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Building momentum

HSS Hire Group plc

Annual Report and Financial Statements 2018

HSS Hire

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Building momentum

It's been a year of important change at HSS and we have made a significant number of strategic and operational decisions, which is showing tangible results.

We look ahead with confidence with the Company now operating with a more sustainable cost base, enabling us to drive profitable growth as we strengthen our commercial proposition and realise benefits resulting from greater focus on our Tool Hire business.

Strategic Report

Our Business and Our Performance

Corporate Governance

Governance

Financial Statements

Additional Information

The Strategic Report consists of pages 1 to 37 of this document

Highlights: Making excellent progress

Revenue – total[1] £352.5m FY17: £335.8m	**Rental revenue growth/(decline) – total[1]** 2.5% FY17: (5.7)%	**Adjusted EBITDA – total[1]** £71.3m FY17: £48.9m
Adjusted EBITA – total[1] Profit of £27.4m FY17: profit of £1.8m	**Operating profit/(loss) – total[1] Profit of** £16.3m FY17: loss of £(71.4m)	**Reported EPS (basic and diluted) – total[1] Loss of** (2.60)p FY17: loss of (46.96)p
Adjusted EPS (diluted) – total[1] Earnings of 3.45p FY17: loss of (5.68)p	**Leverage – total[1], [3]** 3.3x FY17: 4.8x	**ROCE – total[1]** 16.2% FY17: 1.0%
Revenue[2] £322.8m FY17: £304.0m	**Rental revenue growth/(decline)[2]** 3.8% FY17: (5.7)%	**Adjusted EBITDA[2]** £60.0m FY17: £36.0m
Adjusted EBITA[2] Profit of £22.1m FY17: loss of £(6.8m)	**Operating profit/(loss)[2]** £11.2m FY17: loss of £(79.9m)	**Reported EPS (basic and diluted)[2] Loss of** (3.76)p FY17: loss of (50.71)p
Adjusted EPS (diluted)[2] 1.36p FY17: loss of (10.37)p	**Core utilisation[1], [2]** 51.8% FY17: 49.7%	**Specialist utilisation[2]** 72.7% FY17: 71.9%

(1) Total is continuing and discontinued operations
(2) Continuing operations
(3) Includes adjustment for net proceeds of sale of UK Platforms

Operational highlights

This year has seen a significant improvement in operating performance, with improved product availability driving growth in rental revenues. Improved product availability has been achieved through a combination of several factors; reduction in offline equipment; optimised product distribution and multi-skilling of colleagues to reduce turnaround times for customers.

Revenue growth has also been accompanied by tight cost control, thanks to our strict commercial management framework.

More recently we have also introduced new insight tools into our teams to improve decision making, which we expect to drive further benefit in to 2019.

Customer satisfaction levels have remained significantly higher than the industry* benchmark and colleague engagement rates have improved since 2016.

Strategic highlights

Total leverage has successfully reduced from 4.8x (30 December 2017) to 3.3x (29 December 2018), through improved Adjusted EBITDA and a continued focus on working capital management. A successful network reconfiguration project combined with significant central cost efficiencies has led to £14m-£15m of annualised cost savings. In 2018, we also refinanced the Group, providing the long term facilities required to execute our strategy.

We have returned our Tool Hire business to profitability through a combination of actions, focusing on the three key areas: customers, branches and products.

A wide-ranging customer segmentation exercise has been completed, which has given us a much clearer view of our competitive position and how to evolve our proposition to better meet and differentiate customers' requirements.

The UK Platforms sale, which completed in January 2019, has provided proceeds to reduce our debt and enable more focus on our Tool Hire business.

Alternative Performance measures

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.

*Kantar TNS Industry Benchmark (Top third, 2016, B2B services including manufacturing and utilities)

This Report contains certain forward-looking statements with respect to the operations, strategy, performance, financial condition and growth opportunities of the Group.

By their nature, these statements involve uncertainty and are based on assumptions and involve risks, uncertainties and other factors that could cause actual results and developments to differ materially from those anticipated. The forward-looking statements reflect knowledge and information available at the date of preparation of this Report and, other than in accordance with its legal and regulatory obligations, HSS Hire Group plc undertakes no obligation to update these forward-looking statements. Nothing in this Report should be construed as a profit forecast.

Strategic Report

Our Business at a Glance

What we do

HSS Hire Group is a market leader in equipment hire in the UK and Ireland. We offer a one-stop shop for all equipment hire through a combination of our complementary Rental and Services businesses, the latter being a capital-light, fast-growing and increasingly technology-based business.

We serve an extremely diversified customer base, predominantly business-to-business (B2B), who operate a range of activities across multiple end markets, providing us with less exposure to highly cyclical sectors.

Our unique national network, with over 240 locations supported by a hub-and-spoke distribution network, complemented by our industry-leading fully-transactional website, ensures easy access and high availability, a key customer requirement. This combined with a team of over 2,600 highly engaged colleagues(1), gives us customer satisfaction scores well above the B2B benchmark(2).

Locations

240+

supported by a hub-and-spoke distribution network

Our workforce

2,600+

highly engaged colleagues(1)

See Our Business Model page 4

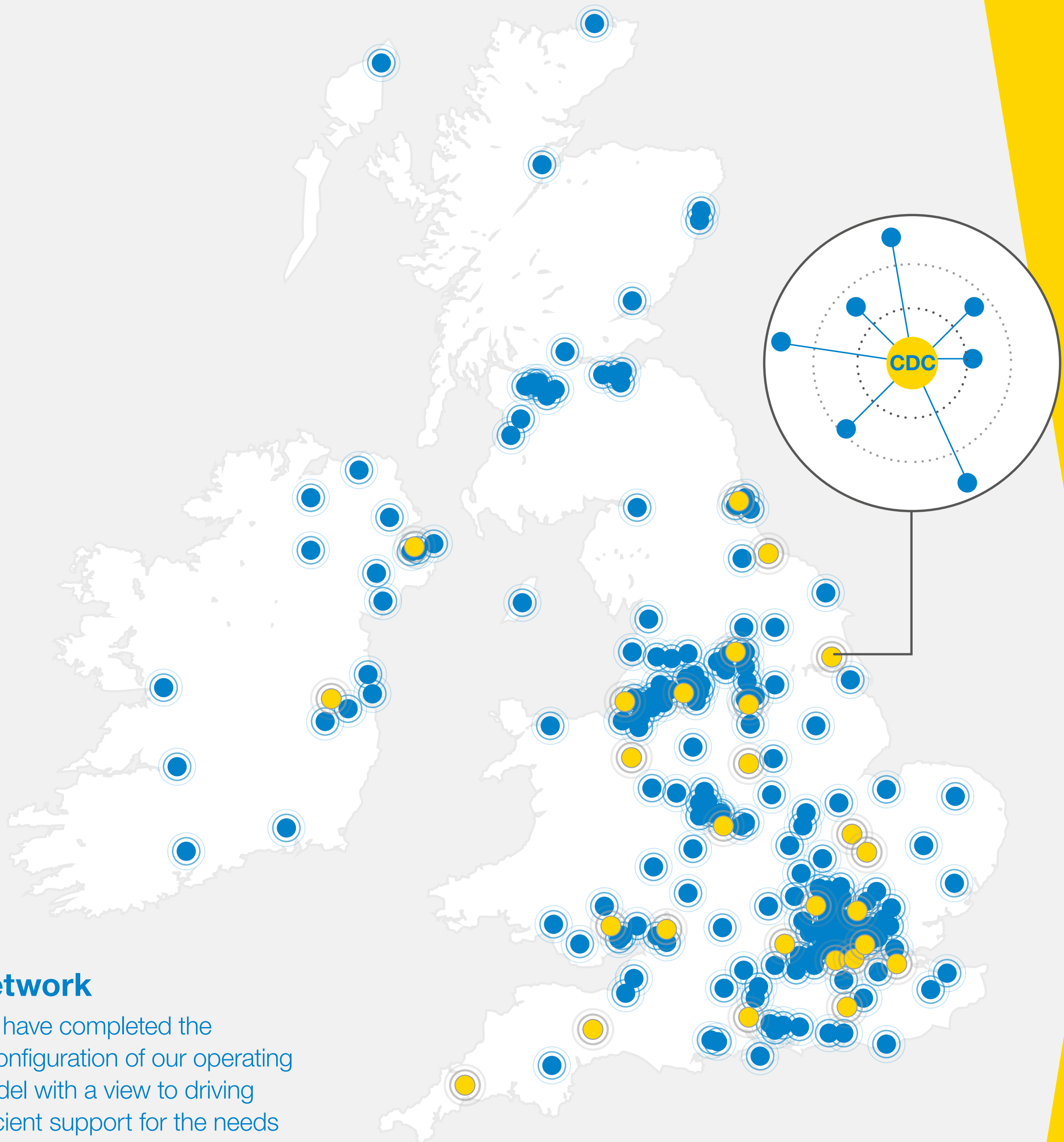
Rental

Our Rental segment comprises rental income earned from HSS-owned tools and equipment and directly related revenue e.g. resale, transport and other ancillary revenues. This business serves the very fragmented £1.9bn market for small tools, power generation and powered access, via a combination of our HSS Tool Hire and specialist businesses, ABird, Apex and All Seasons Hire. The rental business has a truly national network of convenient locations, a unique 24/7 distribution operation, knowledgeable colleagues, and a wide range of well-maintained compliant equipment. This business is also increasingly accessed through the digital channel thanks to our industry-leading fully transactional website, which stands out in a digitally immature market.

Services

Our capital-light Services segment directly complements our Rental business and comprises income from our OneCall rehire and HSS Training businesses. The fast-growing OneCall rehire business allows us to serve the entire £4bn UK hire market with 1,000s of additional products, without the requirement for capital investment. It has a network of over 400 accredited suppliers, is inherently scalable and has improving margins. The fast-growing HSS Training business offers customers a national training solution for their employees, predominantly servicing the c£328m UK H&S training market. It is market leading in PASMA, CITB and Ladder training and number two in IPAF. With over 200 courses, 56 trainers, 47 venues throughout the UK (and increasing), and a leading online training management and online booking system, we are able to serve over 60,000 delegates a year.

(1) Colleague Engagement score 72%, Q4 2018. Source: Anthem Engagement
(2) NPS score 44, Q4 2018, compared with B2B benchmark in services, manufacturing and utilities of 21. Source: Kantar TNS



Network

We have completed the reconfiguration of our operating model with a view to driving efficient support for the needs of our customer base.

We have branches in more than 240 locations and, following the implementation of the more branch-focused operating model, we now provide greater availability of hire stock to our customers across the UK and Ireland. The changes we have implemented include the expansion of test and run into all HSS branches and customer distribution centres (CDCs) with more intensive repair requirements being moved into a number of strategically-located workshop CDCs. In addition, the workshop CDCs link to a national cross-dock centre in Oxford that enables the overnight movement of kit to service our customers' delivery requirements between all of our CDCs in England and Wales.

Customer distribution centres

30

Training centres

47

Strategic Report

Our Business Model

Our business model is built on our customers' requirement to outsource the management of tools and equipment. Tools and equipment are essential to our customers' activities, but the management of equipment is not their core capability. They often do not want the capital cost of equipment, nor the responsibility for testing, maintenance, distribution and compliance. We do all that for them, to ensure that they meet legislation, keep their colleagues safe and deliver their projects on time.

Customers

Customers focus on project management, people resources and construction materials

- → Build
- → Maintain
- → Operate

...UK and Ireland Infrastructure

Build

Schools, Hospitals, Housing, Offices, Factories, Roads

HSS

HSS focuses on equipment management, safety and timely provision to customer sites

- → Sources
- → Tests
- → Distributes
- → Repairs & maintains

...The equipment our customers use

Source equipment

Purchase & own, Re-hire

Test

One Call

Complete order management

How we generate revenue

Rental revenue(1)
We generate rental income from the equipment we hire out from our owned fleet.

Rehire revenue(2)
We also generate income when we source equipment from our extensive OneCall supply chain.

Accessories and resale(1)
We sell product accessories (e.g. drill bits) and safety equipment to many of our customers.

Key enablers and barriers to entry

Customer relationships

>90%
B2B

>32,000
live accounts

National reach

240+
locations

30
customer distribution centres

Safety & quality

BSI accreditation

System-driven equipment maintenance regime

Colleagues

2,600+ knowledgeable colleagues

72% Employee Engagement Score(3)

(1) Rental and related revenues
(2) Service revenue
(3) Colleague Engagement score 72% (Q4 2018), compared with UK national average score 60%. Source: Anthem Engagement
(4) NPS score 44 (Q4 2018), compared with B2B benchmark in services, manufacturing and utilities of 21. Source: Kantar TNS

Maintain
Service, Repair, Renovate, Upgrade, Extend

Operate
Power, Heat, Cool, Light

Distribute & collect

Maintain & repair

Train their people
HSS training

Transport charges[1]
Over 70% of our customers ask us to deliver and collect kit directly to their site, for which we charge a transport fee.

Equipment cover and damage[1]
Many of our customers pay a premium for damage waiver so that they are protected against accidental damage. We also generate revenue by charging for damage and loss.

Training[2]
We charge customers delegate rates for our comprehensive range of training courses.

Range of equipment

>1,500
SKUs

>400
On-call suppliers

Operational excellence[4]

44
NPS score

>50%
utilisation

Easy to work with

full transactional website
leading digital offer
one-stop shop

Training resource

47
training centres

>50
directly employed & certified trainers

Strategic Report

Chairman's Statement

Board priorities for 2019

1. **Delever** the Group
2. **Transform** the Tool Hire business
3. **Strengthen** the Group's commercial proposition

We have delivered significant growth in 2018 through the excellent execution of year one of our new strategic plan. We will build upon this momentum in 2019, through continued focus on our three strategic priorities, progressing from repairing to transforming our Tool Hire business and increasing our emphasis on strengthening the Group's commercial proposition for our customers.

Dear shareholder,
During 2018, the Group Board and senior management have relentlessly focused on the delivery of our strategic priorities which has resulted in significantly improved performance across the Group.

Alan Peterson OBE
Chairman

Laying the foundations for future growth

It has been a busy year during 2018, as we continue to deliver on our three clear strategic areas of focus, as set out in December 2017:

1. Delever the Group
2. Transform the Tool Hire business
3. Strengthen the Group's commercial proposition

I am pleased to report that good progress has been made in the first year of implementing our strategic priorities with significant operational changes successfully completed. With these foundations in place, further delivery of our strategic priorities and the continued momentum in performance, we are well positioned to drive profitable growth as we head into 2019 and beyond.

In April 2018, we smoothly implemented changes to our network, moving the testing and repair of all fast moving products back into the branch network, closer to HSS's customers. These changes were substantial: moving around 12,000 items out of the national distribution centre, reducing the trunking routes between a central location to the Customer Distribution Centres (CDCs) from 42 to 8 and training 200 HSS colleagues. This has realised annualised cost savings of around c£20m, improved product availability and increased engineering capacity across the network by 30%.

To enable greater focus on the Tool Hire business and reduce debt, we announced in July 2018 the proposed sale of UK Platforms to Nationwide Platforms with the transaction completing in January 2019. The UK Platforms business has made an excellent contribution to the Group over recent years and I wish our former colleagues well in the future. As part of the disposal, we entered into a long-term commercial agreement with Nationwide ensuring that we continue to provide our customers a market-leading powered access offer.

Our results

The implementation of our strategy has been reflected in our strong performance during the financial year. Adjusted Total EBITDA, including UK Platforms, for the year at £71.3m, 45.8% growth year-on-year, reflects the Group's highest ever Adjusted EBITDA performance, with these margins improving to 20.2%, a 5.6 percentage point increase over prior year. A combination of focused sales initiatives, improved product availability and our extensive range of relevant seasonal products delivered underlying Rental revenue growth of 4.1%. This underlying measure adjusts for the impact of our cleaning rental and services business which was disposed of in November 2017. This was augmented by continued strong performance from our Services business with total revenue growth of 12.0% and, pleasingly, contribution, as defined in note 5 to the financial statements improving 23.8% in absolute terms. Our relentless focus on operational efficiency led to overheads, excluding exceptional costs, being c£20m lower than in 2017, with the changes to the network realising significant benefit. Improved revenue combined with lower overheads also resulted in Adjusted Total EBITA increasing to £27.4m, up £25.6m year-on-year, with Return on Capital Employed (ROCE), including UK Platforms, increasing to 16.2% compared with 2017's 1.0%.

Our results are discussed in more detail in the Financial Review on pages 28 to 31.

Our Board and management team

The Board aspires to lead by example and live the HSS values: safety, value, availability and support.

It was a busy year for the Board, and I want to thank all Directors for their individual contributions and determination to see the Group through what has been a year of change for our business, whilst ensuring HSS continues to deliver for its stakeholders.

In January 2019 we announced the appointment of Dave Crellin as our Chief Operations Officer and he joined the business in March 2019. With supply chain expertise in a multi-channel environment, Dave is a strong addition to the management team.

Governance

We continued our commitment to corporate governance during the year and have started to develop plans to reflect the new Corporate Governance Code guidance, introduced in 2018, in our business. We will report further on that in 2019.

During the year, the Group implemented required changes to ensure compliance within the business as the General Data Protection Regulation (GDPR) became law. We also continued to promote our Code of Ethics in the business, including in relation to the Bribery Act 2010 and the Modern Slavery Act 2015. In respect of the latter, steps undertaken over the year are included on our website.

Our people

Our colleagues are key to our business and I am continually impressed with the motivation, commitment, can-do attitude and achievement of HSS people across our Group which was borne out by the 2018 employee engagement survey. This is once again reflected by our customer satisfaction scores, which remain consistently high. I am very confident that with their support, HSS will continue on its journey of successfully delivering on its strategy and build upon the momentum created with our strong 2018 performance.

Corporate responsibility

Our primary responsibility is always to ensure our HSS colleagues and customers get home safely at the end of every day. The Board remains fully committed to providing a safe environment for all and starts every meeting with a focus on health and safety matters. The Board is also focused on ensuring that the business operates with transparency and integrity, delivering a sound economic performance, whilst paying close attention to reducing our impact on the environment, and that we are contributing in a positive way in the local communities that we operate within.

Refinancing

The Group completed its refinancing in July 2018 which secured £245m of debt facilities. These facilities included a new term loan facility of £220m provided by HPS Investment Partners, with £200m maturing in July 2023, and £20m, with flexibility to be settled before maturity, in December 2020. A new revolving credit facility was also agreed with HSBC UK Bank plc and National Westminster Bank plc, maturing in January 2023. Following the completion of the UK Platforms disposal in January 2019, £38m of the term loan facility was repaid.

This new capital structure provides the liquidity and flexibility to continue delivery of our strategic priorities.

Dividend

The Board is focused on delivering on our strategic priorities, and after careful consideration of the performance of the Group during the year, believes it is in the best interests of the shareholders of the Group, to not pay a final dividend in respect of 2018. The Board will re-evaluate this position once the net debt leverage ratio falls below 2.5x.

Looking ahead

We have continued the positive momentum of 2018 into the current financial year and are trading in line with our expectations for the first quarter of 2019.

Looking ahead, we will continue to focus on the delivery of our strategic priorities of reducing leverage, driving growth in the Tool Hire business and, with increasing emphasis, on strengthening the commercial proposition to our customers, utilising the extensive customer segmentation work carried out in 2018 to evolve our go-to-market strategy and develop our digital channel. We are confident that this focus will continue to improve profitability and returns, growing profitable market share.

Alan Peterson OBE
Chairman
3 April 2019

Strategic Report

Chief Executive Officer's Strategic Review

Focused on delivering our strategy and building momentum

I am pleased with how the business has performed during 2018; a lot has been achieved and we now have a strong platform on which to build. Having started the year with a clear strategy, we have made significant progress on delivering on our strategic priorities and built good momentum across the Group during 2018. We have set out what we want to achieve and have delivered on a number of areas during the year, but we have lots to be getting on with. We remain focused on the task in hand and are committed to delivering on our strategy and improving shareholder returns. I look forward to continuing to drive profitability within the business and building upon the successes of 2018.

Steve Ashmore
Chief Executive Officer

Update on our strategy

Strategy Review
Identified three clear strategic priorities

As a reminder, our Strategic Review identified three clear priorities, giving us a thorough understanding of the business and a clear route map of how to return HSS to historical performance levels

1. **Delever** the Group
2. **Transform** the Tool Hire business
3. **Strengthen** the Group's commercial proposition

We have made excellent progress against these priorities, with success in a number of areas

Our strategy in action
What have we achieved?

- Network reconfiguration
- Cost reduction programme
- £245m of new debt facilities
- Sale of UK Platforms
- Customer, product and branch profitability improvements
- Customer segmentation review
- Product investment prioritisation

2019 & beyond
Building on 2018 momentum and focusing on

- Continuing to delever the Group
- Transforming the Tool Hire Business
- Strengthening the commercial proposition
- Digital agenda
- Go-to-market agenda
- People
- Product and pricing

Overview of the year
HSS has made significant progress during the year, with effective implementation of its strategic priorities as we continue to improve the operational and financial performance of the business.

At the start of 2018, we completed the implementation of our new supply chain model, delivering c£11m of annualised savings. In July, we refinanced the business by securing £245m of debt facilities. This ensures that we have the appropriate facilities in place to continue delivering on our strategic priorities and the Group's full potential.

As part of our efforts to delever the business, we announced the proposed sale of our UK Platforms business in July and successfully completed the disposal in January 2019. This transaction has allowed us to accelerate progress against our strategic priorities, enabling further deleveraging through debt reduction and allowing for greater focus on our core Tool Hire business.

Finally, we have completed a comprehensive customer segmentation review that has given us a much better understanding of customer requirements and their fit with our proposition. We have used this to inform our plans for 2019 and beyond and we are excited that these plans will allow us to differentiate ourselves from our competition and drive profitable growth.

Reminder of our Strategic Review
At the end of 2017, we announced the findings of our Strategic Review which set the basis for the business going into 2018. As a reminder, we engaged an independent third party to work with the HSS management team to undertake the most extensive Strategic Review of the business in its history. The review was wide ranging in scope and involved the analysis of 20 million contract lines, more than 35,000 customers, 1,600 products and more than 240 locations. We focused on a number of areas including profitability, the cost of our operations, processes we have in place and the market opportunity.

Following this Strategic Review, we set out our new strategy at the start of 2018, which involved the three key strategic priorities: Delever the Group, Repair the Tool Hire business and Strengthen the Group's commercial proposition.

We have made excellent progress on implementing our strategy and below provides more insight into what we have achieved over the past year.

Delever
Network reconfiguration: The smooth implementation of a new supply chain model

At the start of 2018, we completed the implementation of our new supply chain model, realising c£11m of annualised savings. We have achieved this through a range of actions. For example, we have moved 12,000 items out of our National Distribution and Engineering Centre (NDEC) into our branch network, providing greater availability to our customers. We have removed handling costs equivalent to 100 full-time employees and shrunk distribution trunking routes from 42 down to 8, significantly reducing our cost base. We moved the testing of our equipment back into our branches, increasing testing capacity from 30 to 200 HSS locations; a move that was strongly welcomed by branch colleagues. This has not only provided greater availability to our customers but has also allowed us to lower our transport costs. Furthermore, we have trained 200 HSS colleagues who are now able to test and repair equipment on-site, improving their skillsets and knowledge of our product offering. Finally, engineering capacity has increased by 30% across the network, allowing us to reduce our maintenance backlog which had been steadily increasing across the business. Whilst implementing these changes, service standards have been maintained and trading volumes remained strong.

In addition to the supply chain savings, we also drove efficiencies by eliminating duplication and simplifying our processes across several head office functions, achieving savings in line with plan.

As a consequence of these decisive actions, and in combination with improved trading of the Group, total leverage has reduced from 4.8 times to 3.3 times.

Strategic Report

Chief Executive Officer's Strategic Review

continued

Refinance of the business

We announced in June that we had entered into a new term loan facility of £220m and a revolving credit facility of £25m in order to refinance the existing corporate debt. The new term loan facility of £220m is provided by HPS Investment Partners, with £200m maturing in July 2023, and £20m, with flexibility to be settled before maturity, in January 2021. This facility is at interest rates of between 700bps and 800bps over LIBOR dependent upon the net debt leverage ratio of the Group. In connection with this new term loan facility, the Company has granted HPS Investment Partners 8,510,300 warrants to subscribe for new ordinary shares in the Company. The warrants are exercisable at a price of £0.01per share and can be exercised after five years, subject to certain specific conditions for exercise before then, including the repayment of the term loan facility. A new revolving credit facility has also been agreed with HSBC UK Bank plc and National Westminster Bank plc, maturing in January 2023, at rates of between 250bps and 300bps over LIBOR dependent upon the net leverage of the Group. Closing of the new facilities was completed at the beginning of July and repayment of the Company's existing senior secured notes and revolving credit facility outstanding balances was made. We are very pleased to have secured the long-term refinancing of the Group, as this now ensures that we have the appropriate facilities in place to continue delivering on our strategic priorities and the Group's full potential.

Disposal of our UK Platforms business

In July, we entered into a conditional agreement with Nationwide Platforms Limited, a wholly-owned subsidiary of the Loxam Group, with respect to the sale of UK Platforms Limited for net proceeds of £47.5 million. The disposal, completed in January 2019, is consistent with HSS's strategic agenda of delevering the Group through the reduction in debt and enabling greater focus on the core Tool Hire business. £47.5m of proceeds were received. As part of this transaction, HSS has also entered into a long-term strategic commercial agreement with Nationwide to provide powered access equipment to complement HSS's existing fleet. This means that we will still be able to provide to our customers, via our OneCall business, the full product offering that we were able to offer through the UK Platforms business. £38.0m of the net proceeds from the disposal has been used to pay down debt in January 2019, with the remaining amount reinvested into the Tool Hire business to purchase new equipment.

UK Platforms has been shown as a discontinued operation for both 2018 and 2017 in the financial statements.

Transform

We identified three key areas to transform the Tool Hire business in 2018: customer, product and branch.

Customer

During 2018 we worked closely with our customers to enhance their customer experience, whilst also identifying areas of unnecessary cost and opportunities to create mutual value improvements. This proved very successful with positive amendments made to commercial terms, including price, associated sales and payment terms. Improvements were agreed with over two-thirds of the 30 biggest customer opportunities identified and, where this was not possible with a customer, we reallocated equipment to more profitable customer segments to drive better returns.

Product

In 2018, we introduced smart pricing to better reflect the utilisation and demand for different products, in addition to the value of our service to customers. We have created more pricing consistency within different product categories. We have also taken decisive action rationalising our range, finding alternative ways of fulfilling high cost-to-serve products (e.g. via rehire) and focused our suppliers' attentions on re-engineering products with high ownership costs. In both areas we have made significant steps forward and continue to pursue more opportunities in 2019.

Branch

Using the detailed branch profitability analysis carried out in the 2017 Strategic Review, we have taken advantage of opportunities to improve profitability in several locations. We have reduced costs by subdividing and subletting a small number of properties with excessive space for our requirements. We have closed a small number of branches with poor profitability caused by structural drivers (e.g. small market, high cost to serve) and we have increased capability in three of our more remote locations to reduce distribution and support costs. This progress has driven improved profitability without any detrimental impact on our overall national customer proposition, with these changes affecting less than 10% of our network.

We introduced branch P&Ls in to the business in 2018, and began measuring and incentivising regional management on profit, which has driven an increased focus on pricing and costs.

Strengthen

The third and final strategic priority is to strengthen the Group's commercial proposition. We laid out three actions to be taken here: customer segmentation, geographic focus and sales channel development. These actions take this logical order and, as such, our initial focus in 2018 has been on customer segmentation. We engaged an independent third party to work with the HSS management team to understand the precise requirements of different customer segments and how well our current proposition meets these requirements. This work also involved understanding our relative competitive position in the market and the relative attractiveness of the different customer segments. The review involved extensive external and internal input. Externally, the third party conducted a structured market survey of 168 customers, carried out one-to-one customer interviews with another 78 customers and carried out comprehensive competitor analysis and market research. Internally, they extended the analysis carried out in the 2017 Strategic Review, involving more than 20 million contract lines, 35,000 customers and 1,600 products, carrying out internal management interviews, branch visits and colleague workshops.

The main conclusions of this review were that we should (1) continue to serve all segments; (2) make a series of changes to our customer proposition that will make us easier to work with and more reliable, including sales channel development that puts a greater emphasis on digital; and (3) refine our go-to-market model in parallel to these service improvements to maximise profitable growth and sales channel development. We are confident that the changes we are putting in place in 2019 will differentiate us from our competition, improve customer loyalty and improve returns.

Product Investment

Expanding our product range through further investment

In Q4 2018, we reviewed the decision-making process for fleet investment and introduced a more analytically driven approach, whilst still using the experience of management to sense-check the output. We incorporated the profitability analysis carried out as part of our Strategic Review in order to prioritise investments that provide the best returns. We incorporated the customer feedback carried out in the segmentation review to understand demand, and carefully analysed historical rates of utilisation amongst all product groups. And finally, we also incorporated an assessment of the relative economic merits between owning equipment and rehiring via our low-capital OneCall sales channel. As a result of all this work, our investment plan for 2019 is much more focused on a set of products that provide the best returns and the strongest likelihood of driving growth.

Our market

Our addressable market in tool hire, powered access and power generation in the UK is approximately £1.9bn. The market is estimated to have grown, according to the ERA, by 1% – 2% pa this year, with similar growth being forecast for the next two years, albeit with some degree of uncertainty relating to Brexit. The market remains highly fragmented with approximately half the market being served by small independents, most of which operate from one location. Within the tool hire market there are five nationals who make up approximately half of that market with no single player with more than 14% share. We have leading positions in each of our key markets.

Our customer base is large and diverse and operates across a wide set of end markets, including residential, non-residential and infrastructure. Our customers' activities include the new-build, repair, maintenance, renovation and operation of the UK and Ireland's schools, hospitals, offices, factories, roads and all other infrastructure. We continue to benefit from significant exposure to the less cyclical sectors of facilities management, retail operations, commercial fit-out, property, utilities and waste, infrastructure and energy supply services.

We believe that our market provides significant opportunity to differentiate from the competition and remain confident that we can deliver further efficiency benefits from scale for both customers and shareholders.

Management team

The executive team in place at HSS did not change during 2018 and is relatively new in terms of tenure, with myself having joined the Company in June 2017 and Paul Quested, Chief Financial Officer, joining the business in August 2016. Despite this short period of time, we have strength and depth in experience across the Group and I continue to be encouraged by the dedication and commitment of the management team, and the excellent leadership within their respective functions and the wider Group. I am very confident that with their support, we will be successful in continuing to implement our strategic priorities and achieving our goals.

I would also like to welcome Dave Crellin, who joined as our Chief Operations Officer in March 2019. With supply chain expertise in a multi-channel environment, Dave will be a strong addition to the management team.

2019 and beyond

We remain focused on our strategy to (1) Delever, (2) Transform and (3) Strengthen, but as we look forward, and following the significant steps taken in 2018, I can see our focus shifting towards element three of our strategy. We will continue to delever the Group and improve the performance of the core tool hire business in 2019, but we will also significantly step forward our commercial proposition. We have carried out a significant amount of research and planning in this area during 2018, and I look forward to these plans coming to bear on further profitable growth in 2019. I am particularly excited about the digital opportunity in the development of our sales channels and am confident that we can create a differentiated customer proposition that gives us significant competitive advantage.

Following a period of turnaround for the Group, I now look forward to a period where we set ourselves apart from the competition and drive profitable growth.

Steve Ashmore
Chief Executive Officer
3 April 2019

Strategic Report

Our Strategy at a Glance

Delivering on our strategy

Our values

Our focus is on what matters most to our customers:

- Safety
- Value
- Availability
- Support

Our strategic priorities

1. Delever the Group
2. Transform the Tool Hire business
3. Strengthen the Group's commercial proposition

Our strategic enablers

Guided by our values, our strategy is realised through a focus on our three strategic enablers:

- A strong commercial management framework
- The right tools to support decision making
- Incentivised and motivated team

Our strategy	Our performance
1 Delever the Group	We have performed well this year in meeting our first strategic objective. Our total leverage has reduced from 4.8x (30 December 2017) to 3.3x (29 December 2018) through improved Adjusted EBITDA and a continued focus on working capital management. In Q1, we successfully implemented network changes that have improved availability and reduced our annualised cost base by c£11m. We also delivered central cost savings of £3m – £4m by improving efficiencies and systemisation in our support functions. All changes were executed well with high levels of service maintained throughout. In 2018, we refinanced the Group, providing the long-term facilities required to execute our strategy. The UK Platforms sale, completed in January 2019, provided net cash proceeds of £47.5m, of which we have used £38.0m to reduce our debt.
2 Transform the Tool Hire business	We have returned our Tool Hire business to profitability in 2018 through a combination of actions, focusing on the three opportunity areas we highlighted in our 2017 Strategic Review: customers, products and branches. Targeted profitability improvement has been achieved with several of our biggest customers and remains an ongoing focus. Branch P&Ls have been rolled out across regions with profitability-based incentives in place, and investment has been made in the commercial decision-making support for branches. Smart product price increases have been implemented combined with improved discount controls. Product investment is now targeted at the most profitable categories, enabled by enhanced insight from our new reporting tools. During this year of transformation we have maintained high levels of customer satisfaction and improved employee engagement.
3 Strengthen the Group's commercial proposition	In 2018, we carried out a comprehensive customer segmentation exercise, with the support of a third-party consultant. This involved extensive market research, one-to-one customer interviews and competitor analysis, as well as input from colleagues from branches to senior management. The outcome is a much clearer view of our customer segments, their particular requirements and how well placed we are against our competition to meet these requirements. This study has given us a clear set of actions to take in 2019 to improve our proposition and differentiate us from our competition.

Our priorities	KPIs	Risks
We continue to focus on reducing our leverage below 3.0x. In 2019, we will see the full annualised impact of some of the cost reduction actions taken in 2018. Our strong commercial management framework will continue to drive profitable growth which will further reduce leverage.	→ Leverage → Adjusted EBITDA → Net debt	There are two primary risks relating to this strategic priority: EBITDA performance and cash collection performance. Our strong commercial management framework, combined with our newly introduced decision-making tools and profit-based incentives, provide us with good confidence that we will deliver our EBITDA targets in 2019. In terms of cash collection, we will continue the strong focus in both our central and field-based functions. The fragmentation of our customer base reduces the risk around bad debt and, where we have identified risk, we have put in place the necessary controls and insurances.
Our focus in 2019 now shifts from 'repair' to 'improve'. We see further opportunities for profitability improvement with customers (e.g. smart pricing), with products (e.g. product lifecycle optimisation) and with branches (e.g. performance management, colleague engagement and incentivisation). We see strong opportunities to prioritise resources on our key target markets and will continue to be very focussed on profitable growth.	→ Revenue performance → Adjusted EBITDA and margin → Equipment utilisation	We are minimising risks in this area by operating a strong performance management framework and introducing new colleague incentives that drive the correct profitable behaviours. Colleague retention is a risk to this strategic objective, and as such we have carried out a colleague engagement survey. The learnings from this survey have provided us with some clear initiatives for 2019 that will mitigate this risk.
Our priorities are to 1) develop the market-leading digital offering in tool hire, and 2) transform our OneCall rehire proposition in to a much more scalable technology-led business with a seamless customer experience. The first priority involves developing the market-leading customer app, making it easier for our customers to on and off hire, fully integrating it with our industry-leading website and providing order tracking and online account management. The second priority will significantly shorten the customer journey, by building an automated platform that provides superior speed and visibility for our customers. This will accelerate the growth of our capital-light services business, and together the two priorities will provide the most customer-centric digital offer in our marketplace. We have already successfully delivered new technology platforms in both areas during Q1 2019.	→ Net Promoter Score → Adjusted EBITA and margin → Return on Capital Employed	At the outset of the two projects, our primary concern was the successful development of the technology and the capability of our technology partners. We are now well advanced in the development and have been very pleased with the progress made, and as such our attention is now turning to customer adoption. We have carried out comprehensive customer testing and are confident that the two projects will deliver our objectives in full.

Strategic Report

Our Strategy in Action

‘One call’ tool hire

Reliable tools that are clean and run like a dream

Supporting our customers to deliver

HSS OneCall provides a wide range of equipment on hire to ISG, a global construction services company that specialises in fit out, technology solutions, construction and development and is dedicated to delivering places that help people and businesses thrive. They value the quick response times for quotes and the cost savings they are able to develop in partnership with HSS.

"If for any reason the HSS OneCall team is not happy with delivery times or rates they have got back, they will be frank and open with us. Without ISG asking, they have already gone further afield to see what alternatives are available."

Valuing the professional and friendly manner of their support from HSS OneCall, ISG chooses us as a key partner supporting their activities with key clients such as supermarket chains.

Strategic Report

Our Strategy in Action

Rapid action

Getting no nonsense help from experts made the job run a lot smoother

Supporting our customers to deliver

ISS, a leading global provider of facility services, offering services on an international scale with leveraged knowledge and experience, were impressed with the HSS team and our efforts to supply temporary heating when ISS's air conditioning equipment broke down.

Despite the late notice, HSS were able to pull off a delivery very late on in the day, as we collaborated between branches to get hire equipment to ISS the same evening. "As a result, ISS was able to fulfil our client's request to bring in temporary heating. Without HSS we would have had a very unsatisfied customer."

This responsiveness makes HSS a trusted supplier for HSS and tens of thousands of other customers in a multitude of business sectors.

