax discount rate used is derived from a weighted average cost of capital (WACC) calculation for the Group and benchmarked against similar organisations operating within the sector. The long term growth rate used does not exceed the average for the sector.

The total recoverable amount in respect of goodwill and brands, as assessed by management using the above assumptions, is greater that the carrying amount and therefore no impairment charge has been booked in the year for any CGU.

Management consider that it is not reasonably possible for the assumptions to change so significantly as to eliminate the excess.

Other intangible assets

No impairment tests were considered to be required at 27 December 2014 and the carrying value of other intangible assets is considered to be appropriate.

11. Property, plant and equipment

	Land & Buildings	**Plant & Machinery**	**Materials & Equipment held for hire**	**Total**
	£000s	**£000s**	**£000s**	**£000s**
Cost				
At 27 December 2014	49,985	51,122	222,577	323,684
Foreign exchange differences	(4)	(68)	(708)	(780)
Additions	13,694	5,325	65,020	84,039
Acquired on acquisition	32	179	2,699	2,910
Disposals	(394)	(682)	(33,350)	(34,426)
At 26 December 2015	63,313	55,876	256,238	375,427
Accumulated depreciation				
At 27 December 2014	31,533	41,136	103,802	176,471
Foreign exchange differences	-	(48)	(477)	(525)
Charge for the period	4,119	3,505	31,755	39,379
Disposals	(394)	(577)	(22,132)	(23,103)
At 26 December 2015	35,258	44,016	112,948	192,222
Net book value				
At 26 December 2015	**28,055**	**11,860**	**143,290**	**183,205**
At 29 December 2014	18,452	9,986	118,775	147,213

11. Property, plant and equipment (continued)

	Land & Buildings	Plant & Machinery	Materials & Equipment held for hire	Total
	£000s	£000s	£000s	£000s
Cost				
At 28 December 2013	43,836	46,237	169,514	259,587
Foreign exchange differences	(6)	(68)	(724)	(798)
Additions	6,595	5,063	71,934	83,592
Acquired on acquisition	9	100	3,821	3,930
Disposals	(450)	(210)	(21,968)	(22,628)
At 27 December 2014	49,984	51,122	222,577	323,683
Accumulated depreciation				
At 28 December 2013	28,411	38,594	92,705	159,710
Foreign exchange differences	-	(49)	(492)	(541)
Charge for the period	3,497	2,706	25,565	31,768
Disposals	(375)	(115)	(13,976)	(14,466)
At 27 December 2014	31,533	41,136	103,802	176,471
Net book value				
At 27 December 2014	18,452	9,986	118,775	147,212
At 28 December 2013	15,425	7,643	76,809	99,877

The net book value of materials and equipment held for hire includes an amount of £38.8m (27 December 2014: £13.9m) in respect of assets held under finance leases. The depreciation charge for assets held under finance leases in the year ended 26 December 2015 was £7.3m (2014: £4.0m).

12. Inventories

	26 December 2015	27 December 2014
	£000s	£000s
Goods for resale	**5,716**	5,821
Spares	**3,719**	2,459
Total inventories	**9,435**	8,280
Provision for impairment	**(340)**	(1,457)
Inventories	**9,095**	6,823

Provision for impairment of inventories	**26 December 2015 £000s**	27 December 2014 £000s
Balance at the beginning of the year	**1,457**	1,180
Utilisation of provisions	**(1,117)**	-
Impairment provisions recognised during the year	**-**	277
Balance at the end of the year	**340**	1,457

The cost of inventories recognised as an expense and included in cost of sales is £26.4 million (2014 £25.3 million).

Notes to the consolidated financial statements (continued)

13. Trade and other receivables

Non-current	**26 December 2015 £000s**	27 December 2014 £000s
Amounts due from group undertakings	**62,189**	-
	62,189	-

Current	**26 December 2015 £000s**	27 December 2014 £000s
Gross trade receivables	**84,763**	71,176
Less provision for impairment	**(3,816)**	(3,514)
Net trade receivables	**80,947**	67,662
Other debtors	**390**	870
Prepayments and accrued income	**16,312**	15,554
Corporation tax	**-**	1,826
Amounts due from group undertakings	**6,140**	1,187
	103,789	87,099

The provision for impairment of trade receivables is estimated based upon past default experience and the directors' assessment of the current economic environment, and includes provisions for credit notes raised after year end for customer invoices issued before year end (see note 1ee). The creation and release of bad debt receivables provision is charged/ (credited) to administrative expenses in the income statement, and the credit note provision is charged/ (credited) to revenue.

