



Equipping our customers



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Equipping our customers

It's been another year of substantial progress at HSS as we continue to deliver on our strategic priorities and grow the business, with an increased focus on our digital offering as well as our training capabilities.

We have made significant investment in digital capability, launching the HSS Hire app, new driver technology and the OneCall platform, to better meet our customers' needs and differentiate ourselves within the industry.



New app launched
➔ [Read more](https://www.hss.com/uk)
at [hss.com/uk](https://www.hss.com/uk)

Highlights: a strong performance in 2019**Revenue****£328.0m**

FY18: £322.8m

Adjusted EBITDA**£63.9m**

FY18: £60.0m

Adjusted EBITA**£26.5m**

FY18: £22.1m

Operating profit**£16.8m**

FY18: £11.2m

Leverage – total⁽¹⁾**2.8x**

FY18: 3.3x

Return on Capital Employed (ROCE)⁽²⁾**20.8%**

FY18: 16.7%

Reported EPS (basic and diluted).**Loss of****(3.66)p**

FY18: (3.76)p

Adjusted EPS (diluted)**2.31p**

FY18: 1.36p

(1) Total is continuing and discontinued operations, all other measures are for continuing operations

(2) The ROCE calculation is defined on p24, FY18 restated see Note 1(g) to the consolidated financial statements

Operational highlights

We have delivered another significant improvement in operating performance, with growth in revenues accompanied by continued tight cost controls delivering a significant improvement in ROCE. The new insight tools we developed in 2018 have improved decision making amongst both field and office-based teams, driving improved returns.

We launched a new set of company values in 2019, as part of a colleague programme centred on wellbeing, engagement and performance. We are pleased to see colleague engagement rates have improved again since 2018, and are well ahead of the UK industry benchmark¹. We are also pleased to see a 41% reduction in our RIDDOR accident frequency rate.

Customer satisfaction levels have also improved during 2019 and remain significantly higher than the industry benchmark².

Since the year-end the COVID-19 pandemic has emerged and we consider the implications throughout this report.

Strategic highlights

We have reduced total leverage again from 3.3x (29 December 2018) to 2.8x (28 December 2019), through improved adjusted EBITDA and a significant reduction in debt. This has been achieved with the proceeds from the sale of UK Platforms, together with a continued focus on working capital management, further improvements in network efficiency and ongoing reductions in overheads.

The sale of UK Platforms has enabled more focus on our Tool Hire business which has seen significant investment in technology, with the launch of new customer and driver Apps, and the transformation of our OneCall business technology platform. We continue our drive to be simple, transparent and fast for our customers, and to differentiate ourselves from our competition.

The investment in technology underpins our strategic priorities, as we continue to Transform our Tool Hire business and Strengthen the Group's commercial proposition.

Alternative performance measures

The Group discloses Adjusted EBITDA and Adjusted EBITA (which is also used in the ROCE calculation) 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 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 these measures provide 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. A reconciliation of adjusted EBITDA and adjusted EBITA to the IFRS measures can be found in note 32 to these Financial Statements.

1 Anthem Engagement UK Industry Average

2 Kantar TNS Industry Benchmark (top third, B2B services including manufacturing and utilities)

Strategic Report

Business at a Glance

Equipping our customers

What makes us different?

Our differentiators

- National availability
- One-stop shop
- Colleague expertise
- Industry-leading technology platform
- Fully integrated website and apps
- Regulatory compliance and systems
- Customer-centric culture

Our purpose

We exist to equip our customers with the tools, equipment, training and related services that enable the construction, maintenance and operation of the UK and Ireland’s commercial, industrial and residential infrastructure. We are a crucial element of project completion. Our products and services play a part in the creation and maintenance of housing projects, schools, hospitals, offices, industry, roads, utilities and other infrastructure. Without our products and services, construction firms, maintenance contractors, FM providers, engineers, tradesmen, retailers, factories, DIYers and many more would not be able to complete their projects.

Our values

**MAKE IT SAFE
MAKE IT HAPPEN
MAKE IT BETTER
MAKE IT TOGETHER**

➤ **Read more** about how we developed our values on page 39

Our sectors

Rental



Overview

We buy, maintain, inspect, deliver and collect equipment for our customers, so that they can focus on completing their projects. We own c£185m worth of equipment (replacement value, Q1 2020), operate from over 240 locations and employ more than 2,500 highly engaged colleagues.

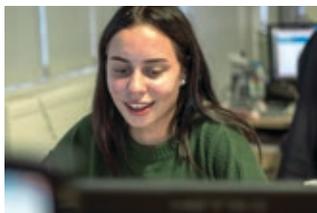
Market drivers

The £1.9bn addressable market for our equipment is driven by general economic output, with less exposure to the more cyclical new-build activity and more focus towards maintenance, refurbishment and operation of existing infrastructure.

Highlights of the year

A key element of our strategy is to Transform our Tool Hire business, and in 2019 we have made great strides with the launch of our customer and driver apps, alongside the ongoing development of our fully integrated industry-leading website. In addition, through the use of technology we have continued to develop our decision-making tools to maximise profitability.

Services



Our capital-light Services business comprises two key elements. Our OneCall rehire business provides customers with a one-stop shop for equipment beyond our owned range. Our Training business provides customers with the training required to use equipment, stay safe and ensure compliance.

The Services business allows us to address the entire £4bn market for equipment hire services in the UK, and is again driven by general economic output. Both elements of the Services business, OneCall and Training, are driven strongly by legislation and safety requirements.

In 2019 we invested in an automated technology platform as part of our OneCall transformation project, and in doing so have improved the customer, supplier and colleague experience, by simplifying our process and providing superior visibility.

Segmental revenue breakdown for FY19

£99.0m

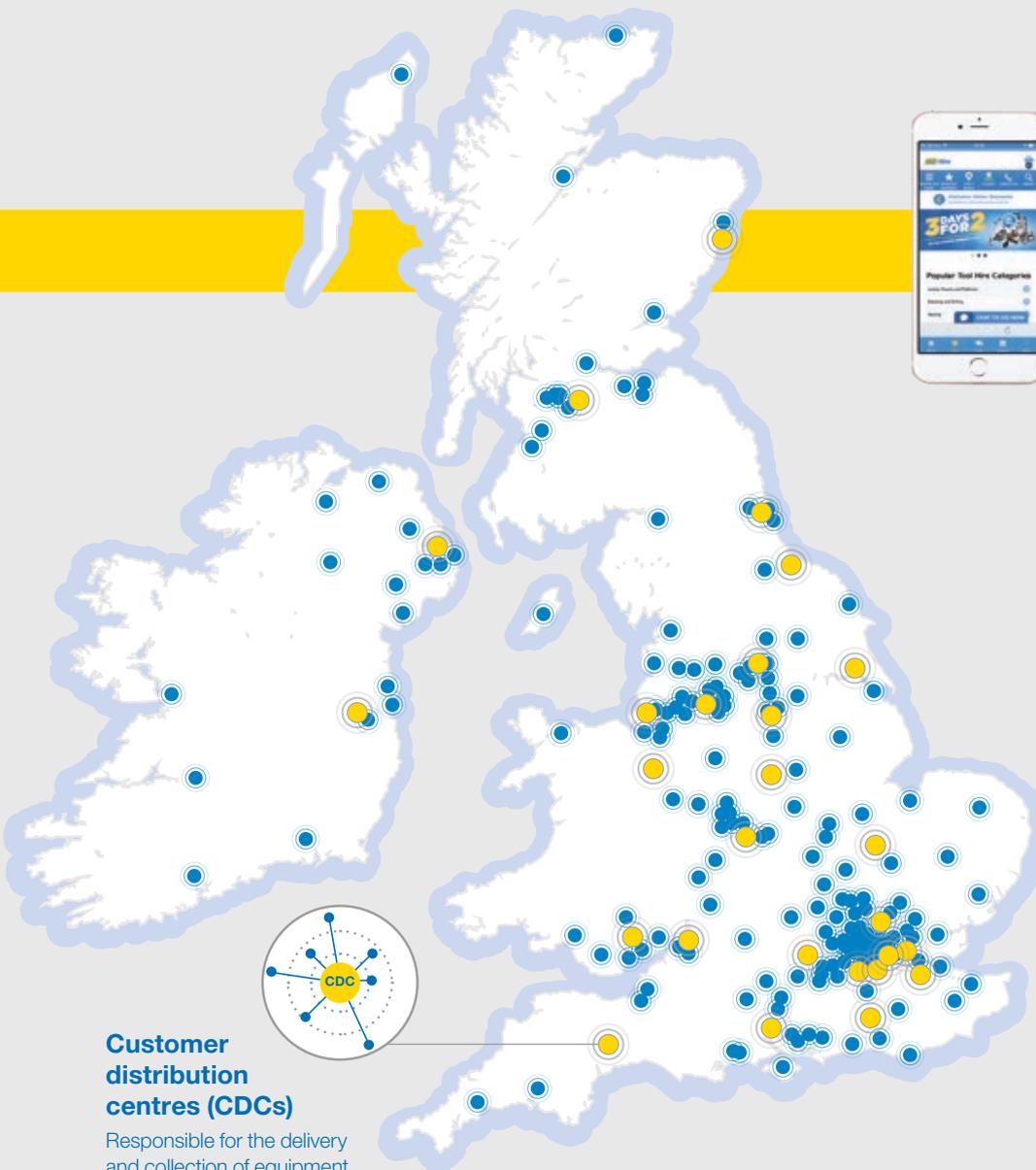
Services

£229.0m

Rental

Key

- Branch
- Customer distribution centre (CDC)



We've got the nation covered

➤ **Read more** about our industry-leading customer app on page 16

Enabled by technology

➤ **Read more** in our case studies on pages 16-19



Customer distribution centres (CDCs)

Responsible for the delivery and collection of equipment to customers and also replenishing branches with their stock profiles

Our network

Who we serve

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

Where we operate

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, both key customer requirements.

240+

Locations

27

Customer distribution centres

48

Training centres

2,500+

Colleagues

Strategic Report

Our Business Model

Equipping our customers

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, Rehire



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

>27,000

Live accounts

National reach

240+

Locations

27

Customer distribution centres

Safety & quality

BSI accreditation

System-driven equipment maintenance regime

Colleagues

2,500+

knowledgeable colleagues

72%

Employee Engagement Score⁽³⁾

(1) Rental and related revenues
(2) Services revenue

(3) Colleague Engagement score 72% (Q4 2019), compared with UK national average score 60%. Source: Anthem Engagement.
(4) NPS score 45 (Q4 2019), versus the threshold for the top third in services, manufacturing and utilities of 21. Source: Kantar TNS.

Our business model is built on our customers' requirement to outsource the provision and 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 don't want the capital cost of equipment, nor the responsibility for testing, maintaining, distributing and managing equipment. We do all that for them, to ensure that they meet legislation, keep their colleagues safe and so deliver their projects in full and on time.



Maintain

Service, Repair, Renovate, Upgrade, Extend



Operate

Power, Heat, Cool, Light



Distribute & collect



Maintain & repair



Train their people

HSS Training

Transport charges⁽¹⁾

Nearly 70% of our customers ask us to deliver and collect kit directly to and from 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

>500

On-call suppliers

Operational excellence

45

NPS score⁽⁴⁾

>50%

Utilisation

Easy to work with

Full transactional website
Leading digital offer
One-stop shop

Training resource

48

Training centres

>50

Directly employed & certified trainers

Chairman's Statement

Transforming our business

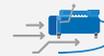


Alan Peterson OBE
Chairman

Our strategic priorities



Delever the Group



Transform the Tool Hire business



Strengthen the Group's commercial proposition

➔ **Read more** in our Strategy at a Glance section on page 14

We have delivered another year of profitable growth, achieving the highest ever Group Adjusted EBITDA on a comparable basis, through the continued excellent execution of our strategic plan. **We now have the foundations in place to support our transformation to a digital-led equipment services market leader.**

Dear shareholder,

This annual report is largely a reflection on performance in 2019 which has been another year of progress, with continued improvement against our strategic framework measures.

It is clear that COVID-19 will materially change the outlook for all businesses in 2020 and we are reacting accordingly.

Our primary focus is the safety and security of our colleagues, customers, suppliers and other stakeholders, whilst continuing to provide essential equipment to critical customers.

To this end we have enacted our continuity plans to minimise business disruption, ranging from increasing home working for all head office colleagues to stricter hygiene procedures across all of our locations.

In response to UK Government instructions on 23 March, we took the difficult but necessary decision to temporarily close the majority of our UK branches and move to a delivery only operation through our national Customer

Distribution Centres and OneCall rehire business. Similar actions were enacted on 30 March in our Southern Irish business in response to Government advice. For the first twelve weeks of FY20 we did not observe any material impact on the Group's performance, however for the 9 weeks since the Government lockdown instruction on 23 March we have seen revenue circa 40% below our original FY20 forecasts.

Immediate actions have been taken to mitigate the unprecedented risks we now face to protect liquidity including deferring capital expenditure and taking advantage of tax relief and Government job retention schemes.

With such uncertainty, we have considered a number of scenarios as to the potential impact that COVID-19 could have on the Group's results as set out in the Corporate Governance section on page 51. In certain forecast scenarios there is an indication that financial covenants could be breached and additional liquidity could be required, indicating

the existence of a material uncertainty in the adoption of going concern should our lenders not support addressing these areas if they arise. These have been discussed with our lenders, all of whom I am pleased to say have expressed their continued commitment to the business and support for the Board's response to the COVID-19 pandemic.

Sector Opportunity

The UK hire industry is large (£4bn), but still highly fragmented and relatively undifferentiated. Most companies have struggled to differentiate their offering and embrace new technologies, providing a significant opportunity for HSS to take a lead. I am confident that the transformation programme taking place at HSS will deliver significant advantages for the Group, its customers, colleagues, suppliers and investors alike.

Delivering our strategy

I am pleased to report that progress has been made against all of our strategic priorities with significant changes implemented that create the foundations to transform our customer and supplier experience going forward.

Our digital transformation is well underway with the launch of our customer and driver apps, and the introduction of new technology in our OneCall business (see our Case Studies for more information).

We have also implemented a partnership agreement for our OneCall team with Nationwide Platforms following the sale of UK Platforms to Loxam (owner of Nationwide Platforms). This was managed exceptionally well and we continue to generate revenues through our ongoing relationship.

Throughout 2019 we continued to focus on delivering exceptional levels of customer service across the whole business in the most efficient way – implementing additional changes to our network which further reduced our cost base by around £3m per annum.

We now have market-leading technology platforms in place to complement our strong existing business. These will enable us to transform our business to a digital-led equipment services provider, which we believe will deliver superior returns.

Our results

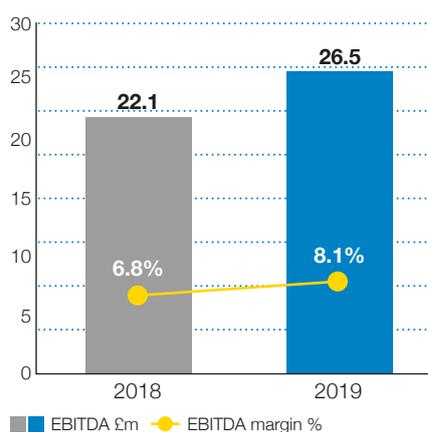
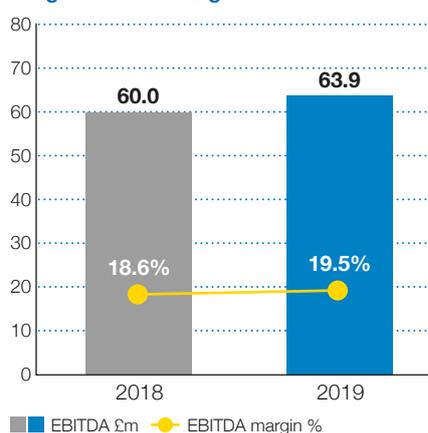
The implementation of our strategy has been excellent and this has been reflected in our strong performance during the financial year, with all measures set out on a continuing operations basis to exclude the impact of the UK Platforms divestiture. In 2019 we step changed the returns of the business with improvements in profit margins and Return on Capital Employed increasing to 20.8% compared with 16.7% in 2018.

Adjusted EBITDA for the year at £63.9m, a 6.5% growth year on year, reflects the Group's highest ever comparable performance (adjusted EBITDA from continuing operations) with margins improving to 19.5%, a 4.8% increase over the prior year (2018: 18.6%). A combination of targeted fleet investment, sales initiatives

and improved product availability delivered Rental revenue growth of 1.3%. This was augmented by continued strong performance from our Services business with like-for-like revenue growth of 13.6% and, encouragingly, contribution improving 6.4%. Improved revenue combined with lower overheads and a focus on capital efficiency also resulted in Adjusted EBITA increasing to £26.5m and margin improving to 8.1%.

Our results are discussed in more detail in the Financial Review on pages 32 to 35.

Progression of margins



Our Board and management team

The Board aspires to lead by example and practice the HSS values which were formally launched in 2019: Make it: Safe, Happen, Better and Together.