Strategic Report

Our Key Performance Indicators

Measuring our progress

Group revenue

£322.8m

FY17: £304.0m

Total (continuing and discontinued)

£352.5m

FY17: £335.8m

Importance of KPI

Simplest measure of the ongoing growth of the Group's sales from which profits can be generated and shareholder value created.

Definition

Revenue from contracts with third party customers derived from continuing operations after deducting VAT, rebates and credit note provision movements.

Link to strategy

1 2 3

Track record

		Growth
FY18	£322.8m	6.2%
FY17	£304.0m	(1.2)%
FY16	£307.7m	10.5%
FY15	£278.5m	

See Financial Review page 29

Rental and related revenues

£226.0m

FY17: £217.7m

Total (continuing and discontinued)

£253.9m

FY17: £247.8m

Importance of KPI

Simplest measure of the ongoing growth of the Core hire business' sales from which profits can be generated and shareholder value created.

Definition

Revenue including kit and equipment sales derived from the direct contact with our customers.

Link to strategy

1 2

Track record

		Growth
FY18	£226.0m	3.8%
FY17	£217.7m	(5.7)%
FY16	£230.8m	(0.1)%
FY15	£231.0m	

See Financial Review page 29

Adjusted EBITDA and margin*

£60.0m

18.6% margin

Total (continuing and discontinued)

£71.3m

20.2% margin

Importance of KPI

Widely recognised measure of profitability. Metric also used in leverage and covenant calculations.

Definition

Operating profit before depreciation, amortisation and exceptional items. Depreciation includes the net book value of hire stock losses and write-offs, and the profit on disposal of other fixed assets.

Link to strategy

1 2 3

Track record

		Margin
FY18	£60.0m	18.6%
FY17	£36.0m	11.8%
FY16	£56.1m	18.2%
FY15	£55.5m	

See Financial Review page 30

*Denotes key performance indicators which are considered when assessing FY18 Executive Director remuneration (see pages 62 to 64).

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Adjusted EBITA and margin*

£22.1m

6.8% margin

Total (continuing and discontinued)

£27.4m

7.8% margin

Importance of KPI

Measure of profitability before amortisation, impacts of capital structure (interest and tax) and exceptional costs.

Definition

Operating profit before amortisation and exceptional items.

Link to strategy

1 2 3

Track record

		Margin
FY18	£22.1m	6.8%
FY17	£(6.8)m	(2.2)%
FY16	£12.9m	4.2%
FY15	£12.9m	

See Financial Review page 30

Adjusted EPS (diluted)*

Earnings of **1.36p**

FY17: loss of (10.37)p per share

Total (continuing and discontinued)

Earnings of **3.45p**

FY17: loss of (5.68)p per share

Importance of KPI

Measure of adjusted profitability per share. Widely recognised measure of shareholder value (profit) being generated by a business excluding non-recurring or exceptional items and amortisation and after charging the prevailing rate of corporation tax.

Definition

Earnings are defined as profit before tax after adding back exceptional items and amortisation. These are then divided by the sum of the number of shares in issue and any shares that may be issued in future (e.g. warrants and share options) and would have the impact of reducing EPS.

Link to strategy

1 2 3

Track record

FY18	1.36p
FY17	(10.37)p
FY16	2.94p

See Financial Review page 30

Return on Capital Employed (ROCE)*

16.5%

FY17: (5.1)%

Total (continuing and discontinued)

16.2%

FY17: 1.0%

Importance of KPI

Measure of the return-generating ability of the business adopted at the direction of the Remuneration Committee.

Definition

Adjusted EBITDA divided by the average of the capital employed at the beginning and end of the year. Capital employed is property, plant and equipment, intangible assets, payables, receivables and provisions. It excludes derivative financial instruments and deferred tax.

Link to strategy

1 2

Track record

FY18	16.5%
FY17	1.0%
FY16	9.7%

See Financial Review page 31

Strategic Report

Our Key Performance Indicators
continued

Measuring our progress

Leverage*

3.1x
FY17: 6.2x

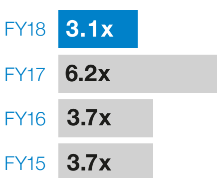
Total (continuing and discontinued)
3.3x
FY17: 4.8x

Importance of KPI
Measure of financial liquidity.

Definition
Net debt is borrowings, including finance leases, less cash, expressed as a multiple of Adjusted EBITDA.

Link to strategy
1

Track record



See Financial Review page 31

Fleet investment

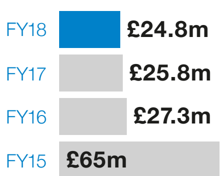
£24.8m
FY17: £25.8m

Importance of KPI
Measure of investment in hire fleet. Excludes assets acquired through acquisition.

Definition
Additions to hire stock included within property, plant and equipment.

Link to strategy
1 2

Track record



See Financial Review page 31

Utilisation (Core)

51.8%
FY17: 49.7%

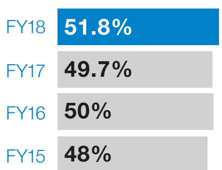
Total (continuing and discontinued)
51.8%
FY17: 49.7%

Importance of KPI
Measure of how effectively we have employed capital invested in our Core hire fleet. Assessed over the last 12 months. Should be considered in tandem with ROCE to assess whether assets are being profitably deployed.

Definition
Amount of days equipment on hire or available for hire divided by the number of days in the year for our Core hire business.

Link to strategy
1 2 3

Track record



See Financial Review page 29

*Denotes key performance indicators which are considered when assessing FY18 Executive Director remuneration (see pages 62 to 64).

Utilisation (Specialist)

72.7%

FY17: 71.9%

Total (continuing and discontinued)

73.6%

FY17: 73.2%

Importance of KPI

Measure of how effectively we have employed capital invested in our Specialist hire fleet. Assessed over the last 12 months. Should be considered in tandem with ROCE to assess whether assets are being profitably deployed.

Definition

Amount of days equipment on hire or available for hire divided by the number of days in the year for our Specialist businesses. Our specialist businesses are ABird, Apex and All Seasons Hire (UK Platforms is also included in this measure up to its disposal).

Link to strategy

1 2 3

Track record

FY18	72.7%
FY17	73.6%
FY16	75%
FY15	76%

See Financial Review page 29

RIDDORs*

0.34

FY17: 0.39

Importance of KPI

Widely recognised measure of safety in the workplace. Safety is at the heart of how HSS operates.

Definition

Number of events that are reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 that occurred multiplied by 100,000 and divided by the hours worked.

Link to strategy

2

Track record

FY18	0.34
FY17	0.39
FY16	0.40
FY15	0.48

See Corporate Social Responsibility page 34

Carbon emissions in our built environment (kg CO_2 per m^2)

20kg CO_2

FY17: 30kg CO_2

Importance of KPI

As we pursue our new strategy we recognise we have a duty to do so in a manner where our impact on the environment is minimised. We therefore track our carbon dioxide emissions per m^2.

Definition

The volume of seven greenhouse gases covered by the Kyoto Protocol – carbon dioxide (CO_2), methane (CH_4), nitrous oxide (N_2O), hydrofluorocarbons (HFCs), perfluorocarbons (PFCs), sulphur hexafluoride (SF_6) and nitrogen trifluoride (NF_3) – converted into equivalent kilograms of CO_2 emitted per m^2 of area in our property portfolio.

Link to strategy

2 3

Track record

FY18	20kg
FY17	30kg
FY16	36kg
FY15	43kg

See Corporate Social Responsibility pages 36

Risk Management

Managing risk

The Group has risk management and internal control processes to identify, assess and manage the risks likely to affect the achievement of its strategic priorities and performance objectives.

The risk management process is coordinated by the Group's Risk and Assurance team. The principal elements of the process are:

Ownership
The Board sets the strategic priorities and relevant KPIs for the Group, monitors performance against these measures and establishes the risk appetite.

Overall responsibility for the principal risks lies with the Chief Executive Officer (CEO) and Chief Financial Officer (CFO), with specific mitigating actions and controls owned by senior management. The Group risk register is maintained by the Risk and Assurance Director and is collectively reviewed by the Executive Management Team (EMT) on a quarterly basis with changes to the risk landscape, assessment and mitigating actions agreed.

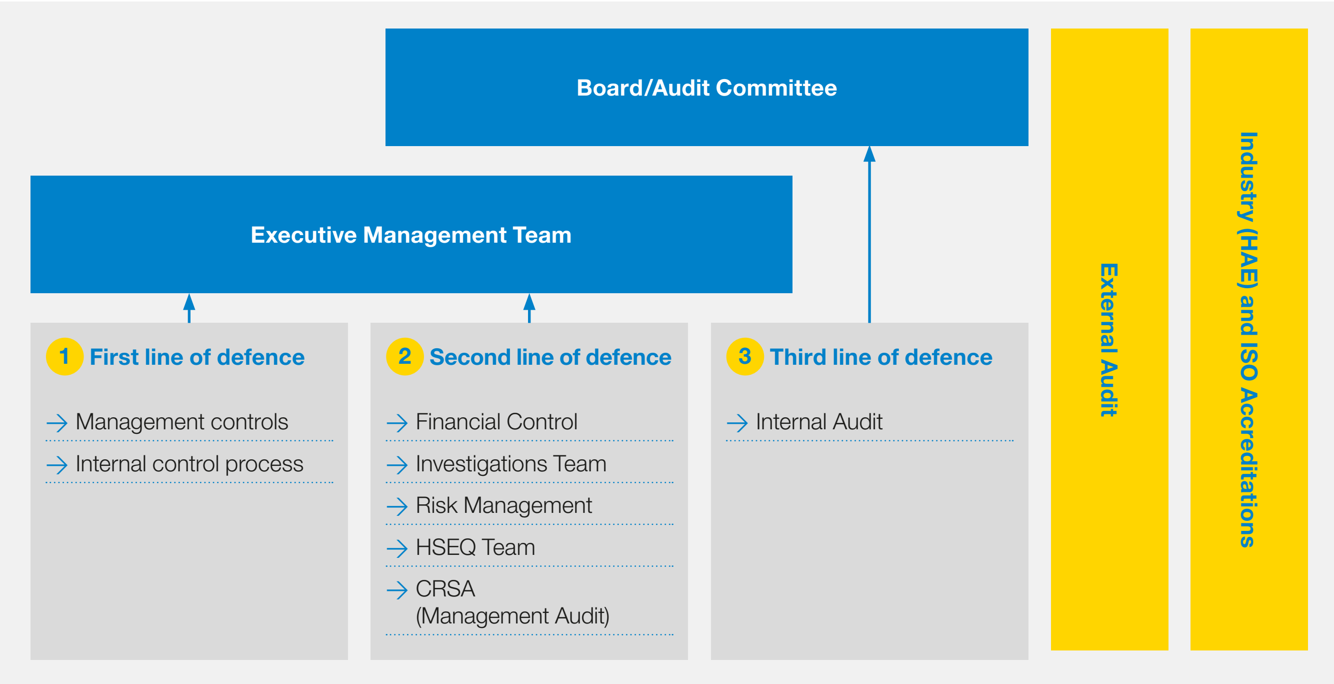
Identification
Risks are identified through a variety of sources, both externally, to ensure that developing risk themes are considered and internally from within the Group. This process is focused on those risks which, if they occurred, would have a material financial or reputational impact on the Group.

Assessment
Management identifies the controls in place for each risk and assesses the impact and likelihood of the risk occurring taking into account the effects of these controls, the residual risk. This assessment is compared with the Group's risk appetite to determine whether further mitigating actions are required.

Monitoring
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 EMT 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 Three Lines of Defence
The 'Three Lines of Defence' model is a way of explaining the relationship between the various functions within HSS in a way to provide the Board and the management team with assurance that risk is appropriately managed. This is achieved by dividing responsibilities as follows:

1. the first line of defence – functions that own and manage risk
2. the second line of defence – functions that oversee or specialise in risk management, compliance
3. the third line of defence – functions that provide independent assurance, primarily in the HSS case, Internal Audit.



2018 risk management developments

Through 2018 the Group has continued to improve its approach to the management of risk and assurance.

- All strategic projects follow a clearly defined governance approach which is reviewed weekly by the EMT to monitor performance against plan as well as tracking and mitigating risks.
- The EMT review risk and assurance on a monthly basis with the Risk and Assurance Director.
- A detailed Group risk assessment on the potential impact of Brexit was conducted with senior management and third party specialists, with ongoing monitoring of the external situation and implementation of mitigating actions regularly reviewed by the EMT.
- Assurance work was revised in line with the new operating model, focusing on profitability, key controls and areas of risk. A new branch audit programme was introduced to reflect operational changes.
- Increased cross working of assurance teams with Internal Audit and Health & Safety working on joint projects to support the strategy and to ensure we are focused on quality, environment and health & safety.

2019 planned improvements to the risk management process

In 2019 the Internal Audit team is working with individual departments to document risks and opportunities relating to their role in the corporate strategy.

- A project has been started to improve automation of assurance activity including enhanced balanced scorecard reporting. This will enable us to link findings across assurance areas, drawing in additional data to supplement audit findings and provide invaluable insight to drive action.
- Customer Distribution Centre (CDC) audits are being revamped with a new internal audit programme being developed and a control risk self-assessment (CRSA) audit for Operations Managers.
- Increased cross working of assurance teams to support the strategy and to ensure we are focused on quality, environment and health & safety.

Strategic Report

Principal Risks and Uncertainties

Principal risks and strategy

The Board has carried out a robust assessment of the principal financial and operating risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity, based on its three strategic priorities:

1. **Delever** the Group
2. **Transform** the Tool Hire business
3. **Strengthen** the Group's commercial proposition

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

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 consequences of the UK exit from the European Union "Brexit" have caused economic uncertainty with potential short-term and long-term effects on demand for services within the Group's industry and broad customer base, increased costs of spare parts due to import tariffs and deterioration in working capital as customers take longer to pay.	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. Whilst it is not isolated from the construction sector, the above focus provides mitigation. A detailed Group risk assessment conducted with the support of third party specialists, has identified areas of the business that would be affected by various Brexit scenarios along with mitigating actions including managing the timing of capital investment to align with demand, negotiating fixed price contracts with suppliers and further reducing overheads. The monitoring of the developing Brexit situation and progress in implementing the mitigating actions is reviewed regularly by the Executive Management Team.	Unchanged
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 could lead to excess capacity and resultant pricing pressure.	The Group is ranked second or third in each of its 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 provide improved customer availability. Through its Services business, the Group provides its customers with access to a significantly wider range of products and complementary services such as training courses. A key part of the strategy is to Strengthen the Group's Commercial Proposition. Following on from an extensive customer segmentation review, there are focused plans designed to differentiate the service offer further.	Unchanged
Strategy execution	Failure to successfully implement the Group's strategic plans could lead to lower than forecast financial performance both in terms of revenue growth and cost savings.	A clearly defined and communicated three year plan has been established with appropriate performance metrics and KPIs. Prioritised projects have been identified to deliver the three year plan and have been appropriately resourced. A clear governance structure has been established, with accountabilities designed to support delivery on time, to quality and within budget. Implementation of projects is monitored by the Group's Executive Management Team.	New Risk

Risk change — Unchanged — New Risk — Decreased

Key risks	Description and impact	Mitigation	Risk change
Customer service	The reliable supply of safe, good-quality and well-maintained equipment in a timely and cost effective manner is critical for delivery of the Group's customer promise. The provision of the Group's expected service levels depends on its ability to efficiently transport hire fleet across the network to ensure it is in the right place, at the right time and of the appropriate quality. The Group is dependent on its relationships with key suppliers to obtain equipment and other services on acceptable terms. Any disruption in supply, reduced availability or unreliable equipment can reduce potential revenue and drive additional operating costs into the business. In addition a decline in the Group's customer service levels could result in a loss of customers and market share.	In 2018 changes were successfully made to the operating model by moving the testing and repair of fast moving equipment back into the branch network and closer to the customer. These changes were targeted to improve availability for the customer as well as reduce costs through greater efficiency. Extensive colleague training is conducted to ensure testing and repair quality standards continue to be maintained. The Group has a flexible national distribution model incorporating Customer Distribution Centres "CDCs" which support the branch network. This flexibility ensures supply can be maintained in the event of a failure at any CDC. Performance is continually monitored to identify areas where the efficiency, and therefore cost, of the network can be improved. Every effort is made to evaluate its counterparties prior to entering into significant procurement contracts and the Group seeks to maintain a range of suppliers. A number of business accreditations are maintained, including ISO, which provides our customers with confidence in the quality of the services provided.	—
Third party service levels	A significant amount of the Group revenue is derived from the Services business which is dependent upon the performance of third party service providers. 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 leading to an adverse impact on profitability and publicity.	Outsourcing of services by the Group is subject to stringent procurement and service criteria and all contracts are subject to demanding service level agreements. Performance and quality KPIs are monitored on an ongoing basis.	—
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 equipment and service to customers, affecting revenue and reputation. An internal or external security attack could lead to a potential loss of confidential information and disruption to 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 weakness in our IT and cyber security. Software has been implemented to identify any malicious attack or attempt to download personal data. A cross-departmental Data Governance Team has been established to ensure business processes are, and continue to be, adequate.	—

Strategic Report

Principal Risks and Uncertainties
continued

Key risks	Description and impact	Mitigation	Risk change
Financial	To deliver its strategic goals the Group must have access to funding at a reasonable cost. Some of the Group's customers may be unwilling or unable 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 successfully refinanced in 2018 providing liquidity and flexibility to invest in its strategic plans. The Group disposed of UK Platforms in January 2019, realising proceeds to invest in the Tool Hire business and reduce debt, both strategic priorities. The risk of fluctuating interest rates reducing profitability has been mitigated by entering into an interest rate cap arrangement in 2018. Working capital management remains a clear focus with KPIs and targets cascaded throughout the business. These are reviewed by the Executive Management Team on a regular basis. 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 provide ongoing training in this area. Payments and amendments should only be made in line with a regularly reviewed authorisation matrix.	↓ Reduced – successful refinancing and sale of UK Platforms
Inability to attract and retain personnel	The Group needs to ensure the appropriate people resources are in place to support the existing and future growth of the business. Failure to attract and retain the necessary high-performing colleagues could adversely impact targeted financial performance.	The Group regularly benchmarks market rates and seeks to ensure a competitive pay and benefits package. It also focuses on building the right working environment for its colleagues. Training for colleagues is provided at all levels to build capability across compliance, job related and behaviours, all through blended learning. Colleague engagement surveys are conducted with actions taken as a result of the feedback. Integral to enabling delivery of the Group's strategic goals are a series of people related projects. These projects are aimed at colleague retention and engagement including targeted management development, expansion of apprenticeships and increased communications at all levels. These are managed and monitored through a clear governance structure.	—

Risk change — Unchanged ✳ New Risk ↓ Decreased

Key risks	Description and impact	Mitigation	Risk change
Safety, legal and regulatory requirements	Failure to comply with laws or regulation, such as the Companies Act 2006, accounting regulations, health & safety law, the Bribery Act 2010, Modern Slavery Act 2015, Criminal Finances Act 2017 or General Data Protection Regulation, GDPR, leading to material misstatement and potential legal, financial and reputational liabilities for non-compliance. The Group operates in industries where safety is paramount for colleagues, customers and the general public. Failure to maintain high safety standards could lead to the risk of serious injury or death.	Robust governance is maintained within the Group including: a strong financial structure, assurance provision from internal and external audit, and employment of internal specialist expertise supported by suitably qualified and experienced external practitioners. A detailed GDPR compliance programme was undertaken involving senior managers, external legal advisers and industry experts. Since the introduction of GDPR, the Group's Data Governance Team has continued to meet regularly to review and monitor progress and developments. Training and awareness programmes are in place, focusing on anti-bribery, anti-modern slavery, anti-facilitation of tax evasion and data protection legislation in 2018. Colleagues are encouraged to raise concerns through the policy, either through their line manager, via any of our 3 whistleblowing officers (anonymously, should a colleague so wish) or via 'Protect', an independent charity specialising in whistleblowing advisory services. The Group operates a clear Health & Safety policy with ongoing risk management and monitoring of accidents overseen by the Executive Management Team and a Health & Safety Forum comprising senior managers. Additional assurance and support is provided by a fully skilled HSEQ team and an internal group investigation team.	—

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Financial Review

Building a strong foundation for profitable growth

Revenue[1]
£322.8m FY17: £304.0m

Rental revenue growth/ (decline)[1]
3.8% FY17: (5.7)%

Adjusted EBITDA[1]
£60.0m FY17: £36.0m

Adjusted EBITA[1]
Profit of
£22.1m FY17: loss of £(6.8m)

Operating profit/(loss)[1]
Profit of
£11.2m FY17: loss of £(79.9m)

Reported EPS (basic and diluted)[1]
Loss of
(3.76)p FY17: loss of (50.71)p

Adjusted EPS (diluted)[1]
Earnings of
1.36p FY17: loss of (10.37)p

Core utilisation[1, 2]
51.8% FY17: 49.7%

Specialist utilisation[1]
72.7% FY17: 71.9%

Revenue – total[2]
£352.5m FY17: £335.8m

Rental revenue growth/ (decline) – total[2]
2.5% FY17: (5.7)%

Adjusted EBITDA – total[2]
£71.3m FY17: £48.9m

Adjusted EBITA – total[2]
Profit of
£27.4m FY17: profit of £1.8m

Operating profit/(loss) – total[2]
£16.3m FY17: loss of £(71.4m)

Reported EPS (basic and diluted) – total[2]
Loss of
(2.60)p FY17: loss of (46.96)p

Adjusted EPS (diluted) – total[2]
Earnings of
3.45p FY17: loss of (5.68)p

Leverage – total[2, 3]
3.3x FY17: 4.8x

ROCE – total[2]
16.2% FY17: 1.0%

(1) Continuing operations
(2) Total is continuing and discontinued operations
(3) Includes adjustment for net proceeds of sale of UK Platforms

2018 has been a year of significant financial progress with the Group delivering its highest ever level of Adjusted EBITDA. The execution of the defined actions arising from our Strategic Review has resulted in improved Rental revenues with increasing profit margins as cost actions have delivered greater operational efficiency.

Paul Quested
Chief Financial Officer

Financial highlights

	Revenue		Contribution[1]		Adjusted EBITDA[2]		Adjusted EBITA[2]		Operating profit/(loss)[2]	
£m	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
Rental	**£226.0m**	£217.7m	**£155.4m**	£140.5m						
Services	**£96.8m**	£86.3m	**£14.6m**	£12.5m						
Continuing operations	**£322.8m**	£304.0m	**£169.9m**	£153.0m	**£60.0m**	£36.0m	**£22.1m**	£(6.8)m	**£11.2m**	£(79.9)m
Discontinued operations	**£29.7m**	£31.8m	**£15.3m**	£16.9m	**£11.3m**	£12.9m	**£8.5m**	£8.5m	**£5.1m**	£8.4m
Total	**£352.5m**	£335.8m	**£185.2m**	£169.9m	**£71.3m**	£48.9m	**£27.4m**	£1.8m	**£16.3m**	(£71.4m)

(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.

Overview

Our 2017 Strategic Review identified a clear set of strategic priorities to restore Group profitability. The excellent execution of these priorities combined with improved trading momentum led to significant increases in both Adjusted EBITDA and Adjusted EBITA from continuing operations by £23.9m and £28.9m respectively. A number of exceptional items were recognised in FY17, including the restructure of the operating network, which were not repeated. As a consequence there has been a material increase in the Group's operating profit from continuing operations by £91.1m.

We also completed the refinancing of our long-term debt facilities in July 2018, which provided the Group with the necessary liquidity and flexibility to deliver its strategic priorities going forward. With the continued focus on working capital management and capital efficiency, there has been a significant reduction in our leverage (net debt to adjusted EBITDA).

In January 2019, we completed the disposal of UK Platforms, supporting our strategic priorities to reduce debt and enable greater focus on the Core hire business. As a consequence, the financial statements for 2018 are presented to specifically highlight continuing operations excluding UK Platforms as well as reporting on the full year performance including UK Platforms, given that this business was disposed of in January 2019.

I remain confident that the continued delivery of our strategic priorities will build on the momentum of 2018 and achieve sustainable and improved profitability.

Revenue

Group revenue from continuing operations improved by 6.2% to £322.8m (FY17: £304.0m) ahead of the forecast UK tool and equipment hire market growth rate for 2018 as estimated by the ERA. Discontinued operations contributed revenue of £29.7m (2017: £31.8m) leading to overall Group revenue rising from £335.8m to £352.5m this year. The main drivers of improvements in the continuing operations were:

- an increase in Rental and related revenues, to £226.0m (2017: £217.7m) through improved availability following changes to our operating model, various sales initiatives and the strength of our seasonal product range;
- another year of strong growth in our Services revenues, up 12.2% year-on-year to £96.8m (2017: £86.3m), mainly driven by performance in our rehire business, HSS OneCall, supported with further growth from our HSS Training business.

Revenue and Rental and related revenues 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 performed better than the UK tool and equipment hire market during the year for the reasons set out above.

Segmental performance

Rental and related revenues

Our Rental revenues from continuing operations were up 3.8% year-on-year at £226.0m (FY17: £217.7m) and accounted for 70.0% of revenue from continuing operations (FY17: 71.6%). The significant changes to our operating model in 2018, returning the testing and maintenance back into the network, improved availability for our customers and realised material cost savings, improving both revenue and profit margins.

Contribution from continuing operations, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs of £155.4m (FY17: £141.5m), was 9.8% higher year-on-year reflecting both increased revenue and a reduction in operating cost coming from the revised operating model.

LTM core utilisation for continuing operations increased to 51.8% (FY17: 49.7%) and LTM specialist brand utilisation for continuing operations was higher at 72.7% (FY17: 71.9%). These are both KPIs.

Discontinued operations contributed Rental and related revenues of £27.9m (2017: £30.1m).

Services

Services revenues from continuing operations increased by 12.2% to £96.8m (FY17: £86.3m) and accounted for 30.0% (FY17: 28.4%) of Group revenues from continuing operations. This was principally due to continued growth in HSS OneCall and the further improvements in HSS Training following the launch of a new online training management and booking system. 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 25.6% to £14.6m (FY17: £11.6m), well ahead of the revenue growth rate, reflecting continued focus on effective margin management and operational efficiency with the increased volume managed through a single central team.

Strategic Report

Financial Review
continued

Costs
Our cost analysis set out below is on a reported basis and therefore includes our one off costs associated with streamlining the network and other exceptional items. Year-on-year variances driven by such costs are identified in the commentary.

Cost of sales related to continuing operations increased by 1.5% from £143.3m to £145.5m, mainly reflecting the growth in our Services revenues (principally HSS OneCall) and the associated third party supply costs incurred to support this activity. Cost of sales in discontinued operations amounted to £13.1m (2017: £11.0m) leading to total cost of sales of £158.7m (2017: £154.3m).

Distribution costs in continuing operations reduced to £34.0m (2017: £38.4m) reflecting the benefit of the changes highlighted in the CEO's Review made to the operating model during the year. Discontinued operations incurred £7.1m (2017: £7.8m) of distribution costs with total costs at £41.1m, down from £46.1m in FY17.

Administrative expenses in continuing operations decreased by 34.7% from £203.1m to £132.5m. Exceptional items included within administrative expenses amounted to £5.4m (2017: £67.0m) while discontinued operations incurred £4.4m (2017: £4.5m) of administrative expenses. The exceptional items were related to branch closures and associated asset impairments, reducing the overall cost base and the Strategic Review of the business. In addition, central overheads reduced following the implementation of actions taken following the Strategic Review.

Adjusted EBITDA and Adjusted EBITA
Our Adjusted EBITDA from continuing operations for 2018 was 66.7% higher at £60.0m (2017: £36.0m) driven by the improved revenue, Rental and Services, combined with increased operational efficiency. Discontinued operations contributed Adjusted EBITDA of £11.4m (2017: £12.9m) leading to total Adjusted EBITDA reaching £71.3m, a significant improvement on 2017's £48.9m.

As a result, the Group's Adjusted EBITDA margin from continuing operations for FY18 was 18.6% (FY17: 11.9%). Adjusted EBITDA and margin are included in our KPIs.

Our Adjusted EBITA from continuing operations improved to £22.1m (FY17: £6.8m loss) largely as a result of improved revenue and operational efficiency. The business, including discontinued operations, made an Adjusted EBITA of £27.4m (2017: £1.8m).

Adjusted EBITA and margin are included in our KPIs.

Other operating income
Other operating income of £0.5m (2017: £0.9m) reflects the income received from the sub-letting of non-trading stores which have dropped in number as leases have come to an end. We continued to optimise our estate in 2018 and maintain the monitoring of our portfolio to identify revenue opportunities or to pursue attractive lease surrender opportunities as and when they arise.

Operating profit/(loss)
Operating profit from continuing operations was £11.2m in 2018 compared to a loss of £79.9m in 2017, driven by increased revenue and operating performance and lower exceptional items charged to operating profit of £5.0m (2017: £66.5m). Discontinued operations delivered an operating profit of £5.1m (2017: £8.4m). The total operating profit was £16.3m (2017: £71.4m loss).

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 £8.7m (2017: £66.6m) with £6.4m in continuing operations (2017:£66.5m).

12 branches were closed during the year ended 29 December 2018 (2017: 55) leading to an exceptional cost of £2.6m relating to dark stores and onerous leases (2017: £6.9m). Sub-let rental income on onerous leases for the year amounted to £0.5m (2017: £0.9m).

Following the branch closures, management has 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 29 December 2018 an impairment of £0.5m has been recorded (2017: £8.3m).

The Group has sold businesses not considered core to the Group's strategy in both 2017 and 2018. On 19 July 2018, the Group announced the agreement to sell UK Platforms Limited to Loxam (see note 27 to the Financial Statements for further details). The disposal of this business, which, for the 2018 year, has been treated as a discontinued operation, completed in January 2019, after clearance was secured from the Competition and Markets Authority in December 2018. Third party adviser costs of £2.1m associated with the disposal have been recognised in 2018. As noted in note 28, a profit of £20.3m, excluding these costs, will be recorded in 2019, subject to finalisation of the consideration.

Central cost savings of between £3m and £4m were identified at the time of the Strategic Review, primarily through headcount reduction. To realise these benefits exceptional items of £1.1m, largely related to redundancy costs, have been recognised in the year ended 29 December 2018 (2017: £3.7m).

One impact of the refinancing of the Group on 11 July 2018 was to terminate the previous finance facility earlier than scheduled. Unamortised debt issue costs of £1.5m (2017: £nil) associated with that facility have been expensed in the year.

Following the appointment of the new Chief Executive Officer in 2017, a thorough Strategic Review was carried out by the Group. Non-recurring third party consultancy costs of £1.0m were incurred for the period ended 29 December 2018 to complete this review (2017: £1.2m).

Adjusted EBITDA

18.6%

FY17: 11.9%

Adjusted EBITA

£22.1m

FY17: £6.8m loss

Finance costs
Finance expense increased to £20.4m (FY17: £13.2m). This increase is driven by the associated interest expense of the new Group facilities following the successful refinancing in July 2018 and excludes finance costs in discontinued operations of £0.4m (FY17: £0.6m).

Taxation
The Group generated a net tax credit of £2.7m compared with a credit of £6.7m in FY17. The Group made an overall loss for tax purposes in the UK, and the charge represents current tax suffered in Ireland offset by a £2.5m (2017: £4.9m) deferred tax credit arising from the offset of tax losses against the previously recognised deferred tax liability on intangible assets in 2017 and, in 2018, the recognition of certain tax losses considered available for offset against future suitable taxable profits. Discontinued operations incurred a tax expense of £0.6m (FY17: £1.1m).

Reported and adjusted earnings per share
Our basic and diluted reported loss per share from continuing and discontinued operations decreased to a loss of 2.60p (FY17: loss of 46.96p) due to the significantly smaller loss generated in the year.

Our adjusted basic earnings per share, being profit from continuing operations before amortisation and exceptional costs less tax at the prevailing rate of corporation tax divided by the weighted average number of shares, moved from a loss of 10.37p in FY17 to earnings of 1.51p in FY18. Our adjusted diluted earnings per share, calculated in the same manner as basic adjusted earnings per share but with the weighted average number of shares increased to reflect LTIP and Sharesave options, was earnings of 1.36p (FY17: loss of 10.37p). These reflect the significant improvement in Adjusted EBITA in FY18 compared with FY17. Adjusted EPS (diluted) is one of our KPIs and is also used to assess the remuneration of Executive Directors.

Capital expenditure

Additions to intangible assets and property, plant and equipment in the year were £31.8m (2017: £37.4m), largely in relation to hire stock used to support our rental businesses with other amounts spent on property and software development. During 2018, £24.8m (2017: £25.8m) was spent on hire stock reflecting a slight reduction against prior year due to efficiency gains following changes to the Group's operating model, moving the testing of fast moving products back into branches, and more targeted investment using insight from the Strategic Review. The remaining £7.0m was spent on non-hire additions (software and property, plant and equipment) (2017: £11.6m). We anticipate our 2019 capital expenditure investment will increase to support the strategic focus on tool hire growth, reinvesting an element from the UK Platforms disposal proceeds. Fleet investment is one of our KPIs.

Return on Capital Employed (ROCE)

Our ROCE, including UKP, for 2018 was 16.2% compared with 1.0% for FY17. ROCE is calculated as Adjusted EBITA from continuing operations divided by the total of average total assets (excluding intangible assets and cash) less average current liabilities (excluding current debt items). Total (including discontinued operations) Adjusted EBITA improved by £25.6m (2017: decline of £18.7m) whilst the average capital employed by the Group decreased by 12.3% from the level calculated at the end of 2017, reflecting depreciation and asset disposals being higher than capital expenditure. This is one of our KPIs and is also used to assess the remuneration of Executive Directors.

Provisions

Significant provisions were set up in 2017 in order to address the changes to the operating model and to streamline branch operations. Of the £32.6m of onerous contract provisions brought forward to address the costs of exiting our arrangements with Unipart, £9.9m was utilised in the year, leaving £22.8m to be used over the remaining seven years of the contract. £3.3m of provisions were utilised in relation to onerous leases, primarily around our branch network; £4.7m is available to cover costs arising in future years.

Cash generated from/utilised in operations

Cash generated from operating activities was £19.8m for FY18, an increase of £22.3m over the prior year (FY17: outflow of £2.5m). This reflects the improvement in profits, reduction in exceptional costs and a continuation of the planned reduction in hire fleet asset capital expenditure.

Share price and net asset value

The share price of the Group is influenced by a number of factors including investor expectations of the financial performance of the Group, its competitive position, financial liquidity and the availability of shares to a wide shareholder base. At the year end, HSS's share price was 34.0p (2017: 27.0p) giving it a market valuation of £57.9m (2017: £46.0m) compared to net asset value of the Group of £71.5m (2017: £73.6m). The Directors have considered this position and strongly discount any indication of impairment deriving from this on the basis that the Group's current share price and market capitalisation do not reflect its long term recoverable value based on its fundamentals and future prospects.

Leverage and net debt

Net debt (stated gross of issue costs) increased by £12.1m to £235.5m (FY17: £223.4m).

As at 29 December 2018, the Group had access to £44.9m (2017: £29.6m) of combined liquidity from available cash and undrawn committed borrowing facilities. Our leverage, calculated as net debt divided by total Adjusted EBITDA, decreased from 4.8x in FY17 to 3.3x at the end of FY18. On a pro forma basis to take into account the disposal of UK Platforms, leverage reduces to 3.1x. This was primarily due to the increase in Adjusted EBITDA generated in FY18. Leverage or Net Debt Ratio is one of our KPIs and is also used to assess the remuneration of Executive Directors.

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 earnings per share, leverage (or Net Debt Ratio) and ROCE, all of which are included in our key performance indicators as set out on pages 18 and 21.

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

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

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

The calculation of Adjusted EBITDA and Adjusted EBITA can vary between companies, and a reconciliation of Adjusted EBITDA and Adjusted EBITA to operating profit / (loss) and Adjusted profit before tax to loss before tax is provided on the face of the Group's income statement. A reconciliation of reported loss per share to Adjusted earnings per share is provided in note 13 of the Financial Statements.

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
3 April 2019


CENTURION
Concept
HSS Training

Corporate Social Responsibility

Sustainability is integral to our business

At HSS Hire Group we prioritise our corporate social responsibility agenda across all key areas of our business.

NPS score

44

(FY17: 44)

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

Our core objective is to ensure we are operating in a responsible, sustainable manner, whilst ensuring a positive impact for our colleagues, customers, communities and the environment. We aim to 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 always people – our colleagues, our customers and the communities we operate in. Safety and colleague engagement are at the forefront of our business strategy, with this being on the agenda for all our Board, Executive Management Team (EMT) and trading meetings. Throughout 2018 we made positive progress, with plans in place to expand these commitments in 2019. Similarly, our focus on our customers has expanded further still this year to ensure we both listen and proactively seek feedback across a number of channels to drive positive change across our operations and wider business.

We continued to make progress towards our environmental objectives in 2018 as well, reducing our total greenhouse gas emissions by 33%. This progress was possible thanks to a variety of initiatives across a number of areas, demonstrating our commitment to keeping the impact of our actions on the environment to a minimum.

Board

Executive Management Team

CSR Committee

Strategic Report

Corporate Social Responsibility
continued

1

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 customers, and secure employment and development for colleagues. As this report details, HSS generated total revenue of £352.5m which was shared amongst the various stakeholders in our business including our colleagues and investors, our suppliers and their own supply chains, our local communities and the government as well as a retained element to help fund future investment and growth.