The following table details the movements in the provision for impairment of trade receivables:

	26 December 2015 £000s	27 December 2014 £000s
Balance at the beginning of the year	**(3,514)**	(2,610)
Movement in provision	**(302)**	(904)
Balance at the end of the year	**(3,816)**	(3,514)

The aging profile of debtors that are overdue but not impaired is:

Days overdue	**26 December 2015 £000s**	27 December 2014 £'000s
1 to 30 days	**7,020**	3,591
31 to 60 days	**3,925**	2,655
61 to 90 days	**1,796**	1,232
Over 90 days	**4,203**	1,602
	16,944	9,080

These amounts have not been impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable.

Notes to the consolidated financial statements (continued)

14. Cash

	26 December 2015 £000s	27 December 2014 £000s
Cash (statement of financial position)	1,811	5,858
Bank overdrafts	(1,535)	-
Cash and cash equivalents	276	5,858

The Group's banking arrangements are subject to a master netting arrangement with their principal bankers. The net balance of a portfolio of accounts, some of which may be in overdraft and some may be in credit, represents the balance held.

15. Trade and other payables

	26 December 2015 £000s	27 December 2014 £000s
Current		
Obligations under finance leases	11,050	5,356
Trade payables	48,554	62,040
Other taxes and social security costs	10,284	6,630
Other creditors	1,714	2,108
Accrued interest on borrowings	3,755	5,610
Accruals and deferred income	13,692	14,843
	89,049	96,587

	26 December 2015 £000s	27 December 2014 £000s
Non-current		
Obligations under finance lease	21,583	7,033
	21,583	7,033

The maturity profile of the Group's finance leases is as follows:

	26 December 2015 £000s	27 December 2014 £'000s
Less than one year	11,050	5,356
Two to five years	14,303	7,033
Over five years	7,280	-
	32,633	12,389

The following table gives a reconciliation of the minimum lease payments to the carrying value of the finance lease creditor:

	26 December 2015 £000s	27 December 2014 £'000s
Less than one year	12,430	6,237
Two to five years	15,314	7,783
Over five years	7,533	-
	35,277	14,020
Less future interest payments	(2,644)	(1,631)
Carrying value of lease liabilities	32,633	12,389

Notes to the consolidated financial statements (continued)

16. Borrowings

	26 December 2015 £000s	27 December 2014 £000s
Current		
Revolving credit facility	**46,000**	19,500
Bank overdraft	**1,535**	-
Amounts due to group undertakings	**8,209**	2,847
	55,744	22,347
Non-current		
Senior secured note	**132,189**	193,944
Amounts due to group undertakings	**266,041**	70,016
	398,230	263,960

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

	26 December 2015 £000s	27 December 2014 £000s
Secured senior note	**136,000**	200,000
Amounts due to group undertakings	**274,250**	72,863
	410,250	272,863

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

Non current amounts due to group undertakings fall due in 2022 (2014 falling due in 2022). The secured senior note is a 6.75% fixed rate bond maturing in 2019, and is listed on the Luxembourg stock exchange.

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

	26 December 2015 % above LIBOR	27 December 2014 % above LIBOR
Amounts due to group undertakings	-	-
Revolving credit facility	**2.00%**	2.50%

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

	26 December 2015 Fixed rate	27 December 2014 Fixed rate
Secured senior note	**6.75%**	6.75%
Amounts due to group undertakings	**10% & 6.75%**	10.00%
Weighted average interest rate on borrowings	**8.18%**	7.11%

Notes to the consolidated financial statements (continued)

16. Borrowings (continued)

The Group's borrowings have the following maturity profile:

	26 December 2015 £000s	27 December 2014 £000s
Less than one year	**9,180**	13,500
Two to five years	**433,778**	254,000
Over five years	**175,039**	160,573
	617,997	428,073
Less interest cash flows:		
Senior secured note	**(36,720)**	(67,500)
Amounts due to group undertakings	**(171,027)**	(87,710)
Total principal cash flows	**410,250**	272,863

The Group has undrawn committed borrowing facilities of £35.0m at 26 December 2015 (27 December 2014: £37.7m).