I want to thank all Directors for their individual contributions and determination to see the Group through another year of change for our business, whilst ensuring HSS continues to deliver for all stakeholders.

We have also strengthened our management capability during the year with the appointments of Ailsa Webb to lead our team in Scotland, and Grant Lockie to run our Power business. With their extensive experience, both have been strong additions to the Group.

Governance

I reported last year that we were taking steps to implement the changes to corporate governance reflected in the 2018 Code or to reinforce the work we were already doing. More detail on this, and particularly our efforts to date around stakeholder engagement, can

be found in the Corporate Governance section and throughout the Strategic Report. I am particularly pleased to note the people projects undertaken and steps to involve colleagues in the direction and strategy of the business.

Our people

I am continually impressed with the motivation, dedication and can-do attitude of our colleagues across the Group to deliver exceptional results, from consistently high customer satisfaction scores through to record-breaking financial performance. This has been borne out by further improvement in our employee engagement results in the 2019 survey. On behalf of the Board, I would like to take this opportunity to thank each and every one of my colleagues for their efforts during 2019.

Sustainability

Our primary responsibility is to always ensure the safety of HSS colleagues and customers, and the Board remains fully committed to providing a safe environment for all. During the year the Board has supported senior management's plans to drive forward a health and safety culture, one of our core values. Progress has been made in the year as borne out by a material reduction in the number of RIDDORs (incidents reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) and feedback from the colleague engagement survey. This will be an ongoing focus.

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 to the local communities in which we operate.

Dividend

The Board is committed to delivering 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 2019. The Board will re-evaluate this position once the net debt leverage ratio falls below 2.5x.

Looking ahead and COVID-19

I am pleased with our financial results for 2019 and the relentless focus implementing our strategic priorities, especially developing our digital channels. However, in 2020 we must turn our attention to respond to the global COVID-19 pandemic situation. All of my colleagues have come together to take immediate and decisive action to mitigate both the financial and safety risk that the pandemic presents and to enact continuity plans to minimise business disruption, especially with HSS as a key service provider to critical customers across the public sector. We always have, and always will, offer our support to keep the countries in which we operate in safe.

Alan Peterson OBE
Chairman

Chief Executive Officer's Strategic Review



Steve Ashmore
Chief Executive Officer

Highlights

-
Good progress against our strategic priorities
.....
-
Strong financial performance, despite the backdrop of an uncertain market
.....
-
Significant enhancement of our digital offer with investment in technology
.....
-
Investment in people, development of values and improvement in engagement levels
.....
-
Ongoing focus on customer service, reflected by improved net promoter score
.....
-
Ongoing transformation towards being the market-leading digital-led brand for equipment services
.....
-
Strong investment case and positive outlook
.....

➔ **Read more** in our case studies on pages 16-21

Leading the way with digital

I am pleased to reflect on another year of progress, during which we continued to fulfil our purpose by 'Equipping our customers', and did so more effectively. This sets us in good stead to face the significant challenge presented by COVID-19 in 2020.

Our business exists to equip our customers with the tools, training and information required so they can safely and efficiently build, maintain and operate the UK and Ireland's infrastructure and services. We listened to the feedback received from a comprehensive customer segmentation review in 2018, and, combining this with feedback from colleagues in engagement surveys, targeted specific improvements in how we operate to make our customers and colleagues more effective. We have made good progress delivering on all elements of our strategy:

- Delever the Group
- Transform our Tool Hire business; and
- Strengthen the Group's commercial proposition.

I am pleased with progress in 2019, and to report that HSS is transforming into the market-leading, digital-led brand for equipment services.

However, the trading environment in 2020 has materially changed due to the global COVID-19 pandemic. Significant focus has been placed on ensuring our business continuity plans are robust to deal with the situation, including the transfer of all of our head office colleagues to home working arrangements, so that we can support critical customers in the public sector.

There were no visible signs of the pandemic impacting trading in the first twelve weeks of FY20, with the first signs of a slowdown post the UK Government lockdown announcement on 23 March. In line with UK Government instructions we took the necessary decision to temporarily close the majority of our UK branches switching to a delivery operation from our Customer Distribution Centres and our OneCall rehire business with the subsequent addition of click and collect capability. Similar actions were enacted on 30 March in our Southern Irish business in response to Government advice. As part of these changes impacted colleagues have been entered into Government job retention schemes. For the 9 weeks since 23 March revenue has been around 40% below our original forecasts for the financial year.

Whilst it is difficult to quantify the impact of COVID-19 on the Group's financial results it is clear that we are entering a period of significantly reduced economic activity where cash preservation is fundamental. To this end immediate action has already been taken including deferring capital expenditure, reducing overheads with temporary salary reductions for a number of colleagues and taking advantage of tax relief where available.

We will continue to monitor and manage the emerging situation through twice daily Executive Management Team meetings and will take decisive action as required through what is undoubtedly a period of material uncertainty.

Overview of the year

HSS has made significant progress again improving its operational and financial performance, with the continued implementation of its strategic priorities.

The business has delivered record performance once more despite the backdrop of a challenging market created by Brexit and political uncertainty. We have also had little seasonal benefit, with relatively mild winters and a short-lived hot spell during the summer providing lower demand for heating and cooling products. I believe the excellent financial performance despite these headwinds is a reflection of our enhanced management control, improving agility and resilience, as well as the growing proportion of income derived from our capital-light Services business.

At the start of 2019 we set out to enhance our commercial proposition so that we were better placed to meet our customers' needs. Our focus was on two primary areas:

1. **Digital transformation;** and
2. **OneCall transformation.**



Technology Spotlight

Customer and Driver apps Launched April 2019

Customers wanted:

- Order on-the-go
- Quick and easy
- Real-time order updates (*track and trace)

Drivers and Transport Managers wanted:

- Better communication tools
- Less paperwork

For customers:

- Easy hire and off-hire functionality
- Live availability
- Live order tracking
- Notification updates
- Online account management
- Electronic proof of delivery/collection
- Signature capture and photographs

For drivers:

- Vehicle and health & safety checks
- Routing and navigation
- Job information
- Notification updates

So we created the market-leading end-to-end fully integrated customer and driver apps:



Results

>30k

Customer downloads

- Excellent driver adherence
- Great colleague feedback
- 4.7 star App Store rating
- 4.1 star Google Play rating
- >500 app downloads weekly

Digital transformation

We decided to enhance our digital offer as a result of customer and colleague feedback about our Tool Hire business. Customers told us about their requirements and it was apparent that we had to enhance our digital offer, so we set out to develop the market-leading end-to-end customer app.

We also listened to our colleagues, including drivers and transport managers, who felt that they did not have the right equipment to carry out their job efficiently and professionally.

Both the customer and driver apps were launched in April 2019, and have been very successful (see the 'Technology Spotlight' box above). All our development has been integrated with our industry-leading fully-transactional website, which we have also upgraded.

In addition to the benefits to customers and colleagues, this technology is also delivering fuel savings which are an important part of our sustainability agenda (see pages 36-41).

See more on our Digital offer in our Technology case study on page 16.

OneCall transformation

At the start of 2019 we also began to transform our OneCall system in response to customer feedback about rehire. Customers told us that they loved the one-stop shop solution and the advice we gave, but they said it was often slow, manual, involved a lot of back-and-forth and that our communication could be poor. Unsurprisingly, we received similar feedback from our OneCall colleagues, who described the activity of raising contracts as slow and challenging. I personally listened to managers and team leaders explaining how difficult and time-consuming it was to recruit, train and retain people. We consolidated this feedback and embarked on a mission to transform our OneCall processes, to make the rehire experience seamless, for both customers and colleagues alike.

72%

Colleague engagement score – another year of improvement and well ahead of UK national average of 60%

Strategic Report

Chief Executive Officer's Strategic Review continued

NPS 45

NPS score 45, significantly above the threshold for the top third in the services, manufacturing and utilities benchmark (21)

In April 2019, we launched the new OneCall rehire platform; we call it Brenda. Brenda can source any hire equipment from our extensive network of suppliers just as our OneCall business always did, but Brenda significantly shortens the customer journey and provides superior visibility of what is going on for customers, suppliers and colleagues alike. Brenda is a new, modern automated platform, developed by best-in-class third parties, which is easy to configure, modular, scalable and applicable to all procurement categories, providing us with the potential to significantly extend the scope of our service offering beyond equipment hire.

See more on our OneCall offer in our case study on page 18.

Our achievements in these two primary areas of focus, digital and OneCall, have been significant over a short period of time, and have set us on course to transform this business into the market-leading, digital-led brand for equipment services.

People and culture

Recognising that people are the lifeblood of our business, we set out this year to improve how we attract talent and then engage colleagues so that they stay with us and perform in their roles. We have worked on our recruitment process, significantly improving our careers website and applicant tracking system. We continue to strive to provide colleagues with a sense of purpose, freeing them up to make a difference and get things done, empowering them with challenge and stretch, as well as stimulating a connection with the organisation's greater purpose.

We entered 2019 with the objective of improving our communication and engagement processes and media. We wanted to support a positive and open culture where regular, representative and comprehensive feedback is promoted and acted upon. We listened to the feedback provided in the 2018 colleague engagement survey and took actions in a range of areas. I am pleased to see the engagement score has improved to 72.4% following our latest survey in November 2019 (2018: 71.6%).

Developing our values

At the start of 2019 we also spent time thinking about how to retain and emphasise the positive elements of our culture, in a way that would provide colleagues with clear guidance on the behaviours that drive performance. You may recall my initial impressions of the business, shortly after joining in 2017; I was hugely impressed with the enthusiasm, loyalty and can-do attitude of many of our colleagues. I was keen that we found a way to reinforce these behaviours through a revised set of Company values.

In 2019 we launched our new 'Make it...' Group values (for more information see page 39 in the Sustainability section):

**MAKE IT SAFE
MAKE IT HAPPEN
MAKE IT BETTER
MAKE IT TOGETHER**

Colleague behaviours drive customer outcomes and loyalty, and ultimately enhance profitability and shareholder returns. Our new values framework has been carefully designed to support colleagues, drive positive behaviours and create a sense of pride and belonging in HSS Hire. We are now weaving these values into our performance management framework, leadership behaviours programme and engagement strategy.

Improving colleague engagement

In 2019 we built on our existing colleague engagement platforms to increase opportunities for colleague dialogue, involvement and feedback. We invited a wide cross-section of colleagues to a series of Executive Roadshows to update them on performance and progress on strategic priorities. We also held regular Simply Safety forums to shine a light on any issues and capture potential areas for improvement. We conducted benefits roadshows, with the support of our key colleague benefits partners, with the aim of both increasing colleagues' awareness of their reward package and driving improvements to it. The diagram on page 39 outlines the full spectrum of our colleague engagement channels, and pages 42-43 provides details on our Section 172 compliance and stakeholder engagement activities.

Colleague feedback has supported a widespread review of our internal communication, training and benefits offering. Our benefits offering has increased significantly and we have seen improved uptake from colleagues in many areas. We have also raised the profile of our health and wellbeing agenda, particularly in the area of mental health (see page 40 in the Sustainability section for more detail).

Reminder of our strategic priorities

We continue to ensure that all our actions and initiatives support our three clear strategic priorities that we set out in December 2017:

- Delever the Group
- Transform the Tool Hire business
- Strengthen the Group's commercial proposition

Once again, we have made excellent progress against these priorities and I continue to believe that this strategy will lead to continued improvement in terms of shareholder returns, customer outcomes and colleague engagement in the future.

Delever

We saw our leverage significantly reduce from 4.8x at December 2017 to 3.3x at December 2018, and I am pleased to report a continued reduction with leverage being 2.8x at 28 December 2019. This has been achieved by both EBITDA improvement and debt reduction. Details of both can be found in the Financial Review section.

In terms of EBITDA improvement, the three key drivers are: (1) continued revenue growth from both the Rental and Services elements of our business driven by targeted investment in our fleet and strengthening of our salesforce; (2) further strategic cost reduction initiatives; and (3) ongoing cost control disciplines.

Debt reduction has been achieved by: (1) maintaining focus on working capital, primarily through cash collection; (2) using the proceeds from the disposal of UK Platforms Ltd in January to pay down debt; and (3) improving procurement decision making and becoming much more selective about how we deploy our capital investment.

Transform

In 2019, by shining a spotlight on profitability across three areas – customers, products and branches – we were able to grow revenue ahead of the market, significantly improve margins, deliver a marked improvement in ROCE and achieve another record year of adjusted EBITDA on a comparable basis. We did this whilst improving our NPS score from 44 to 45 and improving our colleague engagement score from 71.6 to 72.4. Both results are industry-leading.

Strategy Spotlight



TRANSFORM the Tool Hire business

Continued reductions in cost to serve:

- Cross-dock removed
- Increased network efficiency (Tottenham CDC closure)

Ongoing use of new decision-making tools to improve margins and ROCE:

- Leveraging insight tools across the full product life-cycle
- Improved pricing control, driving profitability

Continued digitisation:

- Embracing technology to improve customer loyalty and operational efficiency

Next Steps:

Delivering Standout Service to customers:

- New scheduling technology
- Continuous development of digital tools

Demand Creation: driving growth ahead of the market:

- Maximising cross-selling opportunities
- Salesforce effectiveness, leveraging customer segmentation

Targeting increased cost agility:

- Building on proven cost management track record
- Explore lower cost go-to-market models



STRENGTHEN commercial proposition

Digital channels:

- Market-leading end-to-end customer app
- New driver app technology
- Fully integrated with our industry-leading website
- Focus now on e-channel adoption

OneCall technology platform:

- Brenda platform launched in April 2019. Fully rolled out by September. Colleagues trained and suppliers on-boarded
- Benefits realised: improved productivity, conversion rates, margins, and positive customer, supplier and colleague feedback

Next Steps:

Putting Brenda technology in branches:

- Customers: quicker response times, simple consistent journey, digital adoption
- Colleagues: quicker time to competency, modern and user-friendly, more effective
- Suppliers: more enquiries, earlier notice, higher volumes

I am delighted to say that the transformation in our core Tool Hire business has the potential to deliver further improvements in financial returns, customer service and colleague engagement.

Going forward, we see transformation opportunities in five areas:

1. Continued Digitisation of our Business
2. Standout Service
3. Profit Smart
4. Demand Creation
5. Go-to-Market Optimisation

Continued Digitisation of Our Business

We must continue embracing technology to enhance the customer experience and improve our decision making. The investments we have made in our driver app, customer app, Brenda technology and new insight tools are an important step forward, but there is still significant opportunity to evolve these technologies and optimise the way they are deployed and utilised.

Standout Service

There is now a clear opportunity for HSS to stand out from the competition and drive market share in our fragmented and undifferentiated sector. The new technology we have introduced, together with our fully integrated industry-leading website and our highly engaged colleagues, I am confident that we can deliver significant differentiation advantage.

Profit Smart

We have made significant progress in delivering improved margins and enhanced returns on capital employed. We now have the foundations in place for improved decision making across the full product life-cycle and be even smarter in our day-to-day decision making so that we eliminate costs that do not contribute to shareholder value, customer service or colleague engagement.

Demand Creation

As we continue to trade in a challenging UK market, it is important that we stimulate demand in our target segments. Our plans for Standout Service will allow us to take market share by increasingly cross-selling the full range of Group services and tailoring our proposition to the requirements of different customer segments. Looking further ahead, we will be investing in improving salesforce effectiveness and prioritising our activity with improved analytics.

Go-to-Market Optimisation

We have made significant progress optimising our network and removing fixed costs over the last 24 months. We will explore further potential to reduce fixed costs, optimise working capital and become more agile. We are currently trialling alternative lower cost channels which are providing encouraging initial results.

Strategic Report

Chief Executive Officer's Strategic Review continued

Excellent progress made against our 2020 Performance Framework which we set out in December 2017⁽¹⁾

	2018 ⁽²⁾	2019 ⁽²⁾⁽³⁾	2020 Framework
Revenue growth	6.2%	3.9%	Ahead of market ⁽⁴⁾
Rental revenue growth	3.8%	1.3%	Ahead of market ⁽⁴⁾
Adjusted EBITDA margin	18.6%	19.5%	>20%
Adjusted EBITA margin	6.8%	8.1%	>9%
Leverage	3.3x	2.8x	<2.5x
Return on Capital Employed	16.7%	20.8%	>20%

(1) Targets were revised to be more challenging in April 2019.

(2) Results for 2018 and 2019 are on a continuing operations basis, after stripping out the disposal of UK Platforms.

(3) 2019 revenue adjusted for loss of Services volume related to a managed service contract.

(4) Note: Market Growth 2019 = 0.4% (source: European Rental Association forecast as at Oct 19).

Strengthen

In my overview of the year, I highlighted the improvements we have made to our commercial proposition, in both our digital offer and our OneCall processes, and the impact they have had on customer, colleague and supplier experiences. These are the initial steps in our journey to become the market-leading, digital-led brand for equipment services.

We are changing the equipment hire journey from complicated, opaque and slow, to simple, transparent and fast. We have done this by investing in technology and developing expertise, and now have a platform from which we can Transform our Tool Hire business further.