We operate with integrity across all Group businesses, to ensure the highest levels of environmental and social governance. We have robust management structures in place, and these are regularly reviewed and assessed to ensure compliance against our own standards and those we are audited against. As well as retaining our BSI accreditation for Health and Safety, throughout 2018 we successfully completed our reaccreditation to the British ISO standards for Quality (9001:2015) and Environment (140001:2015).

2

Listening to our customers

We understand that we play an important part in the supply chain and day-to-day operations of our customers, so ensuring we have mechanisms in place to collect and act upon their feedback is essential to driving positive improvement across our business. This year we utilised two key channels, online and traditional activity such as interviews, to gather feedback from our customer base.

For a number of years we have partnered with TNS to conduct thorough, impartial NPS (Net Promoter Score) surveys. In our most recent wave of research we maintained our score of 44, significantly higher than the industry benchmark of 36. NPS results also give us valuable insight into the areas customers would want to see us improve, and these feed into our strategic priorities for the coming year.

In the second half of 2018 we also became more proactive in utilising Trust Pilot to gather customer feedback, emailing our customers on completion of their hires to ask them to review their experience. Negative or neutral reviews are responded to by our online team, who seek to resolve any issues raised and feed back into the relevant business area or location to make sustainable improvements. Already we have seen our score increase to 4 stars, with a healthy trust score of 8.1 out of 10. For 2019, we are introducing reporting tools which will allow better analysis of Trust Pilot data so that we can analyse this feedback more effectively and action it more quickly. Not only does this benefit us as a business internally, it also creates a public forum for prospective customers to find out from existing HSS customers what to expect when they choose us.

Customer feedback is shared across our Group businesses to help drive focus and positive change, ensuring a service level which meets the expectations of our customers.

3

Engaging our colleagues

Our colleagues are at the heart of our business. They are what set HSS apart, and they are vital to ensuring we offer the best service possible to our customers. In turn, we are committed to ensuring high levels of colleague engagement and that our colleagues are safe at work, get the training, development and recognition they need and feel valued by our business.

The safety of our colleagues is at the forefront of everything we do and is always the first item on the agenda for Board, EMT and trading meetings. This year we reduced our RIDDOR rates by 13%, down from 0.39 RIDDORs per thousand hours worked to 0.34. We keep safety top of the agenda by implementing monthly toolbox talks highlighting seasonal and product safety guidelines, we conduct regular health and safety forums where colleagues can raise any concerns without their manager present, and we have had an increased focus on near miss reporting to prevent accidents before they happen. Where our colleagues are involved in accidents we are committed to supporting their recovery and return to work through comprehensive rehabilitation and support services, as well as offering phased returns to work and amended duties where necessary.

At HSS Hire Group we know that a diverse workforce is a better workforce. When you bring people together with different backgrounds, experience and ideas, they collaborate and drive each other to do better. Whilst our sector is traditionally male dominated, we are committed to creating an inclusive culture and a great place to work, where all colleagues are treated fairly. To achieve this we know that we have to work hard to showcase the best our business has to offer so we can attract and retain colleagues from more diverse backgrounds. We also recognise that effecting lasting change will take time. In terms of gender diversity, the 397 women we have as colleagues in 2018 represented a slight decline in percentage terms from 2017's 17.5% to 15.8% this year. Cost reduction activity in early 2018 led to headcount reductions in a number of our central functions where women are better represented. It is encouraging, however, that we gained traction in some of our more male-dominated roles such as our Service Technician population, where the number of women increased by 4%. Women in our senior management cohort account for 26.9% (2017: 23.3%) of the total. The percentage of women in senior management roles has gone up; however, this is due to the number of senior manager roles reducing from 2017 to 2018. In both

2017 and 2018 the number of female senior managers was seven. Our gender pay gap statistics for 2018 highlight that last year's 8.2% median pay gap closed, with women's median pay 2.9% higher than men's. We remain committed to rewarding our colleagues fairly regardless of gender or any factor which does not relate to experience and skill set or performance.

We believe that colleagues should be treated with respect and dignity at work and commit to ensuring non-discrimination and freedom from harassment. We also have an independent support helpline where colleagues can speak anonymously to professional support staff outside HSS about any issues they may be facing at work or at home. 2018 saw a real focus on raising awareness and support for mental health and wellbeing, with a number of our managers and HR team completing training to become certified Mental Health First Aiders and improve support to colleagues struggling with their mental health.

Another key aspect of our engagement agenda is our commitment to open and honest communication with colleagues across our Group business. We run regular webinar calls hosted by our CEO Steve Ashmore and the EMT to ensure colleagues are kept up to date on key projects, announcements and financial results. We also ran a series of regional roadshows at the end of 2018 to reflect on the year, and look forward to 2019. These activities ensure colleagues understand the strategy and aims of our business, and the key part they play in its delivery.

Our engagement activities also extend to actively encouraging our colleagues to get involved and feed back their ideas and opinions across a wide range of activity throughout the year. One of the key ways we do this is with our colleague engagement survey. Every colleague across the business is invited to take part, answering questions around how they feel about our business, their job role, their manager, and anything else they would like to comment on. The top-level results are shared with everyone, but the detail is fed directly into the various business unit owners so they can take ownership and work with their teams to address any issues. This year our engagement score was 71.6%, significantly higher than the national average of 59.8%. We also run campaigns throughout the year through our 'Your Say' campaign, which encourages colleagues to submit their feedback on a regular basis. These are reviewed and actioned by our senior management team.

Rewarding and recognising colleagues for their hard work is something we feel strongly about, and it feeds through to recognition activities throughout the year as well as our benefits package offered to colleagues at all levels. This year we ran peer-to-peer recognition campaigns, as well as rolling out new incentive programmes to ensure we engage our teams and drive the right behaviours. These initiatives demonstrate our commitment to rewarding colleagues across all divisions of our business.

RIDDOR

0.34

(2017: 0.39)

Engagement index

71.6%

(2017: 67%)

Female colleagues

15%

(FY17: 17.5%)

Gender pay gap*

-2.9%

(2017: 8%)

*(more) or less than male colleagues

4

Creating a sustainable supply chain

Hire is intrinsically a sustainable and environmentally conscious business model, however we are committed to ensuring that our supply chain and the products we add to our fleet build on this.

Working closely with our suppliers, we always look to source new and innovative product lines which offer optimum functionality and with a reduced environmental impact. For example, over recent years, we have replaced much of our incandescent lighting with LED alternatives and for the first time ever in 2018 we saw more LED products on hire than their traditional counterparts. Smart technology solutions such as the Remote Fleet Management on our ABird generators helps customers better manage performance of their kit, ensuring fuel efficiency and no unnecessary usage. Our energy harvesting systems also help customers with larger power set-ups manage their power more effectively, utilising any over production during down time to avoid unnecessary diesel usage and additional CO_2 emissions.

We extend the useable life of our equipment as much as possible through test and run procedures which our branch colleagues complete after every hire, through to more thorough maintenance solutions carried out by our operations teams during the product lifecycle. This ensures good quality and safety for our customers, and that the equipment keeps working for longer, reducing the need for sourcing and hence production of new equipment.

Strategic Report

Corporate Social Responsibility
continued

5

Building on our environmental credentials

At HSS, we work across all our Group divisions to ensure we work as responsibly as possible, as well as ensuring we are driving down our environmental impact where we can. Across our branch and operational network, we are accredited to industry recognised environmental standards ISO and OHSAS. This year the 9001 and 14001 accreditations for Quality and Environment were assessed against the new 2015 standards, and we successfully secured the new accreditations.

In 2018, we made significant changes to our operating model, moving our test and run and maintenance capabilities back into our regional hubs. This allowed us to upskill 200 of our colleagues and helped us to reduce the number of lorries on the road, shortening the miles travelled per contract.

As a business, we are actively exploring ways to reduce our paper consumption across our network. All of our ordering processes for stationery, signage, foodstuffs and workwear are now completed through one online portal. This removes the requirement for order forms and consolidates invoices. It also allows us to combine and reduce the number of deliveries. During 2018 HSS Training moved the registration and attendance recording processes for their IPAF and PASMA courses onto a digital platform (via tablet) resulting in a paperless process. This has allowed us to reduce our paper consumption by 58% for these two courses alone and we expect to make further reductions in 2019.

One of the key initiatives we rolled out this year across our vehicle fleet is a more conscientious approach to the management of tyres on our company vehicles. Poorly maintained tyres increase fuel usage and shorten the life span of the tyre, leading to additional demands on natural resources for replacements. We have introduced monthly inspections and preventative maintenance to ensure we are extending the useful life of our tyres as much as we can.

Greenhouse gas emissions

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.

	2018			2017		
	Consumption	**Blended conversion factor***	**Emissions (TCO_2)**	Consumption	Blended conversion factor*	Emissions (TCO_2)
Scope 1 emissions						
Fuel combustion	**1,363,483 kWh**	**0.2**	**268.0**	934,187 kWh	0.2	176.0
Company vehicles	**4,302,377 litres**	**2.6**	**11,186.9**	4,557,734 litres	4.1	18,687.0
Leeds bunkered diesel	**117,884 litres**	**2.6**	**306.5**	160,159 litres	0.2	39.4
Fugitive emissions	**52,695 litres**	**1.5**	**79.5**	22,380 litres	1.5	33.8
Scope 2 emissions						
Purchased electricity	**9,999,331 kWh**	**0.4**	**3,840.0**	14,480,788 kWh	0.5	6,540.0
Scope 3 emissions						
Business travel	**7,701,548 miles**	**0.3**	**2,260.9**	7,903,725 miles	0.3	2,378.0
Total greenhouse gas emissions			**17,941.8**			27,854.2

*A blended conversion factor is used where there is more than one source of data inputs. Reporting processes were streamlined in 2018 allowing a consistent data source to be used for company vehicles leading to a reduction in the blended conversion rate; 2017 data has not been restated for this change

The methodologies used to calculate the information in the greenhouse gas emissions table are set out below.

Emission category	Methodology
Fuel combustions (gas data for HSS building portfolio)	Based on CRC statements provided by gas suppliers.
Company vehicle emissions	Collated using data from fuel card provider and direct purchase records for cars and commercial vehicles in litres converted according to Defra guidelines.
Leeds bunkered diesel fuel	Collated with the use of internal purchase order records converted according to Defra guidelines.
Fugitive emissions	Collated with the use of internal purchase order records converted according to Defra guidelines.
Purchased electricity (for HSS building portfolio)	Based on CRC statements provided by electricity suppliers.
Business travel	Collated from expensed mileage claims and converted according to Defra guidelines.

Unless otherwise stated all data is provided for the period 1 April 2017 to 31 March 2018. 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 recorded data rather than estimated consumption.

The total emissions produced by the Group during this period were 17,941 TCO_2 (2017: 27,854 TCO_2). The reduction from 2017 was a result of the sale of the Reintec and TecServ businesses which saw 5% (40 vehicles) of our fleet leave the business, coupled with changes to our branch network that resulted in a reduction in utility usage. Our Carbon Reduction Commitment (CRC) annual submission has recently undergone a successful audit by the Environment Agency.

Waste Management

Responsible waste management is key to our environmental commitments, and we work alongside our partners at Biffa to ensure we are recovering, sorting and recycling waste across our network. Biffa help us monitor and report on waste management across all our locations, and these are reviewed monthly by our Management team to ensure compliance. Throughout 2018, we managed to divert 84.5% of our waste from landfill; a slight improvement on the 84% recorded in 2017.

ESOS

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.

Group electricity usage

49 kWh/m²

(2017: 65 kWh/m²)

Carbon emissions per m²

20kg

(2017: 30kg)

Commercial waste diverted from landfill

84.5%

(2017: 84%)

6

Demonstrating strong business ethics

The HSS Hire Group Code of Ethics outlines our commitment to operating in an ethical and responsible manner, with honesty, integrity, openness and with respect for human rights. Our support for these fundamental principles is reflected in our policies and actions towards our colleagues, customers, suppliers and the communities we operate in. This Code and the policies underpinning it are regularly reviewed by senior management in light of changing business and regulatory requirements.

In May 2018, the General Data Protection Regulation (GDPR) came into force, putting in place stricter controls for businesses handling large volumes of personal data for customers and colleagues. Maintaining strong data security has always been a key commitment at HSS and, this year, we introduced a series of new initiatives to ensure this was front of mind across all areas of our business. Led by our Data Governance Team, we have implemented wipe pads and shredders across our branch network to ensure customer data is disposed of securely upon completion of contracts. We rolled out e-learning courses across all areas to ensure colleagues understand the importance of data security at all stages of the hire process, and we actively encourage colleagues to submit ideas to help us improve. We ensure that data security processes and improvements are fed through our internal communications channels on a regular basis to keep these commitments live.

7

Supporting our communities

At HSS our extensive branch and operational network allows us to play a part in hundreds of communities across the UK and Ireland, and we are committed, as much as possible, to ensuring we have a positive impact.

Our head office in Manchester holds charity and awareness events throughout the year to support local and national charities. This year we partnered with Forever Manchester, a local organisation which helps local charitable and community projects across Greater Manchester. Colleagues took part in the Manchester 10K, Tough Mudder and various fundraising days to raise essential funds. Forever Manchester recognised our efforts in December, nominating HSS for a colleague engagement award.

Across our branch network we offer a 35% discount to registered charities, although we often waive hire fees entirely to support local charitable projects. Our colleagues also give up their time to volunteer for community projects. During the summer our central London team joined forces with Canary Wharf Contractors (CWC) for a 'Give and Gain' day at St Matthias Community Centre in Poplar. The group helped to tidy up the gardens and clear out some unruly plants and trees. Activities like these help us to make a positive impact within the communities we operate in, but also help forge even stronger relationships with our customers like CWC.

Throughout 2018 we expanded our commitment to upskilling more of our colleagues through our apprenticeship programme. Our traditional apprenticeship opportunities across operations are continuing to progress well; however this year we also utilised the apprenticeship levy to offer skills training to colleagues in other departments and disciplines such as our OneCall division, and head office departments such as Procurement. Colleagues within these departments learn new skills whilst in full-time employment. We are proud to have made positive progress against our corporate social responsibility commitments in 2018, and we have key action plans in place to ensure this momentum continues throughout 2019.

Approval of the Strategic Report

The Strategic Report on pages 1 to 37 was approved by the Board of Directors on 3 April 2019 and is signed on its behalf by:

Steve Ashmore
Director
3 April 2019

Corporate Governance

Chairman's Introduction

Ensuring good governance is an integral part of our business

On behalf of the Board, I am pleased to present the corporate governance report for the 2018 financial year. We continued our commitment to corporate governance during 2018 and started to develop plans and gather ideas to reflect the new Corporate Governance Code guidance in our business.

Alan Peterson OBE
Chairman

We will report further on that in 2019, but anticipate the key focus areas being (1) transparency of reporting and (2) listening to our colleagues.

Reports from the Chairs of each of the sub-committees of the Board (the Audit, Remuneration, Nomination and Market Disclosure Committees) are included in the following pages and outline the work and initiatives each has undertaken during the year.

During the course of 2018 we have continued to have strong governance structures through our Committees, systems and policies and together these contribute to our day-to-day activities, the protection of our assets and colleagues and the delivery of our business plan.

The main corporate governance issues addressed by the Board or one of the four sub-committees of the Board during the year were as follows:

Strategic Review

During 2018 we maintained our focus on our three key Strategic priorities, which were:

- → Delever the Group
- → Repair the Tool Hire business
- → Strengthen our commercial proposition

The key to delivering these priorities has been better cost control, operational and capital efficiency and providing a clear competitive advantage from our enhanced customer proposition.

Board evaluation

We completed our 2018 internal Board and Committee evaluation in early 2019. Further details on this process and its findings are provided in the Nomination Committee report on page 51.

The Nomination Committee is recommending that all Board Directors are re-elected at our Annual General Meeting (AGM).

Senior management development

In January 2019 we announced the appointment of Dave Crellin as our Chief Operations Officer and he joined the business in March 2019. With supply chain expertise in a multi-channel environment, Dave will be a strong addition to the management team.

Legislative/regulatory change and related training for colleagues

The Directors and senior management are informed of notable legal and regulatory changes via a combination of internal legal and audit professionals and also via external advisers. Continuing into 2018, the Group has assessed and implemented changes as required following the GDPR becoming law. The Group has also continued to monitor its policies and procedures in respect of the Modern Slavery Act 2015 and will publish an anti-slavery and human trafficking statement for FY18 during 2019. The Board has received information and guidance around the new Corporate Governance Code. The Group released its second gender pay gap report which shows that our gender pay gap had reduced. We continue to be committed to paying all our colleagues fairly, regardless of gender and to improve diversity within the business.

Equality and diversity policy

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 place on promoting equal opportunities and diversity with a view to securing sustainable success for HSS.

Currently we have one female Non-Executive Director, meaning 50% of our Independent Non-Executive Directors are female equating to 17% of the Board. Further detail on the gender split for senior management and employees is provided within the Strategic Report on pages 34 and 35.

Based on our annual Board evaluation and taking into account the challenges and opportunities facing the Group, we believe that the Directors' current mix of experience, skillsets and knowledge contributes to the effectiveness of the Board as a whole; however, we recognise that female representation and diversity at Board level remains limited and represents continuing development opportunities for the Group.

Always mindful of this, as well as ensuring new appointments and succession planning decisions are based on merit, as measured against objective criteria, we also drive for balanced shortlists, on the basis that fundamentally we recognise the benefits of increasing diversity on the Board, amongst the senior management team and at all levels in the business.

Further details on our approach to equality and diversity can be found on pages 33 to 37 and within our Corporate Responsibility Report available for download at www.hsshiregroup.com/corporate-responsibility.

Looking ahead

The continued focus on our Strategic priorities and the strong performance by the management team give me great confidence that we have assembled a strong operational team and an experienced Board, both of which will drive the long-term success of the business.

I once again look forward to meeting shareholders at our next AGM, which will be held at 11.00am on 20 June 2019 at Hilton Garden Inn, Hatton Cross.

Alan Peterson OBE
Chairman
3 April 2019

Corporate Governance

Board of Directors

Alan Peterson OBE
Chairman

Date of appointment:
9 February 2015

Experience:
Alan Peterson has served as the Group's Chairman since December 2012. He also served as the Group's Chairman between 2004 and 2007. Alan's experience over the last 25 years includes involvement in a number of public and private equity-backed businesses across the UK, Europe and North America. He has held the role of Chief Executive Officer and Chairman in a number of manufacturing, industrial and retail companies, including Enterprise Group plc, Pattonair Holdings Limited, Azelis Holdings SA, Rockware Group Meyer International plc. He is also the chairman of BBI Group Holding Limited.

Alan became 3i's first Industrialist in Residence in 2001, serving until 2005.

Alan also chairs the Board's Nomination Committee.

Alan has been awarded an OBE (Officer of the Most Excellent Order of the British Empire) in the 2019 New Year's Honours List for his services to charitable fundraising in Wales.

Committees:
N

Steve Ashmore
Chief Executive Officer

Date of appointment:
1 June 2017

Experience:
Steve Ashmore joined the Group as Chief Executive Officer in June 2017. Steve brings in considerable leadership experience, and consistent delivery of growth and value in a range of industries complementary to HSS, including building product supply, logistics and distribution.

Steve previously held a number of senior roles at Exel, the supply chain and third party logistics provider, before working in a number of senior leadership positions, including UK Managing Director at Wolseley, the £2.0bn revenue distributor of plumbing and heating products and supplier of building materials. Before joining HSS, he was the UK Managing Director of Brammer, the specialist distributor of industrial products.

Paul Quested
Chief Financial Officer

Date of appointment:
22 August 2016

Experience:
Paul Quested joined the Group as Chief Financial Officer in August 2016. Before joining the Group, Paul was Chief Corporate Development Officer for Electrocomponents plc and had held a number of senior positions within Electrocomponents, including those of Global Strategy Director, General Manager (RS UK) and Head of Finance (RS UK).

Prior to Electrocomponents, Paul worked at InBev for ten years, where his roles included Planning & Performance Management Director. Before InBev, Paul worked at Coopers & Lybrand where he was an Audit Manager for FTSE 100 clients.

Amanda Burton
Senior Independent
Non-Executive Director

Date of appointment:
9 January 2015

Experience:
Amanda Burton is an Independent Non-Executive Director of Countryside Properties plc and the Skipton Building Society. She chairs the Remuneration Committee for Countryside Properties plc and is a member of the Remuneration Committee at the Skipton Group. She is also a Non-Executive Director of Connells Ltd and Chair of its Remuneration Committee. Amanda is also the Chair of the Battersea Dogs and Cats Home. 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, Monitise plc and a Non-Executive Director of Fresca Group Limited.

Amanda is a member of the Board's Audit and Nomination Committees and chairs both the Remuneration Committee and the Market Disclosure Committee.

Committees:
R M A

Doug Robertson
Independent
Non-Executive Director

Date of appointment:
9 January 2015

Experience:
Doug Robertson was appointed as Non-Executive Director of Mpac Group plc on 1 November 2018. He is also a Non-Executive Director and Chair of the Audit Committee of Zotefoams plc, having been appointed in August 2017. He retired as Finance Director of SIG plc on 31 January 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.

Doug is a member of the Board's Nomination and Remuneration Committees, and chairs the Audit Committee.

Committees:
A N R

Thomas Sweet-Escott
Non-Executive Director

Date of appointment:
9 January 2015

Experience:
Tom Sweet-Escott co-founded Exponent Private Equity in 2004. He is primarily responsible for investments in the financial services sector and also serves on the boards of Photobox and Meadow Foods. He has previously served on the Boards of Trainline plc, V. Group and Lowell, and worked for 3i in London and in Madrid.

Committee membership

- N Nomination Committee
- A Audit Committee
- R Remuneration Committee
- M Market Disclosure Committee
- Committee Chair

Corporate Governance

Compliance with the Corporate Governance Code

The Board is committed to high standards of corporate governance and as such has complied with the UK Corporate Governance Code (the Code) during the FY18 reporting year, noting the following:

The Code recommends that at least half the Board of Directors of a UK-listed company, excluding the Chairman, should comprise Independent Non-Executive Directors. Independence is determined by ensuring that, apart from receiving their fees for acting as Directors, Non-Executive Directors do not have any other material relationship or transactions with the Group, its promoters, its management or its subsidiaries, which in the judgement of the Board may affect their independence of judgement.

Thomas Sweet-Escott, a Non-Executive Director, is not considered to be independent for the purposes of the Code as he represents Exponent Private Equity (Exponent) and related investors (the Exponent Shareholders), who currently control 50.34% of the Company's issued shares.

Code Provision B.1.2 provides that a smaller company should have at least two Independent Non-Executive Directors. A smaller company is one that is below the FTSE 350 throughout the year immediately prior to the reporting year, which is the case in respect of the Company. Therefore, as at 29 December 2018, the Company is compliant with the requirements of the Code in this respect. On 22 January 2015, the Company, Exponent and the Exponent Shareholders entered into a Relationship Agreement which regulates the ongoing relationship between them. The principal purpose of this agreement is to ensure that the Company and its subsidiaries are capable of carrying on their business independently of Exponent and the Exponent Shareholders and that any transactions and relationships between them are at arm's length and on normal commercial terms.

The Code is publicly available at the following web address: www.frc.org.uk/OurWork/Publications/Corporate-Governance/UK-Corporate-Governance-Code-April-2016.pdf. This version of the Code remains in place for companies with year ends up to December 2018 and is therefore the basis upon which the Company is reporting in respect of FY18. As noted in the Chairman's introduction, the Board continues to review matters and implement certain changes following the introduction of the Corporate Governance Code 2018.

Leadership

Key roles and responsibilities

Chairman
Alan Peterson

Responsible for:
- ensuring that the conduct of the Group is in accordance with high standards of integrity and probity, and in accordance with all appropriate governance codes;
- the leadership and overall effectiveness of the Board, and ensuring that there is appropriate delegation from the Board to executive management;
- ensuring a clear structure for the operation of the Board and its Committees;
- setting the Board agenda in conjunction with the Company Secretary, Chief Executive Officer and Chief Financial Officer;
- ensuring that the Board receives accurate, relevant and timely information about the Group's affairs; and
- ensuring clear two-way communication with shareholders.

Chief Executive Officer
Steve Ashmore

Responsible for:
- developing the Group's strategy for consideration and approval by the Board;
- implementing the agreed strategy;
- day-to-day management of the Group's operations; and
- being accountable to, and reporting to, the Board on the performance of the business.

Senior Independent Non-Executive Director
Amanda Burton

Responsible for:
- being an alternative contact for shareholders at Board level other than the Chairman;
- acting as a sounding board for the Chairman;
- if required, being an intermediary for Non-Executive Directors' concerns; and
- reviewing the Chairman's performance.

The Senior Independent Non-Executive Director carries out the duties of a Senior Independent Director for the purposes of compliance with the Code.

Board and Committee structure

The Board focuses on:
- leadership;
- risk assessment and management;
- strategy;
- performance; and
- monitoring safety, values and standards.

In addition there is a formal schedule of matters reserved for the Board. The Committees each have full terms of reference which can be found on the Company's website at www.hsshiregroup.com/investor-relations/corporate-governance.

Non-Executive Directors

The number of Non-Executive Directors and their range of skills and experience is kept under review and was formally reviewed as part of the Board evaluation (see page 44).

Governance framework

Alan Peterson OBE
Chairman

Role:
- Ensure effectiveness of the Board
- Ensure corporate governance compliance
- Ensure effective Board Committee structure
- Ensure effective communications

The Board
Comprises six Directors, of which four are Non-Executive, two of which, Amanda Burton and Doug Robertson, are considered independent. The Board is supported by the Company Secretary.

Role:
- Lead the Group
- Oversee risk management and internal controls
- Oversee strategy
- Oversee the executive management
- Monitor performance
- Set values and standards

Executive management
Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Group HR Director, Managing Director of Scotland and Ireland, Group Strategy Director and Group General Counsel & Company Secretary.

Role:
- Implement Group strategy
- Operational management of the Group

Company Secretary
Daniel Joll

Role:
- Support and advise the Board and Committees (in a dual legal and company secretarial function)

Audit Committee
Comprises Independent Non-Executive Directors, chaired by Doug Robertson, supported by the Company Secretary.

Role:
- Monitor financial reporting
- Monitor audit
- Monitor effectiveness of risk management and internal controls

Find out more on pages 47 to 49

Remuneration Committee
Comprises Independent Non-Executive Directors, chaired by Amanda Burton, supported by the Company Secretary.

Role:
- Determine and review appropriate Board and senior executive remuneration policies and structures
- Determine appropriate remuneration packages for Board and senior executives

Find out more on pages 52 to 67

Nomination Committee
Comprises Non-Executive Directors, including two Independent Non-Executive Directors, chaired by Alan Peterson, supported by the Company Secretary.

Role:
- Advise the Board on composition, membership and succession planning
- Advise the Board on appointments

Find out more on page 51

Market Disclosure Committee
Chaired by Amanda Burton, plus the Chief Executive Officer, supported by the Company Secretary.

Role:
- Ensure compliance with disclosure requirements

Find out more on page 50

Attendance at Board and Committee meetings of which each Director is a member held between 1 January 2018 and 29 December 2018

Director	Board (of 19)	Audit Committee (of 7)	Remuneration Committee (of 3)	Nomination Committee (of 2)
Executive Directors				
Steve Ashmore	19	–	–	–
Paul Quested	18	–	–	–
Non-Executive Directors				
Alan Peterson	19	–	–	2
Amanda Burton	17	7	3	2
Doug Robertson	17	7	3	2
Thomas Sweet-Escott	17	–	–	–

All the individuals who were Directors as at 29 December 2018 offer themselves for re-election at the next AGM of HSS Hire Group plc to be held at 11.00am on 20 June 2019.
The biographical details of each of the Directors, including details of their other directorships and relevant skills and experience, are on pages 40 and 41 of this Annual Report and are also set out in the Notice of AGM.
The Board recommends that shareholders approve the resolutions to be proposed at the AGM relating to the re-election of all of the Directors.

Corporate Governance
continued

Terms and conditions and time commitments
The Chairman and Non-Executive Directors are all appointed pursuant to formal letters of appointment which outline, amongst other details, the remuneration and terms of appointment for each Director.

The Chairman and the Non-Executive Directors devote such time to the affairs of the Company as required, including attendance at meetings as reflected in the above table.

In order to facilitate proper debate and consideration, all Directors are expected to attend Board meetings and such Committee meetings to which they are invited in person.

The Executive Directors of the Company may attend certain meetings of the Committees at the invitation of the Chairman of the respective Committee. These attendances are not recorded in the table set out above.

Conflicts of interest
Exponent and the Exponent Shareholders currently control 50.34% of the Company's issued shares. Since January 2015, there has been a Relationship Agreement with Exponent in regard to its shareholding and the management of the company. More information is given in relation to this in Other Statutory Disclosures on pages 68 and 70.

Thomas Sweet-Escott is a partner at Exponent and Alan Peterson has a long-standing business relationship with Exponent and is either chairman or a director of BBI Group Holding Limited and certain of its group companies, EAGLE SPV 2 Limited and EAGLE SPV 3 Limited, all of which are Exponent portfolio companies. The Group trades on normal commercial terms with certain Exponent portfolio companies. No material transactions have occurred in the period.

Amanda Burton is a Non-Executive Director of the parent company of a customer of the Group.

The Board has satisfied itself that such customer is not material enough to create a potential conflict of interest.

In the event that HSS's relationship with any customers or other companies where any of the Directors are also appointed as directors becomes material by virtue of their trade with the Group or another business reason, the relevant Director would be expected to declare their connection to the customer/company and the Board would assess whether a conflict of interest arises and the appropriate action to be taken. Save as set out above, there are no current or potential conflicts of interest between any duties owed by the Directors or senior management to the Company and their private interests or other duties.

Any Directors' conflicts of interest are declared to the Board and recorded by the Company Secretary.

Effectiveness
Board composition
The Board and Committees are considered to have an appropriate range of experience, skills and knowledge to fulfil their duties. Profiles of each of the members of the Board are provided on pages 40 and 41.

The four Non-Executive Directors, Alan Peterson, Amanda Burton, Doug Robertson and Thomas Sweet-Escott, represent a majority of Board members and provide a broad range of skills and experience.

The two Executive Directors, Steve Ashmore and Paul Quested, bring a variety of sector experience to the Board. Amanda Burton and Doug Robertson are considered independent. They are members of the Audit, Remuneration and Nomination Committees of the Board. Both the Market Disclosure and Remuneration Committees are chaired by an Independent Non-Executive Director, Amanda Burton. The Audit Committee is chaired by an Independent Non-Executive Director, Doug Robertson.

Appointments to the Board
The Nomination Committee, which is composed entirely of Non-Executive Directors, is responsible for any future appointments to the Board. The Nomination Committee is chaired by the Chairman of the Board, Alan Peterson. By virtue of the fact that the majority of its members are Independent Non-Executive Directors, the Nomination Committee is considered independent.

Overview of Board's work during 2018
The Board met 19 times during 2018.

Regular agenda items for the Board included, and will include in 2019:

- health and safety;
- operational and financial performance;
- risk management and the risk register;
- internal policies and procedures – introduction, review, monitoring;
- reviewing, setting and approving strategy;
- monitoring of the implementation of strategic priorities;
- finance and banking arrangements;
- major capital expenditure; and
- evaluation of acquisition/disposal opportunities (as applicable).

Ad hoc and specific items reviewed by the Board during the year included, and will include in 2019 (as applicable):

- the Annual Report and Accounts;
- the Interim (half-year) Report and Accounts;
- the quarterly reporting required under the reporting requirements of the Notes (until such Notes were redeemed) together with any associated trading updates;
- RNS releases relating to Directorate changes, business disposals and Group refinancing (as applicable); and
- approval of the annual budget.

The Board delegates authority to the following Committees:

- Audit Committee;
- Remuneration Committee;
- Nomination Committee; and
- Market Disclosure Committee.

Board evaluation
Internal evaluation of the Board and of our sub-committees was carried out as detailed on page 51.

Board training
As part of induction, any new Directors receive training from the Company's sponsors/brokers in relation to their responsibilities as a Director of a listed company. The Board also receives regular updates on legal and regulatory developments through the course of a financial year as reflected in the Chairman's Introduction on page 39.

Access to information and support
The Board is provided with an agenda and supporting papers and documentation ahead of each Board and/or Committee meeting to allow them time to read, review and consider the information and

analysis presented. The Board also has access to the Company Secretary and can request independent advice at the Company's expense where they believe it is appropriate and valuable to do so. Senior management are also frequently invited to present at Board meetings as deemed appropriate, and the Board can access such colleagues at any time.

Accountability

Financial and business reporting

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 (see page 71), 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.

Risk management and internal control

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 24 to 27. The Board has carried out a robust assessment of the principal risks facing the Group and concluded that suitable mitigation is in place for each of the principal risks facing it.

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.

The Audit Committee (whose composition, remit and report are set out on page 43 and pages 47 to 49) 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. This is carried out with the assistance of the Chief Financial Officer and the Risk and Assurance Director which is supported by the findings of specific projects/investigations completed by the internal audit team, the findings of which are presented to the Audit Committee during the financial year.

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 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 30 December 2017 on its website in 2018.

Going concern and long-term viability statement

Note 1(e) of the Financial Statements sets out the basis on which the Directors continue to adopt the going concern basis in preparing the Annual Report and Accounts.

In summary, taking into account the adequacy of the Group's debt facilities, current and future developments and the principal risks and uncertainties (see pages 24 to 27), and after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence over a period of at least twelve months from the date of approval of the financial statements. Accordingly they continue to adopt the going concern basis in preparing the Financial Statements included within this Annual Report.

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group over a three-year period taking into account the Group's current position, its strategic plans and the potential impact of the principal risks and uncertainties detailed on pages 24 to 27. Based on this assessment and all other matters considered and reviewed at Board level during the year, the Directors confirm that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2021.

Whilst the Directors have no reason to believe that the Group is not viable over a longer period, they have determined that three years is the appropriate time over which to provide the viability statement because:

- → it reflects a period over which it the Directors can have a reasonable view of the future in the context of the market environment in which the Group operates; and
- → it is consistent with the time covered by the Group's current strategic plans and model.

The Group's annual budgeting and forecasting process involves the preparation of an annual budget and a rolling three-year strategic model that also includes strategic actions and other specific assumptions regarding revenue growth, cost trends and capital expenditure across the Group.

Where appropriate, sensitivity analysis is undertaken to test the resilience of the Group to various scenarios. Whilst all of the principal risks and uncertainties were considered, the following were considered in greater detail during the sensitivity analysis: macro-economic conditions, competitor challenge and insufficient liquidity headroom in addition to a changing cost profile.

The principal effects assessed, together with their impact on the Group's Financial Statements, were therefore:

- → impact of a "hard Brexit" with significant reductions in revenue, cost increases, extended times taken to receive cash from customers offset by savings in capital expenditure (due to the reduced level of demand) and deferral of payments to suppliers;
- → reductions in Rental and related revenue growth rates (market or company specific) and the associated impacts on capital expenditure requirements and the Group's variable cost base;
- → lower than expected benefits following the implementation of strategic growth initiatives;
- → increases in costs at a higher rate than currently planned; and
- → lower liquidity levels due to an increase in debtor days.

In addition to the mitigating factors identified on pages 24 to 27, the Board noted that: the Group has a diversified customer base; a history of winning new customers; and low customer concentration with only one customer currently accounting for more than 10% of revenues and the top 20 customers accounting for less than 30% of revenues. Alongside this the Group has a continuous profile of lease expiries that allows a material portion of the portfolio to be exited in

Corporate Governance
continued

any one year and the Group's ability to match capital investment to customer demand acts to support cash generation.

Statement on disclosure of information to the auditor
The Directors who held office as at 3 April 2019 each confirm that:

- a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Remuneration
The Remuneration and Audit Committees are composed exclusively of Independent Non-Executive Directors, able to judge and achieve an appropriate balance between incentivising Executive Directors and the potential impact on the Company's risk profile.

The Remuneration Committee (whose composition, remit and report are set out on page 43 and pages 52 to 67) sets the policy for and terms of executive remuneration.

Relations with shareholders and other capital providers

Shareholder engagement
The Board remains committed to communicating with shareholders and stakeholders in a clear and open manner, and seek to ensure effective engagement through the Company's website, its public announcements, the AGM and other investor relations activities.

In addition to its ongoing reporting obligations, the Company undertakes a programme of meetings with existing and/or potential institutional investors and equity analysts, led by the Chief Executive Officer and Chief Financial Officer. These meetings, together with investor feedback collected via our broker, enable the Company to assess prevailing analyst and investor sentiment and to obtain external feedback on how the Group's performance and strategy are perceived and considered. A summary report on investor interaction and feedback is provided to each Board meeting through the year to keep the wider Board informed of these activities and findings.

As well as meetings and public company announcements such as financial results, teleconference calls are held with institutional investors and analysts throughout the year; copies of relevant presentation materials are made available on the Company's website to the extent they differ from the latest publicly released results presentations.

All Directors are expected to attend the AGM, providing shareholders with the opportunity to question them about issues relating to the Group, either during the meeting or informally afterwards. The Non-Executive Directors are available for discussion with shareholders on matters under their areas of responsibility either in person at the AGM or at any other time via the Company Secretary.

The Company reports its financial results to shareholders twice a year, with the publication of its Annual and Half-Year Financial Reports. Shorter, less detailed trading updates are also provided to the market periodically.

All of the above mentioned reports are made available for download to shareholders in the investor relations section of the Company's website, www.hsshiregroup.com/investor-relations.