17. Provisions

	Non-trading stores £000s	Dilapidations £000s	Other £000s	Total £000s
At 27 December 2014	7,017	7,854	21	14,892
Additions	311	3,336	-	3,647
Utilised during the period	(2,101)	(669)	-	(2,770)
Unwind of provision	(80)	112	-	32
Released	(610)	(497)	(21)	(1,128)
At 26 December 2015	**4,537**	**10,136**	**-**	**14,673**
Of which:				
Current	**1,228**	**2,594**	**-**	**3,822**
Non current	**3,309**	**7,542**	**-**	**10,851**
	4,537	**10,136**	**-**	**14,673**
At 28 December 2013	9,308	5,610	21	14,939
Additions	224	2,148	-	2,372
Utilised during the period	(2,639)	-	-	(2,639)
Unwind of provision	124	96	-	220
At 27 December 2014	7,017	7,854	21	14,892
Of which:				
Current	1,828	2,031	21	3,879
Non current	5,189	5,823	-	11,013
	7,017	7,854	21	14,892

Provisions for non-trading stores relate to property provisions for the current value of contractual liabilities the Group has in respect of leasehold premises. These liabilities are for future rent and rates payments on premises the Group no longer makes use of, and are expected to arise over periods of up to 8 years. The comparative balance sheet has been amended to reflect the current element of the provisions, previously treated as non current liabilities.

The dilapidations provisions represent dilapidation costs in respect of the Group's leasehold properties, and will therefore arise over the lease lives of the Groups properties.

.

Notes to the consolidated financial statements (continued)

18. Deferred tax

Deferred tax is provided in full on taxable temporary differences under the liability method using applicable tax rates. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Tax losses	Derivative financial instruments	Property, plant and equipment and other items	Acquired intangible assets	Total
	£000s	£000s	£000s	£000s	£000s
At 27 December 2014	2,400	-	(625)	(467)	1,308
(Charge) / credit to the income statement	(500)	-	(409)	56	(853)
Arising on acquisition	-	-	(231)	(438)	(669)
At 26 December 2015	1,900	-	(1,265)	(849)	(214)
Deferred tax assets	**1,900**	**-**	**-**		**1,900**
Deferred tax liabilities	**-**	**-**	**(1,265)**	**(849)**	**(2,114)**
At 26 December 2015	**1,900**	**-**	**(1,265)**	**(849)**	**(214)**
At 28 December 2013	-	(248)	(150)	(315)	(713)
(Charge) / credit to the income statement	2,400	248	(475)	197	2,370
Arising on acquisition	-	-	-	(349)	(349)
At 27 December 2014	2,400	-	(625)	(467)	1,308
Deferred tax assets	2,400	-	62	-	2,462
Deferred tax liabilities	-	-	(687)	(467)	(1,154)
At 27 December 2014	2,400	-	(625)	(467)	1,308

At 26 December 2015 £2.0 million (27 December 2014: £0.8 million) of the deferred tax liability is expected to crystallise after more than one year.

As at 26 December 2015 the Group had an unrecognised deferred tax asset relating to trading losses of £0.8m (27 December 2014: £1.0m).

The Group also has an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £12.3m (27 December 2014: £10.1m).

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.

Notes to the consolidated financial statements (continued)

19. Share capital

Nominal value of ordinary shares

	Note	Ordinary shares of £1 each £000s	'A' Ordinary shares of £0.0001 each £000s	Total £000s
At 27 December 2014		14,208	14	14,222
Bonus issue of shares capitalised out of reserves	26	80,510	81	80,591
Capital reduction	26	(86,222)	-	(86,222)
At 26 December 2015		**8,496**	**95**	**8,591**

Number of ordinary shares

	Note	Ordinary shares of £1 each Number	'A' Ordinary shares of £0.0001 each Number	Total Number
At 27 December 2014		14,207,723	143,082,605	157,290,328
Bonus issue of shares capitalised out of reserves	26	80,510,419	810,801,417	891,311,836
Capital reduction	26	(86,222,030)	-	(86,222,030)
At 26 December 2015		**8,496,112**	**953,884,022**	**962,380,134**

The voting rights and restrictions attached to the Ordinary and ‘A’ Ordinary shares are as described in the Articles of Association of Hero Acquisitions Limited, and in summary the holders of Ordinary and ‘A’ Ordinary shares are entitled to dividend distributions in proportion to the number of shares held, and all shares rank pari passu for voting rights.

20. Financial instruments

Financial risk management
The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using share capital, revenue and borrowings.