Going forward, we see opportunities to strengthen our commercial proposition in three areas:

1. E-channel adoption
2. Unlocking the full potential of Brenda
3. Capital-light Services growth

E-channel adoption

We now have the technology to drive e-channel adoption and have already seen significant improvements in online transactions. We continue to develop our technology platform, which benefits us in several areas: on-the-go ordering, stock availability, order visibility, one-stop fulfilment, and supplier engagement. Following a successful marketing trial in the Midlands, we plan to increase e-channel adoption via a series of initiatives.

Unlocking the full potential of Brenda

Our new technology platform has shortened the customer journey and provided superior visibility for all stakeholders. Now we have the opportunity to really drive conversion rates by embedding behaviours and surfacing the technology within our branch network. Our objectives here remain on speed, accuracy and ease.

Capital-light Services growth

There is a widespread requirement amongst large B2B customers with central procurement teams for a single-platform solution that provides a one-stop shop sourcing solution. We have developed a procurement portal to make it easier for our customers to operate and are currently trialling this with a number of organisations. The platform creates a seamless experience for customers, colleagues and suppliers alike. It is completely scalable and provides us with access to new equipment-related verticals such as building suppliers, recruitment and inspection services, all with minimal capital investment.

Our market

Our immediately addressable market for equipment provided from our own rental fleet is approximately £1.9bn, extending to c£4bn once we include the full range of partner services available via our OneCall proposition. The overall market for equipment hire in the UK is estimated to have grown by 0.4% in 2019, a slow-down from the 1.5% seen in 2018 and a result of the general market uncertainty. We expect the market to contract in 2020 due to the impact of COVID-19.

The market remains highly fragmented with approximately half the market being served by small independents, most of which operate from one location. No single player has more than 11% market share. We have leading positions in our primary markets of tool hire, power generation, powered access, HVAC (heating, ventilation and air-conditioning) and training.

Our customer base continues to be large and diverse, operating across a wide set of end markets, including residential, commercial, industrial and infrastructure. Our customers' activities include new-build, maintenance and operation of the UK's built environment, with an emphasis towards the less cyclical areas of maintenance and operation. The end product of our contribution to customers' activity is the

houses, schools, hospitals, offices, factories, roads and utilities infrastructure that we all rely on.

We still believe that there is a significant opportunity to differentiate from the competition and become the standout service provider and 'fan's favourite' in our market. In addition, our investment in technology provides the opportunity to create a more scalable, capital-light, digital-led business model, which will improve investor returns.

COVID-19

As I note in my opening comments, the global COVID-19 pandemic is having a major impact on people's lives and the economic outlook as we travel through 2020.

Our primary focus is the safety and security of our colleagues, customers and suppliers as well as other stakeholders. We have taken immediate and decisive action to mitigate the risks, preserve cash and enact our business continuity plans to minimise business disruption. We are absolutely committed to fulfilling our role as an essential service provider during these unprecedented times, offering our full support to keep the countries in which we operate safe. The improvements made to our digital offering and the expansion of our OneCall business mean we are better placed to do so.

Steve Ashmore

Chief Executive Officer

Investment case

A resilient proposition

Our business benefits from a combination of strong external drivers and a unique set of internal strengths. This, combined with opportunities to drive growth in technology-driven, capital-light areas, provides resilience that will help meet the challenges presented by COVID-19 and makes HSS a robust investment option.



Attractive market dynamics

- Fragmented market, with opportunity to grow share (currently 8%).
- Lack of differentiation amongst top five 'nationals' provides a significant opportunity to differentiate and gain customer loyalty.
- Remaining 50% of market is small independents, which will struggle to compete with our advancing digital proposition.



Long-term structural growth drivers

- Ongoing trend to outsource equipment management, which is typically less than 3% of our customers' cost base, so that customers can focus on core activities.
- Legislation is also driving the outsourcing trend, as well as increased demand for safety-related products and training services.
- Supply chain rationalisation trends are driving procurement departments to find partners who can offer a one-stop shop.



Scalable business model

- Capital-light services businesses that can be scaled quickly without capital expenditure.
- New technology platform that provides access to additional product verticals beyond the £4bn equipment hire market (e.g. building supplies, recruitment).
- Hub-and-spoke logistics network provides opportunity to find new low-cost sales channels.



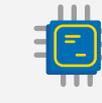
Incentivised and engaged team

- Colleague engagement scores significantly above the UK benchmark.
- New technology is making colleagues' jobs easier and unleashing their potential.
- An incentivised management team that has consistently delivered on the market expectations with record EBITDA for the second year running.



Well-recognised brand

- Market-leading brand recognition.
- Market-leading website traffic.
- Strong attraction for rehire suppliers and other partners, who seek association with our brand, access to our diverse customer base and to benefit from our technology.



Industry-leading technology platform

- Industry-leading fully integrated website and customer app.
- Brenda technology ensuring a seamless rehire experience for customers, colleagues and suppliers alike.
- New highly scalable and unique ProService platform for large B2B customers that solves a long-standing challenge for central procurement teams.



Fast-growing capital-light businesses

- Market-leading Training business, with significant opportunity to cross-sell into the Group customer base, in addition to extending its partner network.
- Recently transformed OneCall rehire business that delivers superior returns and has a new platform for growth.
- Access to new product verticals via our procurement portal, providing scalable growth without capital investment in fleet.

Strategy at a Glance

Delivering on our objectives

Our strategy was reset in December 2017 and is now entering its third year. It continues to steer us towards our vision and informs our business planning and performance management processes. We also set ourselves a three-year Performance Framework in 2017 that we are well on the way to delivering.

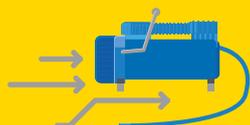
Strategy



Delever the Group

What we achieved

In 2019 we reduced our leverage from 3.3x to 2.8x. This was achieved by improving EBITDA and reducing debt. EBITDA growth came from revenue growth ahead of the market and a relentless focus on cost control that saw margins improve. Debt was reduced through operating cash flow generation, selective capital expenditure and the use of proceeds from the disposal of UK Platforms Ltd.



Transform the Tool Hire business

In 2019, by focusing on profitability across three areas – customers, products and branches – we were able to deliver revenue growth ahead of the market, significantly improved margins and another record year of Adjusted EBITDA on a comparable basis. We did this whilst improving our NPS score from 44 to 45 and improving our colleague engagement score from 71.6 to 72.4. Both results are industry-leading. And finally, we are pleased to report a 41% reduction in our RIDDOR rate.



Strengthen the Group's commercial proposition

We have enhanced our digital offer and transformed our OneCall processes. Both projects were in response to both customer and colleague feedback. They have made us easier to work for and easier to work with. We have developed the market-leading end-to-end customer app, which is easy to use and fully integrated with our industry-leading website, allowing quick on and off hires, live order tracking and paperless online account management. Our new OneCall technology, Brenda, built on a modern automated modular platform, has significantly shortened the customer journey and provides superior visibility to customers, colleagues and suppliers alike. The success of our Services business has contributed to the significant improvement in ROCE in 2019.

Our strategic enablers

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

A strong commercial management framework

Fully engaged, high-performing colleagues

Superior technology that supports decision making and stakeholder experiences



“ Our digital transformation is already delivering great benefits to customers and colleagues alike, and we will build on this as we go forward.”

Dani Hodges, Managing Director, OneCall

Our purpose

We exist to equip our customers with the tools, equipment, training and related services that enable the construction, maintenance and operation of the UK and Ireland’s built environment.

Our vision

Our vision is to be the market-leading digital-led brand for equipment services.

Our values

**MAKE IT SAFE
MAKE IT HAPPEN
MAKE IT BETTER
MAKE IT TOGETHER**

Priorities

We continue to target leverage reduction to the revised target of 2.5x, as set out in our updated performance framework in April 2019. Our priorities will be a relentless focus on cost control, tight cash collection processes, margin enhancement and ongoing growth ahead of the market. In particular, we have a Profit Smart project which is focusing on supporting day-to-day decision making with new data-driven tools, to maximise margins.

Performance Framework

- Leverage
- Adjusted EBITDA
- Net Debt

Risks

There are two primary risks relating to this strategic priority: EBITDA performance and cash collection. The COVID-19 pandemic increases these risks with a potential material reduction in demand due to Government lockdowns adversely impacting financial performance, reducing liquidity and possible breach of finance net debt leverage covenants. Immediate actions have been taken to address this risk. Early discussions have taken place with the Group’s lenders, who have expressed commitment to the business. Further details of the COVID-19 risk and mitigating actions can be found on page 26.

As we continue to Transform our Tool Hire business we are focusing on five priorities: (1) **Continued Digitisation of our Business** that enhances the customer experience and improves our decision making; (2) creating **Standout Service** that differentiates us from the competition; (3) using our new technology to enhance decision making and ensure that we are even more **Profit Smart**; (4) focusing our salesforce on **Demand Creation** in what is otherwise a challenging market; and (5) exploring ways to deliver **Go-to-Market Optimisation**, so that we reduce fixed costs and improve cash generation.

- Rental Revenue Growth
- Adjusted EBITDA and Margin
- Adjusted EBITA and Margin
- RIDDOR Rate
- Colleague Engagement Score

We are minimising our risks in this area by operating a strong performance management framework, with carefully aligned colleague incentives. Colleague engagement and retention is a key risk to this strategic objective, and as such we continue to harness and act upon colleague observations, ideas and feedback. We believe that colleague engagement is the key to unlocking performance and mitigating risk relating to this strategic priority.

Our focus is now in three areas: (1) driving **e-channel adoption** to improve customer loyalty; (2) **unlocking the full potential of Brenda** to drive growth in our rehire business; and (3) exploiting our new technology platform to deliver **capital-light Services growth**.

- Services Revenue Growth
- Return on Capital Employed
- Net Promoter Score

At the outset of this strategic priority, our primary risk was the successful development and deployment of new technology. We have since launched our new technology platforms and have been very pleased with their performance. They are modular in nature, adaptable and scalable, and we believe our technology partners are best-in-class.

Strategic Report

Equipping our Customers with

Technology

Living our values: MAKE IT BETTER

At HSS we are always striving to **Make it Better**, whether it is for our customers, our colleagues or other stakeholders.

We listened to customers who said they wanted to order on the go, they wanted it to be quicker and easier, and they wanted to be able to track their order. We set out to **Make it Better**, and in April 2019 we launched the HSS customer app. Our end-to-end app is simple to use and fully integrated with our industry-leading website. Customers have made 30,000 downloads and given the app a 4.7 rating in the App Store.

We also listened to our colleagues: drivers and transport managers wanted better ways of communicating with each other and with customers. They wanted a better navigation tool and they were fed up with all the paperwork. In April 2019 we launched the HSS driver app, fully integrated with the HSS customer app. The HSS driver app provides drivers with their vehicle safety checks, routing and job information, navigation and automated customer notifications. It is no surprise that during this period of striving to **Make it Better** for drivers, we have seen driver retention improve by 45%. The technology is also providing earlier resolution of disputes and improved working capital management.

We launched the HSS customer and driver apps

30,000

app downloads

4.7

App Store rating

“Knowing where my delivery driver is in real time allows me to plan my day.”

K & C Hire and Supply Ltd, Customer

“The HSS customer app is quick and easy to use, saving me time every day.”

First In Service, Customer



Download the HSS Hire app today





To create a better customer experience

- Easily manage your hires anytime, anywhere
- 2-way communication direct with your delivery driver
- Order your equipment straight from the app

“Having the right technology has made my working day so much better.”

Gary Ham, Driver

“The new technology has really made it easy for me to get up to the minute details on my drivers and customer”

Damian Oglesey, Transport Manager

Strategic Report

Equipping our Customers with OneCall

Living our values: MAKE IT HAPPEN

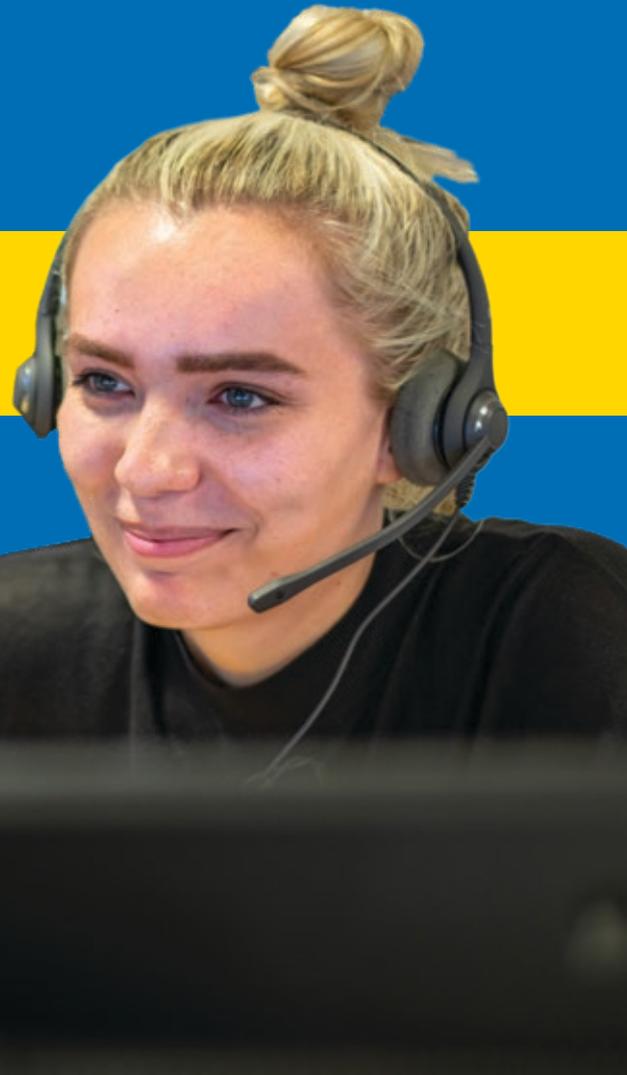
For a long time at HSS we have employed colleagues who like to **Make it Happen**, and there's no place where this is more apparent than at HSS OneCall.

Our OneCall team offers a one-stop shop for customers, providing equipment that they cannot source themselves, or where they need technical advice, or sometimes at short notice when they have been let down by other suppliers. The combination of knowledgeable colleagues and an extensive network of suppliers enable us to **Make it Happen** for customers.

However, following feedback from customers, colleagues and suppliers, we recognised that sometimes the process was slow and the communication can be poor. So we listened carefully and went away to build a new automated platform based on a streamlined process that would significantly shorten the customer journey and provide superior visibility of what is going on. We've called this platform Brenda.

In April 2019, we launched Brenda and rolled it out across our teams. The customer journey is now significantly shorter, allowing our colleagues to convert more enquiries every day. We also set out to **Make it Better** for our suppliers. Brenda does this by improving visibility and communication.

Transforming the customer rehire experience



25%

improvement in customer conversion

68%

improvement in productivity

“The new platform is so much quicker and easier to use.”

Matt Bond, OneCall Colleague

“Brenda has most definitely revolutionised the industry with this game changing platform and raised the bar for others to simply watch in awe.”

Managing Director, Lifting Gear, OneCall Supplier



Download the HSS Hire app today



To provide our customers with the right tools

- Scalable, capital-light, technology-driven business
- Powered by a world-class end-to-end brokering platform
- Superior customer experience and visibility

“OneCall takes away a lot of the hassle, creating a one-stop shop where I can get everything I need.”
Operations Director, ISG (OneCall Customer)

Strategic Report

Equipping our Customers with Training

Living our values: MAKE IT SAFE

The most important value at HSS is to **Make it Safe**. This is the first priority day in, day out for all our colleagues. But we do not stop within HSS. Every year we train thousands of customers' colleagues in a wide range of skills that help make them safer and more productive in their working environment.

Our capital-light, fast-growing HSS Training business is one of the largest providers of safety training in the industry-recognised courses PASMA, CITB and the Ladder Association. We also hold the number two position in IPAF.

We offer over 200 courses from 48 training venues, through a combination of 56 dedicated in-house trainers and 58 third party training providers. In 2019 we helped over 55,000 delegates to **Make it Safe**.

Powered once more by technology, we believe we have the leading online training management platform and booking system, available from our website. Customers can view real-time course availability, book their courses and manage their training records online. In 2019 over 30% of bookings were transacted online.