Annual General Meeting
The Company's AGM will be held at 11.00am on 20 June 2019. All shareholders are invited to the Company's AGM, at which they will have the opportunity to put questions to the Board. Details of the resolutions proposed and being voted on are provided in the Notice of AGM provided to shareholders and also available for download on the Group's website, www.hsshiregroup.com.

Relations with other capital providers
Under the new Senior Finance Agreement and Revolving Credit Facility, we provide financial information on a monthly, quarterly and annual basis and hold meetings or conference calls each quarter between the lenders and the Chief Executive and Chief Financial Officers. As part of the reporting requirements of the Notes we reported consolidated results for the Hero Acquisitions Limited group to noteholders on a quarterly basis up to their redemption on 11 July 2018. This included a conference call, where noteholders have the opportunity to speak with the Chief Executive Officer and Chief Financial Officer.

Significant shareholders
Based on TR-1 notifications received from the parties who hold 3% or more of the issued share capital of the Company as at 3 April 2019 are as follows:

Name	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 II, LP (UK) and Exponent Havana Co-Investment GP Limited Partners (UK).
(2) Comprises shareholdings held by the Tosca Mid-Cap fund, the Tosca Opportunity fund and the Micro-Cap Units fund.

Details of Directors' interests in the Company's ordinary share capital are provided in the Directors' Remuneration Report on pages 64 and 65.

Audit Committee Report

Doug Robertson
Committee Chairman

Dear shareholder

On behalf of the Audit Committee (the Committee), I am pleased to present our report for the 2018 financial year.

The Committee has reviewed the contents of the 2018 Annual Report and Accounts and advised the Board that it considers the Report to be fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

Roles and responsibilities

The Committee has responsibility for overseeing the financial reporting and internal financial and risk management controls of the Company, as well as maintaining an appropriate relationship with the external auditor and reporting its findings and recommendations to the Board.

The Committee's full terms of reference can be found on the Company's website at www.hsshiregroup.com/investor-relations/corporate-governance. A summary of its key responsibilities include:

- receiving and reviewing the Annual Report and Accounts and half-yearly Financial Statements and all related public financial announcements and advising the Board on whether the Annual Report and Accounts are fair, balanced and understandable;
- receiving and reviewing reports from the external auditor;
- monitoring the external auditor's effectiveness and independence and approving their appointment and their terms of engagement;
- monitoring the effectiveness of the Group's risk management system;
- reviewing the effectiveness of the Group's system of internal financial controls and internal control and compliance systems in relation to the financial reporting process (see pages 48 and 49) and advising the Board as appropriate; and
- overseeing the Group's procedures for detecting fraud and whistleblowing arrangements.

Core activities

The Committee met seven times in 2018. All members attended these meetings.

The Committee's core activities during 2018 included and will include in 2019:

- reviewing and enhancing disclosure in areas of judgement of estimates within the notes to the Financial Statements;
- establishing that the Annual Report, taken as a whole is fair, balanced and understandable via review of the document and gaining an understanding as to how it was completed;
- reviewing internal control systems and policies;
- regular review of the work and findings of the internal audit function;
- considering risk management systems;
- reviewing the risk register; and
- meeting with the external auditors, agreeing their audit plan and assessing their findings.

Ad hoc activities

Specific additional work streams undertaken by the Committee during the year included:

- assessing the risk and monitoring the implementation of the new policies and processes related to Anti-facilitation of Tax Evasion measures as a result of applying the Criminal Finances Act 2017;
- reviewing the accounting treatment of the new debt facilities as part of the Group's refinancing in July 2018;
- reviewing the accounting treatment of the UK Platforms disposal; and
- monitoring the implementation of key changes to the processes and systems around fixed assets.

Corporate Governance

Audit Committee Report
continued

External financial reporting
The Committee is responsible for monitoring and reviewing the Financial Statements and reviewing compliance with legal, regulatory and statutory requirements, giving due consideration to the provisions of the Code.

The Committee reviewed the annual and interim Financial Statements along with trading and market updates released during the year with particular focus on the following significant areas:

- → hire stock existence and valuation;
- → carrying value of goodwill and other intangible and tangible assets;
- → revenue recognition – cut-off, sales rebates and credit note provisions, IFRS 15 implementation;
- → onerous lease provisions;
- → management assessment of going concern;
- → exceptional items;
- → new accounting standards; and
- → FRC review.

These areas are identified as significant due to their complexity, size, level of judgement required and/or potential impact on the Financial Statements and our strategy.

An overview of each of these areas is set out below:

Hire stock existence and valuation
Rental income earned on materials and equipment held for hire which is owned by the Group (hire stock) is a large component of the Group's revenues. As such the existence of hire stock is important to the ongoing ability of the Group to generate revenue from its assets. Certain of the Group's funding arrangements are also linked to specific assets or asset classes. The Committee has therefore given careful consideration to the controls in place to verify the physical existence and appropriate valuation of hire stock together with the processes for verifying the reliability of the accounting systems and records and has concluded that appropriate systems are in place.

Carrying value of goodwill and other intangible and tangible assets
The carrying value of goodwill, intangible and tangible assets was reviewed at the year end. A consistent methodology is applied to each of the individual cash-generating units, taking account of market outlook, risk-adjusted discounted future cash flows, sensitivities and other factors which may have a bearing on impairment considerations. As a result of this work, the Committee has concluded that no impairment provisions are required.

Revenue recognition – cut-off, revenue-related rebates and credit note provisions
The Committee examined the procedures and controls in place to ensure that the reporting and recognition of revenue, especially for open hires over the year end and also whether the recognition of any revenue-related rebate accruals or credit note provisions is appropriate and complete. The Committee also considered the impact of IFRS 15 *Revenue from contracts with customers* as part of its review of revenue recognition and the approach to provisioning as part of its assessment of the FY18 results. Following these reviews, the Committee has concluded that the procedures and controls are adequate and that the new accounting standard has no material impact on the Group's financial statements.

Onerous lease provisions
The Committee reviewed with management the basis of property-related provisions for properties that the Group no longer utilises (dark stores), including the estimates and judgements applied by management in assessing the existence and level of provision. The Committee assesses that the approach adopted is reasonable.

Going concern
The accounts have been prepared on a going concern basis. The Group has made losses during the financial year and operated, until it was replaced in July 2018, with a limited amount of headroom on its main banking facilities. The Senior Secured Notes and the Revolving Credit Facility were repaid and the new Term Loan Facility and Revolving Credit Facility provide greater liquidity for the Group. The Committee has reviewed the cash flow forecasts and sensitivity analysis and has satisfied itself that the business will be able to refinance these obligations and that, accordingly, it is appropriate to adopt the going concern assumption in the preparation of the accounts.

Exceptional items
The Committee reviewed with management the expenses classified as exceptional during the year. Exceptional items included one off costs relating to cost reduction projects, strategic review, business divesture in relation to UK Platforms, costs expensed on refinancing the business in July 2018 and onerous leases on dark stores and associated asset impairments. The Committee assesses that the approach adopted in respect of exceptional items is appropriate.

New accounting standards
IFRS 9 *Financial instruments* and IFRS 15 *Revenue from contracts with customers* came into force for the current financial year, while IFRS 16 *Leases* will be adopted for the 2019 financial year. IFRS 9 has had an impact on our provisioning methodology, particularly in relation to trade receivables. Having reviewed the calculations using the new expected credit loss approach to assessing impairment charges, the Committee was able to conclude that there was no material impact of the new methodology. IFRS 15 is considered above.

By way of contrast, IFRS 16 will have a significant impact on reported results when it is introduced in the 2019 financial year. HSS intends to adopt the simplified transition approach which will mean the initial asset being reported at the start of the 2019 financial year being restated to equal the liability calculated under the standard. Further disclosure of the impact is given in note 3 to the financial statements. It is worth emphasising that there will be a material change as the previous operating lease rentals included in reported EBITDA for the 2018 and prior years are replaced by depreciation and interest on the liability that are reported outside of EBITDA.

Review by the Financial Reporting Council (FRC) of the 2017 annual report and accounts
In addition, the Company received a letter from the FRC in September 2018, which raised questions on certain aspects of its annual report and accounts for the year ended 30 December 2017. The Company responded fully to the matters raised in the FRC's letter, enabling it to conclude its enquiry. The principal changes to the Company's annual report and accounts for the year ended 29 December 2018 resulting from the FRC's enquiry were some recommendations for improved disclosures mainly with respect to impairment reviews and notes to the cash flow statement.

The FRC's enquiry did not result in any change to reported profit or net assets.

Scope and limitations of the FRC's review
The Company recognises that the FRC's review was based on a review of its annual report and accounts for the year ended 30 December 2017 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's review provides no assurance

that the Company's annual report and accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

External auditor

The Committee oversees the Group's relationship with the external auditor (BDO) and formally reviews the relationship, policies and procedures to ensure its independence. BDO also reports to the Committee on the steps it has taken through the year to safeguard its independence and to comply with the relevant professional and regulatory requirements. The BDO partner in charge of the audit is Kieran Storan. He has held this role for four years. The maximum term for which he can perform this role is five years and this will be his last audit in charge. To this end, the Committee has been involved in the selection process of the new BDO partner in charge, Sophie Michael, who will lead the 2019 audit.

BDO has been auditor to certain companies within the Group for 15 years since its appointment in respect of the 2004 year end, with the lead audit partner being rotated on a regular basis, most recently in 2015. The last tender for the audit of HSS Hire Service Group Limited and its subsidiaries occurred in 2005.

BDO has been auditor to the Public Interest Entity, HSS Hire Group plc for four years, following its incorporation in January 2015. It is the Group's intention to put the audit of the Public Interest Entity out to tender at least once every ten years. The Company has therefore complied with the relevant provisions of the Competition and Markets Authority Final Order on the statutory audit market and the Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) and the transitional arrangements therein for the year ended 29 December 2018.

During the year, the Committee has reviewed and agreed the scope of BDO's work, its audit fees and terms of engagement for the half-year interim results review and full-year FY18 audit. The fees for both audit and non-audit services paid to BDO are set out in note 9 of the Financial Statements.

The Committee also reviewed the effectiveness of the external audit process during the year. This assessment was based on the Committee's interaction with BDO at Committee meetings and through feedback from the Group Finance team on its interaction with BDO. As a result of this exercise, the Committee has satisfied itself that BDO continues to provide an effective external audit service to the Company and its subsidiaries and the Committee has made a recommendation to the Board that a resolution for the re-appointment of BDO be proposed at the AGM.

Non-audit work and independence

The Committee maintains a policy for non-audit services provided by the Group's external auditor which segregates services into Permitted Engagements, Excluded Engagements and Potential Engagements. The policy is available on the Group's website at www.hsshiregroup.com/investor-relations/corporate-governance. The policy is designed to ensure that in the event the Group's external auditor is engaged to provide non-audit services, the provision of those services does not impair nor can it be seen to impair the external auditor's independence and objectivity.

During 2018, BDO provided non-audit-related services to the Group, principally to support the work undertaken for the debt refinancing project, which was successfully completed in July and the review work associated with the Accountants Report for the UK Platforms disposal Class 1 circular. Notwithstanding this, the Committee concluded that the independence of the auditor has not been compromised in any way.

Risk management and internal controls

An overview of the Company's approach to risk, risk management and internal controls through 2018, together with a summary of the principal risks facing the Group, is provided on pages 22 to 27.

During 2018, the Committee reviewed the overall risk management and internal control framework, the work and role of the internal audit team and the underlying process for capturing and reporting risk and control data. This assessment was assisted through the provision of various documents through the year by the Chief Financial Officer, Risk and Assurance Director and other senior personnel in the head office functions. These documents include, but were not limited to: quarterly risk management summary documents, which assess any changes in risk profiles, descriptions and ratings through the year; and quarterly summaries of work completed and work planned by the internal audit team, assessing both areas of risk and the existing controls in place.

There was specific focus in the year on two risks; General Data Protection Regulation (GDPR) and Brexit. A review of the internal audit work assessing the GDPR implementation and subsequent branch compliance was undertaken. In addition, the Committee conducted a detailed review of the Group's assessment of the risk associated with Brexit and the resultant mitigating actions. This remains an ongoing agenda item to monitor the evolution of this risk and implementation of management's actions.

As a result of this review, and the work streams undertaken through the year, the Committee has satisfied itself that the Group has an appropriate risk management and internal control framework in place. This work will continue in 2018.

Whistleblowing

The Committee believes that appropriate arrangements and policies are in place to facilitate the proportionate and independent investigation of, and implementation of, appropriate follow-up action in relation to confidential concerns raised by staff via the whistleblowing process (see page [45]). The Committee requested that specific steps were taken to heighten awareness of the policy and process across the business, for which action commenced in 2019.

Meeting schedule

The Committee meets at least three times a year at appropriate times in the financial reporting and audit cycle. Additional meetings can be scheduled where deemed necessary by the Chairman. The external auditor, Chief Financial Officer and Risk and Assurance Director are normally invited to attend a number of these meetings. Other members of the senior management team attend as invited and as appropriate to the content matter being discussed.

Doug Robertson
Committee Chairman
3 April 2019

Corporate Governance

Market Disclosure Committee Report

Amanda Burton
Committee Chair

Dear shareholder

On behalf of the Market Disclosure Committee (the Committee), I am pleased to present our report for the 2018 financial year.

Roles and responsibilities

The Committee's full terms of reference can be found on the Company's website at www.hsshiregroup.com/investor-relations/corporate-governance. A summary of its key responsibilities include:

- ensuring that the Company complies with its disclosure obligations under the Market Abuse Regulation and the Disclosure and Transparency Rules;
- considering certain information and deciding whether such information is insider information and whether it gives rise to an obligation to make an announcement; and
- reviewing any announcement the Company proposes to make, other than an announcement of a routine nature or that has been considered by the Board.

Activities

The Committee met on one occasion in 2018 to carry out routine business. Otherwise, there were no occasions during the year when the Committee was required to meet, since all disclosure and announcement matters were considered by the full Board.

Meeting schedule

The Committee will meet as often as is deemed necessary and at short notice if required.

Amanda Burton
Committee Chair
3 April 2019

Nomination Committee Report

Alan Peterson OBE
Committee Chairman

Dear shareholder

On behalf of the Nomination Committee (the Committee), I am pleased to present our report for the 2018 financial year.

Roles and responsibilities

The Committee's full terms of reference can be found on the Company's website at www.hsshiregroup.com/investor-relations/corporate-governance. A summary of its key responsibilities include:

- leading a formal, rigorous and transparent process for Board appointments and making recommendations to the Board;
- reviewing the structure, size and composition of the Board, including its skills, knowledge, independence and diversity (including of gender, social and ethnic backgrounds and cognitive and personal strengths) and making recommendations to the Board;
- succession planning, including overseeing the development of a diverse pipeline for succession;
- strategic issues and commercial changes affecting the Group and the market in which it operates; and
- Board and sub-committee performance evaluation.

Our approach

The Committee's primary purpose is to ensure that the Group has the best possible leadership and clear plans for Director and senior management succession. Its primary focus is therefore to concentrate upon the strength of the Board and the selection of the best candidates for posts, based on objective criteria.

Policy on diversity

In performing its activities through the year, the Committee has applied the Group's equality and diversity policy, which it believes is appropriate for application at all levels of the business, including Board and senior management appointments and/or succession planning. Further detail on the Group's equality and diversity policy is provided on page 39.

Activities

The Committee had two scheduled meetings in 2018 to deal with routine business, as well as liaising on ad hoc matters (such as new appointments) arising over the course of the year.

At the meeting held in March 2018, the findings of the internal Board evaluation in respect of FY17 were considered and resulting actions, as reported in the 2017 Annual Report, were agreed.

At the meeting held in September 2018, senior management potential and succession planning were discussed. The Committee also undertook an annual review of its terms of reference, particularly in light of the Corporate Governance Code 2018 and agreed some amendments.

The actions for 2018 agreed by the Committee have been reviewed by the Committee and also by the Board, noting in particular as follows:

- Succession planning – the Committee considered that good progress had been made during the year and into 2019 on building, maintaining and developing the senior management team, both via external hires and also developing existing talent. The Committee did note that, whilst it had been able to report some success during FY17 around recruiting/promoting females into management roles, the Company faces certain challenges around diversity, particularly as regards gender, given that applicants for senior roles during FY18 were predominantly male. Whilst noting this to be a hire industry issue generally, the Committee resolved to continue to monitor this in FY19.
- Board meetings – the Committee agreed that the quality of materials and breadth of discussion at Board was significantly improved, including close monitoring of progress against the Company's strategic pillars.
- Post-implementation reviews – analysis in this area with relevant learnings taken forward had been much improved, as well as clear focus on future projects and strategy.

Board evaluation

The FY18 Board evaluation comprised an internal evaluation of the Board using feedback collated from Board members' responses to an evaluation questionnaire. The questionnaire addressed the key requirements of the Code in relation to the Board and its sub-committees, including each Committee's terms of reference, composition and frequency of meetings. Additional questions focused on leadership, the relationship between the Executive and Non-Executive Directors, the role of the Chairman, issues of material importance concerning the Group and information on the Group's risk management systems. The responses to the questionnaire were summarised and shared with the Board and discussed as appropriate.

2019 Objectives for the Committee and Meeting schedule

In 2019, the Committee has scheduled meetings in January and November and any additional meetings will be arranged as required.

Having considered feedback from the Board and colleagues, progress made against previous objectives and the introduction of the new Corporate Governance Code, the Committee considered it appropriate to focus on the following action areas during 2019:

- Succession planning – ensure that the progress made during FY18 is built on in FY19, with continued focus, where possible, around gender, social and ethnic backgrounds and cognitive and personal strengths of colleagues.
- Skills and expertise – continue to evaluate skills and expertise within the business, how colleagues can be developed further and where any additional, specialist skills may be required as the Group moves forward with its strategy.
- Colleague engagement – continue to investigate and roll out innovative methods of engaging with colleagues at all levels across the HSS business, show that their voices have been heard and report back on how their views and ideas have been considered at Board level and how they have shaped the direction of the business.

Alan Peterson OBE
Committee Chairman
3 April 2019

Corporate Governance

Directors' Remuneration Report

Amanda Burton
Committee Chair

Following the delivery of excellent financial results in FY18, performance bonuses were awarded to Executive Directors in respect of FY18 of 71.9% of salary. FY16 LTIP awards which were due to vest in respect of performance ending in FY18 lapsed in full. At a General Meeting in August, the Company received shareholder approval to grant an exceptional Long Term Incentive Plan award to the Executive Directors and the wider leadership team outside of the approved policy. This award will vest over a 4 year period to the end of FY21 and will require significant share price growth in order to vest.

Amanda Burton
Committee Chair

Dear shareholder

I am pleased to present, on behalf of the Board, our Directors' Remuneration Report in respect of the year ended 29 December 2018.

In accordance with the applicable regulations, this report is presented in two sections:

- the Directors' Remuneration Policy (see pages 55 to 61). This is a new Policy which is being presented to shareholders at our AGM in June. There are only minor changes to the Policy (which was approved in 2016 with a vote in favour of 99.96%); and
- the Annual Report on Remuneration (see pages 62 to 67) this provides details of the amounts earned by Directors in FY18 and how we intend to apply the Directors' Remuneration Policy in FY19.

At the 2019 AGM, the Directors' Remuneration Policy will be subject to a binding vote and the Annual Report on Remuneration will be subject to an advisory vote.

The Committee's terms of reference can be found on the Company's website at www.hsshiregroup.com/investor-relations/corporate-governance.

How we link executive remuneration to our strategy

We take a disciplined approach to executive remuneration, ensuring that we incentivise and reward the right behaviours to support the overall strategy of the Group. Our executive remuneration arrangements are designed to support the Company's strategic priorities and have been designed based on the following key principles:

- aligned to the Company's purpose and values and clearly linked to the Company's long term strategy;
- simple and transparent for key stakeholders and takes into account remuneration and related policies for the wider workforce;
- stewardship to encourage long term shareholding by Executive Directors that promote sustainable success;
- risk management to promote long term sustainable performance through sufficiently stretching performance targets, while ensuring that the incentive framework does not encourage Executive Directors to operate outside of the Company's risk appetite; and
- total remuneration delivered should fairly reflect the Company and individual performance.

The Committee considers that the current remuneration framework will support effectively the delivery of our business strategy and creation of shareholder value. Our new Policy is not a radical overhaul of the Policy approved in 2016. The changes refine that Policy and take account of developments in best practice and the new Corporate Governance Code principles and provisions. A summary of the minor changes to the Policy are as follows:

Post-employment shareholding requirement: In line with best practice and to emphasise long-term share ownership and shareholder alignment, a post-cessation shareholding requirement will apply with effect from 1 January 2019.

Extension of malus and clawback provisions: In line with best practice, we have extended the circumstances in which recovery provisions ("malus" and "clawback") may be applied to the annual bonus and LTIP awards, to include material corporate failure.

Pension: The Company's maximum contributions for existing and incumbent Executive Directors is now set at 10% of salary which is a closer alignment to our pension practice for our colleagues. Our previous policy maximum was 15% of salary.

FY18 long-term incentive award

The Company received shareholder approval (support in favour was over 99%) via a General Meeting on 7 August 2018 to grant an exceptional long term incentive award to the Executive Directors (and key business leaders) outside of the approved Policy. The awards, which are structured as market value share options, will vest subject to the achievement of a challenging share price performance measure over a four year period ending with FY21. The participant can elect to bring the performance period to an early close at either 31 December 2020 or 30 June 2021. At this point the performance assessment would take place to determine the vesting outcome, with any awards which do not vest lapsing at that time. The shares which vest will not ordinarily be released until after results have been announced for FY22. The awards have been designed to align the variable remuneration of our senior leadership team with strong financial and business performance, promoting the long-term success of the Company and the creation of long-term shareholder value. Further details are set out on page 63.

FY18 performance and variable pay outcome

The FY18 annual bonus was subject to core hire rental revenue growth (30% of the overall opportunity), Adjusted EBITDA (30% of the overall opportunity), Net Leverage Ratio (Net Debt/ Adjusted EBITDA) performance (30% of the overall opportunity), and a reduction in RIDDORs (10% of the overall opportunity). Reflecting the performance of the Group as discussed on page 63, the Executive Directors earned a bonus of 71.9% of salary for FY18. In accordance with the current Policy, bonus earned in excess of 50% of salary will be deferred for a two year period in shares.

The Company's first long-term incentive awards were granted under the LTIP on 7 April 2016, subject to EPS performance measure as regards 75% of the award and ROCE performance measure as regards 25% of the award. As discussed on page 64, performance targets were not met and the awards lapsed in full.

Reward for FY19

Subject to shareholder approval of the Policy at the 2019 AGM, the new Policy will apply in the FY19 financial year.

The culture of our business has not changed, we still seek to ensure we have the same approach to reward for all our colleagues, where appropriate, and therefore have in place for FY19 a reward framework which we can cascade consistently and one which is relevant not only for our Executive Directors, but also for our Senior Leadership Team who participate in the annual bonus and the LTIP.

Annual bonus	**Focus on profitability, growth and safety:** The four principal performance measures for the annual bonus in FY18 were Adjusted EBITDA, Net Leverage Ratio (Net Debt/Adjusted EBITDA), core hire rental growth and reduction in RIDDORs. These bonus measures reflect the KPIs of the business and support the strategy of growth, profit improvement and balance sheet strength. The bonus structure is helping to drive the right behaviour and the best outcomes for the business and to this end, for FY19, the Committee has placed greater weighting on EBITDA to create more focus on this KPI. Recognising the importance of the other elements of the bonus, we will retain these so that they continue to drive and support future profitability and growth in a safe working environment. Executive Directors are required to defer the part of the award earned (if any) in excess of 50% of the maximum award into shares over a two year period. The additional two year holding period provides further alignment with shareholders and a longer term focus on creating sustained value for the business.
LTIP	Awards granted with three year performance targets which reflect the Group's focus on profitability, growth and operational efficiency. The additional two year holding period provides further alignment with shareholders and a longer term focus on creating sustained value for the business. In line with our first award under the LTIP in 2016, performance measures will be Adjusted EPS and ROCE. Further details are provided on page 63.

More information with regards to FY19 implementation is provided on page 66, and we have summarised the key aspects below.

Executive Director salaries

In line with the salary review timetable for all other employees, the Executive Directors' base salaries will be reviewed during June 2019, with any changes taking effect from 1 July 2019. Non-Executive Directors' fees will be reviewed during the year. Any increase to any Executive Director's salary or Non-Executive Director's fee is expected to be modest and will be in line with the range of salary increases awarded to other colleagues in the Group.

Corporate Governance

Directors' Remuneration Report
continued

Annual bonus

No changes are proposed to the maximum opportunity or structure of the annual bonus although, as outlined above, the weightings of performance measures have been modified to increase focus on the Adjusted EBITDA KPI. The overall bonus opportunity will remain at 100% of salary. The annual bonus will be subject to Adjusted EBITDA performance (50% of overall opportunity), Core Hire rental revenue growth (20% of the overall opportunity), Net Leverage Ratio (20% of the overall opportunity), and a reduction in RIDDORs (10% of the overall opportunity). The Committee considers that these measures are aligned with the key areas of focus for the senior team over the next 12 months.

LTIP

It is the Committee's intention to grant LTIP awards with a maximum opportunity of 125% of salary. The LTIP awards will be subject to Adjusted EPS performance measure (as regards 75% of the award) and a ROCE performance measure (as regards 25% of the award). LTIP awards will vest subject to performance over a three year period ending with FY21 and any awards which vest will be subject to a further two year holding period. The performance targets are currently under review. Full details of the performance targets will be provided at the time that the LTIP awards are granted.

Employee share plan dilution limits

Our LTIP rules currently include two dilution limits:

- Commitments to issue new shares or re-issue treasury shares, when aggregated with awards under all of the Group's other employee share plans, must not exceed 10% of the issued ordinary share capital in any 10 year rolling period.
- Commitments to issue new shares or re-issue treasury shares, when aggregated with awards under the Group's other discretionary employee share plans (which includes the Deferred Bonus Plan only) should not exceed 5% of the issued ordinary share capital in any 10 year rolling period.

The Board is currently consulting with major shareholders as regards potentially removing the second of these dilution limits from our LTIP rules and Deferred Bonus Plan rules. This would be in order to provide the Committee with sufficient flexibility to grant LTIP awards over the coming years to the Senior Leadership Team at a quantum which is considered fair and equitable and motivates and retains participants to deliver on the longer term strategy. Any proposed changes to the dilution limits, which will require shareholder approval, will be set out in the Notice of 2019 AGM.

Conclusion

In addition to reflecting a sensible and disciplined approach to executive remuneration, I hope that you will agree that these proposals are appropriate to the circumstances of the business and the challenges it has faced and are fully aligned to the strategy over the next three years. I trust that you will support the resolutions to be proposed at the 2019 AGM in relation to the Directors' Remuneration Report. Should you have any queries in relation to this report please contact me or the Company Secretary.

Amanda Burton
Committee Chair
3 April 2019

At a glance summary: Executive Directors' remuneration

- 2% salary increases were awarded in July 2018 in line with other colleagues in the Group (see page 65).
- Annual bonus to be paid to Executive Directors in respect of FY18 of 71.9% of salary (see page 62).
- FY16 LTIP awards lapsed in full.
- Grant of exceptional long-term incentive award in FY18 following shareholder approval at the General Meeting (see page 63) measured over four years with a further one year holding period.
- FY19 annual bonus award opportunity equal to 100% of salary subject to Adjusted EBIDTA (50%), Core Hire rental revenue growth (20%), Net Leverage Ratio (20%) and a reduction in RIDDORs (10%) (see page 66). Any bonus earned above 50% will be deferred into shares for two years.
- Salaries for FY19 will be considered in June at the same time as for the wider workforce. Any increase will be in line with the range of increases awarded to other employees.
- Maximum FY19 LTIP award opportunity up to 125% of salary and subject a two-year holding period following the performance period (see page 66). The LTIP awards will be subject to Adjusted EPS performance measure (as regards 75% of the award) and a ROCE performance measure (as regards 25% of the award).

Directors' remuneration policy

Key principles

HSS Hire's remuneration package for Executive Directors has been designed based on the following key principles:

Alignment	Aligned to the Company's purpose and values, and clearly linked to the Company's long term strategy.
Simple and transparent	Simple and transparent to key stakeholders and takes into account remuneration and related policies for the wider workforce.
Stewardship	Encourages long term shareholdings by Executive Directors that promote sustainable success.
Risk management	Promotes long term sustainable performance through sufficiently stretching performance targets, while ensuring that the incentive framework does not encourage Executive Directors to operate outside of the Company's risk appetite.
Fairness	Total remuneration delivered should fairly reflect company and individual performance.

Policy table for Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To provide a competitive base salary for the market in which the Group operates to attract and retain Executives of a suitable calibre.	Salaries are usually reviewed annually taking into account a number of factors, including (but not limited to): → underlying Group performance; → role, experience and individual performance; → competitive salary levels and market forces; and → pay and conditions elsewhere in the Group.	While there is no maximum salary, increases will normally be in line with the range of salary increases awarded (in percentage of salary terms) to other employees in the Group. Salary increases above this level may be awarded to take account of individual circumstances, such as, but not limited to: → where an Executive Director has been promoted or has had a change in scope or responsibility; → an individual's development or performance in role (e.g. to align a newly appointed Executive Director's salary with the market over time); → where there has been a change in market practice; or → where there has been a change in the size and/or complexity of the business Increases may be implemented over such time period as the Committee deems appropriate.	Not applicable
Benefits	To provide broadly market competitive benefits as part of the total remuneration package.	Executive Directors receive benefits in line with market practice, and these include life insurance, private medical insurance, company car or car allowance and, where relevant, relocation expenses. Other benefits may be provided based on individual circumstances. These may include, for example, travel expenses.	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.	Not applicable
Retirement benefits	To provide an appropriate level of retirement benefit (or cash allowance equivalent).	Executive Directors are eligible to participate in the Group defined contribution pension plan. In appropriate circumstances, such as where contributions exceed the annual or lifetime allowance, Executive Directors may be permitted to take a cash supplement instead of contributions to a pension plan.	Maximum contribution is 10% of salary.	Not applicable
Sharesave Scheme	To create alignment with the Group and promote a sense of ownership.	Executive Directors are entitled to participate in a tax-qualifying all employee Sharesave Scheme under which they may make monthly savings contributions over a period of three or five years linked to the grant of an option over the Company's shares. The permitted discount under the Sharesave Scheme will be those set in accordance with the applicable tax legislation from time to time.	Participation limits are those set in accordance with the applicable tax legislation from time to time.	Not subject to performance measures in line with typical market practice

Corporate Governance

Directors' Remuneration Report
continued

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Annual bonus	Rewards performance against targets which support the strategic direction of the Group.	Awards are based on performance (typically measured over a financial year) against key financial targets and/or the delivery of strategic/individual objectives. Pay-out levels are determined by the Committee after the year end based on performance against those targets. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance over the performance period. For up to two years following the payment of a bonus award, clawback provisions will apply such that the Committee may require the repayment of some or all of the award in the circumstances set out at the foot of this table.	Maximum annual bonus opportunity is 100% of salary.	Targets are set annually reflecting the Company's strategy and aligned with key financial, strategic and/or individual targets. At least 80% of the annual bonus is assessed against key financial performance measures of the business and the balance may be based on non-financial strategic/personal objectives. **Financial measures** At threshold performance, the payout is set at 25% of the maximum potential for this element. Up to 50% of the maximum potential for this element of the bonus will be paid for on-target performance and all of the maximum potential will be paid for maximum performance. **Non-financial strategic or individual measures** Vesting of the non-financial strategic or individual measures will apply on a scale between 0% and 100% based on the Committee's assessment of the extent to which a non-financial performance measure has been met.
Deferred bonus plan (DBP)	Provides a retention element through share ownership and direct alignment with shareholders' interests.	Executive Directors are required to defer any annual bonus award earned in excess of 50% of the maximum award into shares over a two-year period. The Committee may decide to pay the entire bonus earned in cash where the amount to be deferred would, in the opinion of the Committee, be so small as to make operation of the DBP administratively burdensome. Deferred shares will typically take the form of a nil-cost share options but may be structured as an alternative form of share award. Awards may be satisfied in cash at the election of the Committee. Executive Directors may also be offered the opportunity to defer voluntarily up to 100% of any annual bonus award earned into shares over a two-year period. Awards under the DBP may be granted on the basis that the number of shares shall be increased to reflect dividends paid over the vesting period, or the Committee may make a cash payment equal to those dividends on release of the shares. The vesting of the deferred shares is not subject to the satisfaction of any performance measures. However, the Committee has the right to apply malus provisions to reduce, cancel or impose further conditions on unvested or unexercised awards in (but not limited to) the circumstances set out at the foot of this table.	Ordinarily, any annual bonus earned in excess of 50% of the maximum award is mandatorily deferred, subject to the discretion of the Committee as referred to in the 'Operation' column. At the discretion of the Committee, up to 100% of any bonus earned may be deferred.	Not applicable. Deferred shares are not subject to any additional performance measures after the application of the performance measures which determines the amount of annual bonus award earned.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Long Term Incentive Plan (LTIP)	To incentivise Executive Directors, and to deliver genuine performance-related pay, with a clear line of sight for executives and direct alignment with shareholders' interests.	Awards will be in the form of nil-cost share options, conditional shares or other such form as has the same economic effect. Awards will be granted with vesting dependent on the achievement of performance measures set by the Committee, normally over at least a three-year performance period. Awards will be subject to a two-year holding period following the end of the performance period, and shares will typically not be released to participants until the end of the holding period. Alternatively, awards may be granted on the basis that shares can be acquired following the end of the performance period but that, other than as regards sales to cover tax and any exercise price, shares may not be disposed of or otherwise dealt with until the end of the holding period. Awards may be settled in cash (or granted as a right to a cash amount) at the election of the Committee. Awards under the LTIP may be granted on the basis that the number of shares shall be increased to reflect dividends paid over the period to release. The Committee may at its discretion structure awards as a Qualifying LTIP award comprising both an HMRC tax-qualifying option and an LTIP award, with the vesting of the LTIP award scaled back to take account of any gain made on exercise of the tax-qualifying option. The Committee has discretion to amend the vesting outcome should any formulaic output not reflect the Committee's assessment of overall business performance of the Company over the performance period. The Committee has the right to apply malus provisions to reduce, cancel or impose further conditions on unvested awards in (but not limited to) the circumstances set out at the foot of this table. For up to two years following the vesting of a LTIP award, clawback provisions will apply such that the Committee may cancel an award that has not been released (e.g. an award which is subject to a holding period) or which has not been exercised, or require the repayment of some or all of the award in the circumstances set out at the foot of this table.	The normal maximum award is 125% of salary in respect of a financial year. The normal maximum award limit will only be exceeded in exceptional circumstances involving the recruitment or retention of an Executive Director and is subject to an overall limit of 250% of salary in respect of a financial year. Where an award is structured as a Qualifying LTIP award, the shares subject to the tax-qualifying option part of the award are not taken into account for the purposes of this limit, reflecting the 'scale back' referred to in the 'Operation' column.	Performance measures are selected that reflect underlying business performance. Performance measures and their weighting where there is more than one measure are reviewed annually to maintain appropriateness and relevance. Awards will vest between 25% and 100% for performance between 'threshold' performance (the minimum level of performance that results in any level of vesting) and 'maximum' performance.

Corporate Governance

Directors' Remuneration Report
continued

Circumstances in which malus and/or clawback may apply:

- → a material misstatement of the Group's financial results;
- → an error in the information or assumptions on which the award was granted or vests including an error in assessing any applicable performance conditions;
- → a material failure of risk management by the Group;
- → serious reputational damage to the Group;
- → material corporate failure; or
- → material misconduct on the part of the participant.

Malus and clawback may be applied in respect of any tax qualifying option part of a Qualifying LTIP award to the extent permitted in accordance with the applicable legislation and HMRC practice.

Non-Executive Directors

Purpose and link to strategy	Approach of the Company
Non-Executive Directors' fees are set at a level that reflects market conditions and is sufficient to attract individuals with appropriate knowledge and experience.	Fees are normally reviewed annually. Fees paid to the Chairman are determined by the Committee. Fees paid to other Non-Executive Directors for their services are approved by the Board. Fees may include a basic fee and additional fees for further responsibilities (for example, chairmanship of board committees or holding the office of Senior Independent Director). Fees are based on the level of fees paid to Non-Executive Directors serving on the board of similar-sized UK listed companies and the time commitment and contribution expected for the role. Typically, any fee increase will be in line with the wider workforce. Fee increases may be awarded above this level in certain circumstances such as (but not limited to): → where there has been a change in market practice; → where there has been a change in the size and complexity of the Company; or → where there has been an increase in the Non-Executive Director's time commitment to the role. Overall fees paid to Non-Executive Directors will remain within the limits set by the Company's Articles of Association. Non-Executive Directors cannot participate in any of the Company's share schemes or annual bonus and are not eligible to join the Company's pension scheme. Non-Executive Directors may be eligible to receive benefits such as the use of secretarial support, travel costs or other benefits that may be appropriate.

Explanation of performance measures chosen

Performance measures are selected that are aligned with the performance of the Group and the interests of shareholders. Stretching performance targets are set each year for the annual bonus and LTIP awards. When setting these performance targets, the Committee will take into account a number of different reference points, which may include the Company's business plans and strategy and the economic environment. Full vesting will only occur for what the Committee considers to be stretching performance.

The annual bonus is based on performance measures which reflect the financial, operational and strategic priorities of the business and which may vary year-on-year to reflect the strategic direction of the business.