The Group’s activities expose it to a variety of financial risks: market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk.

Risk management is carried out under policies approved by the board of directors. Financial risk management is carried out by the Chief Financial Officer under a policy approved by the board. The board approves written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and liquidity risk and receives regular reports on such matters.

The Group does not engage in trading or speculative activities using derivative financial instruments.

Market risk
Market risk is the risk that changes in prices, such as foreign exchange rates and interest rates, will affect the Group’s income or the value of its holdings of financial instruments.

Interest rate risk
Interest rate risk is the risk of a change in the Group’s cash flows due to a change in interest rates. On 9 February 2015 the Group, its ultimate parent company and its previous ultimate parent company executed a number of board approved loans which allowed the Group to discharge existing loan notes as well as to effect an early redemption of £64 million of its 6.75% senior secured notes as summarised in Note 16.

The Group’s fixed rate borrowings are now principally the Senior Secured notes and amounts owed to group undertakings. In addition the Group enters into finance leases in respect of hire stock assets and these carry a fixed rate of interest set at lease inception.

20. Financial instruments (continued)

Interest rate risk (continued)
The Group is only exposed to interest rate risk on its variable interest borrowings, such as the Revolving credit facility, the Group's overdraft and other short term borrowings. Given the most recent inflation report from the Bank of England (February 2016) which indicates that the market-implied path for the UK Bank Rate is now lower than reported in the November 2015 report, and is not currently expect to reach 1.1% until Q1 2019, the directors do not consider this to be a significant risk to the Group. The directors will continue to monitor developments in market interest rates on a regular basis.

Foreign exchange risk
Foreign exchange risk is the risk of a change in the Group's cash flows due to a change in foreign currency exchange rate. The Group is exposed to foreign currency exchange rate risk on the cash flows and carrying values of its Republic of Ireland subsidiaries. Given the relative small size of the Republic of Ireland operations compared to the Group the directors do not consider this to be a significant risk to the Group.

Credit risk
Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fail to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The directors consider the Group's credit risk from cash, cash equivalents and deposits to be low as the Group only enters transactions with banks or financial institutions with a credit rating of A or above.

The Group has policies in place to manage potential credit risk from trade receivables. Customer credit terms are determined using independent ratings agency data and regularly updated to reflect any changes in customer circumstances or trading conditions. If no independent rating is available an internal assessment is made of the credit quality of the customer, taking into account their financial position and past trading history of the Group. The directors do not expect any significant losses of receivables that have not been provided for as shown in note 13.

Liquidity risk
Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group finance department regularly monitors forecasts of the Groups liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 16) at all times so that borrowing limits or covenants on borrowing facilities are not breached.

The financial covenant in place on the Group's revolving credit facility at 26 December 2015 is a minimum EBITDA of £35 million on a rolling twelve month basis (at 27 December 2014 a minimum EBITDA of £35 million).

Capital Management

The Group relies on capital for organic and acquisitive growth, the purchase of rental equipment to replace equipment that has reached the end of its useful economic life and to secure and establish new rental locations and branches.

The Group defines capital as equity as shown in the statement of financial position plus net debt (total borrowings less cash) and seeks to return an acceptable return on gross capital.

The Group manages its capital structure using a number of measures and taking into account its future strategic plans. Such measures include ensuring the Group maintains sufficient liquidity and compliance with a bank covenant. In addition to the cash that the Group has generated from its operations, over recent years it has renegotiated its debt structure including the issue of a fixed interest rate bond, fixed term loan notes and secured shorter term bank borrowing through a revolving credit facility.

The principal bank covenant is to maintain a rolling EBITDA of £35 million. For the year ended 26 December 2015 EBITDA was £65.2 million (2014: £69.7 million) and adjusted EBITDA was £70.9 million (2014: £71.1 million).

Notes to the consolidated financial statements (continued)

20. Financial instruments (continued)

Fair value

All financial assets at the balance sheet dates which comprise trade and other receivables, and cash and cash equivalents are classified as loans and receivables.

All financial liabilities at the balance sheet date which comprise trade and other payables, obligations under finance leases, and borrowings are classified as financial liabilities at amortised cost.

The following table shows the fair value of financial assets and financial liabilities within the Group, including their level in the fair value hierarchy. It does not include fair value information for financial assets or financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	26 December 2015 £000s	27 December 2014 £'000s
Financial liabilities		
Senior secured note	**135,568**	206,178
	135,568	206,178

The Senior secured notes are classified as Level 1 in the fair value hierarchy, as they are listed on the Luxembourg stock exchange and have been valued at their market value at the year end.