Ensuring our customers are safe and compliant

56

certified trainers

55,000

delegates trained in 2019

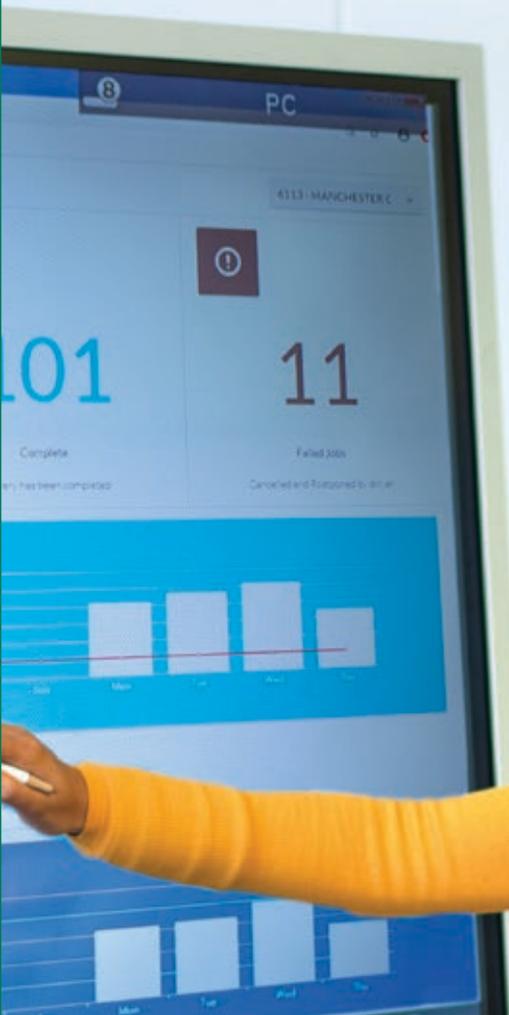
“Our colleagues in HSS branches are constantly providing great leads, customers who already hire kit from us but need some support with training. It’s a great way of doing more for customers.”

Faye Edwards-Miller, HSS Training Colleague



Download the HSS Hire app today





To create safer, more skilled workplaces

- Sector-leading online booking system
- Dedicated account management
- Scale to meet the training requirements of organisations of all sizes in all industry sectors

“HSS Training give me and my team the relevant skills and knowledge we need to complete our daily tasks and return home safely at the end of the working day.”

Compliance Manager, Jones FM (HSS Training Customer)

Strategic Report

Our Key Performance Indicators

Measuring our progress

Strategic Framework

Key Performance Indicator (KPI)

Group revenue

FY19 performance

Continuing operations

£328.0m

FY18: £322.8m

Importance of KPI

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

Link to Strategy:

- Delever the Group
- Transform the Tool Hire business
- Strengthen the Group's commercial proposition

➔ See Financial Review page 33

Rental and related revenues

Continuing operations

229.0m

FY18: £226.0m

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

Link to Strategy:

- Delever the Group
- Transform the Tool Hire business

➔ See Financial Review page 33

Adjusted EBITDA and margin

Continuing operations

£63.9m

19.5% margin

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

Link to Strategy:

- Delever the Group
- Transform the Tool Hire business
- Strengthen the Group's commercial proposition

➔ See Financial Review page 34

Adjusted EBITA and margin

Continuing operations

£26.5m

8.1% margin

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

Link to Strategy:

- Delever the Group
- Transform the Tool Hire business
- Strengthen the Group's commercial proposition

➔ See Financial Review page 34

Leverage

Total operations

2.8x

FY18: 3.3x

Measure of financial liquidity.

Link to Strategy:

- Delever the Group
- Transform the Tool Hire business
- Strengthen the Group's commercial proposition

➔ See Financial Review page 35

Definition

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

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

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.

Operating profit before amortisation and exceptional items.

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

Performance

Growth of 1.6%, ahead of ERA estimated growth rate for UK tool hire.

Growth of 1.3% via targeted investment in profitable products and continued strong utilisation.

Record level of Adjusted EBITDA driven by improvements in revenue and increased operational efficiency; margin continues to grow.

20% increase in EBITA and margin improved to 8.1%.

Significant reduction from FY18 and continued progress towards strategic framework target of 2.5x.

Remuneration linkage

Driver of colleague incentive plans.

Driver of colleague incentive plans and component of leadership incentive plan.

Driver of colleague incentive plans and component leadership incentive plan (including as a threshold element).

Indirectly, as numerator in ROCE calculation.

Component of leadership incentive plan.

Track record

		Growth/(decline)
FY19	£328.0m	1.6%
FY18	£322.8m	6.2%
FY17	£304.0m	(1.2)%
FY16	£307.6m	10.4%

		Growth/(decline)
FY19	£229.0m	1.3%
FY18	£226.0m	3.8%
FY17	£217.7m	(5.7)%
FY16	£230.8m	(0.1)%

		Margin
FY19	£63.9m	19.5%
FY18	£60.0m	18.6%
FY17	£36.0m	11.8%
FY16	£56.0m	18.2%

		Margin
FY19	£26.5m	8.1%
FY18	£22.1m	6.8%
FY17	£(6.9)m	(2.3)%
FY16	£12.8m	4.2%

		Change
FY19	2.8x	0.5x
FY18	3.3x	1.5x
FY17	4.8x	(1.6)x
FY16	3.2x	0.5x

Our Key Performance Indicators continued

Long-Term Measures

KPI	FY19 performance	Importance of KPI
Return on Capital Employed	Continuing operations 20.8% FY18: 16.7%	Measure of the return-generating ability of the business over the longer term and key measure for leadership incentives. Link to Strategy: → Delever the Group → Transform the Tool Hire business ➤ See Financial Review page 34
Adjusted earnings per share (diluted) (EPS)	Earnings of 2.31p per share FY18: 1.36p per share	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. Link to Strategy: → Delever the Group → Transform the Tool Hire business ➤ See Financial Review page 34

Stakeholders

Health and safety (RIDDORs)	Continuing operations 0.20 FY18: 0.34	Widely recognised measure of safety in the workplace. Safety is at the heart of how HSS operates. Link to Strategy: → Transform the Tool Hire business ➤ See Sustainability page 40
Colleague engagement	Continuing operations 72.4% FY18: 71.6%	A measure of the level of engagement across the entire population of colleagues. Link to Strategy: → Transform the Tool Hire business → Strengthen the Group's commercial proposition ➤ See Sustainability pages 39 and 40
Net Promoter Score (NPS)	Total operations 45 FY18: 44	A measure of how likely our customers are to recommend HSS and used to benchmark against the industry generally. Link to Strategy: → Transform the Tool Hire business → Strengthen the Group's commercial proposition ➤ See CEO's Strategic Review page 10
Greenhouse gas emissions	49.1 TC0 ² e/£m Rev FY18: 55.6	A key measure of the impact we have on the environment relative to our scale and which allows progress to be tracked. Link to Strategy: → Transform the Tool Hire business → Strengthen the Group's commercial proposition ➤ See Sustainability pages 38 and 39

Definition

Adjusted EBITA divided by the average of capital employed at the beginning and end of the year. Capital employed is total assets except intangible assets, derivatives, and cash less current liabilities except current debt items.

Earnings are defined as profit before tax after adding back exceptional items and amortisation and then charging the prevailing rate of tax. Earnings are then divided by the number of shares in issue assuming the conversion of any potentially dilutive equity derivatives outstanding.

Performance

Step change in ROCE to 20.8%; already hitting our 2020 framework target of 20%.

Growth of 69.8% driven by improvement in EBITA.

Remuneration linkage

Component of 2019 LTIP.

Adjusted EPS is a component of 2019 LTIP.

Track record

		Change
FY19	20.8%	4.1pp
FY18	16.7%	21.8pp
FY17	(5.1)%	(14.8)pp
FY16	9.7%	(1.5)pp

		Change
FY19	2.31p	0.95p
FY18	1.36p	11.73p
FY17	(10.37)p	(13.31)p
FY16	2.94p	(0.26)p

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

41% reduction in rate and only 11 RIDDORs for the entire year; evidence of the commitment to safety existing throughout the business.

Component of leadership incentive plan.

		Change
FY19	0.20	41.2%
FY18	0.34	12.8%
FY17	0.39	2.5%
FY16	0.40	16.7%

Proportion of responses from colleague engagement survey (carried out by Anthem Engagement) that either Strongly Agree or Agree to positively phrased questions.

Improved score and increased completion rate of 74% following implementation of plans driven by FY18 survey.

		Change
FY19	72.4%	0.8pp
FY18	71.6%	4.6pp
FY17	67.0%	

The percentage of promoters less the percentage of detractors based on survey and as measured by Kantar.

Improved from FY18 and significantly ahead of the industry benchmark.

FY19	45
FY18	44
FY17	44
FY16	42

The total greenhouse gas emissions produced by the Group during the period in tonnes, divided by Group Revenue in £m.

Twelve percent reduction of relative measure and ten percent reduction in absolute emission levels in 2019.

FY19	49.1
FY18	55.6
FY17	91.6

Strategic Report

Principal Risks and Uncertainties

Managing risk

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

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 in detail 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 external, to ensure that developing risk themes are considered, and 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 effect of these controls, being 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 that assurance activity is targeted at key risk areas. 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.

COVID-19

Since the balance sheet date, the COVID-19 pandemic risk has emerged. The situation is under close review by management with immediate actions taken as set out below. The pandemic has a material impact on the following risks; Macroeconomic conditions and Financial.

“ Meeting the Executive Team each month to discuss risk and assurance, with quarterly deep dives, has been hugely beneficial. It has enabled agility in our response to emerging threats and opportunities, essential to keep business performance on track in an uncertain economic environment.”

Mark Shirley

Risk and Assurance Director

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 EMT with assurance that risk is appropriately managed. This is achieved by dividing responsibilities as follows

- The first line of defence – functions that own and manage risk.
- The second line of defence – functions that oversee or specialise in risk management, compliance.
- The third line of defence – functions that provide independent assurance, in the HSS case primarily internal audit (IA).

Description and impact

COVID-19 – impact on demand

The COVID-19 pandemic has a material adverse impact on demand and therefore financial performance leading to significantly reduced liquidity and a breach of the net debt leverage covenant in place under our debt facilities.

Mitigation

The Group has modelled various downside scenarios and assessed the impact on liquidity and covenants. Immediate actions taken include the deferral of capital expenditure, overhead reduction, taking advantage of tax relief measures and utilising the Government’s job retention scheme. These scenarios have formed the basis for discussions with the Group’s lenders, who have expressed commitment to the business and support for the Board’s response. We continue to work with the lenders to ensure that appropriate liquidity is in place and we have covenant flexibility.

COVID-19 – impact on supply

COVID-19 leads to disruption in supply for our customers due to site closures. Our supply chain is adversely impacted by restricted access to spares leading to reduced product availability for our customers.

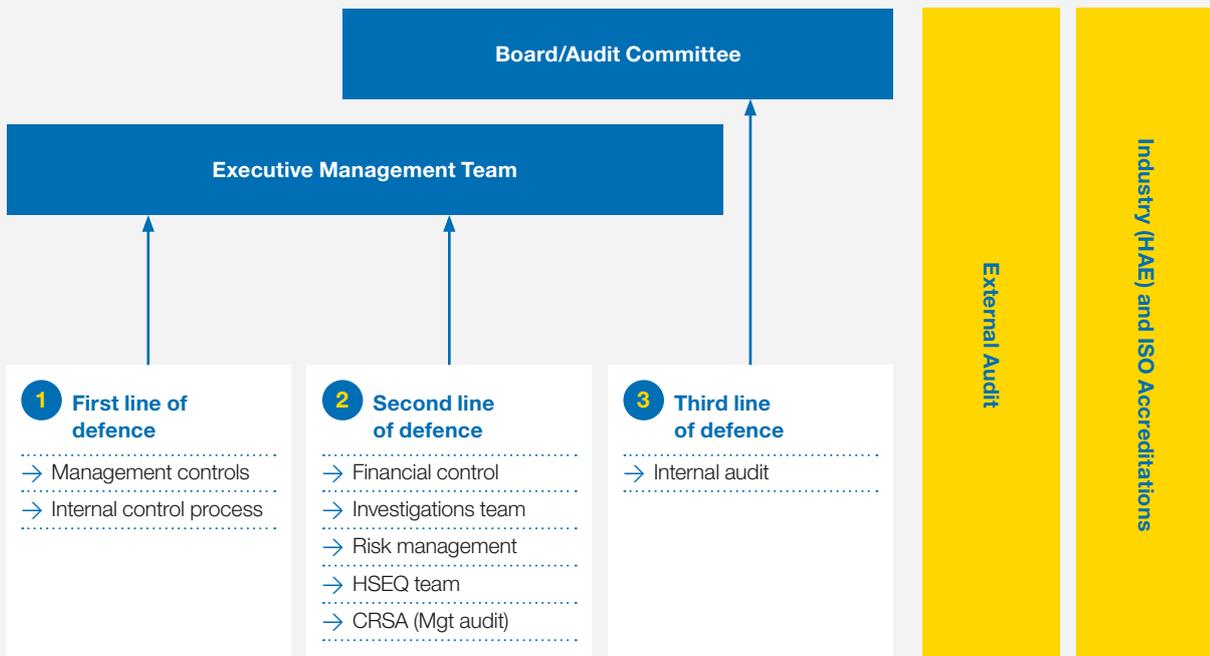
The Group has strong business continuity plans to ensure continuity of supply. Colleagues at our head office have been provided with laptops to enable home working and this was thoroughly tested prior to lockdown, with flexible working patterns put in place to reduce the risk of an entire function being impacted by the virus at the same time. Since lockdown head office has been closed. We continue to work with our suppliers to ensure that appropriate spares are available within the UK. At this stage there are limited impacts to supply.

COVID-19 – impact on safety

COVID-19 has an adverse impact on the health and safety of our colleagues.

Stricter hygiene procedures have been implemented across all of our locations with only a limited number being operational since lockdown. Operational processes have been changed including removing the need for customers to sign on glass for deliveries and a contact free click and collect service. Support is in place for colleagues who need to self-isolate. Work patterns were changed to support remote working, especially for those colleagues with underlying health conditions or dependants.

Risk management framework



2019 risk management developments

Through 2019 the Group has continued to improve its approach to the management of risk and assurance, which is a monthly agenda item for the EMT to review.

- Control risk self-assessment (CRSA) has improved through the introduction of an audit for Operations Managers to complete.
- Reporting has been improved to show more detail and depth around equipment quality checks, comparing CRSA performed by Regional Managers against independent checks by HSEQ and IA with follow up training to improve assessment consistency.
- A monthly review of quality audits is chaired by the Managing Director Operations to help identify any product performance issues and training enhancements. IA and HSEQ are represented at these meetings.
- The Group's business intelligence tools are being utilised to improve the analysis of audit results. This will help us to link findings across assurance areas, drawing in additional data to supplement audit findings or put them into context.
- IA and HSEQ attend the monthly MD meetings to discuss findings and help ensure that the teams are involved in any discussions related to business change.

Planned improvements to risk management process

We are working across assurance teams to improve the automation of reporting and audit findings, to help identify trends and better prioritise where we should focus activity.

- Improve the ease of near miss reporting to help reduce accidents and reinforce the importance of challenging unsafe behaviour. This will be incorporated into the existing accident reporting.
- Launch an improved customer distribution centre audit.
- Introduce tracking metrics focused on workshop performance to improve profitability and highlight any anomalies worthy of investigation.
- A senior HSEQ adviser has been recruited to head up accident investigation, bringing improved subject matter expertise.
- IA engagement in assessing risk and shaping controls for new processes and systems as part of the ongoing strategy execution.
- Increased engagement with specialist third party companies to provide expertise for emerging risks such as cyber risk.