Long-term performance measures provide a robust and transparent basis on which to measure the Company's performance over the longer term and provide further alignment with the business strategy.

Details of the annual bonus and LTIP performance measures for FY19 are set out on page 63.

The Committee retains the ability to adjust or set different performance measures or targets if events occur (such as a change in strategy, a material acquisition and/or a divestment of a Group business or a change in prevailing market conditions) which cause the Committee to determine that the measures are no longer appropriate and that amendment is required so that they achieve their original purpose.

Awards and options may be adjusted in the event of a variation of share capital or a demerger, delisting, special dividend or other event that may affect the Company's share price in accordance with the rules of the LTIP and DBP.

Policy for the remuneration of employees more generally

The Remuneration Policy applied to the Executive Directors and Senior Leadership Team is similar to the policy for the wider management team and senior functional colleagues in that a significant element of remuneration is dependent on Company and individual performance and all are typically working towards the same financial measures under the annual bonus. The key principles of the remuneration philosophy are applied consistently across the Group below this level, taking into account seniority and market practice.

Base salaries are reviewed annually and increases become effective from 1 July. The Committee is kept informed of salary increases across the wider workforce.

The Group operates a Sharesave Scheme in order to encourage share ownership across the wider workforce.

Illustrations of application of remuneration policy

The charts below set out for each Executive Director an illustration of the application for FY19 of the remuneration policy set out above. The charts show the split of remuneration between fixed pay, annual bonus (including any amount deferred under the DBP) and LTIP on the basis of minimum remuneration, remuneration receivable for performance in line with the Company's expectations and maximum remuneration. The charts also show the impact of a 50% increase in share price on the LTIP outcome under the maximum remuneration illustration.

In illustrating the potential reward, the following assumptions have been made.

	Fixed pay	Annual bonus (including any amount deferred under the DBP)	LTIP
Minimum performance	Fixed elements of remuneration only – base salary (being the salary as at 29 December 2018), benefits as disclosed in the single figure table on page 62 for the year ended 29 December 2018) and pension.	No annual bonus award.	No LTIP vesting.
Performance in line with expectations		50% of salary awarded for achieving target performance.	50% of maximum award vesting (equivalent to 62.5% of salary) for achieving target performance.
Maximum performance		100% of salary awarded for achieving maximum performance.	100% of maximum award vesting (equivalent to 125% of salary) for achieving maximum performance.
Maximum performance with assumed share price appreciation of 50%		100% of salary awarded for achieving maximum performance.	100% of maximum award vesting (equivalent to 125% of salary) for achieving maximum performance multiplied by an assumed share price appreciation of 50% (equivalent to 187.5% of salary).

Recruitment remuneration

The policy aims to facilitate the appointment of individuals of sufficient calibre to lead the business and execute the strategy effectively for the benefit of shareholders. When appointing a new Executive Director, the Committee seeks to ensure that arrangements are in the best interests of the Company and not to pay more than is appropriate.

The Committee will take into consideration a number of relevant factors, which may include the calibre of the individual, the candidate's existing remuneration package, and the specific circumstances of the individual including the jurisdiction from which the candidate was recruited.

When hiring a new Executive Director, the Committee will typically align the remuneration package with the above Policy. The Committee may include other elements of pay which it considers are appropriate, however, this discretion is capped and is subject to the principles and the limits referred to below.

- Base salary will be set at a level appropriate to the role and the experience of the Executive Director being appointed. This may include agreement on future increases up to a market rate, in line with increased experience and/or responsibilities, subject to good performance, where it is considered appropriate.
- Pension and benefits will be provided in line with the above Policy.
- The Committee will not offer non-performance related incentive payments.

Others elements may be included in the following circumstances:

- an interim appointment being made to fill an Executive Director role on a short-term basis;
- if exceptional circumstances require that the Chairman or a Non-Executive Director takes on an executive function on a short-term basis;
- if an Executive Director is recruited at a time in the year when it would be inappropriate to provide a bonus or long-term incentive award for that year as there would not be sufficient time to assess performance. Subject to the limit on variable remuneration set out below, the quantum in respect of the months employed during the year may be transferred to the subsequent year so that reward is provided on a fair and appropriate basis;
- if the Executive Director will be required to relocate in order to take up the position, it is the Company's policy to allow reasonable relocation, travel and subsistence payments. Any such payments will be at the discretion of the Committee;
- the Committee may also alter the performance measures, performance period and vesting period of the annual bonus, DBP or LTIP and/or the holding period applying to the LTIP, if the Committee determines that the circumstances of the recruitment merit such alteration. The rationale will be clearly explained in the following Directors' Remuneration Report; and
- the maximum level of variable remuneration which may be granted (excluding "buyout" awards as referred to below) is 350% of salary.

Any share awards referred to in this section will be granted as far as possible under the Company's existing share plans. If necessary, and subject to the limits referred to above, recruitment awards may be granted outside of these plans as permitted under the Listing Rules which allow for the grant of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director.

The Committee may make payments or awards in respect of hiring an employee to "buyout" remuneration arrangements forfeited on leaving a previous employer. In doing so the Committee will take account of relevant factors including any performance measures attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure buyout awards or payments on a like-for-like basis to the remuneration arrangements forfeited. Any such payments or awards are limited to the expected value of the forfeited awards. Where considered appropriate, such special recruitment awards will be liable to forfeiture or "malus" and/or "clawback" on early departure.

Where a position is filled internally, any ongoing remuneration obligations or outstanding variable pay elements shall be allowed to continue according to the original terms.

Fees payable to a newly-appointed Chairman or Non-Executive Director will be in line with the fee policy in place at the time of appointment.

Service contracts

Executive Directors' service contracts are on a rolling basis and may be terminated on 12 months' notice by the Company or the Executive. Service contracts for new Executive Directors will not exceed 12 months' notice by the Company.

All Non-Executive Directors have initial fixed-term agreements with the Company of no more than three years.

Corporate Governance

Directors' Remuneration Report
continued

Details of the Directors' service contracts and notice periods are set out below:

Name	Commencement	Notice period	Unexpired term of service contract
S Ashmore	1 June 2017	12 months(1)	N/A(1)
P Quested	22 August 2016	12 months(1)	N/A(1)
A Peterson	9 February 2015	N/A(2)	2 years(5)
A Burton	9 January 2015	N/A(3)	2 years(5)
D Robertson	9 January 2015	N/A(3)	2 years(5)
T Sweet-Escott	9 January 2015	N/A(4)	2 years(4)(5)

(1) Executive Directors' service contracts are on a rolling basis and have no defined expiry date.
(2) Initial letter of appointment expired on 9 January 2018. A new letter of appointment was executed on 28 March 2018 to have effect from 9 January 2018 on a continuing basis for a further 3 year term, subject to re-election at the AGM.
(3) Initial letter of appointment expired on 9 January 2018. New letters of appointment were executed on 28 March 2018 to have effect from 9 January 2018 on a continuing basis for a further 3 year term, subject to re-election at the AGM.
(4) Under the Relationship Agreement, Exponent is able to appoint a Non-Executive Director to the Board 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 of the Company. Mr Sweet-Escott is Exponent's current appointee. His contract commenced on 9 January 2015 and expired on 9 January 2018. A new three year letter of appointment was executed on 28 March 2018 to have effect from 9 January 2018 on a continuing basis subject to re-election at the AGM, or, earlier termination if the Exponent shareholders are entitled to exercise or to control the exercise of less than 10% of the votes able to be cast.
(5) Calculated from 29 December 2018 to the expiry date of each letter of appointment (being 9 January 2021).

Payments for loss of office

The principles on which the determination of payments for loss of office will be approached are set out below:

	Policy
Payment in lieu of notice	The Company has discretion to make a payment in lieu of notice. Such a payment would include salary and compensation for benefits and pension contributions for the unexpired period of notice.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to award an annual bonus in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid will normally be pro-rated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances). Any bonus earned for the year of departure and, if relevant, for the prior year may be paid wholly in cash at the discretion of the Committee.
DBP	The extent to which any unvested award will vest will be determined in accordance with the rules of the DBP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award will vest at cessation or at the normal vesting date. In either case, the extent of vesting will be determined by the Committee, taking into account, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the deferral period. Awards may then be exercised during such period as the Committee determines. Awards (in the form of nil cost options) which have vested but remain unexercised at the date of cessation may be exercised if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee. Awards may then be exercised for such a period as the Committee determines.
LTIP	The extent to which any unvested award will vest will be determined in accordance with the rules of the LTIP. Unvested awards will normally lapse on cessation of employment. However, if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee, the Committee shall determine whether the award will be released at cessation or on the normal release date or at some other time (such as following the end of the performance period). In any case, the extent of vesting will be determined by the Committee taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of cessation relative to the performance period. Awards may then be exercised during such period as the Committee determines. If a participant leaves for any reason (other than summary dismissal) after an award has vested but before it has been released (i.e. during a 'holding period'), his award will ordinarily continue until the normal release date when it will be released to the extent it vested. The Committee retains discretion to release awards when the participant leaves. Awards (in the form of nil cost options) which have vested and been released but remain unexercised at the date of cessation may be exercised if a participant leaves due to death, ill-health, injury, disability, the sale of his employer or any other reason at the discretion of the Committee. Awards may then be exercised for such period as the Committee determines.

	Policy
Change of control	The extent to which unvested awards under the DBP and LTIP will vest will be determined in accordance with the rules of the relevant plan. Awards under the DBP will vest in full in the event of a takeover, merger or other relevant corporate event. Awards under the LTIP will vest early on a takeover, merger or other relevant corporate event. The Committee will determine the level of vesting taking into account the extent to which the performance condition is satisfied and, unless the Committee determines otherwise, the period of time elapsed from the date of grant to the date of the relevant corporate event relative to the performance period. The Committee has discretion under the rules of the LTIP to vest awards on a different basis.
Mitigation	The Committee's practice is that if an Executive Director's employment is terminated any compensation payment will be calculated in accordance with normal legal principles including the application of mitigation to the extent appropriate to the circumstances of the termination. There is a mechanism within the service contracts to reduce termination payments by up to 50% where the Executive Director commences alternative employment during the notice period.
Other payments	Payments may be made either in the event of a loss of office or a change of control under the Sharesave Scheme, which is governed by its rules and the legislation relating to such tax-qualifying plans. There is no discretionary treatment for leavers or on a change of control under this scheme. In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.

Where a buy-out award is made under the Listing Rules then the leaver provisions would be determined at the time of the award.

The Committee reserves the right to make additional exit payments where such payments are made in good faith in discharge of an existing legal obligation (or by way of damages for breach of such an obligation) or by way of settlement or compromise of any claim arising in connection with the termination of a Director's office or employment.

Where the Committee retains discretion it will be used to provide flexibility in certain situations, taking into account the particular circumstances of the Director's departure and performance.

There is no entitlement to any compensation in the event of Non-Executive Directors' fixed-term agreements not being renewed or the agreement terminating earlier.

Existing contractual arrangements

The Committee retains discretion to make any remuneration payment or payment for loss of office outside the policy in this report:

- where the terms of the payment were agreed before the policy came into effect;
- where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company, and in the opinion of the Committee, the payment was not in consideration of the individual becoming a Director of the Company; and
- to satisfy contractual arrangements under legacy remuneration arrangements.

The Committee may make any remuneration payment or payment for loss of office to satisfy awards granted as referred to in the circulars relating to the Company's General Meetings held on 10 August 2017 and 7 August 2018.

For these purposes, payment includes the satisfaction of awards of variable remuneration, and in relation to an award over shares the terms of the payment are agreed at the time the award is granted.

Consideration of employment conditions elsewhere in the Company

When making remuneration decisions for the Executive Directors and Senior Leadership Team, the Committee takes into account pay practices and policies across the wider workforce. This includes the general basic salary increase, remuneration arrangements and employment conditions. Whilst not specifically consulted on Executive Director remuneration, feedback from employees is gathered through the colleague engagement survey and our 'Your Say' initiative that encourages feedback from all areas of the business on any subject.

Shareholder views

The Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Executive and Non-Executive Directors' remuneration.

Shareholding guidelines

In order to further align the Executive Directors' long term interests with those of shareholders, share ownership guidelines are in place that require the CEO and other Executive Directors to build up and maintain (as relevant) a shareholding in the Company equivalent in value to 200% and 125% of annual salary respectively. Any newly appointed CEO will be required to build up a shareholding in the Company equivalent in value to 125% of annual salary over a five year period commencing from the date of their appointment and 200% of annual salary as soon as possible after that. Other appointments to the Board will be required to build up a shareholding in the Company equivalent in value to 125% of annual salary over a five year period commencing from the date of their appointment.

The Committee has adopted, with effect from 1 January 2019, a post-cessation shareholding requirement. This requires that:

- unvested awards under the DBP which are capable of vesting following cessation, will vest at the normal vesting date;
- unvested awards under the LTIP which are capable of vesting following cessation, will be released at the normal release date; and
- vested awards subject to a holding period will be released at the normal release date.

This post-cessation shareholding requirement may be relaxed or waived by the Committee in appropriate circumstances, which would typically only be in the event of cessation on compassionate grounds and not be in the event of retirement.

Corporate Governance

Directors' Remuneration Report
continued

Annual Report on Remuneration

The following section provides detail in respect of remuneration paid to Directors during the year in line with the Remuneration Policy approved by shareholders at the FY16 AGM.

Single figure table

The following table sets out total remuneration for each Director in respect of FY18 and FY17:

	Salary and fees £000		Benefits £000		Annual bonus £000		LTIP £000		Pension £000		Total remuneration £000	
	FY18	FY17	**FY18**	FY17	**FY18**	FY17	**FY18**	FY17	**FY18**	FY17	**FY18**	FY17
Executive Directors												
Steve Ashmore(1)	**363**	210	**20**	12	**263**	–	**1**	–	**31**	18	**678**	240
Paul Quested	**262**	260	**17**	24	**190**	–	**1**	–	**24**	24	**494**	308
Non-Executive Directors												
Alan Peterson	**150**	150	**–**	–	**–**	–	**–**	–	**–**	–	**150**	150
Amanda Burton	**50**	50	**–**	–	**–**	–	**–**	–	**–**	–	**50**	50
Douglas Robertson	**50**	50	**–**	–	**–**	–	**–**	–	**–**	–	**50**	50
Thomas Sweet-Escott(2)	**40**	40	**–**	–	**–**	–	**–**	–	**–**	–	**40**	40
Total (Executive and Non-Executive Directors)	**915**	760	**37**	36	**453**	–	**2**	–	**55**	42	**1,462**	838

(1) Steve Ashmore was appointed as CEO with effect from 1 June 2017. The figures in the table above for FY17 therefore reflect his remuneration earned from this date until the end of FY17.
(2) Thomas Sweet-Escott's fee is paid directly to Exponent.

The figures in the table above are derived from the following:

Salary and fees	The amount of salary/fees received in the year (from the date of appointment for Directors who joined during the year).
Benefits	The taxable value of benefits received in the year (from the date of appointment for Directors who joined during the year). These are principally medical insurance, company car or car allowance.
Annual bonus	The annual bonus is the cash value of the bonus earned in respect of the year (from the date of appointment for Directors who joined during the year).
Pension	The pension figure represents the Company's contributions to the defined contribution scheme and any cash payment in lieu of pension contributions made in the year (from the date of appointment for Directors who joined during the year).

Additional disclosures in respect of the single figure table

Base salary

Details of annual base salaries for Executive Directors for FY18 and FY17 are set out below.

	Base salary at 29 December 2018 £000	Base salary at 30 December 2017 £000
Executive Directors		
Steve Ashmore(1)	**367.5**	360.0
Paul Quested	**265.0**	260.0

(1) Steve Ashmore was appointed as CEO with effect from 1 June 2017.

FY18 annual bonus

The maximum annual bonus opportunity for FY18 was maintained at 100% of salary. The bonus was set subject to stretching performance measures based on core hire rental revenue growth (30% of the overall opportunity), Adjusted EBITDA performance (30% of the overall opportunity), Net Leverage Ratio (30% of the overall opportunity), and a reduction in RIDDORs (10% of the overall opportunity), These bonus measures reflect the KPIs of the business and support the strategy of growth, profit improvement and balance sheet strength.

In the event that Executive Directors are awarded an annual bonus in excess of 50% of the maximum annual bonus opportunity for that year, they are required to defer any annual bonus award earned in excess of 50% of the maximum award into shares over a two-year period. Deferred shares are not subject to any additional performance measures after the application of the performance measures which determines the amount of annual bonus award earned.

The following table sets out the bonuses earned by the Executive Directors for FY18 and how this reflects performance for the year.

Performance measure	Proportion of bonus determined by measure	Target performance	Maximum performance	Actual performance	Bonus earned (% of salary)
Core hire rental growth	30%	£190m	£194m	£190.6m	17%
Adjusted EBITDA	30%	£71.5m	£74.5m	£73.4m	24%
Net Leverage Ratio (Net Debt/Adjusted EBITDA)	30%	3.4x	3.24x	3.34x	21%
Reduction in RIDDORs	10%	25%	24%	20%	10%
Total	100%				72%
Proportion paid in cash					50%
Proportion to be deferred into shares over a two-year period					22%

Long term incentives vesting in respect of FY18

LTIP awards granted on 7 April 2016 were subject to EPS and ROCE performance measures. The performance targets and actual performance outcome is provided in the table below.

Adjusted EPS element (75% of award)

	FY18 Adjusted EPS	Vesting percentage
Threshold	11p	25.0%
Target	12p	50.0%
Stretch	13.5p	75.0%
Maximum	15p	100.0%
Straight-line vesting between points		
Actual performance	3.81p	
Vesting outcome	0%	

ROCE element (25% of award)

	FY18 ROCE	Vesting percentage
Threshold	16.5%	25.0%
Target	17.4%	50.0%
Maximum	18.0%	100.0%
Straight-line vesting between points		
Actual performance	16.2%	
Vesting outcome	0%	

Long term incentives granted during FY18

The Company received shareholder approval via a General Meeting on 7 August 2018 to grant an exceptional long term incentive award to the Executive Directors (and the wider leadership team) outside of the current Directors' Remuneration Policy. The awards, which are structured as market value share options, will vest subject to the achievement of a challenging share price performance measure over a four year period ending with FY21. The participant can elect to bring the performance period to an early close at either 31 December 2020 or 30 June 2021. At this point the performance assessment would take place to determine the vesting outcome, with any awards which do not vest lapsing at that time. In any circumstance, the shares which vest will not be released until after results have been announced for FY22.

The awards have been designed to align the variable remuneration of the Executive Directors (and the wider leadership team) with strong financial and business performance, promoting the long term success of the Company and the creation of long term shareholder value.

Details of the awards granted to Executive Directors in FY18 are set out below.

	Type of award	Number of shares	Face value at grant[1]	Exercise price	% of award vesting at threshold
Steve Ashmore	LTIP	5,415,255	£1,624,576	30p	25%
Steve Ashmore	CSOP[2]	84,745	£30,000	35.4p	25%
			460% of salary		
Paul Quested	LTIP	3,165,255	£949,576	30p	25%
Paul Quested	CSOP[2]	84,745	£30,000	35.4p	25%
			380% of salary		

(1) The average share price over the five dealing days prior to the grant date (8 October 2018) was used to determine the face value of the CSOP awards in accordance with HMRC requirements.
(2) A proportion of the awards were granted in the form of HMRC tax-qualifying market value share options which are subject to the same performance measures as apply to the LTIP awards.

Corporate Governance

Directors' Remuneration Report
continued

The awards are subject to a share price performance measure as follows:

	Average 3 month share price at the end of the performance period	Vesting percentage
Threshold	£1.00	25%
Target	£1.15	50%
Maximum	£1.30	100%

Straight-line vesting in between points. No vesting below threshold performance.

The Remuneration Committee may reduce the vesting if it considers that it is not supported by an improvement in underlying business performance, taking into account such factors as the Remuneration Committee determines, which may include the extent to which the 2020 business performance objectives have been satisfied.

A cap of £4 per share will apply to the value which can be delivered under the awards (subject to any adjustment to reflect any variation in the Company's share capital).

The awards may only be exercised if the awards granted in FY17 have lapsed in full or have been irrevocably released prior to their exercise. The awards will lapse in full should any of the awards granted in FY17 vest.

Payments made to former Directors and payments for loss of office during the year

There were no payments made to former Directors and no payments made for loss of office during the year.

Directors' share interests

The Committee has adopted a shareholding guideline for Executive Directors in accordance with which the Chief Executive Officer is required to build up and maintain a shareholding in the Company at least equivalent in value to 200% of annual salary, and other Executive Directors are required to build up and maintain a shareholding in the Company equivalent in value to 125% of annual salary. Since joining the Group in May 2017, the Chief Executive Officer has built his shareholding in the Company from 0% to 29.3% of annual salary and under the guidelines has until 31 May 2022 to build his shareholding to 125% of his annual salary (and to 200% of his annual salary as soon as possible following 31 May 2022). Since joining the Group in August 2016, the Chief Financial Officer has built his shareholding in the Company from 0% to 6.1% of annual salary and under the guidelines has until 21 August 2021 to build his shareholding to 125% of his annual salary.

The interests of the Directors and their connected persons in the Company's ordinary shares as at 29 December 2018 were as follows:

	Type	Owned outright	Unvested and subject to performance conditions	Unvested and not subject to performance conditions	Total as at 29 December 2018
Executive Directors					
Steve Ashmore	Shares	313,479	–	–	313,479
	FY17 LTIP (market value share options)(1)(5)	–	2,849,708	–	2,849,708
	FY17 CSOP options(2)		55,555		55,555
	FY18 LTIP (market value share options) (3)(5)	–	5,415,255		5,415,255
	FY18 CSOP options(4)(5)	–	84,745		84,745
Paul Quested	Shares	47,000	–	–	47,000
	FY16 LTIP (nil-cost share options)(6)	–	263,376	–	263,376
	FY16 SAYE options(7)	–	–	15,597	15,597
	FY17 LTIP (market value share options) (1)(5)	–	1,404,094	–	1,404,094
	FY17 CSOP options(2)		55,555		55,555
	FY18 LTIP (market value share options) (3)(5)	–	3,165,255		3,165,255
	FY18 CSOP options(4)(5)	–	84,745		84,745
Non-Executive Directors					
Alan Peterson	Shares	937,217	–	–	937,217
Amanda Burton	Shares	35,714	–	–	35,714
Douglas Robertson	Shares	9,523	–	–	9,523

(1) FY17 LTIP awards granted at an exercise price of 57p will vest subject to a EPS performance measure over a four-year period ending with FY20.
(2) FY18 LTIP awards granted at an exercise price of 30p will vest subject to a share price performance measure as set out above.
(3) FY18 CSOP options granted at an exercise price of 35.4p per share will vest subject to a share price performance measure as set out above.
(4) As discussed above, the FY18 LTIP and FY18 CSOP awards may only be exercised if the FY17 LTIP awards have lapsed in full or have been irrevocably released prior to their exercise. The FY18 LTIP and FY18 CSOP awards will lapse in full should the FY17 LTIP awards vest.
(5) FY16 LTIP awards are subject to EPS and ROCE performance measures over a three-year period ending with FY18. These performance measures will not be met and the awards will lapse in 2019.
(6) FY16 SAYE options granted at an exercise price of 57.7p per share.

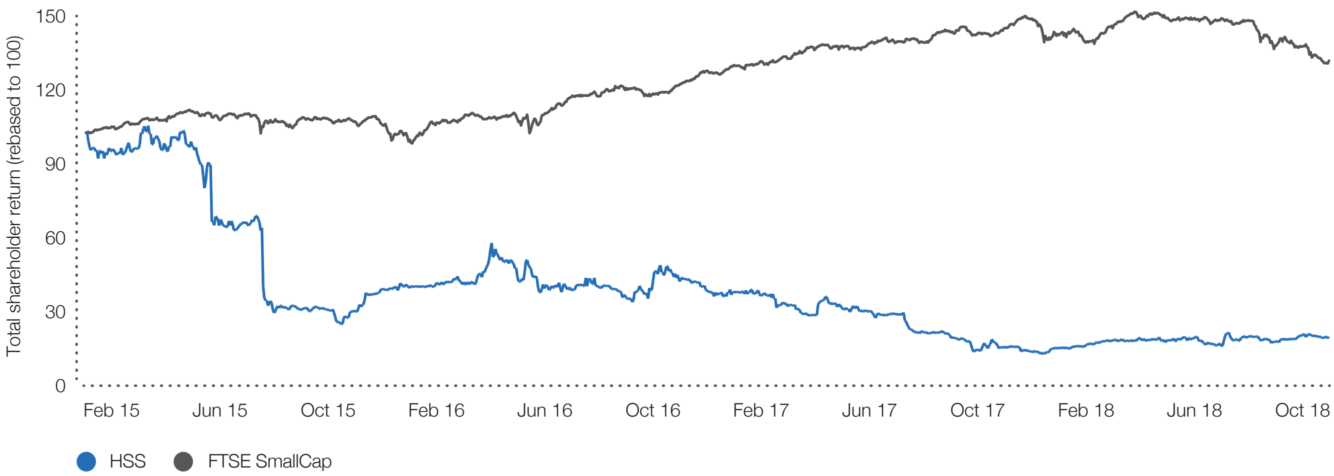
As at 3 April 2019, the Company has not been advised of any changes to the interests of the Directors and their connected persons as set out in this table.

Thomas Sweet-Escott holds no direct interest in the Company's ordinary shares. However, he has an indirect interest in the Company's ordinary shares as a result of his interest in Exponent.

The disclosures on Directors' remuneration set out on pages 62 to 65 have been audited as required by the Companies Act 2006.

Performance graph and historical Chief Executive Officer remuneration outcomes

The graph below shows the total shareholder return (TSR) performance for the Company's shares in comparison with the FTSE SmallCap Index for the period from Admission to 29 December 2018. The Company is a constituent of this Index and as such it has been selected as an appropriate comparator group. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 29 December 2018, of £100 invested in the Group over the period compared with £100 invested in the FTSE Small Cap Index.



The table below shows details of the total remuneration, annual bonus and LTIP vesting (as a percentage of the maximum opportunity) for the Chief Executive Officer for FY15 to FY18.

CEO	Total remuneration £000	Annual bonus as a % of maximum opportunity	LTIP as a % of maximum opportunity[1]
FY15/Chris Davies[2]	297	–	N/A
FY15/John Gill[3]	90	7.1%	N/A
FY16/John Gill[3]	381	–	N/A
FY17/John Gill[3]	150	–	N/A
FY17/Steve Ashmore[4]	240	–	N/A
FY18/Steve Ashmore[4]	677	71.9%	0%

(1) There were no LTIPs capable of vesting in respect of performance ending in FY15, FY16 and FY17.
(2) The table shows the remuneration for Chris Davies in the period from the start of FY15 until he resigned as a Director with effect from 25 September 2015.
(3) The table shows the remuneration for John Gill in the period from the date of his appointment as CEO with effect from 25 September 2015 until he resigned as a Director with effect from 23 May 2017.
(4) The table shows the remuneration for Steve Ashmore in the period from the date of his appointment as CEO with effect from 1 June 2017 until the end of FY18.

CEO pay increase in relation to all employees

The table below sets out in relation to salary, taxable benefits and annual bonus, the percentage change in pay for Steve Ashmore and the average percentage change for the wider workforce. For these purposes, the wider workforce includes all Group employees who were continuously employed by the Group during FY18 and FY17 but excludes Executive and Non-Executive Directors.

CEO pay increase in relation to all employees	CEO	Wider workforce
Salary[1]	7.4%	2.0%[2]
Benefits[1,3]	0.0%	0.0%
Annual bonus	N/A[4]	N/A[4]

(1) Steve Ashmore received a salary increase of 2% on 1 July 2018. The change in the table relating to CEO salary and benefits is substantially due to the change in CEO in 2017. John Gill resigned as a Director with effect from 23 May 2017. Steve Ashmore was appointed as CEO with effect from 1 June 2017. For the purposes of the above table, salary and benefits for FY17 is based on a combination of the salary and benefits received by Steve Ashmore and John Gill in FY17.
(2) The wider workforce received a 2.5% pay increase in addition to increases implemented where team members were promoted, took on additional responsibilities or received a rise in line with National Minimum Wage legislation.
(3) Taxable value of benefits received in the year comprising medical insurance and company car or car allowance.
(4) As no annual bonuses were awarded in respect of FY17.

Spend on pay and distributions to shareholders

The following table sets out the overall expenditure on pay (as a whole across the organisation) and the amount of distributions to shareholders in the form of dividends and share buybacks in respect of FY17 and FY18. The Board is currently focused on reducing Net Debt as part of its strategic priorities and, after careful consideration, believes it is in the best interests of the shareholders to not pay dividends at the present time.

The Board will re-evaluate this position once the net debt leverage falls below 2.5x.

Corporate Governance

Directors' Remuneration Report
continued

£000	Year ended 29 December 2018	Year ended 30 December 2017	Percentage change
Dividends and share buybacks	nil	nil	N/A
Overall expenditure on pay	94,358	89,712	5.2%

Implementation of Directors' Remuneration Policy for FY19

The Company is required to seek a binding vote on its Remuneration Policy at the 2019 AGM. The Policy is not materially changing from the Policy adopted in 2016. Information on how the Company intends to implement the new Directors' Remuneration Policy for FY19 is set out below.

Salary/fees and benefits

In line with the salary review timetable for all other employees, the Executive Directors' base salaries will be reviewed during June 2019, with any changes taking effect from 1 July 2019. Non-Executive Directors' fees will be reviewed during the year. Any increase to any Executive Director's salary or Non-Executive Director's fee is expected to be modest and will be in line with the range of salary increases awarded to other employees in the Group.

Annual bonus

The maximum annual bonus opportunity for FY19 will remain at 100% of salary. The FY18 bonus structure will largely be maintained and the bonus will be subject to stretching performance measures based on Adjusted EBITDA performance (50% of the overall opportunity), core hire rental revenue growth (20% of the overall opportunity), Net Leverage Ratio (Net Debt/Adjusted EBITDA) (20% of the overall opportunity), and a reduction in RIDDORs (10% of the overall opportunity),

The Committee considers that the performance targets should remain confidential to the Company as they give our competitors an insight into our plans and expectations. However each of the targets (which have been set by reference to the FY19 budget and require outperformance of the budget for the maximum bonus to be earned) will be fully disclosed in the FY19 Directors' Remuneration Report on the same basis as the FY18 disclosure set out on pages 62 and 63.

LTIP

It is the Committee's intention to grant FY19 LTIP awards as set out under the Remuneration Policy. The maximum opportunity will be up to 125% of salary. The LTIP Awards will be subject to an Adjusted EPS performance measure (as regards 75% of the award) and a ROCE performance measure (as regards 25% of the award). Performance will be assessed over a three-year performance period, and any awards which vest will be subject to a further two-year holding period. The performance targets are currently under review. Full details of the performance targets will be provided at the time that the LTIP awards are granted.

Adjusted EPS element (75% of award)		Vesting percentage
Threshold	4.0p	25.0%
Target	5.4p	50.0%
Maximum	9.0p	100.0%

Straight-line vesting between points

ROCE element (25% of award)		Vesting percentage
Threshold	20.0%	25%
Target	22.4%	50%
Maximum	24.0%	100%

Straight-line vesting between points

Adjusted EPS remains a critical KPI for the Company supporting our focus on profitability and growth. ROCE is aligned with our strategic focus on capital efficiency and the ongoing drive for operational efficiency.

Statement of voting at last AGM and General Meeting

The following table sets out actual voting in respect of the resolutions to approve the Remuneration Policy and Annual Report on Remuneration at the Company's AGM.

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Remuneration Policy (FY16 AGM)	113,407,717	99.96	41,198	0.04	476
Annual Report on Remuneration (FY18 AGM)	132,564,675	99.99	12,987	0.01	4,760

The following table sets out actual voting in respect of the resolution to grant an exceptional long term incentive award to the Executive Directors outside of the current Directors' Remuneration policy at a General Meeting held on 7 August 2018

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
FY18 exceptional long term incentive award	132,564,675	99.98	24,951	0.02	5,736

Consideration by the Directors of matters relating to Directors' remuneration

The Remuneration Committee is composed of the Company's Independent Non-Executive Directors, Amanda Burton (Chair) and Douglas Robertson.

The Remuneration Committee meets as often as is deemed necessary, but in any event at least three times a year. The Committee's key responsibilities include:

- reviewing the appropriateness of the Group's Remuneration Policy;
- considering all elements of individual remuneration for the executive management group, including base salary, bonuses and performance-related pay, discretionary payments, pension contributions, benefits in kind and share options or their equivalents;
- formulating performance criteria in relation to performance-related pay;
- reviewing terms and conditions and ensuring clawback or other provisions are in place so as not to reward failure;
- administering company share schemes as required; and
- ensuring compliance with Governance Code and disclosure requirements.

Advisers to the Remuneration Committee

During FY18, the Committee received independent advice from Deloitte LLP in relation to the Committee's consideration of matters relating to Directors' remuneration. Deloitte's fees including VAT, for this advice during the year were £31,620 (FY17: £22,020), charged on a time and disbursements basis or fixed fee depending on the nature of the project. Deloitte also provided advice to the Company during the year in relation to share plans. Deloitte is a founder member of the Remuneration Consultants Group and as such voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK. The Remuneration Committee is satisfied that all advice received was objective and independent.

Approval

This Report was approved by the Board on 3 April 2019 and signed on its behalf by:

Amanda Burton
Chair of the Remuneration Committee
3 April 2019

Corporate Governance

Other Statutory Disclosures

The table below details where certain other information, including non-financial information, which forms part of the Directors' report, can be found within this Annual Report:

Directors' powers

At the AGM to be held on 20 June 2019, shareholders will be asked to renew the Directors' power to allot shares, grant rights to subscribe for or convert any security into shares or buy back shares in the Company and to renew the disapplication of pre-emption rights.

Directors' indemnities

In addition to the indemnity provisions in their Articles of Association, the Company and other Group companies have entered into a direct indemnity agreement with each of the Directors and certain other officers or senior employees of the Group. These indemnities constitute qualifying indemnities for the purposes of the Companies Act 2006 (the Act) and remain in force at the date of approval of this Report without any payment having been made under them. The Company maintains Directors' and officers' liability insurance which gives appropriate cover for legal action brought against its Directors.

Political donations and expenditure

At the AGM held on 21 June 2018, the Company and its subsidiaries were authorised to make certain political donations or incur political expenditure. No political expenditure was made by the Company or its subsidiaries during the FY18 year (FY17: £nil).

Financial instruments

Information on the Group's financial risk management objectives and policies and the exposure of the Group to market risk, credit risk, liquidity risk and cash flow risk is provided in note 25 of the Financial Statements on pages 115 and 116.

Events and developments impacting the Company

The likely future developments of the Company and Group are referred to in the Chief Executive Officer's Review on page 11 in the Strategic Report.

Acquisition of own shares

At the AGM held on 21 June 2018, the Company was authorised to make market purchases of up to 17,020,714 of its ordinary shares. The Company has made no purchases of its own ordinary shares pursuant to this authority. This authority expires at the close of the 2019 AGM. A special resolution will be proposed at this year's AGM to authorise the Company to make market purchases of up to 17,020,714 ordinary shares.

Equality and diversity

The Group is committed to developing colleagues and encourages everyone to progress and develop. All training is based on colleagues' individual development needs and the requirements of the role. Provisions are made to ensure that all part-time colleagues have equal access to training and development opportunities.

The Group's policy is to recruit and promote based on an individual's skills, qualifications and experience. No candidate, whether internal or external, will be discriminated against in respect of age, sex, sexual orientation, disability, race, religion, or beliefs, or on any other criteria unrelated to an individual's ability to perform in the role.

If a colleague becomes disabled during employment, the Group makes every effort to enable them to continue in employment by making reasonable adjustments in the workplace and providing retraining for alternative work where necessary.

The Group is committed to ensuring that the abilities of all of its colleagues are recognised and valued at all levels of the organisation through:

- focusing on what people can do rather than on what they cannot;
- challenging stereotypes about people with disabilities; and
- making appropriate adjustments in the workplace to support colleagues with disabilities to achieve their full career potential.

The Group will not include any discriminatory or subjective criteria in job descriptions or job advertisements. All recruitment will be made solely on the basis of competence, experience and skill. Where an applicant has a disability consideration will be given as to whether any adjustments can be made to accommodate individual requirements.

The Group is committed to improving the diversity of its workforce at all levels with a view to reflecting the communities it serves and promotes an understanding and awareness of diversity and having respect for all in its training and development material.

Performance reviews are completed with the focus for every colleague being on measuring job performance and each individual's training requirements.

Employee involvement

The Company is committed to communicating and engaging colleagues and uses a variety of channels to do so including the intranet (HSS World) that is regularly updated and available on PCs at all locations; its internal newsletter (HIYA!), that reports on recent news, developments, initiatives and events in the business which is circulated a minimum of four times annually and delivered to all locations; a weekly email 'bulletin' supplementing this with operational and functional information, that is required to be printed and displayed on all notice boards where colleagues may not have immediate access to email. Conferences, senior management roadshows, meetings and conference calls also form a regular communication channel across the Group. We seek to ensure that the methods used for disseminating information to colleagues are both effective and take into account any confidentiality requirements. The Company also sends certain correspondence of high importance by mail to colleagues' home addresses.

The Company's financial results and performance are regularly communicated via a number of mechanisms, for example the update and provision of information to senior colleagues on the same day that announcements are made to investors at the half-year and full-year with summary information being cascaded to all colleagues and supplements in the Company newsletter HIYA!. At the senior colleague conference calls, there is an opportunity to ask questions of the executive. Blogs and announcements are also made Company-wide from our CEO via email providing the top-level results and factors contributing to our performance.