21. Commitments and contingencies

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

	26 December 2015 £000s	27 December 2014 £000s
Land and buildings		
Within one year	**15,910**	15,552
Between two and five years	**47,953**	47,986
After five years	**30,799**	31,066
	94,662	94,604
Other		
Within one year	**7,607**	6,082
Between two and five years	**13,021**	8,612
	20,628	14,694
	115,290	109,298

The Group's future minimum sub-lease rental income expected to be received under non-cancellable operating leases is as follows:

Sub-lease rental income	**26 December 2015 £000s**	27 December 2014 £000s
Within one year	**862**	58
Between two and five years	**1,704**	1,414
After five years	**376**	1,211
	2,942	2,683

Notes to the consolidated financial statements (continued)

22. Business combinations

Acquisitions in the year

On 8 May 2015, the Group acquired the entire share capital of All Seasons Hire Limited through its subsidiary HSS Hire Service Group Limited. All Seasons Hire Limited is one of the leading heating, ventilation and air-conditioning ("HVAC") hire companies in the UK. The primary reason for the acquisition was to acquire a specialist HVAC hire business. The main factor leading to the recognition of goodwill was the expected operational efficiencies through economies of scale.

The details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Fair value acquired £000s
Intangible assets	1,976
Materials & equipment held for hire	2,699
Property, plant and equipment	211
Trade and other receivables	1,219
Cash at bank and in hand	317
Creditors and provisions	(2,645)
Net assets acquired	3,777
Goodwill	7,021
Total consideration	10,798
Satisfied by	
Cash	10,798

There were fair value adjustments to trade and other receivable of £0.2 million in respect of credit note and bad debt provisions and £0.1 million to creditors and provisions relating to other creditors. The fair value exercise is not yet complete.

Acquisition related costs of £0.25 million have been charged to administrative expenses in the income statement for the year ended 26 December 2015.

Since the acquisition date, All Seasons Hire Limited has contributed £3.6 million to Group revenues and £0.5 million to Group profit. If the acquisition had occurred on 1 January 2015 the contribution to Group revenue would have been £5.6 million and the contribution to Group profit would have been £1.0 million.

In addition a further immaterial acquisition was made in the year ended 26 December 2015 for £0.5m and gave rise to goodwill of £0.4 million.

Acquisitions in prior periods

Apex Generators Limited

On 31 March 2014 the Group acquired the entire share capital of Apex Generators Limited through its subsidiary ABird Superior Limited. Apex Generators Limited specialises in the hire of generators and associated equipment.

The fair value of the consideration paid for the share capital was £5.99 million and the fair value of the assets acquired was £2.79 million resulting in goodwill of £3.20 million.

The acquisition was settled in cash. The total consideration of £2.9 million included deferred instalments of £0.7 million each paid in 2015 and 2016.

23. Related party transactions

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

At 26 December 2015 the group owed £80.5m (2014: £72.9m) to Hampshire Bidco Limited, the Company's immediate holding company, of which £3.2m is classified as current (2014: £2.8m) and £77.3m (2014: £70.1m) is non-current.

At 26 December 2015 the group owed £97.6m, classified as non-current (2014: £nil) to Hampshire Topco Limited, the Company's intermediate holding company. At 26 December 2015, Hampshire Topco owed the group £3.7m (2014: £0.07m).

At 26 December 2015 the group owed £96.1m to HSS Hire Group Plc, the Company's ultimate holding company in which it is consolidated, of which £5.0m is classified as current and £91.1m is non-current.

At 26 December 2015 the group was owed £64.6m (2014: £1.1m) by Hampshire Midco Limited, the Company's intermediate holding company, of which £2.4m is classified as current (2014: £1.1m) and £62.2m is non-current.

During the year the Group paid interest of £23.5m (2014: £6.9m) to other group companies.

During the year the Group received interest of £5.4m (2014: £nil) from other group companies.

During the year the Group charged Hampshire Bidco Limited a management charge of £0.1m (2014: £0.5m) and was charged a management fee of £0.01m (2014: £0.8m).

During the year the Group charged HSS Hire Group Plc a management charge of £0.8m and was charged a management fee of £1.3m.

Related party transactions with key management personnel are disclosed in note 7.