Strategic Report

Principal Risks and Uncertainties continued

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:

- Delever the business (control cost)
- Transform the Tool Hire business (increase profit)
- Strengthen our commercial proposition (growth)

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	<p>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.</p> <p>The COVID-19 pandemic leads to significantly reduced global economic activity including customers unable to operate due to enforced lockdowns to slowdown the spread of the virus.</p>	<p>The Group focuses on the ‘fit-out, maintain and operate’ markets, which are less cyclical, less discretionary and have a larger proportion of recurring spend than the new-build construction sector. While the Group is not isolated from the construction sector, it focuses on the non-construction portion of the market, with specific exposure in the facilities management, retail, commercial fit-out, property, utilities and waste, infrastructure and energy services markets.</p> <p>The actions already implemented are set out in the detailed COVID-19 risk table on page 26. Monitoring of the developing situation and appropriateness of the implemented mitigating actions is reviewed daily by the EMT.</p>	<p> Increasing – due to impact of COVID-19</p>
Competitor challenge	<p>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.</p>	<p>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.</p> <p>The Group’s national presence, effective distribution service model and well-maintained fleet provide improved customer availability.</p> <p>Through its Services business, the Group provides customers with access to a significantly wider range of products and complementary services such as training courses.</p> <p>A key part of the strategy is to Strengthen the Group’s commercial proposition. Following on from an extensive customer segmentation review, focused plans to differentiate further through the development of the Digital and Services business offer were designed. Implementation to date has been in line with planned timescales and the Group’s governance process.</p> <p>A central trading team has been set up to monitor and manage changes in price, providing controls to ensure effective margin management.</p>	<p> Increasing – risk of price deflation in market</p>

Key

-  Unchanged
-  Increased
-  Decreased

Key risks	Description and impact	Mitigation	Risk change
Strategy execution	<p>Failure to successfully implement the Group's strategic plans could lead to lower than forecast financial performance in terms of both revenue growth and cost savings.</p>	<p>A clearly defined and communicated strategic plan has been established with appropriate performance metrics and key performance indicators.</p> <p>Prioritised projects have been identified to deliver the strategic plan and have been appropriately resourced.</p> <p>A clear governance structure has been established, with accountabilities designed to support delivery on time, to quality and within budget.</p> <p>Implementation of projects is monitored by the EMT with regular updates, including initiative specific deep dives, to the Board.</p>	
Customer service	<p>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.</p> <p>The provision of the Group's expected service levels depends on its ability to efficiently transport hire fleet across the network to ensure that it is in the right place, at the right time and of the appropriate quality.</p> <p>The Group is dependent on its relationships with key suppliers to obtain equipment and other services on acceptable terms.</p> <p>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.</p> <p>Enforced closures to slowdown the spread of the COVID-19 virus impact continuity of supply to our customers.</p>	<p>The Group has a flexible national distribution model incorporating CDCs which support the branch network. This flexibility ensures that 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.</p> <p>Extensive colleague training is conducted to ensure that testing and repair quality standards continue to be maintained.</p> <p>The Group makes every effort to evaluate its counterparties prior to entering into significant procurement contracts and seeks to maintain a range of suppliers.</p> <p>A number of business accreditations are maintained, including ISO, which provides our customers with confidence in the quality of the services provided.</p> <p>Following recent Government instruction in response to COVID-19, the majority of branches have been temporarily closed. The Group has moved to a distribution and click and collect model through its national customer distribution centre network and OneCall re-hire business.</p>	
Third party service	<p>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.</p>	<p>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.</p> <p>The wide and diverse range of OneCall suppliers provides flexibility to select those who meet the required service levels.</p>	

Strategic Report

Principal Risks and Uncertainties continued

Key risks	Description and impact	Mitigation	Risk change
IT infrastructure	<p>The Group requires an agile IT system that supports the delivery of its strategic plan. Where this involves third party technology it is critical that this is effectively integrated into the Group's core systems.</p> <p>All Group systems need to be appropriately resourced to support the delivery of day-to-day business operations. Any IT system malfunction may affect the ability to manage its operations and distribute its hire equipment and services to customers, affecting revenue and reputation.</p> <p>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.</p>	<p>The current IT system has been fully reviewed and, following extensive due diligence, the Group has engaged with third party technology providers to develop organisational agile capacity ensuring that current and future IT systems are optimised to deliver the strategic plan.</p> <p>Third party specialists continue to be engaged to assess the appropriateness of IT controls, including the risk of malicious or inadvertent security attacks. This includes penetration testing on a regular basis to detect weakness in our IT and cyber security. Any resultant actions are prioritised through the Group's governance process. Historically this has resulted in the implementation of additional software to identify any attack or attempt to download personal data in addition to already existing firewalls.</p> <p>Disaster recovery tests are carried out on a regular basis and appropriate back-up servers are in place to manage the risk of primary server failure.</p> <p>A cross-departmental Data Governance Team is in place to ensure that business process are, and continue to be, adequate.</p>	<p> Increased – due to the importance of digital to our strategy</p>
Financial	<p>To deliver its strategic goals the Group must have access to funding at a reasonable cost.</p> <p>The impact of COVID-19 could lead to a breach of financial covenants and requirement for additional liquidity due to significantly reduced demand and delays in customers settling their debt.</p> <p>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.</p> <p>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.</p>	<p>The actions already implemented are set out in the detailed COVID-19 risk table on page 26. The monitoring of the developing situation and appropriateness of the implemented mitigating actions is reviewed daily by the EMT.</p> <p>Working capital management remains a clear focus with cash collection targets (which roll up into our net debt and ROCE KPIs) cascaded throughout the business. These are reviewed by the EMT on a regular basis.</p> <p>The risk of fluctuating interest rates reducing profitability has been mitigated by entering into an interest rate cap arrangement.</p> <p>The Group runs extensive credit checking for its account customers and maintains strict credit control over its diversified customer base. Credit insurance is in place to minimise exposure to larger customer default risk.</p> <p>The Group's investigation team conducts proactive and reactive work in order to minimise the Group's exposure to fraud, and provides ongoing training in this area.</p> <p>Payments and amendments authority is defined by the Group's authorisation matrix with periodic IA risk-based audits to ensure that they are being adhered to.</p>	<p> Increasing – due to impact of COVID-19</p>

Key

-  Unchanged
-  Increased
-  Decreased

Key risks	Description and impact	Mitigation	Risk change
<p>Inability to attract and retain personnel</p>	<p>The Group needs to ensure that the appropriate people resources are in place to support the existing and future growth of the business.</p> <p>Failure to attract and retain the necessary high-performing colleagues could adversely impact targeted financial performance.</p>	<p>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 and improve compliance. Training is job related and behaviour focused, all through blended learning.</p> <p>Colleague engagement surveys are conducted, with actions taken as a result of the feedback.</p> <p>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 embedding Group values, targeted management development, expansion of apprenticeships and increased communications at all levels. These are managed and monitored through a clear governance structure.</p>	
<p>Safety, legal and regulatory requirements</p>	<p>Failure to comply with laws or regulation, such as the Companies Act 2006, accounting regulations, health and 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.</p> <p>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.</p>	<p>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.</p> <p>Since the introduction of GDPR, the Group's Data Governance Team has continued to meet regularly to review and monitor progress and developments.</p> <p>Training and awareness programmes are in place, focusing on anti-bribery, anti-modern slavery, anti-facilitation of tax evasion and data protection legislation.</p> <p>Colleagues are encouraged to raise concerns through the policy, either through their line manager, via any of our three whistleblowing officers (anonymously, should a colleague so wish) or via 'Protect', an independent charity specialising in whistleblowing advisory services. The Audit Committee reviews all whistleblowing cases, including gaining satisfaction of appropriate resolution.</p> <p>The Group operates a clear health and safety policy with ongoing risk management, monitoring of accidents and colleague engagement overseen by the EMT and a Health and Safety Forum comprising senior managers. Additional assurance and support is provided by a fully skilled HSEQ team and an internal Group investigation team.</p>	

Financial Review

A year of strong financial progress



“2019 has been another year of significant financial progress with excellent execution of our strategic initiatives leading to continued improvement in profit margins and returns.”

Financial highlights

Revenue

£328.0m

FY18: £322.8m

Adjusted EBITDA

£63.9m

FY18: £60.0m

Adjusted EBITA

£26.5m

FY18: £22.1m

Operating profit

£16.8m

FY18: £11.2m

Reported EPS (basic and diluted):

Loss of

(3.66)p

FY18: loss of (3.76)p

Adjusted EPS (diluted)

2.31p

FY18: 1.36p

Leverage

2.8x

FY18: 3.3x

(total Group – continued and discontinued operations)

ROCE

20.8%

FY18: 16.7%

Financial highlights – continuing operations

£m	Revenue		Contribution ⁽¹⁾		Adjusted EBITDA ⁽²⁾		Adjusted EBITA ⁽²⁾		Operating profit ⁽²⁾	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Rental	£229.0m	£226.0m	£155.5m	£155.4m						
Services	£99.0m	£96.8m	£15.5m	£14.6m						
Group	£328.0m	£322.8m	£171.0m	£169.9m	£63.9m	£60.0m	£26.5m	£22.1m	£16.8m	£11.2m

(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

It is pleasing to report that the Group has built upon last year's strong financial performance to deliver the highest ever level of Adjusted EBITDA on a comparable basis with expansion in profit margins and a step change in ROCE as we deploy our insight tools to drive better investment decisions.

This has been delivered through the continued execution of our strategic initiatives leading to higher revenues, against the backdrop of a broadly flat rental market, and improved operational efficiency, a combination of the implementation of larger projects and increased cost consciousness across the whole organisation.

Net debt leverage continued to reduce towards our medium-term targets with a stronger focus on working capital management and lower total net debt following partial repayment of the term facility with the proceeds of the UK Platforms disposal, completed in January 2019. The Financial Statements for 2019 are presented on a continuing operations basis and therefore exclude UK Platforms.

Our focus in 2020 must now shift to face the clear risks presented by the global COVID-19 pandemic. We are entering a period of significant uncertainty with reduced economic activity. Our primary focus is the safety of our colleagues, customers, suppliers and other stakeholders. It is critical to preserve cash and a number of actions have already been implemented to achieve this goal as set out later in my review. We are also in discussions with lenders to support the Group through this period and these discussions have been positive with commitment to the business expressed.

Revenue

Group revenue improved by 1.6% to £328.0m (FY18: £322.8m) ahead of the forecast UK tool and equipment hire market growth rate of 0.4% for 2019 as estimated by the ERA. The main drivers of improvements were:

- an increase in Rental revenues, to £229.0m (2018: £226.0m) through targeted investment, improved availability following further changes to our operating model and various sales initiatives; and
- another year of strong growth in our Services revenues, up 13.6% on a like-for-like basis (excluding the volume loss associated with a change to one managed service contract) to £99.0m (2018: £96.8m), mainly driven by performance in our rehire business, HSS OneCall, supported by further growth from our HSS Training business.

Group 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 revenues

Our Rental revenues were up 1.3% year on year at £229.0m (FY18: £226.0m) and accounted for 69.8% of revenue from continuing operations (FY18: 70.0%). Targeted investment in more profitable product ranges and the benefit of significant changes to our operating model in 2018, returning the testing and maintenance back into the network, improved availability for our customers throughout 2019, supporting revenue growth. Cost initiatives, including the removal of the cross-dock facility, further improved profit margins.

Contribution, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs, of £155.5m (FY18: £155.4m) was marginally higher year on year, reflecting

improved revenue and reduction in operating costs offset by product mix as we drive more ancillary sales and less, higher margin, seasonal product.

Services

Services revenues increased on a like-for-like basis by 13.6% to £99.0m (FY18: £96.8m) and accounted for 30.2% (FY18: 30.0%) of Group revenues. This was principally due to continued growth in HSS OneCall and further improvements in HSS Training. Our Services revenues benefited from existing and new key account contracts where our one-stop shop offering provides clear market differentiation.

Contribution from Services grew by 6.4% to £15.5m (FY18: £14.6m), well ahead of the reported revenue growth rate, reflecting continued focus on effective margin management and operational efficiency with the increased volume managed through a single central team.

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.

Our cost of sales increased by 2.9% from £145.5m to £149.7m, mainly reflecting the growth in our Services revenues (principally HSS OneCall) and the associated third party supply costs incurred to support this activity.

Distribution costs reduced to £33.2m (2018: £34.0m) reflecting the benefit of cost actions taken in the year.

Our administrative expenses decreased by 2.8% from £132.5m to £128.8m as a result of operational efficiency and the benefit of previous cost action flowing through. Included within administrative expenses is £4.1m of exceptional items (2018: £5.0m) – refer to the exceptional items section of this review for more detail.

Financial Review continued

“ The growth in our OneCall and Training businesses demonstrate our ongoing transformation into a less capital intensive business, which allows us to offer a broader range of services to customers while improving returns for our investors.”

Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA for 2019 was 6.6% higher at £63.9m (2018: £60.0m) driven by improved revenue, both Rental and Services, combined with increased operational efficiency.

As a result, the Group's Adjusted EBITDA margin from continuing operations for FY19 was 19.5% (FY18: 18.6%). Adjusted EBITDA and margin are included in our KPIs.

Our Adjusted EBITA improved to £26.5m (FY18: £22.1m) largely as a result of improved revenue, operational and capital efficiency. Adjusted EBITA margin increased by 19.1% to 8.1% (FY18: 6.8%).

Adjusted EBITA and margin are included in our KPIs.

Other operating income

Other operating income of £0.5m (2018: £0.5m) reflects the income received from the sub-letting of unutilised space across our network. We continued to optimise our estate in 2019 and maintain our monitoring of the portfolio to identify revenue opportunities or to pursue attractive lease surrender options as and when they arise.

Operating profit

Our operating profit increased from £11.2m in 2018 to £16.8m in 2019, driven by improved revenue and operating performance.

Exceptional items

We have incurred exceptional 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 £6.0m (2018: £6.4m).

During the year the Group consolidated its head office operations, reducing space requirements, and closed its Tottenham CDC to enable greater operational efficiency. These closures resulted in the recognition of an exceptional cost of £3.1m relating to onerous leases and an impairment of £0.4m of property, plant and equipment at these sites. No other branches were closed (2018: 12).

A net credit of £0.2m has been recognised relating to revisions of dark store and onerous lease provisions.

In addition, and in light of headwinds in the market, the Group undertook initiatives to reduce cost. These resulted in closure costs of a centre used to refurbish hire stock and costs to exit contracts related to the operation of a cross-dock facility used to redistribute assets across the network. Internal restructuring was also carried out, resulting in £0.8m of total costs which include £0.6m redundancy costs (2018 £1.1m of redundancy costs).

Profit on disposal of UK Platforms

The disposal of UK Platforms resulted in a profit on disposal of £14.8m in 2019. In 2018 the group recognised £2.1m of costs incurred in relation to the disposal.

Proceeds were used to partially repay the senior finance facility resulting in the accelerated amortisation of related debt issue costs of £1.9m in 2019. In 2018 there was a charge of £1.5m associated with the termination of the previous debt facility earlier than scheduled following the successful refinancing of the Group.

Strategic review (2018 only)

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 support this review. No further costs were incurred in 2019.

Finance costs

Net finance expense (finance expenses less finance income) increased to £22.6m (FY18: £20.4m). This increase is driven by the interest expense associated to the new Group facilities following the successful refinancing in July 2018.

Taxation

The Group has a net tax charge of £0.4m compared with a credit of £2.7m in FY18. The Group made an overall loss for tax purposes in the UK, and the key components of the current year charge are the release of the previously recognised deferred tax asset of £2.5m, partially offset by a reduction in tax suffered in Ireland (£1.3m) and the release of deferred tax liabilities held in respect of fixed assets (£0.9m).

Reported and adjusted earnings per share

Our basic and diluted reported loss per share decreased to a loss of 3.66p (FY18: loss of 3.76p) due to the smaller loss generated in the year.

Our basic adjusted 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 1.51p in FY18 to 2.76p in FY19. Our diluted adjusted earnings per share, calculated in the same manner as basic adjusted earnings per share but with the weighted average number of shares increased to reflect Long-Term Incentive Plan (LTIP) and Sharesave options, was earnings of 2.31p (FY18: 1.36p). These reflect the significant improvement in Adjusted EBITA in FY19 compared with FY18. 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 £33.7m (2018: £31.8m), largely in relation to hire stock used to support our rental businesses with other amounts spent on property and software development. £27.1m (2018: £22.6m) was spent on hire fleet, with targeted investment on profitable products supported by the Group's new insight tools. The remaining £6.6m was spent on non-hire additions (software and property, plant and equipment) (2018: £9.2m), the increase in investment supporting the digital and OneCall system initiatives.

Return on capital employed

Our ROCE for 2019 was 20.8% compared with 16.7% for FY18. 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). Adjusted EBITA improved by £4.4m (2018: £28.9m improvement) whilst the average capital employed by the Group decreased by 3.5% from the level calculated at the end of 2018, reflecting depreciation and asset disposals being higher than capital expenditure. ROCE is one of our KPIs and is also used to assess the remuneration of Executive Directors.

Provisions

Significant onerous contract provisions were established during 2017 as part of the changes made to the operating model and to streamline operations. Of the onerous contract related to exiting arrangements with Unipart, £3.6m was utilised in the year leaving £19.6m as the closing provision to be utilised over the remaining six years of the contract.

20.8%

A step change in ROCE from 16.7% in 2018

The Group also has onerous lease provisions associated with properties that are fully or partially vacant. £2.6m of the provision was utilised in the year. The other movements in the provision have been discussed as part of the exceptional items section of this review.

The Group's dilapidations provision has decreased from £16.8m to £16.2m.

Cash generated from/ utilised in operations

Net cash generated from operating activities was £22.2m for FY19, an increase of £2.4m, with £1m of the improvement generated through improved EBITDA offset by working capital movements and the balance being a combination of reduced outflow on hires equipment purchases offset by higher interest costs.

Leverage and net debt

Net debt (stated gross of issue costs) decreased by £56.0m to £179.5m (FY18: £235.5m).

As at 28 December 2019 the Group had access to £59.3m (2018: £44.7m) of combined liquidity from available cash and undrawn committed borrowing facilities. Our leverage, calculated as net debt divided by Adjusted EBITDA, decreased from 3.3x in FY18 to 2.8x at the end of FY19. This was primarily due to the increase in Adjusted EBITDA generated in FY19, improved working capital management and the overall reduction in net debt following the disposal of UK Platforms. Leverage or Net Debt Ratio is one of our KPIs and is also used to assess the remuneration of Executive Directors.

Prior year adjustment

During the year the Company identified a historical error related to the understatement of customer deposits for certain cash customers when litigation action was taken. The impact in each financial year is immaterial; however, the cumulative impact is to reduce reserves by £1.0m and increase other creditors by the same amount. Separately, changes made to processes in 2018 mean that the issue has not reoccurred in 2018 or 2019. The treatment and impact on the Financial Statements has been set out in note 1g.