We conduct colleague engagement surveys and follow up with localised focus groups, to gain more detailed colleague feedback and support a "You Said We Did" approach for targeted change that progresses our commitment to make HSS a great place to work.

Colleagues are consulted formally on issues where their interests are affected via consultation processes led by management and are asked to give feedback. Colleagues are also invited to provide feedback and ideas or raise issues via online communications fora 'Yammer'.

Impact of change of control/takeover bid

There are no agreements between the Company and its Directors or employees providing for compensation for loss of office or employment (whether through resignation, purported redundancy or otherwise) that occurs because of a change of control/takeover bid.

A number of the Group's funding agreements contain change of control provisions. These are summarised in the table below:

Funding agreement	Summary of change of control provision
Term facility	Following a change of control the Group would be required to offer to repay the outstanding sums including an amount to cover accrued and unpaid interest, if any, to the date of the facility would roll into its next interest period.
Revolving Credit Facility	Following a change of control all outstanding amounts, together with accrued interest, would become immediately due and payable.
Finance leases (from various finance providers)	Certain of the Group's finance leases have conditions where a change of control could lead to early repayment.

Restrictions on share transfers

Certificated shares

The Board may, in its absolute discretion, refuse to register the transfer of a certificated share which is not a fully paid share, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer is (i) lodged, duly stamped (if stampable), at the office or at another place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of one class of share only; and (iii) is in favour of not more than four transferees.

Uncertificated shares

Subject to the provisions of the Uncertificated Securities Regulations 2001, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

Shares related to employee share schemes

No shares have been issued in relation to employee share schemes, although options have been issued under the Sharesave scheme and senior management long-term incentive schemes (as detailed earlier).

Other Statutory Disclosures
continued

Voting rights and restrictions

Subject to the rights or restrictions set out below or detailed in the Notice of AGM, on a show of hands every member who is present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he is the holder.

No member shall be entitled to vote at any general meeting in respect of a share unless all monies presently payable by him in respect of that share have been paid.

If at any time the Board is satisfied that any member, or any other person appearing to be interested in shares held by such member, has been duly served with a notice under Section 793 of the Act and is in default for the prescribed period in supplying to the Company the information thereby required, or, in purported compliance with such a notice, has made a statement which is false or inadequate in a material respect, then the Board may, in its absolute discretion at any time thereafter by notice to such member, direct that, in respect of the shares in relation to which the default occurred, the member shall not be entitled to attend or vote either personally or by proxy at a general meeting or at a separate meeting of the holders of that class of shares or on a poll.

The Notice of AGM specifies deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the AGM. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the AGM and published on the Company's website after the meeting.

Under the Financial Conduct Authority (FCA) rules, the election or re-election by the shareholders of an Independent Non-Executive Director must be approved by an ordinary resolution of the shareholders and separately approved by those shareholders who are not controlling shareholders (the independent shareholders).

As a result, by virtue of Exponent's 50.34% shareholding in the Company, any votes by Exponent on any resolutions relating to the election or re-election of Independent Non-Executive Director(s) will not be counted for the purposes of approving those resolutions.

Agreements between holders of securities

The Company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

Appointment and replacement of Directors

Unless otherwise determined by ordinary resolution, the number of Directors shall be not less than two but shall not be subject to any maximum in number. Directors may be appointed by ordinary resolution of shareholders or by the Board.

Under the Relationship Agreement, Exponent is able to appoint a Non-Executive Director to the Board 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 of the Company. Mr Sweet-Escott is the current appointee. In addition, in accordance with the Relationship Agreement, Exponent has appointed an observer to attend Board meetings.

At every AGM all Directors at the date of the Notice of AGM shall retire from office and resolutions for the re-appointment of those Directors who wish to be re-appointed shall be put to the meeting. All appointments are subject to the Company's Articles of Association and the annual re-election by shareholders.

The Company may remove any Director from office, and appoint another person in place of a Director removed from office, both by ordinary resolution.

A person ceases to be a Director as soon as:

- he/she ceases to be a Director by virtue of any provision of the Act or is prohibited from being a Director by law;
- he/she is subject to a bankruptcy order or compounds with his/her creditors generally;
- he/she becomes physically or mentally incapable of acting as a Director and may remain so for more than three months;
- he/she resigns or retires;
- he/she is absent for more than six consecutive months without permission of the Board from meetings of the Board held during that period and the Board resolves that his/her office be vacated; or
- he/she receives notice signed by not less than three-quarters of the other Directors stating that that person should cease to be a Director.

Amendments to the Company's Articles of Association

The Company's Articles of Association may only be amended by the passing of a special resolution at a general meeting of shareholders.

Daniel Joll
Company Secretary
3 April 2019

Disclosures required by Listing Rule 9.8

Listing Rule 9.8 requires that certain information is disclosed within the Annual Report. The table below sets out the required information and its location within this document, where applicable.

Listing Rule	Information	Location
LR 9.8.4(R)(4)	Long-term incentive schemes	Directors' Remuneration Report (pages 52 to 67)
LR 9.8.4(R)(14)	Agreement with controlling shareholders	Pages 42 and 70 (see below)

No further LR 9.8.4 disclosures are required.

As required by LR 9.2.2ADR the Company has entered into a Relationship Agreement with Exponent (see pages 42 and 70 for further details on this agreement). The Board of Directors confirms that:

- the Company has complied with the independence provisions included in this Relationship Agreement;
- so far as the Company is aware, Exponent and its associates have complied with the independence provisions included within the Relationship Agreement; and
- so far as the Company is aware, Exponent has complied with the procurement obligation included within the Relationship Agreement.

This Statement in respect of LR 9.8.4R(14) was approved by the Board of Directors on 3 April 2019 and is signed on its behalf by:

Steve Ashmore
Director
3 April 2019

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual 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 are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU and Article 4 of the International Accounting Standards (IAS) Regulation and have elected to prepare the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

In preparing the 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 IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group or Parent Company will continue in business; and
- prepare a Directors' Report, a Strategic Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

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 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. 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.

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial Statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of Financial Statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

Directors' responsibilities pursuant to Disclosure and Transparency Rule around Periodic Financial Reporting (DTR4)

Each of the Directors, whose names and functions are detailed on pages 40 and 41, confirms that to the best of his or her knowledge:

- the Group Financial Statements have been prepared in accordance with IFRSs as adopted by the European Union and Article 4 of the IAS Regulation and give a true and fair view of the assets, liabilities, financial position and profit and loss of the Group; and
- the Annual Report includes a fair review of the development and performance of the business and the financial position of the Group and the Parent Company, together with a description of the principal risks and uncertainties that they face.

This Responsibility Statement was approved by the Board of Directors on 3 April 2019 and is signed on its behalf by:

Steve Ashmore
Director
3 April 2019

Approval of the Directors' Report

The Directors' Report on pages 42 to 71 was approved by the Board of Directors on 3 April 2019 and is signed on its behalf by:

Steve Ashmore
Director
3 April 2019

Financial Statements

Independent Auditor's Report to the members of HSS Hire Group plc

Opinion

We have audited the financial statements of HSS Hire Group plc (the Parent Company) and its subsidiaries (the Group) for the year ended 29 December 2018 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity, the Consolidated statement of cash flows, and 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 UK Accounting Standards including Financial Reporting Standard 101 *Reduced disclosure framework* (UK 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 29 December 2018 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 UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

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 Parent Company and the Group 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 as applied to listed public interest entities, 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 principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the annual report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the annual report set out on pages 24 to 27 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 24 in the annual report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on pages 45 and 46 in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group and the parent company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement relating to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on pages 45 and 46 in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Matter	Our response
Hire stock Hire stock represents over 1 million items which have a high frequency of movement in individual assets through asset purchases, hires, disposals and transfers around the branch network. As such there is inherent difficulty in maintaining accurate fixed asset registers. Judgement is required in ensuring that depreciation charges are accurately calculated, having regard to economic useful lives and residual values, together with the impact of renovation work undertaken on specific classes of assets. Refer to page 48 (Audit Committee Report), pages 86 and 87 (accounting policy) and pages 104 and 105 (financial disclosures).	Our audit work in respect of this area included the identification and testing of the operating effectiveness of key controls in respect of the existence and value of hire stock, including the authorisation of additions, the use of unique asset identification numbers, and the reconciliation of the fixed asset registers to the accounting records. We attended a sample of the hire stock asset counts to test the effectiveness of controls and performed test counts ourselves in order to ensure the accuracy of the counting performed, and therefore the existence of assets. We also tested that the records from the counts had been used to update both the fixed asset register and the accounting ledgers. We selected a sample of assets acquired in the year and agreed the amounts recorded on the fixed asset registers to invoices. Using data analytical and re-performance techniques we recalculated the depreciation, additions and disposals in the fixed asset registers for the current year, and reconciled this to the charge included in the accounting ledgers. We reviewed for the principal asset classes the useful economic lives and residual values applied by management by reference to historic data on disposal values and the achieved lives of assets. We evaluated the capitalisation of the renovation work undertaken and tested for a sample of the assets that their useful lives had been extended by reference to their continuing hire. We evaluated the adequacy of the Group's disclosures of the judgements and estimates utilised in assessing the valuation.
Carrying value of goodwill and other intangible assets Management performs an annual impairment review of goodwill, which also covers the carrying value of other intangible assets and property plant and equipment. The annual impairment review relies on significant estimation and judgement in selection of the key inputs which can have a significant impact of the calculated net present value for each Cash Generating Unit (CGU). There is a risk that the estimates and judgements used in the impairment review for each CGU, which include areas such as forecast cash flows, discount rates, and growth rates are inappropriate and that an impairment charge may be required. Refer to page 48 (Audit Committee Report), page 87 (accounting policy) and pages 102 to 103 (financial disclosures).	Our audit procedures included detailed testing of the Directors' impairment testing model for each CGU performed in the year. For each of the key inputs to the impairment model we reviewed managements' assumptions by reference to Board approved budgets, historical trends, and reviewed the sensitivity analysis performed. We challenged management on their forecasts for revenue, costs and EBITDA in the impairment model. In addition, we performed our own additional sensitivity analysis in respect of the key assumptions which included assessing by how much each assumption would need to change for an impairment to arise. We utilised our own valuation specialists, particularly around the appropriateness of the discount rates used by the directors comparing this against the cost of capital for the Group and other comparable companies in the industry. We evaluated the adequacy of the Group's disclosures in respect of the impairment testing, the inputs used and the sensitivity of the outcomes of the assessment to changes in key assumptions to validate that these adequately reflected the inherent risks in the valuations.

Financial Statements

Independent Auditor's Report to the members of HSS Hire Group plc continued

Matter	Our response
Revenue recognition There is a risk that revenue is incorrectly calculated or recorded in the wrong period. Revenue is accrued in the financial statements for hire equipment out on hire over the year end. There is a risk that accrued revenue may be incorrectly calculated. There is also a risk that rebates payable to customers may be omitted or incorrectly calculated, and that credit note provisions may be incorrectly calculated. In view of the potential for error or for management override of controls we consider this to be an area in which there is a significant risk of material misstatement in the financial statements. Refer to page 48 (Audit Committee Report), page 85 (accounting policies) and pages 92 and 93 (financial disclosures).	Our audit work in respect of this area included the identification and testing of the operating effectiveness of key controls over revenue recognition. In respect of the front of house system we performed a reconciliation of revenue between that system and the accounting records. We obtained the calculations of accrued revenue at the year end and the underlying data, and we recalculated a sample included in accrued revenue. For a sample of items we checked that there was a subsequent invoice to a third party and that the revenue recognition criteria used are in accordance with the stated accounting policy and in line with IFRS. We tested the calculation of rebates payable for a sample of customers by reference to sales data and the underlying agreements, compared rebates by customer against those payable in previous years and investigated the reasons for significant variances, and considered the rebate arrangements in place with major new customers won in the year. We have tested the calculation of the credit note provision and associated assumptions. Management's calculations were re-performed in order to assess the accuracy of the figures derived. Exclusions from the calculation and margin assumptions were tested to assess their appropriateness. A review of post year end credit notes was performed in order to assess the adequacy of the provision. We evaluated the adequacy of the Group's disclosures in relation to the estimation of the credit note provision.
Onerous lease provisions The Group has a significant number of property related provisions relating to the ongoing lease obligations of properties that the Group no longer utilises in the business. The completeness and accuracy of the provisions involve management judgement and estimates in assessing the likelihood of mitigating future lease costs as a result of break clauses or sub-letting of the properties as well as other unavoidable costs and the appropriateness of discount rate used. Refer to page 48 (Audit Committee Report), page 88 (accounting policy) and page 110 (financial disclosures).	The Group has a significant number of property related provisions relating to the ongoing lease obligations of properties that the Group no longer utilises in the business. The completeness and accuracy of the provisions involve management judgement and estimates in assessing the likelihood of mitigating future lease costs as a result of break clauses or sub-letting of the properties as well as other unavoidable costs and the appropriateness of discount rate used.

Our application of materiality and an overview of the scope of our audit

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

We determined materiality for the Group as a whole to be maintained at £1,000,000 (2017: £1,000,000). Given similar levels of trading activities in 2016, 2017 and 2018 and the volatility of the Group's loss, materiality has been calculated with regard to a normalised Group loss over the past three years excluding certain exceptional items in respect of the Group's network reconfiguration in 2017. Materiality represents 4.54% of the normalised Group loss before tax. Materiality in 2017 was determined with reference to a benchmark of the Group loss and represented 5.4% of the Group loss before tax and exceptional items disclosed in note 7.

Materiality for the parent company was set at £900,000, being 90% (2017: £900,000 based on 90%) of group materiality.

Performance materiality was set at 60% of materiality for the Group audit, and 60% for the parent company. In setting the level of performance materiality we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.

Component materiality

We set materiality for each component of the Group based on a percentage of between 17% and 90% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £170,000 to £900,000. In the audit of each component, we further applied performance materiality levels of 60% to 75% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

We agreed with the Audit Committee that we would report to the Committee all individual audit differences in excess of £50,000. We also agreed to report differences below these thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group's accounting process is structured around a group finance function at its office in Heathrow, and at its head office in Manchester, which also act as a shared service finance centre for all of its UK companies. The Group also maintains local finance teams for its Ireland operation and for part of one of its UK operations.

The Group's operating companies vary significantly in size, and we identified eleven reporting units at the year-end which had non-trivial external transactions, seven of which, in our view required an audit of their complete financial information due to their size or risk characteristics and were therefore considered to be significant components. These seven units comprise over 90% of Group turnover and over 90% of Group gross assets.

All audit work on the seven units was performed by us, the Group audit team. Our work on the other units comprised analytical procedures and certain tests of detail. This gave us the evidence we needed for our opinion on the Group Financial Statements.

We also gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, the UK Listing Rules and UK tax legislation. Our tests included agreeing the financial statement disclosures to underlying supporting documentation, enquiries with management and enquiries of legal counsel. There are inherent limitations in the audit procedures described above and, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it. We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits, we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

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 the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- → Fair, balanced and understandable (set out on page 45) – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- → Audit committee reporting (set out on pages 47 to 49) – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee is materially inconsistent with our knowledge obtained in the audit; or
- → Directors' statement of compliance with the UK Corporate Governance Code (set out on page 42) – the parts of the Directors' statement required under the Listing Rules relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Independent Auditor's Report to the members of HSS Hire Group plc continued

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with 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 the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and
- the Strategic Report and the 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.

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 and the part of the Directors' Remuneration Report to be audited 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 set out on page 71, 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

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters which we are required to address

Following the recommendation of the Audit Committee, we were appointed by the Board of Directors to audit the financial statements for the year ending 30 December 2015 and subsequent financial periods. In respect of the financial year ended 29 December 2018, we were reappointed by resolution of the members of the company at the annual general meeting held on 21 June 2018. The period of total uninterrupted engagement is four years, covering the years ending 31 December 2015 to 29 December 2018 for the Company.

Non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting our audit.

Our audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

This report is made solely to the Parent 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 Parent 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 Parent Company and the Parent Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Kieran Storan (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
UK
3 April 2019

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

Consolidated Income Statement

For the year ended 29 December 2018

	Note	**Continuing operations Year ended 29 December 2018 £000s**	**Discontinued operations Year ended 29 December 2018 £000s**	**Total Year ended 29 December 2018 £000s**	Continuing operations Year ended 30 December 2017 £000s	Discontinued operations Year ended 30 December 2017 £000s	Total Year ended 30 December 2017 £000s
Revenue	5	**322,767**	**29,722**	**352,489**	304,020	31,760	335,780
Cost of sales		**(145,549)**	**(13,132)**	**(158,681)**	(143,286)	(11,003)	(154,289)
Gross profit		**177,218**	**16,590**	**193,808**	160,734	20,757	181,491
Distribution costs		**(33,980)**	**(7,086)**	**(41,066)**	(38,364)	(7,776)	(46,140)
Administrative expenses		**(132,514)**	**(4,420)**	**(136,934)**	(203,103)	(4,549)	(207,652)
Other operating income	6	**494**	**–**	**494**	882	–	882
Adjusted EBITDA	5, 32	**59,967**	**11,371**	**71,338**	36,028	12,916	48,944
Less: Depreciation	15	**(37,883)**	**(6,069)**	**(43,952)**	(42,827)	(4,332)	(47,159)
Adjusted EBITA	32	**22,084**	**5,302**	**27,386**	(6,799)	8,584	1,785
Less: Exceptional items (non-finance)	7	**(4,965)**	**(173)**	**(5,138)**	(66,460)	(107)	(66,567)
Less: Amortisation	14	**(5,901)**	**(45)**	**(5,946)**	(6,592)	(45)	(6,637)
Operating profit/(loss)		**11,218**	**5,084**	**16,302**	(79,851)	8,432	(71,419)
Finance expense	8	**(20,374)**	**(440)**	**(20,814)**	(13,152)	(591)	(13,743)
Adjusted profit/(loss) before tax		**3,170**	**4,862**	**8,032**	(19,951)	7,993	(11,958)
Less: Exceptional items (non-finance)	7	**(4,965)**	**(173)**	**(5,138)**	(66,460)	(107)	(66,567)
Less: Exceptional items (finance)	7	**(1,460)**	**–**	**(1,460)**	–	–	
Less: Amortisation	14	**(5,901)**	**(45)**	**(5,946)**	(6,592)	(45)	(6,637)
(Loss)/profit before tax		**(9,156)**	**4,644**	**(4,512)**	(93,003)	7,841	(85,162)
Income tax credit/(charge)	12	**2,749**	**(577)**	**2,172**	6,692	(1,452)	5,240
Costs incurred on disposal of discontinued operations	7	**–**	**(2,080)**	**(2,080)**	–	–	–
(Loss)/profit for the financial year		**(6,407)**	**1,987**	**(4,420)**	(86,311)	6,389	(79,922)
(Loss)/profit per share (pence)							
Basic and diluted loss per share	13	**(3.76)**	**1.16**	**(2.60)**	(50.71)	3.75	(46.96)
Adjusted basic earnings per share(1)	13	**1.51**	**2.30**	**3.81**	(10.37)	4.69	(5.68)
Adjusted diluted earnings per share(1)	13	**1.36**	**2.09**	**3.45**	(10.37)	4.69	(5.68)

(1) Adjusted earnings per share is defined as profit before tax with amortisation and exceptional costs added back less tax at the prevailing rate of corporation tax divided by the weighted average number of ordinary shares.
(2) Details on discontinued operations are given in note 27.

The notes on pages 82 to 121 form part of these Financial Statements.

Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 29 December 2018

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Loss for the financial period	**(4,420)**	(79,922)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**(245)**	104
Losses arising on cash flow hedges	**(162)**	–
Other comprehensive profit for the period, net of tax	**(407)**	104
Total comprehensive loss for the period attributable to owners of the Company	**(4,827)**	(79,818)

The notes on pages 82 to 121 form part of these Financial Statements.

Consolidated Statement of Financial Position

At 29 December 2018

	Note	29 December 2018 £000s	30 December 2017 £000s (restated)
ASSETS			
Non-current assets			
Intangible assets	14	**163,657**	172,509
Property, plant and equipment	15	**109,129**	150,915
Deferred tax assets	21	**2,500**	358
Derivative financial instruments	25	**405**	–
		275,691	323,782
Assets associated with assets classified as held for sale	27	**46,716**	1,500
Current assets			
Inventories	16	**4,333**	5,519
Trade and other receivables	17	**93,981**	96,503
Cash		**17,832**	2,151
		116,146	104,173
Total assets		**438,553**	429,455
LIABILITIES			
Current liabilities			
Trade and other payables	18	**(71,011)**	(70,560)
Borrowings and finance leases	19	**(19,304)**	(80,892)
Provisions	20	**(10,284)**	(16,684)
Current tax liabilities		**(101)**	(90)
Liabilities associated with assets classified as held for sale	27	**(13,544)**	–
		(114,244)	(168,226)
Non-current liabilities			
Borrowings and finance leases	19	**(217,630)**	(148,347)
Provisions	20	**(34,048)**	(36,510)
Deferred tax liabilities	21	**(1,168)**	(2,800)
		(252,846)	(187,657)
Total liabilities		**(367,090)**	(355,883)
Net assets		**71,463**	73,572
EQUITY			
Share capital	22	**1,702**	1,702
Warrant reserve	23	**2,694**	–
Merger reserve		**97,780**	97,780
Foreign exchange translation reserve		**180**	425
Cash flow hedging reserve		**(162)**	–
Retained deficit		**(30,731)**	(26,335)
Total equity attributable to owners of the group		**71,463**	73,572

The notes on pages 82 to 121 form part of these Financial Statements.

The financial statements were approved and authorised for issue by the Board of Directors on 3 April 2019 and were signed on its behalf by:

P Quested
Director
3 April 2019

Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 29 December 2018

	Note	Share capital £000s	Warrant reserve £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained earnings/ (deficit) £000s	Total equity £000s
At 31 December 2017		**1,702**	**–**	**97,780**	**425**	**–**	**(26,335)**	**73,572**
Total comprehensive loss for the period								
Loss for the period		**–**	**–**	**–**	**–**	**–**	**(4,420)**	**(4,420)**
Foreign currency translation differences arising on consolidation of foreign operations		**–**	**–**	**–**	**(245)**	**–**	**–**	**(245)**
Cash flow hedges		**–**	**–**	**–**	**–**	**(162)**	**–**	**(162)**
Total comprehensive loss for the period		**–**	**–**	**–**	**(245)**	**(162)**	**(4,420)**	**(4,827)**
Transactions with owners recorded directly in equity								
Share-based payment charge		**–**	**–**	**–**	**–**	**–**	**24**	**24**
Warrants issued	23	**–**	**2,694**	**–**	**–**	**–**	**–**	**2,694**
At 29 December 2018		**1,702**	**2,694**	**97,780**	**180**	**(162)**	**(30,730)**	**71,463**

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

The notes on pages 82 to 121 form part of these Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 29 December 2018

	Note	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Cash flows from operating activities			
Loss before income tax		**(4,512)**	(85,162)
Adjustments for:			
– Amortisation	14	**5,946**	6,637
– Depreciation	15	**31,509**	37,006
– Accelerated depreciation relating to hire stock customer losses, hire stock write-offs	15	**11,455**	10,066
– Impairment of property, plant and equipment	15	**533**	11,230
– Impairment of intangible assets	13	**60**	1,239
– Loss on disposal of property, plant and equipment	15	**455**	87
– Loss on disposal of intangible assets	13	**–**	3
– Loss on disposal of subsidiary	28	**–**	4,919
– Share-based payment charge	24	**24**	4
– Foreign exchange (gains)/losses on operating activities		**(360)**	–
– Finance expense	8	**20,814**	13,743
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):			
– Inventories		**828**	804
– Trade and other receivables		**(2,548)**	6,560
– Trade and other payables		**(54)**	(5,764)
– Provisions		**(8,302)**	31,504
Net cash flows from operating activities before changes in hire equipment		**55,848**	32,876
Purchase of hire equipment	15	**(18,544)**	(22,787)
Cash generated from operating activities		**37,304**	10,089
Interest paid		**(17,265)**	(12,494)
Income tax paid		**(231)**	(59)
Net cash generated/(utilised) from operating activities		**19,808**	(2,464)
Cash flows from investing activities			
Proceeds on disposal of businesses, net of cash disposed of		**–**	1,138
Disposal of assets held for sale		**1,500**	–
Purchases of non-hire property, plant, equipment and software	14, 15	**(7,238)**	(7,260)
Net cash used in investing activities – continuing operations		**(5,738)**	(6,122)
Cash flows from financing activities			
Facility arrangement fees		**(11,237)**	–
Proceeds from borrowings		**233,000**	18,000
Repayments of borrowings		**(205,000)**	(15,000)
Cash received from refinancing hire stock*		**–**	5,030
Capital element of finance lease payments		**(12,510)**	(12,504)
Acquisition of derivative financial instruments		**(567)**	–
Net cash received from/(used in) financing activities		**3,686**	(4,474)
Net increase/(decrease) in cash		**17,756**	(13,060)
Cash at the start of the period		**2,151**	15,211
Cash at the end of the period – total		**19,907**	2,151
Cash at the end of the period – continuing operations		**17,832**	2,020
Cash at the end of the period – discontinued operations		**2,075**	131

*Cash received from refinancing hire stock represents a sale and leaseback transaction to finance newly-acquired hire stock.

The notes on pages 82 to 121 form part of these Financial Statements.

Financial Statements

Notes to the Consolidated Financial Statements

For the year ended 29 December 2018

1. Basis of preparation

a) Reporting entity

The Company is incorporated under the Companies Act and domiciled in the United Kingdom with its registered office at Oakland House, 76 Talbot Road, Manchester M16 0PQ. These Consolidated Financial Statements comprise the Company and its subsidiaries (the Group). The Group presents its financial statements in pounds sterling because that is the currency of the primary economic environment in which the group operates.

The Group is primarily involved in providing tool and equipment hire and related services in the United Kingdom and the Republic of Ireland.

b) Statement of compliance

The Group Financial Statements of HSS Hire Group plc 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 52 week period from 31 December 2017 to 29 December 2018 (2017: 1 January 2017 to 30 December 2017).

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

These 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) Going concern

Note 25 includes 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 reviewed the Group's current performance, forecasts and projections, taking account of reasonably possible changes in trading performance and considering senior debt and interest repayments, combined with expenditure commitments. In particular, the Directors have considered the adequacy of the Group's debt facilities with specific regard to the following factors:

- the financial covenants relating to the new term loan facility of £220.0m (of which £38.0m has subsequently been repaid – see note 27) and revolving credit facility of £25.0m secured by the Group; and
- the maturity of the term loan facility (£15.0m in January 2021, £167.0m in July 2023) and revolving credit facility in January 2021.

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 over a period of at least twelve months from the date of approval of the financial statements. Accordingly they continue to adopt the going concern basis in preparing these Financial Statements.

f) 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 with 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.

2. 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.

2. Critical accounting estimates and judgements continued

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

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 Directors expect to make further improvements to the recording of property, plant and equipment during FY19 and beyond.

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

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 14.

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, lease disposal or sub-let income and its timing. Further details of the assumptions and sensitivities are given in note 20.

Dilapidations provisions

A corresponding amount equivalent to the provision for dilapidation 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. Further details of the assumptions and sensitivities are given in note 20.

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 sets an expectation based on 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 17 and amendments to the methodology utilised have been made to ensure that the impairment charge is recognised in accordance with the new requirements of IFRS 9. In addition, the credit note provision methodology was also updated to ensure that the overall carrying value of trade receivables was maintained at an appropriate level. The impact of both of these changes was immaterial and is not expected to have a significant impact on future periods. It is not possible to reassess what the position would have been had these updated methodologies been in place for the 30 December 2017 year as different decisions may have been made given the circumstances prevailing at the time.

Judgements

Determining whether an arrangement constitutes a lease

Any arrangement that is dependent on the use of a specific asset or assets should be accounted for as a lease. The Directors have concluded that none of the Group's contracts with customers are dependent on the use of a specific asset or group of specific assets as the Group can swap hire stock as required to provide tool and equipment hire services to them.

Onerous contract provision

Contracts are considered to be onerous when cash is paid to a third party but the Group derives no economic benefit. In the case of the Group's relationship with Unipart, following the agreement to cease operating the National Distribution and Engineering Centre (NDEC) in December 2017 and the subsequent revisions to the contracts between the parties, £33.8m is payable over the period 2019 to 2026 for which the Group will receive no services. Accordingly this has been treated as an onerous contract.

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. During the year ended 29 December 2018 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, the Strategic Review and the write-off of debt issue costs associated with the previous finance facilities.

These are more fully discussed in note 7 and in our Financial Review.

Financial Statements

Notes to the Consolidated Financial Statements continued
For the year ended 29 December 2018

3. New accounting standards, accounting standards not yet effective and changes in accounting policy

Standards effective for the first time in the year

During the year ended 29 December 2018, the Group adopted IFRS 9 (revised) *Financial instruments* and IFRS 15 *Revenue from contracts with customers.*

IFRS 9 *Financial instruments* replaced International Accounting Standard (IAS) 39 *Financial instruments: recognition and measurement* in its entirety and 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 standard introduced:

- 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 entity's risk management methodology.

The adoption of IFRS 9 did not have a material impact on the consolidated results of the Group and no restatement was required to any item reported in the Financial Statements for the year ended 30 December 2017. This is because all financial assets are held to collect cash flows that are solely payments of principal and interest and so remain measured at amortised cost; the expected credit loss model has not resulted in a material change in provision for impairment; and hedge accounting was initiated in respect of the new finance facilities in the year (with no hedging being extant in the previous financial year).

IFRS 15 *Revenue from contracts with customers* provides guidance on the recognition, timing and measurement of revenue. This replaces 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 implementation of IFRS 15 did not have any material impact on the Financial Statements as the requirements of the standard are already applied as accounting policy by the Group. No restatement or recognition of the cumulative effect to the previous year's financial statement as at the date of the application of IFRS 15 was required as a result.

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 2019.

IFRS 16 *Leases* sets out a single accounting model for lessees and specifies how leases are recognised, measured and presented in the financial statements. On adoption, lease agreements will give rise to a right-of-use asset and a lease liability for future lease payables. The right-of-use asset will be depreciated on a straight-line basis over the life of the lease and interest recognised on the lease liability using the effective interest rate method. The Group will apply the cumulative catch-up transition method whereby the right-of-use asset is created at the present value of the remaining lease payments adjusted for any prepaid or accrued lease payments. Under this approach, the comparative information will not be restated.

On adoption of IFRS 16, the Group expects to recognise around £80m to £85m of additional lease liabilities and around £77m to £82m of right-of-use assets related to existing operating leases. The reduction in the right-of-use asset versus lease liability is the result of a transfer from onerous lease provisions. Annual operating lease expenses, which would have been recognised under the previous accounting standard, will be replaced by depreciation and interest expense. The interest expense is weighted towards the earlier years of the leases and as such there will be a reduction in profit before tax for the year ending 28 December 2019 which is expected to be less than £3m. The standard will not impact the Group's underlying cash flows. The standard will also impact on the Group's tax position (which is currently being reviewed) and a number of other statutory measures such as operating profit and cash generated from operations and alternative non-IFRS financial performance measures used by the Group. Accounting requirements for lessors are substantially unchanged from the previous standard, IAS 17 *Leases*.

Changes in accounting policy – disclosure of finance leases

In order to better reflect obligations under finance leases as being akin to borrowings and, in anticipation of next year's adoption of IFRS 16 *Leases*, these items have been reclassified from current and non-current trade and other payables within the balance sheet to current and non-current borrowings, including finance leases. There is no impact of this change on either current or non-current liabilities, taken in aggregate, or the income and cash flow statements. The impact on the prior year balance sheet items for this change is as follows:

As at 30 December 2017	As reported £000s	Restatement £000s	**As restated £000s**
Trade and other payables – current	(82,452)	11,892	**(70,560)**
Borrowings and finance leases – current	(69,000)	(11,892)	**(80,892)**
Other current liabilities	(16,774)	–	**(16,774)**
Current liabilities – total	(168,226)	–	**(168,226)**
Trade and other payables – non-current	(14,105)	14,105	**–**
Borrowings and finance leases – non-current	(134,242)	(14,105)	**(148,347)**
Other non-current liabilities	(39,310)	–	**(39,310)**
Non-current liabilities – total	(187,657)	–	**(187,657)**

4. Accounting policies

a) Revenue recognition

The Group's activities consist of supplying hire and equipment services within the UK and the Republic of Ireland. Revenue is measured based on the consideration specified in a contract with a customer and excludes value added taxes. The Group recognises revenue when it transfers control over a good or service to a customer.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition policies:

Type of product or service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Approach to revenue recognition
Hire and rehire activities	Equipment on hire to customers is under the customer's control from the point of collection or delivery until its return or notification that it is available for collection. Cash customers pay a deposit to secure the hire for which the charges are settled on return of the equipment. Account customers pay 30 days after invoice date or such terms as have been specifically negotiated up to a maximum of 60 days.	Revenue is recognised over time as the hire period progresses. The stand-alone selling price is determined based on the contracted prices at which the Group hires out the equipment under the specific contract with the customer and commences when the equipment is collected or has been delivered to a customer's premises and has been accepted by the customer. Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, contract corrections and any negotiated rebate, which are estimated based on historical data. For expected returns and contract corrections an estimate of the impact is treated as a correction to the asset's carrying value and deducted from the amount recognised as a trade receivable. Rebates are recognised as a separate liability and included as a component of other creditors (see note 18). The Group reviews its estimate of all these items at each reporting date and updates the amounts of the reduction in the asset or the liability accordingly.
Resale and ancillary revenue to hire including fuel and consumables	Customers obtain control of the goods at the point of collection or delivery and settle as above.	Revenue is recognised when the goods are collected or have been delivered to a customer's premises and have been accepted by customers. Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, contract corrections and any negotiated rebate, which are estimated based on historical data. For expected returns and contract corrections an estimate of the impact is treated as a correction to the asset's carrying value and deducted from the amount recognised as a trade receivable. Rebates are recognised as a separate liability and included as a component of other creditors (see note 18). The Group reviews its estimate of all these items at each reporting date and updates the amounts of the reduction in the asset or the liability accordingly.
Damaged/lost hire stock compensation	In circumstances where a customer loses or damages the equipment they have on hire, the Group is entitled to reclaim the costs of repair or the replacement cost in case of loss. Settlement is at the point the cost is finalised for cash customers and under normal settlement terms for account customers.	When the loss or damage is identified and quantified.
Ex-hire fleet asset sales	Customers obtain control of the goods at the point of collection or delivery and settle as above.	Revenue is recognised when the goods are collected or have been delivered to a customer's premises and have been accepted by customers. Payment is on or before collection.
Training course income	Customers obtain the benefit of the service at the point of delivery. Training courses are paid for in advance or for account customers, in arrears in accordance with their normal settlement terms.	Revenue is recognised when the training course or support service is provided to the customer.

Financial Statements

Notes to the Consolidated Financial Statements continued
For the year ended 29 December 2018

4. Accounting policies continued

b) Contract costs

Costs associated with the award of significant contracts by customers are deferred in the balance sheet and amortised to the income statement over the life of the contract where such costs are incremental and are expected to be covered by the profits generated on the contract.

c) 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 transportation staff wages. Administrative expenses comprise principally staff and property costs and costs of acquisitions.

d) 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 5.

e) 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.

f) Property, plant and equipment

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 £79.7m at 29 December 2018 (2017: £118.6m) and the related depreciation charge was £18.5m (2017: £29.0m). The 2018 figures exclude amounts related to UK Platforms as this business is treated as an asset held for sale that was disposed of in January 2019 (see note 27). Conversely, the 2017 figures include UK Platform balances. The majority of hire stock items are given no residual value. Certain plant (powered access and power generation) has residual values of between 10% and 20% of original cost.

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 and machinery	Two to ten years

The Group reviews its depreciation policy annually and has made no changes, in 2018, to the depreciation rates applied. In 2017, the effect of changes in the depreciation rates applied to specific assets in 2017 resulted in an increase in depreciation charge of £0.8m.

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, initially, by reference to average written down values and subsequently re-measured based on any disposal proceeds (net of costs).

4. Accounting policies continued

Profit or loss on disposal

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.

g) 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.

Intangible assets acquired in a business combination

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 HSS brand was first established in the late 1950s, and therefore given its longevity, the Directors consider the HSS brand to have an indefinite life and it is not therefore amortised, but instead subjected to annual impairment testing.

All other brands and customer relationships are amortised on a straight-line basis over their useful economic life. 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 Hero Acquisitions Limited and Apex Generators Limited as having useful economic lives of ten years. 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, test and build 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 do 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.

h) Impairment of 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. Impairment reviews are undertaken whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. Other than for goodwill, 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.

Testing for impairment

For the purpose of impairment testing, all assets, including goodwill, acquired in a business combination are 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.

The carrying value of a CGU is compared to its recoverable amount, which is the higher of its value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

i) Derivative financial instruments

The Group uses derivative financial instruments 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. Where hedge accounting is not applied, the resulting gain or loss is recognised in profit or loss immediately. Derivatives are carried as financial assets when their fair value is positive and as financial liabilities when their 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.

Financial Statements

Notes to the Consolidated Financial Statements continued
For the year ended 29 December 2018

4. Accounting policies continued

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as part of other gains and losses.