24. Dividends

	26 December 2015 £000s	27 December 2014 £000s
Interim dividend of 2.75p (2014: nil) per ordinary share paid during the year	**234**	-
Interim dividend of 2.75p (2014: nil) per ordinary A share paid during the year	**26,266**	-
	26,500	-

25. Note supporting statement of cash flows

Significant non cash transactions in the year in respect of financing activities comprised of £29.9m of assets acquired under new finance leases (2014: £7.2m), and unpaid interest rolled up into the loan notes principal of £nil (2014: £9,276,000).

26. Capital reconstruction

In February 2015 HSS Hire Group Plc undertook an IPO resulting in £103m of gross proceeds being raised. As part of the IPO process, the Company passed special resolutions giving effect to the capital reconstruction outlined below.

A bonus issue of Ordinary and A Ordinary shares was made out of reserves totalling £80.6m

A capital reduction was undertaken, under which the share premium of the company of £143.1m was reduced to nil, and £86.2m of the ordinary £1 shares were cancelled and extinguished, the reduction monies arising being credited to distributable reserves.

On 9 February, the Group, HSS Hire Group Plc and Hampshire Topco Limited executed a number of board approved loans which allowed the Group to discharge existing loans as well as to effect the early redemption of £64 million of its 6.75% bond as summarised in note 16.

Notes to the consolidated financial statements (continued)

26. Capital reconstruction (continued)

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

- HSS Hire Service Holdings Ltd paid an interim 2015 dividend of £80.6m to its immediate parent company Hero Acquisitions Limited; and.
- Following the capital reconstruction of Hero Acquisitions Limited, it paid an interim 2015 dividend of £26.5m to its immediate parent company Hampshire Bidco Limited.

27. Adjusted EBITA

Adjusted EBITA is calculated as follows:

	26 December 2015 £000s	27 December 2014 £000s
Adjusted EBITDA	**70,907**	71,108
Less: Depreciation	**(50,702)**	(39,930)
Adjusted EBITA	**20,205**	31,178
Less: Amortisation	**(2,532)**	(1,444)
Less: Exceptional items (non-finance)	**(5,654)**	(1,363)
Operating profit	**12,019**	28,371

Hero Acquisitions Limited

Company statement of financial position

	Note	**26 December 2015 £000s**	27 December 2014 £000s
ASSETS			
Non-current assets			
Investments	2	**256,459**	256,459
Other receivables	3	**59,015**	-
		315,474	256,459
Current assets			
Other receivables	3	**138,190**	21,453
Total assets		**453,664**	277,912
LIABILITIES			
Current liabilities			
Other payables	4	**(2,921)**	(17,502)
Borrowings	5	**(45,663)**	(19,263)
		(48,584)	(36,765)
Non-current liabilities			
Borrowings	5	**(405,023)**	(274,772)
Total liabilities		**(453,607)**	(311,537)
Net assets/(liabilities)		**57**	(33,625)
EQUITY			
Share capital	6	**8,591**	14,222
Share premium	6	**-**	143,068
Retained deficit		**(8,534)**	(190,915)
Total deficit attributable to owners of the company		**57**	(33,625)

The notes on pages F-193 to F-197 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 6 April 2016, and were signed on its behalf by:

S N Trowbridge
Director
6 April 2016

Hero Acquisitions Limited

Statement of changes in equity

	Note	**Share capital £000s**	**Share premium £000s**	**Retained earnings £000s**	**Total equity £000s**
At 27 December 2014		14,222	143,068	(190,915)	(33,625)
Profit for the year		-	-	60,182	60,182
Total comprehensive profit for the year		-	-	60,182	60,182
Transactions with owners recorded directly in equity					
Bonus issue of shares capitalised out of reserves		80,591	-	(80,591)	-
Capital reduction		(86,222)	(143,068)	229,290	-
Dividends		-	-	(26,500)	(26,500)
At 26 December 2015		8,591	-	(8,534)	57
At 28 December 2013		14,222	143,068	(168,344)	(11,054)
Loss for the year		-	-	(22,571)	(22,571)
Total comprehensive loss for the year		-	-	(22,571)	(22,571)
Transactions with owners recorded directly in equity					
Dividends		-	-	-	-
At 27 December 2014		14,222	143,068	(190,915)	(33,625)

The notes on pages F-193 to F-197 form part of these financial statements.