Use of alternative performance measures to assess and monitor performance

In addition to the statutory figures reported in accordance with IFRS, we use alternative performance measures (APMs) to assess the Group's ongoing performance. The main APMs we use are adjusted EBITDA, adjusted EBITA, adjusted profit before tax, adjusted earnings per share, leverage (or Net Debt Ratio) and ROCE, which, with the exception of adjusted profit before tax, are included in our KPIs as set out on pages 22 to 25.

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. This metric is used to calculate any annual bonuses payable to Executive Directors.

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.

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 2017 market value options and 2019 LTIP awards.

The calculation of Adjusted EBITDA and Adjusted EBITA can vary between companies, and a reconciliation of Adjusted EBITDA and Adjusted EBITA to operating profit/(loss) and adjusted profit before tax to loss before tax is provided on the face of the Group's income statement. A reconciliation of reported loss per share to adjusted earnings per share is provided in note 13 to 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 2019 LTIP awards.

COVID-19

The COVID-19 pandemic has had a major impact on the global economic outlook. The risks to the Group of COVID-19 have been set out in Principal Risks and Uncertainties on page 26. In response to the pandemic a number of immediate actions have been implemented to preserve cash and respond to the emerging situation. In anticipation of reduced economic activity; hire fleet capital expenditure has been deferred, overheads have been reduced including temporary reductions in salaries for a number of colleagues and advantage has been taken of available tax relief options. Responding to recent Government instructions, we have taken the difficult but necessary decision to temporarily close the majority of our UK and Ireland branches, entering the impacted colleagues into Government job retention schemes. We initially moved to a delivery only model serving critical customers from our Customer Distribution Centres and our OneCall rehire business. This has now been supplemented with click and collect capability.

As at 28 December 2019, the Group's financing arrangements consisted of a fully drawn senior finance facility of £182m, overdraft and undrawn revolving credit facilities of £23.2m and a finance lease lines to fund hire fleet capital expenditure, of which £13.5m had not been utilised. Both the senior finance facility and revolving credit facility are subject to a net debt leverage financial covenant test every quarter. At the financial year end the Group had 30% headroom against this covenant. Following year end the Group drew down the RCF in full and at 23 May, the Group had cash and liquid facility headroom of £66.7m.

It is difficult to quantify the impact of COVID-19 on the current financial year and we have therefore modelled a number of downside scenarios as set out in the Corporate Governance section on page 51. Some of the scenarios indicate that the financial covenants would be breached and additional liquidity would be required. We have already engaged with the Group's lenders, sharing these downside scenarios, and have been pleased by their continued commitment and support for the business and the Board's response to the COVID-19 pandemic. Whilst we have no reason to believe that the lenders would not support the Group should one of these downside scenarios materialise and a covenant waiver or additional liquidity is required, the Board has recognised the material uncertainty this creates in adopting the going concern basis for preparing the 2019 financial statements.

Paul Queded
Chief Financial Officer

Sustainability



Steve Ashmore
Chief Executive Officer

Introduction from Steve Ashmore

At HSS we recognise that responsibility and sustainability are key to our long-term success. As a business with an operational and distribution model which stretches across the UK and Ireland, we are committed to ensuring that we make a positive impact in the communities we work in.

At its heart, hire is a sustainable business model, maximising the usable life of equipment for multiple customers. This starting point gives us a great platform to build upon, ensuring that sustainability considerations are explored and implemented where possible across our Group, as well as looking forward to new innovations and technology.

Our Corporate Social Responsibility (CSR) agenda is managed through key departments and teams within our business, and I am the Board representative. Our CSR Committee comprises Directors from sales, operations, procurement, health and safety, fleet, property, human resources and many more. This governance structure ensures

Ensuring we have a positive impact

that sustainability considerations are the responsibility of all departments. It also ensures that sustainability plays a key role in decision making and strategic projects.

In 2019, to help drive progress in our CSR agenda, we aligned our activity to the UN Sustainable Development Goals, a key framework to guide businesses in implementing positive changes. The three goals we have identified will help us align our internal activity and resources towards making improvements and driving focus.

Throughout this year we have made positive steps in a number of key areas, and I am particularly proud of our colleague engagement activity. Our HSSers really do give our business their all, so rewarding and supporting them is absolutely key. Seeing colleagues completing their mental health first aid training, allowing them to support others, has been fantastic.

I am really pleased with the positive progress we have made this year. These results and activities represent a lot of hard work, and I would like to thank all of my colleagues for making it happen.

Steve Ashmore
Chief Executive Officer

Colleague engagement

72.4%

engagement score

74%

response rate

**MAKE IT SAFE
MAKE IT HAPPEN
MAKE IT BETTER
MAKE IT TOGETHER**

Make it Safe

25

regional 'Simply Safety' forums hosted, giving our colleagues the opportunity to tell us what we need to improve.

HSS Group RIDDOR rate



Our ongoing commitment to safe working practices saw us reducing our RIDDOR occurrences from 20 in 2018 to just 11 in 2019.

UN Sustainability goals:

Aligning our activity to UN Sustainability Goals 3, 9 and 12 will enable us to drive focus and concentrate our actions where they will have the biggest impact.

Goal



ensuring the good health and wellbeing of our colleagues through our benefits and support package



building resilient infrastructure and fostering innovation through our market leading digital tools



focusing on responsible consumption and production through our supply chain

How we've contributed to sustainability

Responsible recruitment

22

ex-offenders and ROTL (release on temporary license) colleagues recruited throughout 2019

“HSS were kind and welcoming towards me, and it has driven me to aspire to be better than the mistakes I've made in my past. I would recommend HSS to any other persons looking to better themselves.

ROTL colleague

Driving digital



1,678

colleagues upskilled with training on our new digital tools

4,816

e-learning courses completed

Equipping our colleagues with the skills and knowledge to drive forward our new digital tools.

Strategic Report

Sustainability continued

Economic performance and governance

Generating value is what allows responsible companies to perform for all stakeholders – delivering financial returns for shareholders, ensuring continuity of supply and support for customers and secure employment and development for colleagues. In 2019 HSS generated total revenue of £328.0m which was shared amongst the various stakeholders in the business – suppliers, their supply chains, local communities and the government as well as those already listed.

We operate with integrity across all Group businesses, to ensure the highest level 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 which we are audited against.

Sustainable product lines

Hire is intrinsically a sustainable model for customers looking to procure equipment, but it is also important that we operate a responsible review and in-fleeting process to ensure we offer environmentally friendly product options.

All equipment we consider for purchase goes through an intensive technical review process prior to adding it to our range. This includes full specification and technical mapping, product performance trials, COSHH assessment and colleague training considerations. This thorough review approach extends to our third party OneCall suppliers, who are required to complete extensive compliance and technical questionnaires through our portal, as well as HSEQ analysis and site visits with our teams. These processes ensure that we add the most robust, sustainable product lines to our ranges across the business.

Offering our customers alternatives to traditional, higher-emission products is key towards shifting their mind set, and proving that products which benefit the environment also offer the same or improved levels of performance. LED lighting is a key example: we have shifted our range towards these more sustainable options, with LED products making up over 60% of our lighting stock. Offering a 61% fuel saving compared with traditional lighting products, these now make up 75% of our lighting hires.

All of our kit goes through test and run after every hire, as well as longer maintenance procedures as needed. This not only ensures the highest levels of safety, but also helps to extend the usable life of kit by keeping it performing at peak levels.

Environmental credentials

The UN sustainable development goals stress the importance of building sustainable and innovative infrastructure, and throughout 2019 we have focused on moving some of our key operational processes to digital platforms



which allow us to work more responsibly, and set us up for further improvements throughout 2020.

Our new driver app gives our drivers everything they need for the day ahead in the palm of their hand. They now complete their vehicle checks, routing, job selection and customer signing processes through the app, where they were previously completed through manual, paper-based processes. The app uses route planning software to calculate efficient driver routes which help to reduce the number of miles driven each day. We are now working towards removing paperwork such as delivery notes, fully digitising these documents to continue reducing the amount of paper we use as a business.

Other areas of our Group business are also looking at ways to reduce environmental impacts where possible. Our HR team now sends colleague letters via email where possible, and HSS Training has replaced its plastic delegate wallets with paper ones which are easier to recycle.

All our ordering of internal consumables is now completed via one supplier through an online portal. Not only has this allowed us to reduce paperwork associated with ordering, but our supply partner, Commercial, consolidates deliveries where possible, and actively attempts to use minimal packaging for fulfilment. Commercial also operates the Commercial Foundation, which reinvests a percentage of profits into social value projects. So far this year our activity with Commercial has resulted in £23,416 being donated to the Foundation.

Efficient fleet management

Our vehicle fleet represents one of our key areas of environmental impact, and we are committed to exploring innovative management practices to help us reduce this where possible.

During 2019 we removed our centralised cross-dock function, moving to a regional-based distribution model. This allows us to operate a more efficient network with fewer logistical movements.

We also fully implemented our tyre management strategy across all vehicles, including company cars. Ensuring that tyres are maintained in good condition, and swapped out where necessary, ensures that our vehicles are operating efficiently.

This year we also launched a project to explore the use of electric vehicles across our business.

Whilst we already offer colleagues an electric vehicle as a company car option, the existing technology which limits miles travelled makes them an impractical option for certain job roles which involve a lot of travel. There are also limitations regarding commercial vehicles and the loads they can carry; however, we have started testing these in central London where the miles travelled are a lot shorter.

Energy and Environmental Management

Within the HSS Hire Group, we have maintained a strong and measured approach to environmental legislation. This has ensured compliance with key and complex legislation including the Carbon Reduction Commitment (CRC), together with Energy Saving Opportunities Scheme (ESOS) and required public reporting requirements. A detailed audit recently undertaken by the Environment Agency resulted in a highly rated assessment for our approach to CRC management. This has further supported our environmental management credentials and accreditation under ISO 14001.

Within our Group business, we recognise the importance of developing and advancing an 'Eco-System' strategy which will allow us to measure our environmental performance and implement improvements. This year we have developed a series of stepped changes to allow us to more effectively measure and reduce the impact that our business and activities have on the environment, now, and in the future.

We introduced a new energy, carbon and water bill account management process which will provide a platform to identify, measure, and ultimately manage our key environmental impacts. We are now establishing baseline data and introducing performance reporting for our building energy use, carbon emissions, business travel and water use. These quarterly environmental performance reports will be produced for all sites and business operations, and will include valuable environmental key performance indicators. This reporting functionality will provide a platform for site management improvement, including reduction programmes (change management) and identification of cost-effective energy/carbon reduction strategy measures.

Greenhouse Gas Emissions

The Group reports on all our emission sources required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013. We deploy the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard to fulfil the reporting requirements. This includes verified CRC Energy Efficiency scheme data and DEFRA conversion factors to calculate Greenhouse Gas (GHG) emission disclosures. The extent of the GHG reporting

CSR emissions data

£m	2019		2018	
	Consumption	Emissions (TCO ₂ e)	Consumption	Emissions (TCO ₂ e)
Scope 1 emissions				
Fuel combustion	445,846 kWh	90.0	1,363,483 kWh	268.0
Company vehicles	3,868,393 Litres	10,162.0	4,302,377 Litres	11,186.9
Leeds bunkered diesel	108,297 Litres	284.5	117,884 Litres	306.5
Fugitive emissions	48,242 Litres	73.3	52,695 Litres	79.5
Scope 2 emissions				
Purchased electricity	10,928,764 kWh	3,387.0	9,999,331 kWh	3,840.0
Scope 3 emissions				
Business travel	7,362,765 Miles	2,104.5	7,701,548 Miles	2,260.9
Total greenhouse gas emissions		16,101.3		17,941.8

How we measure emissions

Emission category	Methodology
Fuel combustions (gas data for HSS building portfolio)	Based on CRC statements provided by gas suppliers for the period 1st April 2018 to 31st March 2019. Estimated data has a 10% uplift included on the overall emissions total.
Company vehicle emissions	Collated using data from direct purchase records for commercial vehicles in litres and commercial car mileage. This data has been converted according to Defra Guidelines.
Bunkered 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 for the period 1st April 2018 to 31st March 2019. Estimated data has a 10% uplift included on the overall emissions total.
Business travel	Collated from expensed mileage claims and business mileage and converted according to Defra Guidelines.

boundary comprises all building and transport emissions within the three reporting scopes.

We are pleased to report an 11.7% reduction in relative Greenhouse Gas Emissions (TCO₂e/£m Turnover), to 49.1 (2018: 55.6).

Waste Management

For the past eight years we have partnered with Biffa to reduce and responsibly dispose of waste across our network. Throughout 2019 they collected over 1,400 tonnes of waste from our locations, and were able to increase the percentage diverted from landfill to 85% through recycling and treatment processes.

On our hazardous waste streams we partner with Slicker, who operate a zero to landfill policy to recycle and recover waste such as used batteries, oil and other contaminated materials. 59% of our hazardous waste is oil, which goes through a repurposing process to create Processed Fuel Oil (PFO) which is an environmentally friendly alternative to virgin fuel. 20% of our waste is recycled, and the remaining 21% is converted to energy.

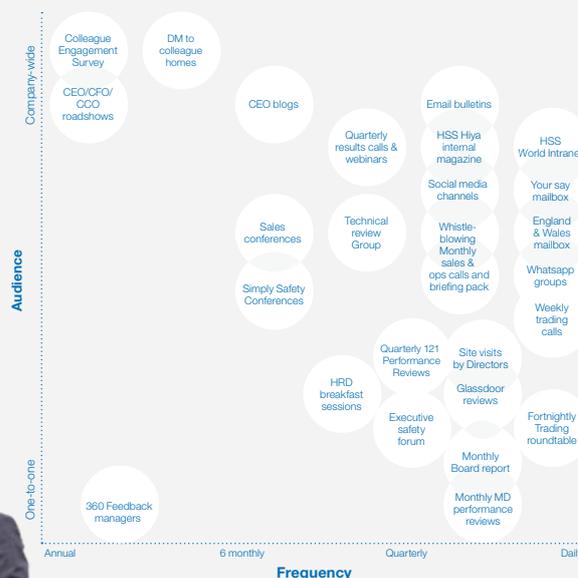
Colleague engagement

Engaging our colleagues is central to our success, and we strive to ensure that our colleagues feel supported, safe, developed, and happy at work.

Our values

Integral to our colleague engagement agenda in 2019 was the launch of our new Company values and behaviours. These values help us drive performance, engagement and a sense of pride amongst our colleagues, as well as helping us to attract the right people, whose values align with ours, to our business. We have seen a really positive response across our network, with colleagues taking ownership and adapting their targets and behaviours to fit.

Colleague engagement activities



HSS Roadshow 2019

**MAKE IT SAFE
MAKE IT HAPPEN
MAKE IT BETTER
MAKE IT TOGETHER**

Strategic Report

Sustainability continued

“The whole training programme from start to finish has been informative and empowering. It was great to have the opportunity to get together with others across the business to discuss best practice and share ideas, as well as developing our skills.

I've seen a really positive change in my Transport Managers as well since they started the programme. They're dealing with underperformance head on, and the programme has really built their confidence, helping them to see how their role impacts the wider business. The whole team really valued spending that time with our Managing Director and we all have some great memories from the days. The programme will be so valuable to new starters joining our business.”



Tom McColgan, Operations Manager



Number of RIDDORs in the year

Safety

Safety is one of our core values, and is at the forefront of everything we do as a business.

Throughout 2019 we put an increased focus on safety, and this helped us realise a significant reduction in the number of RIDDORs, taking us down to a rate of 0.20 per hundred thousand hours worked for 2019, versus 0.34 in 2018. This was only 11 RIDDORs for the entire year, down from 20 in 2018. This is testament to our colleagues' Work Safe, Home Safe commitment.

In 2018 we introduced our Simply Safety forums, regional sessions which allow our sales and operations colleagues to feed back on all areas of health and safety, pay and benefits, property, work wear, communications and much more. This year we extended these, inviting over 340 colleagues to attend 25 regional forums to tell us honestly what they think we can improve. The feedback is discussed in sessions attended by heads of departments, as well as Steve Ashmore, CEO, and Tom Shorten, Chief Commercial Officer. This feedback then impacts initiatives throughout the year to improve colleague wellbeing.

These sessions are supported by our Health and Safety forums, held bi-monthly with the EMT to ensure these activities and initiatives are led from the top, and that our senior management team understands the challenges and suggestions from our colleagues.

We have continued to support our safety agenda with improved product training and e-learning, as well as monthly ToolBox Talks, improving the design and format of these in response to colleague feedback. We supplement these with regular safety and technical bulletins, so when we do have an accident we take immediate action to ensure it does not happen again. We also installed health and safety noticeboards in every branch location to ensure these initiatives stay front of mind with our colleagues.

Health and wellbeing

Our colleagues are at the heart of our business, and in line with UN Sustainable Development Goal 3, which stresses the importance of good health and wellbeing, we want to ensure that we equip our colleagues with the benefits and support they need to live healthy lives, inside and outside the workplace.