Amounts recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss in the same line of the statement of profit or loss and other comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

Hedge accounting is discontinued when the group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and when the forecast transaction is ultimately recognised in profit or loss, such gains and losses are recognised in profit or loss, or transferred from equity and included in the initial measurement of the cost of the asset or liability as described above. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was accumulated in equity is recognised immediately in profit or loss.

j) 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.

k) Trade receivables

Recoverability of 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 to reflect an assessment of the amount that the Group will be able to collect calculated using the expected credit loss methodology, on confirmation that the trade receivable will not be collectable, the gross carrying value of the asset is written off against the associated provision. Trade receivables that are two years or more past their due date are treated as irrecoverable and expensed.

l) 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.

m) 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.

n) 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 prepayment for liquidity services and amortised over the period of the facility to which it relates.

o) Provisions

Onerous leases

The need for provisions for onerous leases against non-trading stores, measured at the value of the future unavoidable lease costs, net of expected rental income, is assessed when the leased property becomes vacant and is no longer used in the operations of the Group. 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.

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. Provisions for dilapidation are recognised in full when the related facilities are installed.

4. Accounting policies continued

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.

Onerous contract provisions

Contracts are considered to be onerous when cash is paid to a third party but the Group derives no economic benefit.

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.

p) Share capital and reserves

Ordinary shares

The Group's ordinary 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 are 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.

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.

Merger reserve

The merger reserve is the amount arising on the difference between the nominal value of the shares issued on the merger and the carrying value of the interest in subsidiary. The merger reserve arose in 2015 when the Group underwent a capital reconstruction in advance of its initial public offering on 9 February 2015, and increased during 2016 via acquisition of a 'cash box' company.

Warrant reserve

Reserve established in respect of warrants issued. Issues of shares in respect of those warrants lead to a transfer to share capital with any excess being released to retained earnings.

Cash flow hedging reserve

This is the movement in the fair value of derivatives that are designated and qualify as cash flow hedges that is recognised in other comprehensive income and transferred to this reserve.

q) 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.

r) 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 reporting 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 reporting 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.

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4. Accounting policies continued

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.

s) 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; these are defined contribution 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 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 one year after the end of the reporting period are discounted to their present value.

Share-based payments

Share-based payment 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, 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.

t) 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.

u) 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).

4. Accounting policies continued

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

v) 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.

5. Segment reporting

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

- Rental and related revenue; and
- Services.

Rental and related revenue comprises the rental income earned from owned tools and equipment, including small tools, powered access, power generation and, in the previous year, 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 OneCall provides customers with a single point of contact for the hire of products that are not available within the 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.

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 (2017: one).

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5. Segment reporting continued

	Year ended 29 December 2018			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	225,992	96,775	–	322,767
Contribution	155,357	14,586	–	169,943
Branch and selling costs			(84,217)	(84,217)
Central costs			(25,759)	(25,759)
Adjusted EBITDA – continuing operations				59,967
Less: Exceptional items			(4,965)	(4,965)
Less: Depreciation and amortisation	(31,551)	(171)	(12,062)	(43,784)
Operating profit – continuing operations				11,218
Net finance expenses				(20,374)
Loss before tax – continuing operations				(9,156)
Tax				2,749
Profit for the year from discontinued operations				1,987
Loss after tax and discontinued operations				(4,420)

The rental and related revenue generated by discontinued operations by activity amounted to £27.9m (2017: £30.1m) and services generated £1.7m (2017: £1.7m).

	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	22,578	60	7,344	29,982
Intangibles	–	140	1,704	1,844
Non-current assets net book value				
Property, plant and equipment	76,691	377	29,061	109,129
Intangibles	158,420	324	4,913	163,657
Unallocated corporate assets				
Derivative financial instruments			405	405
Other non-current deferred tax assets			2,500	2,500
Asset held for sale (net)			33,172	33,172
Current assets			116,146	116,146
Current liabilities			(100,700)	(100,700)
Non-current liabilities			(252,846)	(252,846)
Net assets				71,463

5. Segment reporting continued

	Year ended 30 December 2017			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	217,705	86,315	–	304,020
Contribution	141,443	11,611	–	153,054
Branch and selling costs	–	–	(78,460)	(78,460)
Central costs	–	–	(38,566)	(38,566)
Adjusted EBITDA – continuing operations	–	–		36,028
Less: Exceptional items			(66,460)	(66,460)
Less: Depreciation and amortisation	(37,465)	(311)	(11,643)	(49,419)
Operating loss – continuing operations				(79,851)
Net finance expenses				(13,152)
Loss before tax				(93,003)
Tax				6,692
Profit for the year from discontinued operations				6,389
Loss after tax and discontinued operations				(79,922)

	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
Acquired on acquisitions				
Intangibles				
Non-current assets net book value				
Property, plant and equipment	118,643	224	32,048	150,915
Intangibles	165,960	290	6,259	172,509
Unallocated corporate assets				
Assets held for sale	–	–	1,500	1,500
Non-current deferred tax assets			358	358
Current assets			104,173	104,173
Current liabilities			(168,226)	(168,226)
Non-current liabilities			(187,657)	(187,657)
Net assets				73,572

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6. Other operating income

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Other operating income	**494**	882

Other operating income relates to sub-let rental income received on vacant properties, which has been recognised within exceptional items (note 7).

7. 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. As a result, during the period ended 29 December 2018, the Group has recognised exceptional items as follows:

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Included in profit on disposal £000s	Year ended 29 December 2018 £000s
Onerous leases	–	–	2,620	–	–	–	2,620
Cost reduction programme	2	34	1,111	–	–	–	1,147
Costs expensed on refinancing	–	–	–	–	1,460	–	1,460
Strategic Review	–	–	955	–	–	–	955
Impairment of property, plant and equipment	–	–	513	–	–	–	513
Business divesture	–	–	197	–	–	–	197
Sub-let rental income on onerous leases	–	–	–	(467)	–	–	(467)
Exceptional items – continuing operations	2	34	5,396	(467)	1,460	–	6,425
Exceptional items – discontinued operations	–	–	173	–	–	–	173
Business divesture – discontinued operations	–	–	–	–	–	2,080	2,080
Exceptional items – total	2	34	5,569	(467)	1,460	2,080	8,678

During the year ended 30 December 2017, the Group recognised exceptional costs analysed as follows:

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Year ended 30 December 2017 £000s
Network reconfiguration	–	–	40,692	–	40,692
Onerous leases	–	–	6,903	–	6,903
Group restructuring	–	–		–	
Impairment of property, plant and equipment	–	–	8,279	–	8,279
Senior management changes	–	–	1,031	–	1,031
Cost reduction programme	176	131	3,325	–	3,632
Strategic Review	–	–	1,172	–	1,172
Business divesture	–	–	4,919	–	4,919
Preparatory refinancing costs	–	–	714	–	714
Sub-let rental income on onerous leases	–	–	–	(882)	(882)
Exceptional items – continuing operations	176	131	67,035	(882)	66,460
Exceptional items – discontinued operations	–	–	107	–	107
Exceptional items – total	176	131	67,142	(882)	66,567

7. Exceptional items continued

Exceptional items incurred in 2018 and 2017

Onerous leases: branch closures

The number of branches has been reduced to remove less profitable locations with activity centralised into fewer locations. 12 branches were closed during the year ended 29 December 2018 (2017: 55). An exceptional cost of £2.6m relating to dark stores and onerous leases has been recorded in the year (2017: £6.9m). Sub-let rental income on onerous leases for the year amounted to £0.5m (2017: £0.9m).

Business divesture

The Group has arranged to sell businesses not considered core to the Group's strategy in both 2017 and 2018. On 16 November 2017, the Reintec branded fleet of cleaning machines and the associated TecServ equipment maintenance business were sold for a consideration of £1.5m. After transaction costs, net proceeds were £1.2m. This gave rise to a loss of £4.9m including goodwill written off of £0.8m. In 2018, revision to the consideration reduced the net proceeds to c£1.0m and this has been reflected in the continuing operations exceptionals cost.

Business divesture – discontinued operations

On 19 July 2018, the Group announced the agreement to sell UK Platforms Limited, HSS's powered access business, to Loxam (see note 28 for further details). This transaction completed in January 2019 and has, for the 2018 year, has been treated as a discontinued operation (note 27). The clearance of this transaction was secured from the Competition and Markets Authority in December 2018, thereby completing the last major hurdle in the agreement to sell the business. The costs of the transaction were accrued and have been expensed in the year. See note 28 for details of the profit on disposal to be recognised in the 2019 financial period.

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. The annual cost savings include a reduction in central overhead estimated to be between £3m and £4m. To realise these benefits, largely relating to redundancy costs, £1.0m of exceptional items (2017: £3.7m) have been recognised.

Included in these costs for 2017 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.

Costs expensed on refinancing

One impact of the refinancing of the Group on 11 July 2018 was to terminate the previous finance facility earlier than scheduled. The costs expensed in the period of £1.5m (2017: £nil) largely relate to debt issue costs related to that facility.

Strategic Review

Following the appointment of the new Chief Executive Officer in 2017, a thorough Strategic Review was carried out by the Group. Non-recurring third party consultancy costs of £1.0m were incurred for the period ended 29 December 2018 to complete this review (2017: £1.2m).

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 29 December 2018, an impairment of £0.5m has been recorded (2017: £8.3m).

Exceptional items incurred in 2017 only

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 £1.0m.

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 £7m and £10m 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 which operated the Group's National Distribution and Engineering Centre (NDEC) to terminate the remaining eight year term of the contract. In terminating this contract the Group will make cash payments of £33.8m over the period 2018 to 2026 as compensation to Unipart. In aggregate a discounted provision of £32.6m has been made for these payments. Included in the above are one off cash payments of £6.5m which were 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 impaired property, plant and equipment of £1.9m and software intangibles of £1.2m relating to the operation of the NDEC. The Group also impaired a security deposit of £4.5m paid to Unipart prior to the opening of the NDEC as this will not be repaid.

The total provision for network reconfiguration, including £0.5m of legal costs, recorded within exceptional items amounted to £40.7m.

Preparatory refinancing costs

A cost of £0.7m was incurred in respect of preparatory costs for the refinancing of the Senior Secured Notes and the Revolving Credit Facility which was due for repayment in 2019. The Group completed this refinancing on 11 July 2018.

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8. Finance expense

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Bank loans and overdrafts	**1,620**	1,871
Term facility	**9,440**	–
Senior secured notes	**4,822**	9,155
Finance leases	**774**	1,051
Interest unwind on discounted provisions	**169**	28
Debt issue costs	**2,089**	1,047
Exceptional finance cost on refinancing the business (note 19)	**1,460**	–
Net finance expense and finance expense – continuing operations	**20,374**	13,152
Finance expense – discontinued operations	**440**	591
Finance expense – total	**20,814**	13,743

9. Operating profit/(loss)
Operating profit/(loss) is stated after charging/(crediting):

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Amortisation of intangible assets	**5,901**	6,637
Depreciation of property, plant and equipment	**26,823**	37,006
Accelerated depreciation relating to hire stock customer losses, hire stock write-offs and other disposals	**9,776**	10,153
Loss on disposal of businesses	**–**	4,919
Loss on disposal of non-hire stock property, plant and equipment	**751**	–
Impairment of tangible assets	**533**	11,230
Impairment of intangible assets	**–**	1,239
Loss on disposal of intangible assets	**–**	3
Operating lease rentals:		
– land and buildings	**14,950**	19,907
– motor vehicles	**9,547**	8,821
– hire stock	**1,948**	1,742
Sub-lease rental income	**(494)**	(882)
Foreign currency translation gains	**(234)**	(116)

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Auditors' remuneration		
– audit of Group and Company financial statements	**63**	61
– audit of subsidiary financial statements	**288**	214
– other audit-related assurance services	**82**	50
– corporate finance services	**150**	230
– taxation compliance services	**12**	2
	595	557

10. Employees

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

	Year ended 29 December 2018 Number	Year ended 30 December 2017 Number
Headcount		
Distribution	**523**	565
Hire stock and inventory maintenance	**310**	329
Sales and administration	**1,837**	2,053
Continuing operations	**2,670**	2,947
Discontinued operations	**116**	119
Total	**2,786**	3,066

The aggregate remuneration costs of these employees were as follows:

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Staff costs		
Wages and salaries	**81,107**	76,337
Social security costs	**7,263**	7,833
Pension costs	**1,616**	1,438
Share-based payment expense	**24**	4
	90,010	85,612
Discontinued operations	**4,348**	4,100
Total	**94,358**	89,712

IAS 24 *Related party disclosures* (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 29 December 2018 £000s	Year ended 30 December 2017 £000s
Wages and salaries	**2,840**	2,506
Employer's national insurance contributions and similar taxes	**336**	305
Compensation for loss of office	**–**	720
Other pension costs	**88**	118
Share based payment expense	**24**	4
Key management personnel – total	**3,288**	3,653

At 29 December 2018, £0.5m was payable to key management personnel (30 December 2017: £nil).

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11. Directors' remuneration

The remuneration costs of the Company's Directors were:

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Directors' remuneration		
Aggregate emoluments	**952**	932
Bonuses not paid	**453**	–
Pension costs	**55**	56
Directors' emoluments	**1,460**	988
Share-based payment expense	**2**	–
Total emoluments	**1,462**	988

There is no compensation for loss of office payable as at 29 December 2018 (30 December 2017: £0.4m to one former Director). Included above is the fee of £40,000 (2017: £40,000) for one director (2017: one) that is paid to Exponent Private Equity LLP (note 29).

The remuneration of the highest paid Director was:

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Aggregate emoluments	**383**	284
Bonus not paid	**263**	–
Pension costs	**31**	24
Directors' emoluments	**677**	308
Share-based payment expense	**1**	–
Total emoluments	**678**	308

12. Income tax credit

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

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Current tax charge		
UK corporation tax on the loss for the year	**266**	486
Adjustments in respect of prior years	**(39)**	(789)
Total current tax charge/(credit)	**227**	(303)
Deferred tax credit		
Deferred tax credit for the year	**(2,956)**	(6,447)
Adjustments in respect of prior years	**(20)**	(58)
Total deferred tax credit (note 21)	**(2,976)**	(6,389)
Income tax credit – continuing operations (note 21)	**(2,749)**	(6,692)
Deferred tax charge – discontinued operations (note 21)	**577**	–
Income tax credit	**(2,172)**	(5,240)

12. Income tax credit continued

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

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

	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s
Loss before tax	(9,156)	(93,003)
Loss before tax multiplied by the standard rate of corporation tax of 19% (2017: 19.25%)	(1,739)	(17,903)
Effects of:		
Utilisation of tax losses brought forward	(2,512)	–
Unprovided deferred tax movements on short-term temporary differences and capital allowance timing differences	(1,001)	10,472
Adjustments in respect of prior years	(58)	(732)
Expenses not deductible for tax purposes	1,456	1,027
Losses carried forward	839	
Difference in foreign tax rate	266	444
Income tax credit – continuing operations	(2,749)	(6,692)
Income tax credit – discontinued operations	577	1,452
Income tax credit – total	(2,172)	(5,240)

(c) Factors that may affect future tax charge

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. The Group's losses for the year ended 29 December 2018 were taxed at an effective rate of 19.00% (2017: 19.25%).

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £17.0m (2017: £18.2m) and relating to losses of £3.5m (2017: £6.9m).

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 is 19% for the years starting 1 April 2018 and 2019 and 18% for the year starting 1 April 2020. The tax rate for the year starting 1 April 2021 is 17%.

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13. Earnings per share

	Year ended 29 December 2018		
	Loss after tax £000s	Weighted average number of shares 000s	Loss per share pence
Year ended 29 December 2018	**(6,407)**	**170,207**	**(3.76)**
Year ended 30 December 2017	(86,311)	170,207	(50.71)

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

Diluted loss per share is calculated using the loss for the year divided by the weighted average number of shares outstanding assuming the conversion of its potentially dilutive equity derivatives outstanding, being nil-cost share options (LTIP shares) Sharesave Scheme share options and warrants, as disclosed in notes 23 and 24. All of the Group's potentially dilutive equity derivative securities were anti-dilutive for the years ended 29 December 2018 and 30 December 2017 for the purpose of diluted loss per share. There were no potentially dilutive equity derivative securities outstanding during the years ended 29 December 2018 and 30 December 2017 for the purpose of diluted loss per share.

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

	Year ended 29 December 2018	Year ended 30 December 2017
Basic and diluted loss per share (pence)	**(3.76)**	(50.71)
Add back:		
Exceptional items per share(1)	**3.77**	39.05
Amortisation per share(2)	**3.47**	3.87
Tax per share	**(1.62)**	(3.93)
Charge:		
Tax (charge)/credit at prevailing rate	**(0.35)**	1.35
Adjusted basic earnings/(loss) per share (pence)	**1.51**	(10.37)

(1) Exceptional items per share is calculated as total exceptional items divided by the weighted average number of shares in issue through the period.
(2) Amortisation per share is calculated as the amortisation charge divided by the weighted average number of shares in issue through the period.

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

	Year ended 29 December 2018	Year ended 30 December 2017
Basic and diluted loss per share (pence)	**(3.76)**	(50.71)
Add back:		
Adjustment to basic loss per share for the impact of dilutive securities(1)	**0.36**	–
Exceptional items per share(2)	**3.41**	39.05
Amortisation per share(3)	**3.13**	3.87
Tax per share	**(1.46)**	(3.93)
Charge:		
Tax (charge)/credit at prevailing rate	**(0.32)**	1.35
Adjusted diluted earnings/(loss) per share (pence)	**1.36**	(10.37)

(1) The warrants, LTIP, market value options and Sharesave share options were dilutive in the year ended 29 December 2018 for the purpose of calculating adjusted diluted earnings per share. For the year ended 30 December 2017, neither the LTIP, market value options nor Sharesave share options were dilutive and the warrants were not issued until 2018.
(2) Exceptional items per share is calculated as total finance and non-finance exceptional items divided by the diluted weighted average number of shares in issue through the period.
(3) Amortisation per share is calculated as the amortisation charge divided by the diluted weighted average number of shares in issue through the period.

13. Earnings per share continued

The weighted average number of shares for the purposes of calculating the adjusted diluted earnings per share are as follows:

	Year ended 29 December 2018	Year ended 30 December 2017
	Weighted average number of shares 000s	Weighted average number of shares 000s
Basic	**170,207**	170,207
LTIP share options (note 23)	**1,240**	1,383
Sharesave Scheme options (note 23)	**1,373**	2,223
Market value options (note 23)	**11,232**	2,581
Warrants (note 24)	**4,501**	–
Diluted	**188,553**	176,394

There were no potentially dilutive equity derivative securities outstanding during the year ended 30 December 2017 for the purpose of adjusted diluted loss per share.

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14. Intangible assets

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 31 December 2017	**128,991**	**26,744**	**24,102**	**20,481**	**200,318**
Additions	**–**	**–**	**–**	**1,844**	**1,844**
Transferred to assets held for sale	**(4,114)**	**–**	**(880)**	**(97)**	**(5,091)**
At 29 December 2018	**124,877**	**26,744**	**23,222**	**22,228**	**197,071**
Amortisation					
At 31 December 2017	**–**	**13,346**	**526**	**13,937**	**27,809**
Charge for the period	**–**	**2,650**	**100**	**3,151**	**5,901**
Transferred to assets held for sale	**–**	**–**	**(199)**	**(97)**	**(296)**
At 29 December 2018	**–**	**15,996**	**427**	**16,991**	**33,414**
Net book value					
At 29 December 2018	**124,877**	**10,748**	**22,795**	**5,237**	**163,657**

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

14. Intangible assets continued

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

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core	111,497	21,900	276	9,345	143,018
Climate control	7,327	–	399	932	8,658
Power generation	6,053	–	220	471	6,744
At 29 December 2018	124,877	21,900	895	10,748	158,420

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

The remaining life of intangible assets other than goodwill and indefinite life brands is between two and sixteen years (2017: three and seventeen years).

The Group tests property, plant and equipment, 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 CGUs, are estimated from value in use (VIU) calculations which model pre-tax cash flows for the next four years (2017: 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 VIU calculations were determined as follows:

- Cash flows were derived based on the budget and model of the business for the following two years.
- Operational activity then had the long-term growth rate applied to it while capital expenditure was specifically adjusted to reflect expectations of spend in the following year giving a model of up to four years in total. Cash flows for succeeding years had a long-term growth factor applied to them of 1.8% for each of the CGUs (2017: 2.5%). The Directors believe that it is appropriate to lower the growth rate assumptions from previous years to reflect the deterioration in the long-term outlook for the UK economy.
- A pre-tax discount rate of 9.7% (2017: 10.0%), calculated by reference to a weighted average cost of capital (WACC) calculated by reference to an industry peer group of quoted companies.

An impairment may be identified if changes to any of the factors mentioned above become 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 an impairment charge to be required in respect of any of the property, plant and equipment, goodwill and indefinite life brands assets carried in the balance sheet at 29 December 2018 for any of the CGUs.

For the CGU groupings listed in the table above in respect of goodwill and brands, the directors' sensitivity analysis does not result in an impairment charge. In addition, the Directors' assessed a variety of individual scenarios covering individual issues related to factors such as lowered revenue growth, capital expenditure plans, general cost inflation and the extension of the time taken to collect cash from customers. The Directors also assessed combined outcomes utilised as part of the going concern and long-term viability assessments, particularly in the light of the potential impact of a hard Brexit. Given the level of headroom in VIU these calculations show, the Directors do not envisage reasonably possible changes, either individually or in combination, to the key assumptions that would be sufficient to cause an impairment charge at this time.

In respect of HSS Core, at 29 December 2018, the headroom between VIU and carrying value of the related assets was £122.0m (2017: £89.9m). The Directors' sensitivity analysis with regard to HSS Core shows that an increase in the discount rate to 13.4% (2017: 12.5%) or a reduction in the long-term growth rate to a decline of 2.5% (2017: decline of 2.2%) would eliminate the headroom shown. In addition, this year, the Directors have assessed the combined impact of the long-term growth rate falling to zero and an increase in the discount rate to 10.89%. This shows that the headroom drops to £23.0m for HSS Core. Each of these rates is viewed as unlikely to occur in the near term and as such no impairment charge was required.

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15. Property, plant and equipment

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 30 December 2017	71,771	60,282	237,498	**369,551**
Foreign exchange differences	–	–	115	**115**
Additions	4,983	2,421	22,578	**29,982**
Transferred to asset held for sale	(2,304)	(649)	(69,907)	**(72,860)**
Disposals	(1,164)	(120)	(28,536)	**(29,820)**
At 29 December 2018	**73,286**	**61,934**	**161,748**	**296,968**
Accumulated depreciation				
At 30 December 2017	48,115	51,585	118,936	**218,636**
Charge for the year	6,090	2,241	18,492	**26,823**
Impairment loss	–	–	533	**533**
Transferred to asset held for sale	(1,159)	(557)	(37,144)	**(38,860)**
Disposals	(418)	(115)	(18,760)	**(19,293)**
At 29 December 2018	**52,628**	**53,154**	**82,057**	**187,839**
Net book value				
At 29 December 2018	**20,658**	**8,780**	**79,691**	**109,129**

15. Property, plant and equipment continued

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 31 December 2016	69,187	58,673	247,295	375,155
Foreign exchange differences	16	65	620	701
Additions	6,664	2,086	25,763	34,513
Transferred to asset held for resale	(3,806)	–	–	(3,806)
Sale of business	(93)	(463)	(5,504)	(6,060)
Disposals	(197)	(79)	(30,676)	(30,952)
At 30 December 2017	71,771	60,282	237,498	369,551
Accumulated depreciation				
At 31 December 2016	37,095	46,214	113,373	196,682
Foreign exchange differences	1	46	382	429
Charge for the year	4,382	3,669	28,955	37,006
Impairment loss	9,103	2,127	–	11,230
Transferred to asset held for resale	(2,306)	–	–	(2,306)
Sale of business	(33)	(409)	(3,164)	(3,606)
Disposals	(127)	(62)	(20,610)	(20,799)
At 30 December 2017	48,115	51,585	118,936	218,636
Net book value				
At 30 December 2017	23,656	8,697	118,562	150,915

The net book value of materials and equipment held for hire includes an amount of £24.4m (2017: £46.1m) in respect of assets held under finance leases. The depreciation charge for assets held under finance leases in the year ended 29 December 2018 was £4.7m (2017: £6.5m).

The results of the impairment review for property, plant and equipment are included in note 14.

16. Inventories

	29 December 2018 £000s	30 December 2017 £000s
Inventories	**2,594**	3,455
Inventory spares	**2,009**	2,460
Total inventories	**4,603**	5,915
Provision for impairment	**(270)**	(396)
Inventories	**4,333**	5,519

	29 December 2018 £000s	30 December 2017 £000s
Provision for impairment of inventories		
Balance at the beginning of the year	**396**	368
Impairment provisions recognised during the year	**(126)**	28
Balance at the end of the year	**270**	396

The cost of inventories recognised as an expense and included in cost of sales is £25.2m (2017: £25.2m).

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17. Trade and other receivables

	29 December 2018 £000s	30 December 2017 £000s
Gross trade receivables	**78,026**	85,270
Less provision for impairment	**(3,819)**	(4,429)
Net trade receivables	**74,207**	80,841
Other debtors	**3,477**	271
Prepayments	**6,997**	8,248
Accrued income	**9,300**	7,143
Total trade and other receivables	**93,981**	96,503

The provision for impairment of trade receivables consists of a bad debt and a credit note provision. The bad debt provision is estimated using the simplified approach to expected credit loss techniques and is based upon past default experience and the Directors' assessment of the current economic environment for each of the Group's ageing categories. Receivables over two years past their due date are expensed in their entirety and written back to income if subsequently recovered. The total amount expensed was £4.4m (2017 £2.0m); unless the counter-party is in liquidation, these amounts are still subject to enforcement action. Provisions are made for credit notes expected to be raised after year end for customer invoices that were issued during the year (see note 2). The overall provisions for bad debts and credit notes amount to 4.9% of trade receivables at 29 December 2018 (2017: 5.2%). A 0.5% increase in the rate of provision required would give rise to an increased provision of £0.4m (2017: £0.4m). The creation and release of bad debt provisions are charged or credited to administrative expenses in the income statement and movements in the credit note provision are charged or credited to revenue.

As described in note 2, the methodologies for calculating the bad debt and credit note provisions have been updated to comply with the new requirements of IFRS 9. The impact of the change in methodology was not material to either of these accounting estimates.

The estimated credit loss rates are estimated based on historical loss rates and then adjusted for current and forward-looking information on macroeconomic factors affecting the Group's operating environment. The Group has identified the future economic outlook (e.g. political uncertainty around Brexit, and expected GDP growth, inflation and unemployment rates) as key to determining the level of adjustment required. Assessment is made for each of the group's trading entities and based on its standard ageing categories.

The following table details the movements in the provision for impairment of trade receivables:

	29 December 2018 £000s	30 December 2017 £000s
Balance at the beginning of the period	**(4,429)**	(3,740)
Movement in provision	**324**	(689)
Balance related to discontinued operations	**286**	–
Balance at the end of the period	**(3,819)**	(4,429)

The provision for impairment of trade receivables is comprised as follows:

	29 December 2018 £000s	30 December 2017 £000s
Bad debt provision	**(1,885)**	(3,042)
Credit note provision	**(1,934)**	(1,387)
	(3,819)	(4,429)

The bad debt provision based on expected credit losses and applied to trade receivables, all of which are current, is as follows:

	Current	0-60 days past due	61-365 days past due	1-2 years	**Total**
Contract assets	69,215	9,342	7,330	1,439	**87,326**
Expected loss rate	0.0%	0.9%	21.0%	17.6%	**2.4%**
Provision for impairment charge	8	84	1,540	253	**1,885**

These amounts have not been impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable.

18. Trade and other payables

	29 December 2018 £000s	30 December 2017 £000s (restated)
Current		
Trade payables	**43,139**	39,729
Other taxes and social security costs	**4,104**	5,792
Other creditors	**368**	916
Accrued interest on borrowings	**4,557**	3,904
Accruals	**18,623**	20,009
Deferred income	**220**	210
	71,011	70,560

Obligations under finance leases have been reclassified to the expanded category of borrowings and finance leases (note 19). For details of the reasons and impact for this change, see note 3. In addition, accruals have been separated from deferred income in order to provide more information to the user of these Financial Statements.

19. Borrowings and finance leases

	29 December 2018 £000s	30 December 2017 £000s (restated)
Current		
Obligations under finance leases	**6,304**	11,892
Revolving credit facility	**13,000**	69,000
	19,304	80,892
Non–current		
Obligations under finance leases	**9,468**	14,105
Senior finance facility	**208,162**	–
Senior secured note	**–**	134,242
	217,630	148,347

Obligations under finance leases have been reclassified to this category from trade and other payables (see note 3).

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19. Borrowings and finance leases continued

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

	30 December 2018 £000s	30 December 2017 £000s
Senior finance facility	**220,000**	–
Revolving credit facility	**13,000**	69,000
Secured senior note	**–**	136,000
	233,000	205,000

On entering into new finance facilities on 11 July 2018, the Group expensed as a finance cost (note 8), £1.5m of debt issue costs that had not been amortised to the income statement held in relation to that facility.

The Group's senior finance facility and revolving credit facility expire on 10 July 2023 and 10 January 2023 respectively. £15.0m of the senior finance facility is to be repaid not later than 10 January 2021.

The senior finance faculty is secured over the assets of a group company Hero Acquisitions Limited and all of its subsidiaries. These subsidiaries comprise all of the trading activities of the Group. The revolving credit facility (RCF) is guaranteed in a similar way to the senior finance facility, save the lenders under the RCF rank behind those under the senior finance facility. The secured senior note was a 6.75% fixed rate bond maturing in August 2019, and was listed on the Luxembourg stock exchange until its redemption on 11 July 2018.

Until their redemption, the Group's Super Senior RCF and Senior Secured Notes were 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 shared its security with the Senior Secured Notes but received priority over any enforcement proceeds via a payment waterfall.

After the disposal of the UK Platforms business on 11 January 2019, the Group made a repayment of the senior finance facility amounting to £38.0m (see note 27).

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

	Interest rate type		29 December 2018	30 December 2017
Finance leases	Floating	%age above LIBOR	**3.10%**	3.15%
Revolving credit facility	Floating	%age above LIBOR	**3.00%**	2.50%
Senior finance facility	Floating	%age above LIBOR	**8.00%**	–
Secured senior note	Fixed		**–**	6.75%

The weighted average interest rate on the Group's borrowings are as follows:

	29 December 2018	30 December 2017
Weighted average interest rate on borrowings	**7.0%**	5.3%
Weighted average interest rate on leases	**5.7%**	7.2%

Amounts under the RCF are typically drawn for a one to three-month borrowing period, with the interest set for each borrowing based upon LIBOR and a fixed margin.

19. Borrowings and finance leases continued

The Group's leases and borrowings have the following maturity profile:

	29 December 2018 £000s		30 December 2017 £000s	
	Finance leases	**Borrowings**	Finance leases	Borrowings
Less than one year	**6,927**	**13,000**	12,950	9,180
Two to five years	**9,993**	**306,158**	14,740	145,180
	16,920	**319,158**	27,690	154,360
Less interest cash flows:				
Senior finance facility	**–**	**(86,158)**	–	–
Senior secured notes	**–**	**–**	–	(18,360)
Finance leases	**(1,148)**	**–**	(1,693)	–
Total principal cash flows	**15,772**	**233,000**	25,997	136,000

The repayment of £38.0m of the senior finance facility in January 2019 reduced the facilities available by the same amount. The two to five years category in the table above reduced from £286.5m to £248.5m at that time leading to the total principal cash flows reducing from £233.0m to £198.0m. In addition, the £13.0m drawn under the RCF was repaid in February 2019 and a new £6.0m overdraft facility put in place with one of the Group's bankers. This overdraft facility forms part of the overall £25.0m RCF as does a £1.8m guarantee arrangement put in place in October 2018 to secure the Group's card-acquiring services provided by a third party (see note 26).

The Group had undrawn committed borrowing facilities of £27.1m at 29 December 2018 (2017: £27.6m). Including net cash balances, the Group had access to £44.7m of combined liquidity from available cash and undrawn committed borrowing facilities at 29 December 2018 (2017: £29.6m). In addition, the Group is able to borrow up to £30m (outstanding at any time) under its finance lease facilities.

The maturity profile, excluding interest cash flows, of the Group's finance leases is as follows:

	29 December 2018 £000s	30 December 2017 £000s
Less than one year	**6,295**	11,892
Two to five years	**9,477**	14,105
	15,772	25,997

Finance leases principally relate to hire fleet assets.

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20. Provisions

	Onerous leases £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 30 December 2017	**6,607**	**13,975**	**32,612**	**53,194**
Transferred to assets held for sale	**–**	**(573)**	**–**	**(573)**
Additions	**2,054**	**5,841**	**–**	**7,895**
Utilised during the period	**(3,254)**	**(1,312)**	**(9,918)**	**(14,484)**
Unwind of provision	**11**	**44**	**114**	**169**
Released	**(673)**	**(1,196)**	**–**	**(1,869)**
At 29 December 2018	**4,745**	**16,779**	**22,808**	**44,332**
Of which:				
Current	**3,234**	**3,488**	**3,562**	**10,284**
Non-current	**1,511**	**13,291**	**19,246**	**34,048**
	4,745	**16,779**	**22,808**	**44,332**
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

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 9 years with the weighted average being 2.5 years (2017: 3.5 years). They are stated net of existing and anticipated sub-let 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 0.891% (2017: 0.752%). A 1% increase in the discount rate at 29 December 2018 (2017: 1% increase) would reduce the onerous lease provision by £0.1m (2017: £0.1m).

The amount of anticipated sub-let income for vacant properties included in the onerous lease provision amounted to £0.5m at 29 December 2018 (2017: £0.9m). 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 £0.7m at 29 December 2018 (2017: £0.9m).

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, adjusted for location, size and age of the property. The weighted average dilapidations provision at 29 December 2018 was £8.34 per square foot (psf) (2017: £5.10 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 29 December 2018. A £0.50 psf increase in the dilapidations provision would lead to an increase in the provision at 29 December 2018 of £1.2m (2017: £1.3m).

The dilapidations provision has been discounted at a rate of 1.26% (2017: 1.19%) at 29 December 2018 based on 10 year UK gilt yields. A 1% increase in the discount rate at 29 December 2018 would decrease both the dilapidations provision and associated dilapidation fixed asset by £0.6m (2017: £0.6m), 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 £33.8m of which £9.6m was paid in 2018 with £3.7m payable in 2019. The obligations under this agreement will unwind over the period to 2026. The provision was discounted at a rate of 1.19% based on 10 year UK gilt yields. A 1% increase in the discount rate at 29 December 2018 would decrease the provision by £0.9m (2017: £0.9m).

21. Deferred tax

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

	Tax losses £000s	Property, plant and equipment and other items £000s	Acquired intangible assets £000s	Total £000s
At 30 December 2017	**358**	**(2,282)**	**(518)**	**(2,442)**
Less: transferred to assets held for sale	**(358)**	**1,030**	**126**	**798**
	–	**(1,252)**	**(392)**	**(1,644)**
Credit to the income statement – continuing operations	**2,500**	**411**	**65**	**2,976**
(Charge) to the income statement – discontinued operations	**(331)**	**(246)**	**–**	**(577)**
Credit to the income statement – total	**2,169**	**165**	**65**	**2,399**
Deferred tax assets/(liability) – group	**2,500**	**(841)**	**(327)**	**1,332**
Deferred tax assets/(liability) – discontinued operations	**27**	**(1,276)**	**(126)**	**(1,375)**
Total deferred tax asset/(liability) – total	**2,527**	**(2,117)**	**(453)**	**(43)**
Deferred tax assets	**2,500**	**–**	**–**	**2,500**
Deferred tax liabilities	**–**	**(841)**	**(327)**	**(1,168)**
At 29 December 2018	**2,500**	**(841)**	**(327)**	**1,332**
At 31 December 2016	780	(1,204)	(6,999)	(7,423)
(Charge)/credit to the income statement – continuing operations	–	(49)	6,438	6,389
(Charge) to the income statement – discontinued operations	(422)	(1,030)	–	(1,452)
(Charge)/credit to the income statement – total	(422)	(1,078)	6,438	4,938
Sale of business – continuing operations	–	–	43	43
At 30 December 2017	358	(2,282)	(518)	(2,442)
Deferred tax assets	358	–	–	358
Deferred tax liabilities	–	(2,282)	(518)	(2,800)
At 30 December 2017	358	(2,282)	(518)	(2,442)

Deferred tax assets have been recognised in respect of certain tax losses that are expected to be utilised within the next 12 months against future suitable taxable profits.

At 29 December 2018, £1.6m (2017: £2.8m) of the deferred tax liability is expected to crystallise after more than one year.

At 29 December 2018, the Group had an unrecognised deferred tax asset relating to trading losses of £9.7m (2017: £6.9m). The gross balance at 29 December 2018 was £50.9m (2017: £69.4m). Tax losses generated in the year have been offset against the previously recognised deferred tax liability on intangible assets resulting in a net credit to the income statement of £2.5m (2017: £4.9m).

The Group also has an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £17.0m (2017: £18.2m). The gross balance at 29 December 2018 was £89.4m (2017: £83.6m).

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. Deferred tax assets have been recognised to the extent that they will be supported by next year's expected profits.

22. Share capital

Number and nominal value of fully paid up ordinary shares of 1p each.