Notes to the Company financial statements

1. Accounting policies

Accounting convention and statement of compliance

The Company complies with the accounting policies defined in Note 1 to the Group consolidated statements. In addition, the following disclosures are made in respect of the Company financial statements.

The Company financial statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements (FRS 100) and Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101), and the Companies Act 2006. The company has early adopted FRS101 in the period.

The directors have taken advantage of the option within section 390 of the Companies Act 2006 to prepare their financial statements up to a date seven days either side of the Company's accounting reference date of 31 December 2015, and these accounts therefore cover the period from 27 December 2014 to 26 December 2015 (2014: 28 December 2013 to 27 December 2014).

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

- Certain comparative information as otherwise required by EU endorsed IFRS
- Certain disclosures regarding the company's capital
- A statement of cash flows
- The effect of further accounting standards not yet adopted
- The disclosure of the remuneration of key management personnel, and
- Disclosure of related party transactions with other wholly owned members of the group headed by HSS Hire Group Plc.

In addition, and in accordance with FRS101 further disclosure exemptions have been adopted because equivalent disclosures are included in the consolidated financial statements of HSS Hire Group Plc. These financial statements do not include certain disclosures in respect of:

- Financial instruments (other than certain disclosures required as a result of recording financial instruments at fair value);
- Fair value measurement (other than certain disclosures required as a result of recording financial instruments at fair value; and
- Impairment of assets

Basis of preparation

The directors have prepared the accounts on the going concern basis. For further information on the directors assessment that the Company and Group has adequate resources to continue trading on a going concern basis for the foreseeable future refer to note 1g) in the consolidated financial statements.

Investments

Investments are included in the balance sheet at cost less amounts written-off, representing impairment in value. Impairment charges are recorded if events or changes in circumstances indicate that the carrying value may not be recoverable.

Capital instruments

Finance costs on debt are allocated to periods over the terms of the debt at a constant rate of return on the carrying amount. Debt is initially recorded in the balance sheet based on the net proceeds received. Issue costs are spread forward in the profit and loss account over the term of the debt.

Notes to the Company financial statements (continued)

2. Investments

	26 December 2015 £000s	27 December 2014 £000s
Investment in HSS Hire Service Holdings Limited	**256,549**	256,549
	256,549	256,549

The Company's subsidiaries, including subsidiaries held by indirect holding companies, are:

Company	Holding	Country of incorporation	Principal activity	Ordinary shares held
HSS Hire Service Holdings Limited	Direct	United Kingdom	Intermediate holding company	100%
HSS Hire Service Finance Limited	Indirect	United Kingdom	Intermediate holding company	100%
Bannagroe Limited	Indirect	Republic of Ireland	Intermediate holding company	100%
ABird Superior Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Group Limited	Indirect	United Kingdom	Hire and equipment services	100%
A1 Hire & Sales Limited	Indirect	United Kingdom	Hire and equipment services	100%
Laois Hire Services Limited	Indirect	Republic of Ireland	Hire and equipment services	100%
ABird Limited	Indirect	United Kingdom	Hire and equipment services	100%
Apex Generators Limited	Indirect	United Kingdom	Hire and equipment services	100%
UK Platforms Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Financing plc	Indirect	United Kingdom	Hire and equipment services	100%
HSS Training Limited	Indirect	United Kingdom	Training services	100%
1st Collection Services Limited	Indirect	United Kingdom	Administration of group debtors	100%
TecServ Cleaning Equipment Services Limited	Indirect	United Kingdom	Cleaning equipment services	100%
All Seasons Hire Limited	Indirect	United Kingdom	Hire and equipment services	100%
Access Rentals (UK) Limited	Indirect	United Kingdom	Dormant	100%
Hire Shops Limited	Indirect	United Kingdom	Dormant	100%
Reintec Limited	Indirect	United Kingdom	Dormant	100%
The Original Tool Hire Company Limited	Indirect	United Kingdom	Dormant	100%

3. Other receivables

Current

	26 December 2015 £000s	27 December 2014 £000s
Amounts due from group undertakings	**138,140**	21,453
Other debtors	**50**	-
	138,190	21,453

Non current

	26 December 2015 £000s	27 December 2014 £000s
Amounts due from group undertakings	**59,015**	21,453
	59,015	21,453

4. Other payables

Current	**26 December 2015 £000s**	27 December 2014 £000s
Amounts due to group undertakings	**2,839**	17,283
Accrued interest	**58**	152
Accruals and deferred income	**24**	67
Other Creditors	**-**	-
	2,921	17,502

5. Borrowings

Maturity profile of creditors

	26 December 2015	27 December 2014
Due within one year	**£000s**	£000s
Revolving credit facility	**46,000**	19,500
Facility costs to be amortised	**(337)**	(237)
	45,663	19,263
Due after more than one year		
Revolving credit facility	**-**	-
Facility costs to be amortised	**(715)**	(702)
Amounts due to group undertakings	**405,738**	275,474
	405,023	274,772

Share capital

The details of the Company's share capital are set out in note 19 to the consolidated financial statements.