Our 'Mind Your Head' campaign aims to raise awareness of the support we can offer colleagues who may be struggling with mental health issues, or those supporting others. As well as increasing the focus on these issues through our communications activity and highlighting our relevant colleague benefits, we also trained 45 colleagues as Mental Health First Aiders so they can offer additional support to others across our network. We equipped them with yellow lanyards so they are easily distinguishable for those who need someone to talk to.

Our colleague benefits package is also set up to offer support with the cost of everyday healthcare services such as dental, optical, prescriptions and physiotherapy, to ensure no one goes without due to affordability pressures.

Professional development

Responding to feedback from our 2018 colleague engagement survey, we wanted to support our Operations Managers in improving their management styles and confidence in managing teams, as well as improving colleague engagement and retention in those areas. In January we introduced our development training for Operations and Transport Managers. The programme includes modules designed to improve the skill sets of managers in key areas relating to managing a team, such as recruitment processes, driving performance, effective team communications and commercial awareness, amongst others. The programme has been extremely well received by those attending, and we are continuing with new modules throughout 2020.

Across the rest of our network, our Learning & Development team has delivered almost 2,000 classroom courses, as well as 16,400 e-learning courses on a variety of topics designed to support our colleagues in their roles, as well as developing their careers and skill sets. Our new digital tools have allowed us to upskill over 1,600 colleagues with the skills to use our new management platforms.

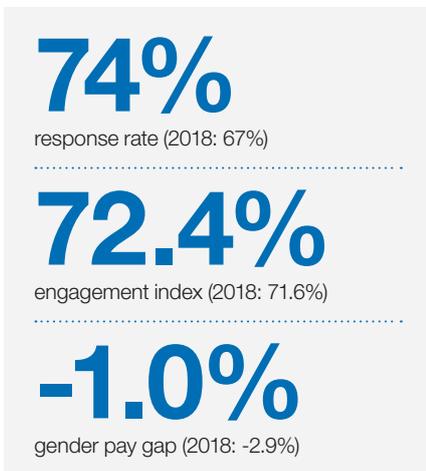
Engagement survey

Our annual colleague engagement survey gathers feedback on colleagues' job roles, management and how they feel about life at HSS. This year we were able to extend our reach to more colleagues than ever by utilising our new digital tools to reach those in offline roles such as drivers. This helped us achieve a higher completion rate of 74%, which is 1,875 of our colleagues telling us what they think.

Our engagement index for 2019 was 72.4%, an increase on 2018. The in-depth results are shared with all colleagues in December, with actions implemented throughout the following year. In 2019 some of the initiatives implemented as a result of the 2018 feedback included:

- improvements to the quality of work wear, and the ordering process;
- new colleague development programmes for operational roles;
- an improved induction programme for drivers; and
- health and safety noticeboards installed in all locations to drive best practice and accountability.

Colleague feedback and action plans are key to our engagement agenda across our Group business, and we are committed to ensuring that we have measures in place to continue this activity. A summary of our efforts to date is included on pages 42 to 43.



“Working for HSS Hire and the opportunity they have afforded me has given me a sense of purpose as well as building my self-esteem. To be considered an equal amongst my peers has helped build my confidence.

HSS were kind and welcoming towards me and treated me with decency and patience. Being part of the team here has helped me greatly and I would recommend HSS to any other persons looking to better themselves to ensure a more positive future.”

ROTL colleague



Reward

At HSS we are committed to ensuring that we reward our colleagues in a way which is fair and representative of their performance, regardless of gender.

The hire industry as a whole is typically male dominated, and our workforce reflects this trend, currently being made up of 85% male colleagues, and 15% females. Throughout 2019 we have made efforts to reduce potential gender bias through our recruitment processes, ensuring that job descriptions and interview questions are worded in a neutral manner, and ensuring that artwork and photography depicts the broad range of our roles and colleagues across the Group.

In 2019, our median gender pay gap shifted marginally from -2.9% to -1.0%, primarily due to one senior female colleague leaving the business. For clarity, a negative gender pay gap denotes that female colleagues earn more, on average, than their male counterparts.

We are committed to ensuring that colleagues are being rewarded fairly based on role and contribution, as we continue to work towards gender pay parity.

Inclusive recruitment

As a responsible business we strive to create a diverse workforce which truly represents the communities we work in. Regardless of an individual’s gender, religious beliefs, background, disabilities, ethnicity or sexual orientation, we want to attract, engage and retain the best people for our business.

Our business is made up of 85% male and 15% female colleagues. The industry is very similar to others, like construction, where the majority of roles are typically held by men. We have a number of processes and initiatives in place to ensure we are offering opportunities to women, and creating a culture where they can build their careers with HSS.

Over the course of this year we focused on expanding our inclusive approach to recruitment to begin offering opportunities to ex-offenders, and those on temporary release from prison. We have worked with prisons and support organisations up and down the



Winner, Best Use of Recruitment Award 2019 for our work with ex-offenders

UK to encourage applications from those with criminal convictions who are looking to get back into work. This activity ensures that we recruit the best people for each role, with recruiting managers focusing on the skills and experience a candidate has to offer, rather than what they may have done in their past.

Since launching the programme, we have placed 22 colleagues into roles across operations, sales and our head office. Not only does this activity help ex-offenders get back into work and those working on an ROTL basis, it also provides value to communities by reducing re-offending rates.

We were really pleased to be nominated by Greggs and DHL for the Best Use of Recruitment Award at the Employers’ Forum for Reducing Re-offending (EFFRR) in 2019. We went on to win the award in recognition of the positive progress we made in this area.

Our training business, HSS Training, has also started working with Victoria London Prison, exchanging the use of space to host PASMA and ladder safety training courses for free delegate spaces for inmates nearing release. This equips them with vital training for careers in construction and related industries.

Charitable support

Supporting charitable causes and projects is key to our commitment towards positive social value, and we implement this in a number of ways. Registered charities can receive at least a 35% discount on hiring equipment from us, and our regional teams have supported smaller community projects throughout the year, such as donating fencing to an RSPCA shelter in Wakefield and supplying portable welfare facilities for a hospice charity walk in Kilbryde. When we consolidated our office space at our Manchester head office, we donated the furniture to local schools and charitable groups.

Our Pennies From Heaven initiative allows colleagues to donate the change from their monthly salary to charity, and this year we donated over £7,000 to Dementia UK, Cancer Research UK and the British Heart Foundation. We also donate the 5p charge for our carrier bags to Dementia UK.

Engaging with our stakeholders

Summary of key engagement activities during FY19:

	Nature of engagement	Conclusions drawn from engagement
Shareholders/investors		
1 Investor meetings	The Executive Directors have met with various groups of prospective investors during FY19 in order to manage and develop the Group's external relationships, as well as create interest in the business. Some of the meetings were facilitated by the Company's brokers, who also acted as a conduit for feedback.	Useful feedback provided and strong support for the Group's progress and strategy, particularly around Digital. Further progress with the Group's strategic priorities should increase investor appetite.
2 Remuneration	The Remuneration Committee Chairman consulted with major shareholders on the application of the Remuneration Policy for the year, including around bonus and LTIP targets.	Support for the proposals and the direction of the business.
3 Shareholder interactions	The Chairman and Executive Directors have each attended meetings and calls with major shareholders to provide general updates and maintain regular communication.	Very positive comments around business management, strategy and performance. Some frustration around lack of liquidity in shares and lack of movement in share price.
4 AGM	All shareholders, along with other stakeholders, including the Company's auditors, sponsor/broker and lawyers are invited to the AGM. The Chairman discusses the results for the reporting year and gives an outlook on the current year. Questions are invited from shareholders and answered by the appropriate Director.	Some frustration around lack of liquidity in shares and lack of movement in share price.
5 Trading updates	We keep our shareholders fully informed of the performance of the business on a regular basis, through the publication of trading updates in papers and voice-over presentations which are available on the HSS corporate website. We are also pleased to see shareholders attend our presentations in person, which provides an excellent opportunity for direct engagement with the Executive Directors.	The outputs largely mirror those in section 3 above.
6 Corporate website	This has been updated and refreshed in order to make presentations, information and financial data more easily available and user-friendly for shareholders and potential investors.	
Colleagues		
7 Health, safety and wellbeing	The health and safety of our colleagues, as well as that of our customers and visitors to our sites and offices, is a fundamental priority. The following activities have been taking place across the Group to engage with colleagues on health and safety matters: <ul style="list-style-type: none"> → Various discussion groups at a sales and operational level. → Introduction of a Health and Safety Forum involving members of the senior leadership, operations, sales and health & safety teams. → Colleague engagement survey, to include questions on health and safety. → Poster campaigns/new signage and fun/interactive activities to raise awareness of health and safety. → In FY20, the Health and Safety Forum will go 'on the road' to our branch network and will involve local operations and branch managers who can share initiatives and feedback directly with the Executive Directors and senior management. 	<ul style="list-style-type: none"> → Awareness and ownership of health and safety at all levels of the business has improved. → Colleagues appreciate involvement in health and safety initiatives. → As summarised on page 40, we are very pleased to report a reduction in RIDDORs and an increase in 'near miss' reporting. The Board considers this as good evidence that colleagues are engaged with the importance of their own health and safety as well as that of their colleagues around them and the wider public.
8 Workforce forum	A forum has been introduced which will be chaired by the Group HR Director and will involve colleagues at varying levels who will be encouraged to share views on the Company, its business and culture and agree what should form the priorities.	The Group HR Director shall share those priorities with the Board who shall consider as appropriate. This initiative is a 'work in progress' and shall be developed more during FY20.
9 Internal communications	We continue to ensure that our colleagues are kept informed of developments, important issues and Company performance in order to drive engagement and ownership. These are cascaded throughout the business through a variety of channels, including the Group's intranet, emails and newsletters. We also invite a broad cross-section of colleagues to listen in on web-based results presentations from the Executive Directors around the time of our usual market releases. Many of our senior management team are also regularly seen on site visits across our estate. FY19 saw the second of our 'Colleague Roadshows' which involved the Executive Directors and other members of senior management attending six venues across the UK and Ireland to present to around 500 HSS colleagues in total across the respective regions. We also consulted with colleagues on our 'values' project in terms of what really makes an HSSer, what is our culture and what are the values we want to live by as a business. Those values were agreed on and rolled out in the business. Further details of the values are included on page 39.	Visibility around the business of the senior management team and being approachable to colleagues has resulted in greater engagement and better retention of colleagues. Excellent insight and feedback provided by colleagues on the Company's strategy, particularly around the digital aspect where colleagues were able to discuss the benefits and any issues surrounding the customer app and driver app. The Board has encouraged the values project to be colleague led. This has driven engagement, understanding of our culture and consensus of some basic principles to ingrain in the business as our values.

	Nature of engagement	Conclusions drawn from engagement
Colleagues continued		
10 Colleague engagement survey	During FY19 we undertook our annual colleague engagement survey. A response rate of 74% showed an improvement on FY18, with some notable improvements on scores within particular categories of the survey.	The Board and senior management have discussed the findings and noted good improvements on scores in the following areas: → I know what I am expected to achieve in my job → I care about the Company → I am provided with the appropriate safety equipment to do my job The following are examples of areas highlighted for greater focus to ascertain how better scoring could be achieved: → I feel my pay is fair → I feel that different business divisions work well together → There are opportunities for me to develop and progress In addition, where the findings have identified areas where improvement in specific departments or business areas could be made, the relevant department heads and managers have been tasked with taking that forwards with their teams.
11 Systems improvements	We have launched various systems improvements, in particular our 'Brenda' system and our driver and customer apps, as more particularly detailed in the Strategic Report.	Engaging via these digital channels has made us easier to work for and with, in particular facilitating our colleagues to work more efficiently, meaning a more contented workforce.
Customers		
12 Customer satisfaction survey	Details of our market-leading NPS score are included on page 10. In addition, our branch sales colleagues and sales colleagues out in the field are engaging with customers on a daily basis and obtaining feedback.	The key message we keep hearing from customers is that we must remain easy to work with. We are focused on that and expect our Digital project, including the apps, will greatly assist with this.
Suppliers		
13 Systems improvements	→ Launch of Brenda (see pages 18-19) → Clearer onboarding processes for Suppliers → New purchase order system	All of these steps have allowed us to engage with our suppliers more simply and clearly, meaning fewer issues to resolve and quicker transactions (including payment). Suppliers are also clear on the terms on which they contract with HSS and that HSS expects high business and ethical standards, including around anti-modern slavery, anti-facilitation of tax evasion, anti-bribery etc.
Lenders/analysts/brokers		
14 Lenders	Our Executive Directors meet with the Group's key lenders at least quarterly to update on business performance and strategic progress.	The Group's lenders have been very supportive of the direction of the business and recent results. The regular dialogue has been appreciated.
15 Analysts	Our Chief Financial Officer has regular telephone conferences and meetings with the analyst community.	Improved levels of engagement with the analyst community have been noted.
16 Broker	The Company's sponsor and broker is regularly involved with day-to-day business, including via the Executive Directors, investor relations team and legal team.	Good levels of engagement and dialogue have been noted, ensuring the Company adheres to its market obligations. Going forwards, the Board hopes that the Company's broker will be able to assist with greater engagement with new potential investors.
Local communities & environment		
17 Communities	Whilst some activities have taken place during FY19 in this area (summarised on page 41), the Board has identified this as an area to increase efforts on during FY20 and onwards.	
18 Environment	A summary of the Company's activities on environmental and corporate social responsibility is included on pages 36-41. The Board regularly discusses and engages with the business on environmental issues, including diesel engine emissions (Stage V emissions standards) and the impact of, and steps taken by local authorities with regard to, commercial vehicles accessing city centres.	

Feedback from all of the above activities has been shared with the full Board, either via the Chairman, the Executive Directors or the Committee chairmen. Such feedback has proved valuable in informing and supporting the Board's decisions around business direction and strategy, as well as actions to work on and consider in the year ahead for the Committee meetings of the Board.

Section 172(1) Companies Act 2006

The 2018 Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018 reinforce the importance of S.172 of the Act, which requires Directors to act in a way that promotes the success of the Company for the benefit of shareholders as a whole. The 2018 Code applies to companies with accounting

periods beginning on or after 1 January 2019. Since the FY19 accounting period for the Company began on 30 December 2018 this year's report remains under the 2016 Code, however the Company has already stepped up its stakeholder engagement activities, as summarised in the table above.

The Strategic Report on pages 1 to 43 was approved by the Board of Directors on 26 May 2020 and is signed on its behalf by:

Steve Ashmore
Director

Chairman's Introduction

Reinforcing our governance and values



Overview of the year

We highlighted that we would be focusing on two key areas in 2019:

- Transparency of reporting
- Listening to our colleagues

A multitude of activities has taken place over the course of the year to engage colleagues in our plans, drive our key messages and strategies and ensure they feel part of what we are doing and why. Details of those activities are set out in the Strategic Report and referenced in the Committee reports.

The Committees of the Board have had a busy year, summarised in their respective reports and included in the following pages. The Market Disclosure Committee has not been required to carry out any specific business during the year which has not otherwise been covered by the Board, and so no report is included.

There have been various direct interactions between Board members and colleagues of all levels through our Health and Safety forums and results presentations to colleagues. In the latter part of the year, our CEO, CFO and CCO travelled throughout the UK and Ireland to six roadshows to present to office and branch/sales staff of all levels and take part in Q&A sessions to discuss how the year has gone and the exciting plans we have going forward.

I was encouraged to see the continued improvement in our colleague engagement scores; another important aspect in listening to our colleagues, which we will do by taking their feedback and turning it into actions for line managers to implement and monitor throughout the business.

“On behalf of the Board, I am delighted to present the corporate governance report for the 2019 financial year. We have continued to develop our governance with a particular focus on our colleagues and engagement.”

Board evaluation

I am pleased to report that the findings of our 2019 internal Board and committee evaluation show that our Board is impressed with the management and direction of the business. Board members consider that they are well informed on the activities of the business and able to contribute their considerable skills and experience, both through the Board and committee meeting setting and through direct engagement with colleagues during the year. However, there is more we can do. We have looked at our actions from last year and we do still face challenges with diversity in our industry, particularly around gender. We hope that our colleague engagement and various people project activities will attract future colleagues from all backgrounds to HSS.

Further details are provided in the report on page 53.

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

Senior management

We have had good continuity amongst the senior management team during 2019, with a combination of long-serving colleagues with excellent knowledge of our business and the more recent joiners offering fresh thinking and innovation. We, as a Board, have enjoyed presentations and contributions from many of our senior managers at our Board and committee meetings over the course of the year.

The various activities around succession planning and colleague development/training over the year are set out in the Nomination Committee report and the Sustainability section.

Legislative/regulatory matters 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.

The Group's Data Governance Team continues to monitor day-to-day data protection issues as the GDPR continues to embed in our society and guidance around best practice continues to develop.

The Group continues to promote, to both customers and suppliers, the importance of doing business in an ethical way. An anti-slavery and human trafficking statement for FY18 was published during 2019, with the FY19 statement to follow in 2020.