	Share capital Ordinary Number	Share capital Ordinary £000s
At 29 December 2018 and 30 December 2017	**170,207,142**	1,702

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Notes to the Consolidated Financial Statements continued
For the year ended 29 December 2018

23. Warrant reserve

On 11 July 2018, the Group issued 8,510,300 warrants to the holders of its debt under the senior finance facility. A Black-Scholes model was used to calculate the fair value of those warrants leading to an amount of £2.7m being recognised. The warrants are exercisable at a subscription price of 1p on repayment of the senior finance facility, a change in control or the end of the facility term.

	No.	£000s
Warrants issued in the year and carried forward at 29 December 2018	**8,510,300**	**2,694**

The key assumptions that underpin this model are:

- no dividends paid throughout the period to 31 December 2021;
- performance dates are between 31 December 2020 and 2021 giving a performance period of 3.1 years; and
- volatility in the returns to shareholders as measured by the total shareholder return of 54.5% to 57.2%.

24. Share-based payments

The key points of each of the Group's share schemes for grants up to 29 December 2018 are summarised below. All schemes are equity-settled. All disclosure relates to both the Group and the Company.

For the 2018 awards, the Monte Carlo valuation model (Black-Scholes in prior years) was used to determine the fair value of the share-based payments issued by the Company. 10,000 different market scenarios were generated and a vesting outcome for each scenario calculated. Consistent with prior years, the model takes into account the Company's historical volatility since Admission to the London Stock Exchange in 2015 and the historical volatility of a comparator group of companies listed on the London Stock Exchange operating in similar markets.

The total charge for the period relating to employee share-based payment plans during the year ended 29 December 2018 was £24,000 (2017: £4,000), all of which related to equity-settled share-based payment transactions.

Market value options

On 8 October 2018, share awards (the 2018 Awards) were granted to eligible employees in the form of market value options over ordinary shares in the Company in accordance with the Company's 2015 Long Term Incentive Plan (the LTIP). This was following approval by shareholders at a General Meeting on 7 August 2018. The market value options will vest subject to performance conditions based on HSS's share price measured over the three-month period ending with 31 December 2021. The 2018 Award will lapse if the award made in 2017 (see below) vests.

On 31 August 2017, share awards (the 2017 Awards) were granted to eligible employees based on a maximum of 460% of base salary in the form of market value options over ordinary shares in the Company in accordance with the Company's LTIP. This was following approval by shareholders at a General Meeting on 10 August 2017. The market value options will vest subject to performance conditions based on earnings per share and return on capital employed measured over the period ending with the Company's 2020 financial year.

To the extent it vests, each of the 2018 and 2017 Awards will, ordinarily, be released to the participant at the end of a further one-year holding period.

On the same dates for the 2018 and 2017 Awards, tax-qualifying share options were granted as part of the market value option awards (CSOP options) via a Company Share Option Plan approved by HM Revenue & Customs (HMRC). Each CSOP is subject to the same performance targets as are applied to the market value options and they will vest and be released at the same time as them.

24. Share-based payments continued

As such the total award to each individual comprises a bundled HMRC-approved option in respect of the first £30,000 worth of an award and an unapproved market value option award for amounts in excess of this HMRC limit. The table below reconciles the options outstanding:

	Year ended 29 December 2018	Year ended 30 December 2017
	Number of share options	Number of share options
Outstanding at beginning of period	**7,076,202**	–
Granted	**14,500,000**	7,076,202
Cancelled	**(98,655)**	–
Outstanding at end of period	**21,477,547**	7,076,202
Exercisable at end of period, number	**–**	–
Weighted average exercise price, pence	**40.4**	57
Weighted average remaining contractual life, years	**3.9**	3.3
Weighted average fair value of LTIP options granted, pence	**9.2**	13

CSOP options

The table below summarises the outstanding CSOP options:

	Year ended 29 December 2018	Year ended 30 December 2017
	Number of share options	Number of share options
Outstanding at beginning of period	**666,660**	–
Granted	**1,355,920**	666,660
Cancelled	**(55,555)**	–
Outstanding at end of period	**1,967,025**	666,660
Exercisable at end of period, number	**–**	–
Weighted average exercise price, pence	**42.6**	54
Weighted average remaining contractual life, years	**3.9**	3.3
Weighted average fair value of LTIP options granted, pence	**9.0**	14

Long Term Incentive Plan

On the same date as the 2018 MVO Awards, share awards under the LTIP were issued to eligible employees of the Company based on a maximum of 100% of base salary in the form of nil-cost options over ordinary shares. No awards were made in 2017.

On 7 April 2016, share awards were granted to eligible employees based on a maximum of 100% of base salary in the form of nil-cost options over ordinary shares in the Company in accordance with the Company's LTIP. The LTIP awards will vest subject to performance conditions based on earnings per share and return on capital employed measured over the period ending with the Company's 2018 financial year. To the extent it vests, each award will, ordinarily, be released to the participant at the end of a further two-year holding period.

On the same date, tax-qualifying share options were granted as part of the LTIP awards (CSOP options) via a Company Share Option Plan approved by HMRC. Each CSOP is subject to the same performance targets as apply to the nil-cost options part of the LTIP and will vest and be released at the same time as the nil-cost options. If a CSOP option is exercised as a gain, the number of shares that may be delivered under the associated LTIP award will be reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award delivered to the participant is not increased by the grant of the CSOP option.

As such, the LTIP comprises a bundled HMRC-approved option in respect of the first £30,000 worth of an award, and an unapproved LTIP award for amounts in excess of this HMRC limit. Therefore, the fair value of the award in aggregate is determined by reference to the market value of the original LTIP share awards at the date of grant.

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24. Share-based payments continued

The table below reconciles the nil-cost LTIP share options outstanding:

	Year ended 29 December 2018 Number of share options	Year ended 30 December 2017 Number of share options
Outstanding at beginning of period	**1,239,622**	1,640,364
Granted	**3,523,000**	–
Cancelled	**–**	(400,742)
Outstanding at end of period	**4,762,622**	1,239,622
Exercisable at end of period, number	**–**	–
Weighted average exercise price, pence	**–**	–
Weighted average remaining contractual life, years	**3.4**	8.3
Weighted average fair value of LTIP options granted, pence	**5.2**	80

LTIP nil-cost options are exercisable no later than the tenth anniversary of the date of grant. The fair value of the LTIP nil-cost options granted during 2018 was 40p (2017: 80p), based on the market price of the ordinary shares at the date of grant, adjusted for dividends payable.

2016 3-year Sharesave Scheme (SAYE Plan)

On 4 November 2016, the Group offered all employees the opportunity to participate in the 2016 Sharesave Scheme, a SAYE plan. The SAYE Plan enables participating employees to save anything from £5 to £250 per month over three years. At the end of the three years, the employee may use the amount saved to purchase HSS Hire Group plc shares at a discounted price (compared with the price on the date of issue) of 57.7p per share. Alternatively, the employee may, at their request, withdraw their savings and leave the SAYE Plan at any time. Participants will be eligible to exercise their awards between 3 and 3.5 years from the grant date.

No awards were made under the SAYE Plan during 2018 and 2017.

The table below reconciles the SAYE Plan share options outstanding:

	Year ended 29 December 2018 Number of share options	Year ended 30 December 2017 Number of share options
Outstanding at beginning of period	**1,660,893**	2,433,039
Cancelled	**(558,419)**	(772,146)
Outstanding at end of period	**1,102,474**	1,660,893
Exercisable at end of period, number	**–**	–
Weighted average exercise price, pence	**57.7**	57.7
Weighted average remaining contractual life, years	**1.3**	2.3
Weighted average fair value of SAYE Plan options granted, pence	**23**	23

The fair value of equity-settled share options granted is estimated as at the date of grant, taking into account the terms and conditions upon which the awards were granted. The following table lists the inputs to the model used for the years ended 29 December 2018 and 30 December 2017:

Fair value inputs	Year ended 29 December 2018 Market value options	Year ended 30 December 2017 Market value options	Year ended 29 December 2018 Sharesave Scheme	Year ended 30 December 2017 Sharesave Scheme
Exercise price, pence	**40.5**	56.7	**–**	–
Share price on date of grant, pence	**30.0**	48.0	**–**	–
Expected term before option exercise, years	**4.5**	7.3	**–**	–
Risk free interest rate, %	**0.85%**	0.77%	**–**	–
Expected dividend yield, %	**nil%**	2.37%	**–**	–

25. 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 of a change in market 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.

With the repayment of the senior secured notes, the Group's borrowings ceased to be largely at fixed interest rates. 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 senior finance facility, RCF and other short-term borrowings. To mitigate the risks associated with this, the Group has entered into an interest rate cap that limits the interest that the Group will pay on £150m of its borrowings under the senior finance facility. The Directors 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 lead to an increase in the interest charge of £1.0m (2017: £0.7m).

Interest rate sensitivity

The table below demonstrates the sensitivity to reasonably possible changes in interest rates, taking into account the Group's hedging arrangements, 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	
	29 December 2018 £m	30 December 2017 £m	**29 December 2018 £m**	30 December 2017 £m
Effect on				
100 basis points increase	**1.1**	0.7	**1.1**	0.7
200 basis points increase	**2.3**	1.4	**2.3**	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 RCF and senior finance facility mature in 2023.

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 with 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.

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 with the Group. The Directors do not expect any significant losses of receivables that have not been provided for as shown in note 17.

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 Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 19) at all times so that borrowing limits or covenants on borrowing facilities are not breached.

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Notes to the Consolidated Financial Statements continued
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25. Financial instruments continued

The financial covenant in place on the Group's senior finance and revolving credit facilities at 29 December 2018 is to maintain leverage (calculated as net debt divided by Adjusted EBITDA as calculated each month on a cumulative last twelve month basis) at less than 4.5 times.

Asset risk

Asset risk is the risk of loss or damage to an asset adding to financial loss to the Group. Customers may damage hire equipment if they do not 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.

Fair value

Financial assets at the balance sheet date are comprised of derivative financial assets, trade and other receivables, cash and cash equivalents. The derivative financial assets are classified as fair value through other comprehensive income as the interest rate swap is in a designated hedge relationship. All other financial assets are classified as financial assets at amortised cost.

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.

	Position in fair value hierarchy	**29 December 2018 £000s**	30 December 2017 £000s
Financial assets			
Derivative financial instruments – fair value hedge	Level 2	**405**	–
Financial liabilities			
Senior secured notes	Level 1	**–**	(128,778)

The senior secured notes were classified as level 1 in the fair value hierarchy, as they were listed on the Luxembourg Stock Exchange and were valued at their market value at 30 December 2017.

26. Commitments and contingencies

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

	29 December 2018 £000s	30 December 2017 £000s
Land and buildings		
Within one year	**14,131**	15,030
Between two and five years	**39,872**	45,316
After five years	**29,777**	33,084
	83,780	93,430
Other		
Within one year	**8,454**	9,074
Between two and five years	**12,835**	15,263
After five years	**187**	7
	21,476	24,344
	105,256	117,774

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:

	29 December 2018 £000s	30 December 2017 £000s
Sub-lease rental income		
Within one year	**499**	452
Between two and five years	**1,017**	1,121
After five years	**161**	403
	1,677	1,976

The Group has issued a guarantee for £1.8m (2017: nil) under the RCF (see note 19) to secure its card-acquiring arrangements.

The Group has contracted to purchase items of property, plant and equipment that it has not received at the reporting date to the value of £2.2m (2017: £1.0m).

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Notes to the Consolidated Financial Statements continued
For the year ended 29 December 2018

27. Discontinued operation and assets and liabilities classified as held for sale

On 19 July 2018, the Group announced the agreement to sell UK Platforms Limited, HSS's powered access business, to Nationwide Platforms Limited. The clearance of this transaction was secured from the Competition and Markets Authority in December 2018, thereby completing the last major hurdle in the agreement to sell this business. As UK Platforms Limited formed the entirety of the powered access CGU, the assets and liabilities of the CGU have been classified as held for sale in the consolidated statement of financial position; this business has been classified as a discontinued operation. On 11 January 2019, the Group completed the disposal (note 28) At 29 December 2018, the balance sheet of this business was:

	£000s
Intangible assets	4,752
Property, plant and equipment	30,612
Deferred tax assets	27
Inventories	358
Trade and other receivables	8,892
Cash	2,075
Assets associated with assets classified as held for sale	46,716
Debt – finance leases	(5,300)
Trade and other payables	(6,281)
Provisions	(561)
Deferred tax liabilities	(1,402)
Liabilities associated with assets classified as held for sale	(13,544)
Net assets of disposal group	33,172

The following table shows a summary of the cash flows for UK Platforms Limited:

	29 December 2018 £000s	30 December 2017 £000s
Operating cash inflow	**4,286**	3,887
Cash outflow from investing activities	**(225)**	(19)
Cash outflow from financing activities	**(4,197)**	(3,935)

28. Business disposal and post-balance sheet events

Disposal of UK Platforms Limited – discontinued operation

On 11 January 2019, the Group completed the disposal of UK Platforms Limited to Nationwide Platforms Limited, a wholly-owned subsidiary of the Loxam Group, in order to pay down debt and generate cash flow for the expansion of the Group's other businesses. After completion of the sale, £38.0m of the net proceeds was used to pay down Group debt, reducing the senior finance facility from £220.0m outstanding to £182.0m. The table below shows the assets and liabilities disposed of:

Descriptions of assets and liabilities	£000s
Intangible assets	637
Property, plant and equipment	32,028
Current assets, excluding cash	5,508
Cash	2,445
Debt – finance leases	(5,149)
Current liabilities, excluding debt	(8,620)
Deferred tax liabilities	(1,375)
Net assets disposed of	25,474

Proceeds of disposal less transaction cost[(1)]	47,522
Profit on disposal before goodwill written back	22,048
Goodwill written back	(4,054)
Profit on disposal	17,994
Of which costs expensed in 2018	2,080
Profit to be recorded in 2019	20,274

(1) Consideration is subject to finalisation during the course of 2019.

28. Business disposal and post-balance sheet events continued

Changes to finance arrangements

After completion of the sale to Loxam on 11 January 2019, £38.0m of the net proceeds were used to repay a proportion of the senior finance facility. At the same time, £1.7m of debt issue costs were expensed as an exceptional finance cost.

Also in January 2019, the Group concluded an overdraft facility of £6.0m that is supplied by one of the Group's bankers; this overdraft is part of the RCF (see note 19) and does not increase the overall level of facilities available to the Group. At the same time the overdraft facility was made available, the Group repaid all of the sums drawn under the RCF amounting to £13.0m.

Disposal of Reintec and TecServ in 2017

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 and its subsequent adjustment in 2018 of £1.0m.

The table below shows the assets and liabilities disposed of:

Descriptions of assets and liabilities	£000s
Intangible assets	472
Property, plant and equipment	2,453
Inventories	1,575
Trade and other receivables	1,042
Cash	19
Trade and other payables	(131)
Provisions	(66)
Deferred tax liabilities	(43)
	5,321
Proceeds of disposal less transaction cost reported in 2017	1,157
Cash consideration net of costs	960
Loss on disposal before goodwill written back (loss of £4.2m reported in 2017 and £0.2m reported in 2018)	(4,361)
Goodwill written back	(755)
Total loss on disposal (loss of which £4.9m reported in 2017 and £0.2m reported in 2018)	(5,116)
Proceeds of disposal less costs	960
Cash disposed of	(19)
Net cash inflow	941

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Notes to the Consolidated Financial Statements continued For the year ended 29 December 2018

29. Related party transactions

Ultimate parent entity

By virtue of its majority shareholding the Group's immediate and ultimate parent entity is Exponent Private Equity LLP. During the year, entities managed by Exponent Private Equity LLP charged the Group fees of £42,803 (2017: £42,725) and £nil was outstanding at 29 December 2018 (2017: £nil). Additionally, Exponent Private Equity LLP invests in businesses with which the Group trades. All transactions are carried out on an arm's length basis and are immaterial to both parties.

Key management personnel

Related party transactions with key management personnel are disclosed in note 10.

30. Dividends

No dividends were paid or proposed in this or the preceding year.

31. Note supporting statement of cash flows

	At 30 December 2017 £000s	Cash flows £000s	Discontinued operations £000s	Other non-cash movements £000s	**At 29 December 2018 £000s**
Cash	2,151	17,625	(1,944)	–	**17,832**
Current borrowings	(69,000)	56,000	–	–	**(13,000)**
Non-current borrowings(1)	(134,242)	(84,000)	–	10,080	**(208,162)**
Finance lease liabilities	(25,997)	12,510	5,301	(7,586)	**(15,772)**
Total	**(227,088)**	**2,135**	**3,357**	**2,494**	**(219,102)**
Accrued interest on borrowings	(3,904)	17,265	–	(17,918)	**(4,557)**
Debt issue cost(1)	(1,758)	–	–	(10,080)	**(11,838)**
Net debt(2)	**(232,750)**	**19,400**	**3,357**	**(25,504)**	**(235,497)**

	At 31 December 2016 £000s	Cash flows £000s (restated)(3)	Other non-cash movements £000s (restated)(3)	At 30 December 2017 £000s
Cash	15,211	(13,060)	–	2,151
Current borrowings	(66,000)	(3,000)	–	(69,000)
Non-current borrowings(1)	(133,212)	–	(1,030)	(134,242)
Finance lease liabilities	(28,714)	12,504	(9,787)	(25,997)
Total	(212,715)	(3,556)	(10,817)	(227,088)
Accrued interest on borrowings	(3,859)	12,494	(12,539)	(3,904)
Debt issue cost(1)	(2,788)	–	1,030	(1,758)
Net debt(2)	(219,362)	8,938	(22,326)	(232,750)

(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.
(3) Accrued interest on borrowings has been restated in order to correct a presentational error that led to an incorrect sign being applied to the cash inflow of £12,494,000. There was no impact on either the opening or closing net debt positions either individually or in aggregate.

32. Adjusted EBITDA and Adjusted EBITA

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.

Adjusted EBITDA is calculated as follows:

	Continuing operations		Total	
	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s	**Year ended 29 December 2018 £000s**	Year ended 30 December 2017 £000s
Operating profit/(loss)	**11,218**	(79,851)	**16,302**	(71,419)
Add: Depreciation of property, plant and equipment	**25,973**	32,674	**32,042**	37,006
Add: Accelerated depreciation relating to hire stock customer losses, hire stock write-offs and other asset disposals	**11,910**	10,153	**11,910**	10,153
Add: Amortisation	**5,901**	6,592	**5,946**	6,637
EBITDA	**55,002**	(30,432)	**66,200**	(17,623)
Add: Exceptional items	**4,965**	66,460	**5,138**	66,567
Adjusted EBITDA	**59,967**	36,028	**71,338**	48,944

Adjusted EBITA is calculated as follows:

	Continuing operations		Total	
	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s	**Year ended 29 December 2018 £000s**	Year ended 30 December 2017 £000s
Operating loss	**11,218**	(79,851)	**16,302**	(71,419)
Add: Amortisation	**5,901**	6,592	**5,946**	6,637
EBITA	**17,119**	(73,259)	**22,248**	(64,782)
Add: Exceptional items	**4,965**	66,460	**5,138**	66,567
Adjusted EBITA	**22,084**	(6,799)	**27,386**	1,785

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Company Statement of Financial Position

At 29 December 2018

	Note	29 December 2018 £000s	30 December 2017 £000s
ASSETS			
Non-current assets			
Investments	2	**89,193**	86,476
Other receivables	3	**136,924**	121,688
		226,117	208,164
Current assets			
Other receivables	3	**15,405**	22,587
Cash		**19**	19
		15,424	22,606
Total assets		**241,541**	230,770
LIABILITIES			
Total and current liabilities – Other payables	4	**(11,160)**	(16,016)
Net assets		**230,381**	214,754
EQUITY			
Share capital	5	**1,702**	1,702
Warrant reserve	6	**2,694**	–
Merger reserve		**97,716**	97,716
Retained surplus	7	**128,269**	115,336
Total surplus attributable to owners of the Company		**230,381**	214,754

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 profit for the year of £12,933,000 (2017: £7,459,000).

The notes on pages 124 to 126 form part of these financial statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 3 April 2019 and were signed on its behalf by:

P Quested
Director
3 April 2019

Company Statement of Changes in Equity
For the year ended 29 December 2018

	Share capital £000s	Warrant reserve £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 31 December 2017	1,702	–	97,716	115,336	214,754
Profit for the period	–	–	–	12,933	12,933
Warrants issued	–	2,694	–	–	2,694
At 29 December 2018	**1,702**	**2,694**	**97,716**	**128,269**	**230,381**

	Share capital £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 1 January 2017	1,702	97,716	107,877	207,295
Profit for the period	–	–	7,459	7,459
At 30 December 2017	1,702	97,716	115,336	214,754

The notes on pages 124 to 126 form part of these financial statements.

Notes to the Company Financial Statements

For the year ended 29 December 2018

1. Accounting policies

HSS Hire Group plc (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.

a) Reporting entity

The Company's principal activity is to act as ultimate holding company for a group of companies whose principal activities are the supply and hire of equipment and associated services.

b) Statement of compliance

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; and
- 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 30 December 2017 to 29 December 2018 (2017: 1 January 2017 to 30 December 2017).

The Company complies with the accounting policies defined in note 1 to the Group consolidated Financial Statements on pages 85 to 91 except as noted below.

c) Merger reserve

The merger reserve is the amount arising on the difference between the nominal value of the shares issued on acquisition of the subsidiary companies and the Company value of the interest in subsidiaries. The merger reserve arises where more than 90% of the shares in a subsidiary are acquired in exchange for consideration that includes the issue of new shares by the Company. Therefore the Company is able to adopt the merger relief provisions of the Companies Act 2006.

d) Investments

Investments in subsidiaries are included in the statement of financial position 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.

As the investment in subsidiaries arose from a reorganisation of the Group structure that satisfies the criteria set out in IAS 27 *Separate financial statements*, the cost of investment has been measured as the carrying amount of its share of the equity items shown in the separate Financial Statements of the original parent at the date of reorganisation.

2. Investments

	£000s
At 30 December 2017	86,476
Additions	2,717
At 29 December 2018	**89,193**

Additions comprise both share based-payment charges in respect of warrants issued and equity-settled share-based payment awards offered to employees in subsidiary companies.

At 29 December 2018, the Company's subsidiaries, including those held indirectly through direct subsidiaries, are:

Company	Holding	Country of incorporation	Principal activity	Ordinary shares held
Hampshire Topco Limited	Direct	United Kingdom	Intermediate holding company	100%
Hampshire Midco Limited	Indirect	United Kingdom	Intermediate holding company	100%
Hampshire Bidco Limited	Indirect	United Kingdom	Intermediate holding company	100%
Hero Acquisitions Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Holdings Limited	Indirect	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	Financing (non-trading since July 2018)	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%
HSS Hire Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Trading Limited	Indirect	United Kingdom	Dormant	100%

As at 29 December 2018, the registered office of the subsidiaries listed above was 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

UK Platforms Limited was disposed of on 11 January 2019 and its registered address was changed by its new owners shortly thereafter. All other companies remain registered at the addresses stated above.

Financial Statements

Company Notes to the Financial Statements continued
For the year ended 29 December 2018

3. Other receivables

Non-current	29 December 2018 £000s	30 December 2017 £000s
Amounts due from Group undertakings	**136,924**	121,688

Current	29 December 2018 £000s	30 December 2017 £000s
Amounts due from Group undertakings	**15,383**	22,558
Prepayments	**22**	29
	15,405	22,587

Non-current amounts due from Group undertakings fall due in 2022 and carry a fixed interest rate of 10%.

Current amounts due from Group undertakings carry an interest rate of 3.75% above LIBOR.

4. Other payables: amounts falling due within one year

	29 December 2018 £000s	30 December 2017 £000s
Amounts owed to Group undertakings	**10,987**	15,893
Accruals and deferred income	**172**	121
Other creditors	**1**	2
	11,160	16,016

5. Share capital
The details of the Company's share capital are set out in note 22 to the Consolidated Financial Statements.

6. Warrant reserve
The details of the Company's warrant reserve are set out in note 23 to the Consolidated Financial Statements.

7. Profit and loss account
As permitted by Section 408 of the Companies Act 2006, the Company has elected not to present its own profit and loss account for the year. The auditors' remuneration for audit and other services is disclosed in note 9 to the Consolidated Financial Statements.

8. Related party transactions
The Company's related party transactions are set out in note 28 to the Consolidated Financial Statements.

9. Financial instruments
Details of the Group's financial instruments policies are set out in note 25 to the Consolidated Financial Statements.

10. 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 Directors' remuneration are set out in note 11 to the Consolidated Financial Statements.

Four Year Summary
For the year ended 29 December 2018

	2018 £000s	2017 £000s	2016 £000s	2015 £000s
Income statement				
Revenue	**322,767**	304,020	307,686	278,536
Operating profit/(loss)	**11,218**	(79,851)	(10,151)	(446)
Net finance costs	**(20,374)**	(13,152)	(13,678)	(19,722)
Loss before tax	**(9,156)**	(93,003)	(23,829)	(20,168)
Tax	**2,749**	6,336	1,183	86
Loss after tax	**(6,407)**	(86,667)	(22,646)	(20,082)
Adjusted EBITDA	**59,967**	36,028	56,148	55,458
Adjusted depreciation	**(37,883)**	(42,827)	(43,267)	(42,577)
Adjusted EBITA	**22,084**	(6,799)	12,881	12,881
Amortisation	**(5,901)**	(6,592)	(6,190)	(4,927)
Operating profit/(loss) excluding exceptional items	**16,183**	(13,391)	6,691	7,954
Exceptional items – operating items	**(4,965)**	(66,460)	(16,842)	(8,400)
Operating profit/(loss)	**11,218**	(79,851)	(10,151)	(446)
Assets employed				
Non-current assets	**275,691**	323,782	358,008	365,355
Assets held for sale (net)	**33,172**	1,500	–	–
Inventories	**4,333**	5,519	7,898	9,095
Trade and other receivables	**93,981**	96,503	103,744	97,585
Cash	**17,832**	2,151	15,211	1,812
	425,009	429,455	484,861	473,847
Current borrowings, including finance leases	**(19,304)**	(80,892)	(77,448)	(58,585)
Other current liabilities	**(81,396)**	(87,334)	(84,634)	(82,528)
	324,309	261,229	322,779	332,734
Non-current borrowings, including finance leases	**(217,630)**	(148,347)	(150,478)	(153,772)
Other non-current liabilities	**(36,216)**	(39,310)	(18,915)	(20,693)
Net assets	**71,463**	73,572	153,386	158,269
Net debt[(1)]	**(187,975)**	(223,383)	(207,616)	(204,101)
Net leverage ratio (Net debt/Adjusted EBITDA)	**3.1x**	6.2x	3.7x	3.7x
Capital expenditure	**30,040**	34,513	38,185	72,047
Average number of employees	**2,670**	2,947	3,123	3,210
Weighted average number of ordinary shares	**170,207**	170,207	154,887	144,534
Per ordinary 1p share				
Basic earnings	**(3.76)**	(50.92)	(14.62)	(13.89)
Adjusted earnings	**1.51**	(10.37)	(0.41)	(0.38)

(1) For FY18, net debt, defined using the HSS definition to exclude debt issue costs, but include accrued interest, has been adjusted for the proceeds from the sale of UK Platforms for net proceeds of £47.5m received in January 2019.

HSS Hire Group plc was incorporated on 7 January 2015 and listed its shares on the London Stock Exchange on 9 February 2015. Accordingly, only four years of summary financial information are presented.

Information is presented for all years as continuing operations, i.e. excluding the impact of the UK Platforms business disposed of on 11 January 2019. FY17, FY16 and FY15 have been restated to move finance leases from other current and non-current liabilities into borrowings, including finance leases.

Additional Information

Shareholder Information

Annual General Meeting

The Company's Annual General Meeting will be held at 11.00am on 20 June 2019 at Hilton Garden Inn, Hatton Cross, TW6 2SQ. Details of the Resolutions proposed and being voted on are provided in the Notice of AGM provided to shareholders and available for download at the Group website, www.hsshiregroup.com

Share Fraud and Boiler room scams

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares.

These operations are commonly known as 'boiler room fraud'. The 'brokers' (callers) can be very persistent and extremely persuasive. They often have websites to support their activities, their advice and the companies they purport to represent. A 2006 survey by the Financial Services Authority (FSA) reported that the average amount lost by an investor is around £20,000. It is not just novice investors that have been duped in this way; many of the victims have been successfully investing for several years.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or offers of free company reports.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- record the name of the person and organisation contacting you;
- check the Financial Conduct Authority (FCA) Register at www.fca.org.uk/register to ensure they are properly authorised;
- use the details on the FCA Register to contact the firm;
- call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date;
- if you receive telephone calls, emails, letters purporting to be from HSS Hire Group plc or from companies endorsed by HSS Hire Group plc and you are unsure if they are legitimate, please contact our shareholder helpline for clarification (0371 384 2030 or +44 (0)121 415 7047 (overseas)); and
- if the caller persists, hang up.

Please note that should you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

If you are approached about a share scam you should tell the FCA using the online share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm where you can find out about the latest investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040 or online at: www.actionfraud.police.uk/

Further information on this or similar activity can be found at www.cityoflondon.police.uk/citypolice within the Economic Crime section.

Forward-looking statements

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets within which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest, and to a lesser extent, exchange rates; the impact of competitor pricing behaviour; the occurrence of major operational problems; the loss of major customers; contingent liabilities; and the impact of legal or other proceedings against, or which otherwise affect, the Group.

No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.

Financial Calendar

Annual General Meeting
11.00am, 20 June 2019

Company Information

Registered Office
HSS Hire Group plc
Oakland House
76 Talbot Road
Manchester, M16 0PQ

Email: investors@hss.com
Website: www.hsshiregroup.com
Registered number: England and Wales, No. 9378067

Company Secretary
Daniel Joll

Financial Advisers and Stockbrokers
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London, EC4M 7LT

Legal Advisers
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65 Fleet Street
London, EC4Y 1HS

Independent Auditors
BDO LLP
55 Baker St
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Bankers
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National Westminster Bank plc
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Trade Public Relations
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Registrars
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Intl: +44 (0)121 415 7047

Insurance Brokers
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1 Tower Place West
Tower Place
London, EC3R 5BU

Additional Information

Definitions and Glossary

The following is a list of commonly used terms in the industry or the Annual Report and Accounts.

'ABird' or 'ABird Power Solutions'	ABird Superior Limited and its wholly-owned subsidiary, ABird Limited
'Act'	the Companies Act 2006, as amended
'Activ' Shield Bar'	a safety feature developed in conjunction with manufacturer Haulotte on the Group's platform access fleet
'Adjusted EBITA'	EBITA adjusted to add back exceptional items
'Adjusted EBITDA'	EBITDA adjusted to add back exceptional items
'Adjusted EPS'	measure of adjusted profitability per share. Widely recognised measure of shareholder value (profit) being generated by a business excluding non-recurring or exceptional items and amortisation and after charging the prevailing rate of corporation tax
'Admission'	the admission of the Shares to the premium listing segment of the Official List and to trading on the London Stock Exchange's main market for listed securities
'All Seasons Hire'	All Seasons Hire Limited
'Apex'	Apex Generators Limited
'Articles'	the Articles of Association of the Company
'Average revenue per account customer'	calculated by dividing the total revenue from account customers only in a year by the simple average of the opening and closing number of trading accounts
'B2B'	business-to-business
'bn'	a billion or billions when used with a number or numbers and a currency unit e.g. £5.7bn denotes £5.7 billion pounds sterling
'bps'	basis points are a unit of measure used to describe the percentage change in the value or rate of a financial instrument. One basis point is equivalent to 0.01% (1/100th of a percent) or 0.0001 in decimal form
'BSI'	British Standards Institute is the national standards body of the United Kingdom. BSI produces technical standards on a wide range of products and services, and also supplies certification and standards-related services to businesses
'Carbon emissions in our built environment'	calculated as the total CO_2 emissions from fuel combustion (a scope 1 emission) and purchased electricity (scope 2 emissions) of the Group in kg CO_2 divided by the total m^2 of the Group's freehold and leasehold portfolio. Calculated for the period 1 April to 31 March in each year period in accordance with the reporting timeframe required for annual CRC submissions
'CITB'	the Construction Industry Training Board works with industry and government in the UK to promote the development and training of construction industry employees. CITB accredited training courses are the recognised standard in UK safety training
'Code'	see 'Governance Code'
'Company'	HSS Hire Group plc
'CRC Energy Efficiency Scheme' or 'CRC'	a mandatory carbon emissions reduction scheme in the UK that applies to large non-energy-intensive organisations in the public and private sectors
'Customer Distribution Centres' or 'CDCs'	Locations across the UK from which we deliver items of our core hire equipment direct 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
'EBITA'	earnings before interest, tax and amortisation
'EBITDA'	earnings before interest, tax, depreciation and amortisation
'EMT'	executive management team
'ERP system'	enterprise resource planning software used to manage the business and automate certain day to day processes
'EU'	European Union
'Exponent'	the investment funds managed by Exponent Private Equity LLP or, when otherwise indicated or where the context otherwise requires, Exponent Private Equity LLP in its own right
'Exponent Shareholders'	Exponent Private Equity Partners GP II LP, Exponent Havana Co-Investment Partners GP Limited and Exponent Private Equity Founder Partner GP II Limited
'Governance Code'	the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time-to-time
'Group'	together, HSS Hire Group plc and its direct or indirect subsidiaries
'HSS'	used to refer to the group of companies within the HSS Hire Group
'HSS Hire Group plc'	HSS Hire Group plc (company number 9378067) whose registered office is at Oakland House, Talbot Road, Manchester M16 0PQ

'IFRS'	International Financial Reporting Standards, as adopted by the European Union
'initial public offering' or 'IPO'	the initial public offering and admission of the ordinary share capital of HSS Hire Group plc to the premium listing segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange's main market for listed securities under the ticker 'HSS' on 9 February 2015
'Ireland'	the Republic of Ireland
'IPAF'	International Powered Access Federation. Promotes the safe and effective use of powered access worldwide. IPAF-accredited training courses are the recognised standard in powered mobile access
'live account'	a customer that has transacted with the Group in the prior 12 months
'LTIP'	long-term incentive plan. A reward system designed to reward employees' long-term performance by reference to defined performance conditions, which include Adjusted EPS and ROCE.
'LTM utilisation'	for our Core businesses utilisation is calculated as average units hired divided by average units owned in a reporting month, then averaged over the relevant 52-week period (referred to as the last 12 months or 'LTM'); for our specialist businesses utilisation represents the average utilisation rate of the specialist businesses included in the reporting period, calculated using the same method as for core utilisation at each business level. This calculation does not include data for All Seasons Hire as full LTM utilisation data is not yet available
'm'	a million or millions when used with a number and a currency unit e.g. £70m denotes £70 million pounds sterling
'MEWP'	Mobile Elevating Work Platform
'MTS'	Mobile Traffic Solutions
'National Distribution and Engineering Centre' or 'NDEC'	Operation opened in Cowley, Oxfordshire in March 2016 to centralise and industrialise the testing, maintenance and repair of our fast-moving Core hire fleet upon return from customer use. Once deemed fit-for-hire, equipment was moved back into the local branch and CDC network. Activity terminated in April 2018 with the move back to branch-led processes
'Net debt'	the total indebtedness of the Group including senior secured notes (excluding debt issue costs), investor loan notes (2014 only), finance leases, drawings on the Revolving Credit Facility, any accrued interest on these items and any overdraft net of any cash in the Group
'Notes'	the £200m 6.75% senior secured notes due 2019 issued by HSS Financing plc in February 2014, which after a partial redemption in February 2015 were reduced to a balance of £136m before being wholly redeemed in July 2018
'NPS'	Net Promoter Score, a measure of willingness of customers to recommend a Company's products or services to others
'Official List'	the Official List of the FCA
'return on assets' or 'ROA'	calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets) subtracted by average current liabilities
'PASMA'	Prefabricated Access Suppliers' and Manufacturers' Association Ltd. The international not-for-profit organisation for the mobile access industry which oversees the industry standard training scheme. PASMA accredited training courses are the recognised standard in non-powered mobile access
'Return on Capital Employed' or 'ROCE'	calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets and cash) less average current liabilities (excluding current debt items)
'Revolving Credit Facility' or 'RCF'	revolving credit facilities made available pursuant to either the Revolving Credit Facility Agreement (£80.0m) dated 30 January 2014 that was repaid on 11 July 2018 or the Revolving Credit Facility Agreement (£25.0m) dated 20 June 2018 that was concluded on 11 July 2018 and which expires in January 2023
'RIDDOR(s)'	the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995. Within our KPIs we report our RIDDOR rate, which is calculated as: the number of RIDDOR incidents x 100,000, divided by the number of hours worked
'SHEQ'	safety, health, environment and quality
'TecServ'	TecServ Cleaning Equipment Services Limited (formerly Premiere FCM Limited)
'RMI'	used to refer to services provided in the repair, maintain and improve markets, typically to the built environment
'Term Facility'	the £220.0m Senior Facilities Agreement entered into on 22 June 2018, drawn down on 11 July 2018, that are due to be finally repaid in July 2023
'Trading Account'	a customer account which has been active in the last 12 months
'Training days per colleague'	calculated as the total training days completed by Group employees within the year, divided by the average number of colleagues in the Group
'UK'	the United Kingdom of Great Britain and Northern Ireland
'Unipart Group'	Unipart Group Limited
'UK Platforms'	UK Platforms Limited

Notes

luminous
Consultancy, design and production
www.luminous.co.uk

FSC
www.fsc.org
MIX
Paper from
responsible sources
FSC® C021017

You're better equipped

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