6. First time adoption of FRS 101

These financial statements, for the year ended 26 December 2015, are the first the Company has prepared in accordance with FRS101. For periods up to and including the year ended 26 December 2014, the company prepared its financial statements in accordance with UK GAAP.

The date of transition to FRS101 was 29 December 2013 (the transition date).

The accounting policies described in note 1 were applied when preparing the opening balance sheet at the transition date and the balance sheet and statement of changes in equity from the transition date to 26 December 2015.

Adjustment made in connection with transition to FRS 101

Financial Instruments - The Company's derivative financial instruments comprise interest rate swap contracts purchased to hedge the cash flows arising from variable interest rate borrowings. Under UK GAAP the fair value of such derivatives were not recognised on the balance sheet. The adoption of IFRS has resulted in the recognition of the derivatives at fair value in the statement of financial position of the Company and any movement in the fair value of the derivative is recognised in the income statement immediately.

Notes to the Company financial statements (continued)

6. First time adoption of FRS 101 (continued)

	Reconciliation of the statement of financial position at 29 December 2013		
	UK GAAP	Financial Instruments (a)	FRS101
	£000s	£000s	£000s
ASSETS			
Non-current assets			
Intangible assets	256,459	-	256,459
Derivative financial instruments	-	1,154	1,154
	256,459	1,154	257,613
Current assets			
Other receivables	2,682	-	2,682
Total assets	259,141	1,154	260,295
LIABILITIES			
Current liabilities			
Other payables	(22,751)	-	(22,751)
Borrowings	-	-	-
Derivative financial instruments	-	-	-
	(22,751)	-	(22,751)
Non-current liabilities			
Borrowings	(248,598)	-	(248,598)
Derivative financial instruments	-	-	-
	(248,598)	-	(248,598)
Total liabilities	(271,349)	-	(271,349)
Net liabilities	(12,208)	1,154	(11,054)
EQUITY			
Share capital	14,222	-	14,222
Share premium	143,068	-	143,068
Retained earnings	(169,498)	1,154	(168,344)
Total deficit attributable to owners of the company	(12,208)	1,154	(11,054)

6. First time adoption of FRS 101 (continued)

	Reconciliation of the statement of financial position at 27 December 2014		
	UK GAAP	Financial Instruments (a)	FRS101
	£000s	£000s	£000s
ASSETS			
Non-current assets			
Investments	256,459	-	256,459
Derivative financial instruments	-	-	-
	256,459	-	256,459
Current assets			
Other receivables	21,453	-	21,453
Total assets	277,912	-	277,912
LIABILITIES			
Current liabilities			
Other payables	(17,502)	-	(17,502)
Borrowings	-	-	-
Derivative financial instruments	-	-	-
	(17,502)	-	(17,502)
Non-current liabilities			
Borrowings	(294,035)	-	(294,035)
Derivative financial instruments	-	-	-
	(294,035)	-	(294,035)
Total liabilities	(311,537)	-	(311,537)
Net liabilities	(33,625)	-	(33,625)
EQUITY			
Share capital	14,222	-	14,222
Share premium	143,068	-	143,068
Retained earnings	(190,915)	-	(190,915)
Total deficit attributable to owners of the company	(33,625)	-	(33,625)

	Reconciliation of the consolidated statement of comprehensive income for the year ended 27 December 2014		
	UK GAAP	Financial Instruments (d)	FRS101
	£000s	£000s	£000s
Loss for the financial year	(21,417)	(1,154)	(22,571)
Items that may be reclassified to profit or loss:			
Exchange differences arising on translation of foreign operations	-	-	-
Other comprehensive (loss)/income for the year, net of tax	(21,417)	(1,154)	(22,571)
Total comprehensive loss income for the year	(21,417)	(1,154)	(22,571)
Attributable to owners of the Company	(21,417)	(1,154)	(22,571)