The committees have received further guidance around the new 2018 Code, which we have considered and already taken steps to implement, particularly around stakeholder engagement. We report under the 2016 Code for FY19 before moving over to the 2018 Code from FY20.

Our gender pay gap statistics are included on page 41. We continue to be committed to paying all our colleagues fairly.

The Company's Code of Ethics (available at www.hsshiregroup.com) 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. The Code specifically sets out the Company's position on modern slavery and anti-bribery, areas on which we continue to train our colleagues and reinforce important messages. The Code and the policies underpinning it are regularly reviewed by senior management in light of changing business and regulatory requirements.

50%

50% of INEDs are female.

1 in 6

of the Board is female

Equality and diversity policy

As reported last year, at HSS we promote equal opportunities and diversity with a view to securing sustainable success. Our gender diversity on the Board is unchanged from 2018.

Looking ahead

The COVID-19 pandemic that has emerged in 2020 creates uncertainty in the outlook for HSS and the economy as a whole. This uncertainty makes governance ever more important and in 2020 we will build on the good work undertaken in 2019 engaging and supporting colleagues and other stakeholders to navigate these uncharted waters.

It is our intention to once again hold our AGM at the Hilton Garden Inn, Hatton Cross, at 11.00am on 25 June 2020. We continue to carefully monitor government advice on what security and other precautions we should take due to the COVID-19 virus and will include these in our Notice of Meeting. Any further special arrangements will be advised via our corporate website (www.hsshiregroup.com). We also strongly recommend shareholders to consider the use of electronic proxy voting since currently we do not anticipate shareholders being able to attend in person.

Alan Peterson OBE
Chairman

26 May 2020

Corporate Governance

Board of Directors

Our Board

Alan Peterson OBE
Chairman



Tenure on Board
5 years and 2 months

Independent
No

Committee memberships

N

External roles

- Chairman, BBI Diagnostics Group Holding Limited
- Chairman, NSPCC Wales Appeal Board
- Non-Executive Chair Veezu Group (from 2020)
- Honorary Colonel Army Cadets, Wales

Past roles (include)

- Executive Chairman, Enterprise Group Holdings
- Non-Executive Chairman, Pattonair Holdings Limited
- Non-Executive Chairman, Azelis Holdings SA
- Managing Director, Rockware Group
- Chief Executive Officer, Meyer International plc
- 3i's first Industrialist in Residence, 2001 to 2005

Skills and experience

- M&A
- Digital
- Strategy
- International
- Construction services
- Supply chain & logistics
- Manufacturing
- Sales and marketing
- Housing
- Infrastructure
- Chair/Chief Executive Officer
- Retail
- Healthcare

Steve Ashmore
Chief Executive Officer



Tenure on Board
2 years and 3 months

Independent
No

Committee memberships

M

External roles

- None

Past roles

- Managing Director, Brammer UK
- Managing Director, Wolseley UK
- Various senior management positions, Exel

Skills and experience

- M&A
- Digital
- Strategy
- International
- Construction services
- Supply chain & logistics
- Manufacturing
- Sales and marketing
- Housing
- Infrastructure

Paul Qusted
Chief Financial Officer



Tenure on Board
3 years and 7 months

Independent
No

Committee memberships

External roles

- None

Past roles

- Global Strategy Director, Electrocomponents plc
- General Manager, RS Components UK
- Planning & Performance Management Director, European Supply Chain, InBev
- Trained with Coopers & Lybrand

Skills and experience

- M&A
- Digital
- Strategy
- International
- Supply chain & logistics
- Manufacturing
- Sales and marketing

Amanda Burton
Senior Non-Executive Director



Tenure on Board
5 years and 3 months

Independent
Yes, since appointment in January 2015

Committee memberships

R M A N

External roles

- Non-Executive Director and Chair of Remuneration Committee, Countryside Properties plc and Connells Ltd
- Non-Executive Director, Skipton Building Society
- Chair, Battersea Dogs and Cats Home

Past roles

- Chief Operating Officer, Clifford Chance LLP
- Director, Meyer International plc
- Senior Independent Non-Executive Director, Galliford Try plc and Monitise plc
- Non-Executive Director, Fresca Group Limited

Skills and experience

- M&A
- Strategy
- International
- Legal
- Chief Operating Officer
- Governance
- Construction services
- Housing

Doug Robertson
Non-Executive Director



Tenure on Board
5 years and 3 months

Independent
Yes, since appointment in January 2015

Committee memberships



External roles

- Non-Executive Director and Chair of Audit Committee, Mpac Group plc
- Non-Executive Director and Chair of Audit Committee, Zotefoams plc

Past roles

- Finance Director, SIG plc
- Finance Director, Umeco plc
- Finance Director, Seton House Group Limited
- Managing Director, Tesa Group
- Various senior financial and business positions, Williams plc

Skills and experience

- M&A
- Strategy
- International
- Chief Financial Officer
- Construction services
- Supply chain & logistics
- Manufacturing

Thomas Sweet-Escott
Non-Executive Director



Tenure on Board
5 years and 3 months

Independent
No

Committee memberships

External roles

- Partner, Exponent Private Equity LLP
- Serves on the Boards of Photobox Group and Meadow Foods

Past roles

- Co-founded Exponent Private Equity, 2004
- Various senior management positions, 3i Group plc
- Served on the Boards of Trainline plc, V. Group and Lowell

Skills and experience

- M&A
- Digital
- Strategy
- International

Daniel Joll
Group General Counsel & Company Secretary



Tenure on Board
3 years and 3 months

Independent
No

Committee memberships
Secretary for all Committees

External roles
→ None

Past roles

- Senior Legal Adviser, Sky plc
- Senior Corporate Lawyer, Watson, Farley & Williams LLP

Skills and experience

- Corporate Law
- Commercial Law
- M&A
- Public Companies and Capital Markets
- Governance
- International
- Dispute Resolution
- Insurance

Committee membership

- Nomination Committee
- Audit Committee
- Remuneration Committee
- Market Disclosure Committee
- Committee Chair

Corporate Governance

Corporate Governance

Compliance with the Corporate Governance Code

The 2018 Code applies to companies with accounting periods beginning on or after 1 January 2019. The FY19 accounting period for the Company began on 30 December 2018 and therefore this year's report remains under the 2016 Code. The 2016 Code can be found here:

<https://www.frc.org.uk/directors/corporate-governance-and-stewardship/uk-corporate-governance-code>

The Board is committed to high standards of corporate governance and as such has complied with the 2016 Code during the FY19 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 50.3% 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 28 December 2019, 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.

Leadership

Key roles and responsibilities

Chairman Alan Peterson OBE	Responsible for: → ensuring that the conduct of the Group is in accordance with high standards of integrity and probity; → the leadership and overall effectiveness in directing the Company, including demonstrating objective judgement and promoting a culture of openness and debate; → 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 regular engagement with major 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 2016 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 53).

Governance framework



Corporate Governance

Corporate Governance continued

Attendance at Board and committee meetings of which each Director is a member held between 30 December 2018 and 28 December 2019

Director	Board (of 11)	Audit Committee (of 7)	Remuneration Committee (of 4)	Nomination Committee (of 2)
Executive Directors				
Steve Ashmore	11	–	–	–
Paul Quested	11	–	–	–
Non-Executive Directors				
Alan Peterson OBE	11	–	–	2
Amanda Burton	10	7	4	2
Doug Robertson	11	7	4	2
Thomas Sweet-Escott	11	–	–	–

All the individuals who were Directors as at 28 December 2019 offer themselves for re-election at the next AGM of HSS Hire Group plc to be held at 11.00am on 25 June 2020.

The biographical details of each of the Directors, including details of their other directorships and relevant skills and experience, are on pages 46 and 47 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.

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 Chair 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 50.3% of the Company's issued shares.

Thomas Sweet-Escott is a partner at Exponent and Alan Peterson OBE has a long-standing business relationship with Exponent and is chairman and/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 an arm's length basis with certain Exponent portfolio companies.

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. 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 Director's 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 46 and 47.

The four Non-Executive Directors, Alan Peterson OBE, 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. 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 OBE. 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 2019

The Board met 11 times during 2019, the majority being physical meetings and the remainder being telephone conference calls.

Regular agenda items for the Board included, and will include in 2020:

- health and safety;
- operational and financial performance;
- risk management and the risk register;
- reviewing, setting and approving strategy;
- colleague/stakeholder/shareholder engagement and Company values;
- finance and banking arrangements;
- major capital expenditure; and
- evaluation of acquisition/disposal opportunities (as applicable).

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 53.

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 44.

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 receives ad hoc updates on matters if required outside of the formal Board meeting timetable. The Board has access to the Company Secretary and can request independent advice at the Company's expense where it believes it is appropriate and valuable to do so. Senior management is 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 69), 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 26 to 31.

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 49 and pages 54 to 56) 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 and supported by the findings of specific projects/investigations completed by the internal audit team, 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.

Whistleblowing notifications are reviewed at least annually by the Audit Committee.

Modern Slavery Act 2015

The Group published its Modern Slavery Act statement for the financial year ended 29 December 2018 on its website during the first six months of 2019, in accordance with guidelines.

Going concern and long-term viability statement

Note 1(e) to 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 26 to 31), including considering the uncertainty as to the future impact of the COVID-19 pandemic, the Directors have a reasonable expectation that the Group and Parent Company have adequate resources to continue in operational existence for at least 12 months from the approval date of the Consolidated Financial Statements. Accordingly they continue to adopt the going concern basis in preparing the Financial Statements included within this Annual Report, however the existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern is indicated as set out below.

In accordance with Provision C.2.2 of the 2016 Code, the Directors have assessed the prospects of the Group over a three-year period, taking into account the Group's current position and principal risks. Based on this assessment, and all other matters considered and reviewed at Board level during the year, the Directors confirm that 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 to December 2022.

Whilst the Directors have no reason to believe 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 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 planned 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 impact of COVID-19 was considered in greater detail.

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

- reductions in revenue with the assumptions as set out in the going concern statement and the associated impacts on the Group's variable cost base;
- reductions in revenue from April 2021 to December 2022 of 10% below the Group's current strategic plan; and
- delays in trade debtor receipts due to customers experiencing liquidity challenges, including non-recovery of £10m of current trade receivables.

These downside scenarios were mitigated by the following assumptions:

- reduced capital expenditure in both 2020 and 2021;
- overhead reduction;
- rent payment holidays,
- extension of payment terms with a number of the Group's stakeholders; and
- utilisation of tax relief and Government measures as they become available.

Corporate Governance

Corporate Governance continued

As noted in the Going Concern statement, there are certain forecast scenarios which indicate that financial covenants would be breached and other scenarios which indicate a breach in covenants together with a need for additional liquidity thus indicating the existence of a material uncertainty. Based on the support evidenced by the Group's lenders, the Directors reiterate their confirmation that they have a reasonable expectation that the Group will be able to continue its operation and meet its liabilities over the three year period.

Statement on disclosure of information to the auditor

The Directors who held office as at 26 May 2020 each confirm that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- 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 49 and pages 58 to 65) 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 seeks 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 brokers, 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.

During 2019 there have been over 25 such meetings/presentations, including quarterly results presentations and Strategy updates.

As well as such meetings and announcements, 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. Attendance in person at the 2020 AGM by shareholders and directors shall be subject to any restrictions around COVID-19, details of which shall be included in the Notice of Meeting with any further updates to be provided via our corporate website at hsshiregroup.com.

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 is planned to be held at 11.00am on 25 June 2020. 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. Shareholders should refer to the Notice of Meeting and any further updates provided in the 'News & Resources' section at hsshiregroup.com regarding the 2020 AGM in light of the COVID-19 pandemic, noting that it may not be possible for shareholders to attend this year due to government restrictions.

Significant shareholders

Based on TR-1 notifications received, the parties who hold 3% or more of the issued share capital of the Company as at 29 April 2020 are as follows:

Name	Number of ordinary shares of 1p	% holding
Exponent ¹	85,681,708	50.34%
Toscafund Asset Management LLP ²	45,812,070	26.92%
Aberdeen Standard Investments	13,958,980	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 page 62.

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 2019 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 succession planning. Further detail on the Group's equality and diversity policy is provided on page 66.

Activities

The Committee had two scheduled meetings in 2019.

At the meeting held in January 2019, the findings of the internal Board evaluation in respect of FY18 were considered and the resulting actions, as reported in the 2018 Annual Report, were agreed. Talent development and succession planning were also discussed.

At the meeting held in September 2019, people and workforce engagement were discussed.

The actions for 2019 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 on building, maintaining and developing the senior management team, via both external hires and developing existing talent. It was encouraging to see that promotions accounted for 47% of non-entry-level vacancies filled. With the aim of developing current and future leaders, management development

activity has increased significantly with over 100 colleagues (from senior management through to front-line leaders) participating in tailored development programs. Also noted was the increasing profile of women at senior levels, with the appointment of Ailsa Webb as Sales Director for Scotland and the growth and transformation in rehire being led by Dani Hodges, Managing Director, OneCall. The Committee noted that the Company continues to face challenges with diversity, particularly around gender. Whilst this is seen to be a hire industry issue generally, the Committee resolved that through colleague engagement and people project activities, the focus will continue to be on attracting future colleagues from all backgrounds to the Company.

- **Skills and expertise** – the Committee agreed that the Company was taking positive steps in identifying where further development or additional expertise was required within the business. The Committee and the Board have previously noted the need for expertise in the Digital field given the significant focus and growth in this area as part of the Company's strategy. FY19 has also seen increased activity in training colleagues (as referred to above) as well as the scoring and monitoring of colleague performance as part of the development and succession planning process. FY20 will see the continuation of these activities, as well as exploring additional external resources for development and management assessment/training.
- **Colleague engagement** – the Committee acknowledged the improving colleague engagement scores (see page 40 in the Sustainability report for more details) and that a wide range of measures had been implemented to drive increased communication and engagement, in particular with interaction between senior management and colleagues. The Committee noted the importance of continuing to build on this progress in FY20, as well as engaging all relevant stakeholders.

Board evaluation

The FY19 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 2016 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, diversity, the relationship between the Executive and Non-Executive Directors, the role of the Chairman, workforce engagement, 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.

Looking ahead

In 2020, 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 2018 Code and the Companies (Miscellaneous Reporting) Regulations 2018, the Committee considered it appropriate to focus on the following action areas during 2020:

- **Specialist expertise** – investigate whether deeper specialist knowledge and skills are required (either via external consultants and meetings/networking sessions or new recruits), particularly in the digital landscape.
- **Succession planning** – continue to evaluate the progression and development of colleagues at all levels and the ability of colleagues to progress up to senior management levels.
- **Colleague and stakeholder engagement** – continue to roll out innovative methods of engaging with colleagues and stakeholders at all levels across the HSS business, including colleagues at below Board level presenting to the Board as well as direct and less formal interaction.

Alan Peterson OBE

Corporate Governance

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 2019 financial year.

The Committee has reviewed the contents of the 2019 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. Its key responsibilities include:

- receiving and reviewing the Annual Report and Accounts and half-year 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 its appointment and its 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 54 and 56) 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 2019. All members attended these meetings.

The Committee's core activities during 2019 included, and will include in 2020:

- reviewing and enhancing disclosure in areas of judgement and 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 auditor, agreeing its audit plan and assessing its findings.

Ad hoc activities

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

- assessing the risk and monitoring the implementation of new policies and processes related to cyber risk;
- reviewing the accounting treatment of the disposal by the Group of the UK Platforms business in January 2019 (refer to note 28); and
- monitoring the implementation of key changes to the processes and systems that account for fixed assets and leases.

Prior year adjustment

Following the year end, the Committee reviewed the work performed by management on a historical issue related to the treatment of cash customer deposits that has resulted in a prior year error (refer to note 1(g)) to ensure that treatment is in line with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors* and to satisfy itself that the process changes implemented separately will prevent a recurrence.

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 2016 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;
- onerous lease provisions;
- management assessment of going concern and long-term viability;
- exceptional items;
- new accounting standards; and
- FRC thematic review of companies' disclosures relating to the impairment of non-financial assets.

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 to goodwill or intangibles and that the impairment provisions made related to tangible assets are appropriate. Since the balance sheet date, COVID-19 has emerged as a risk, and, as stated in Note 14 to the Financial Statements, would adversely impact the headroom on the analysis carried out during 2019.

Revenue recognition – cut-off, sales 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 the recognition of any revenue-related rebate accruals or credit note provisions, is appropriate and complete. The Committee also considered the requirements 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 FY19 results. Following these reviews, the Committee has concluded that the procedures and controls are adequate.

Onerous lease provisions

The Committee reviewed with management the basis of property-related provisions for properties that the Group no longer utilises (being dark stores and certain other operational and office locations), 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

As at 28 December 2019, the Group's financing arrangements include a fully drawn senior finance facility of £182.0m and an undrawn revolving credit facility of £23.2m which, when combined with cash, resulted in liquidity headroom of £45.9m. Both the senior finance facility and revolving credit facility are subject to a net debt financial covenant test every quarter. At the financial year end the Group had 30% headroom against this covenant.

The Committee had reviewed the Group's cash flow forecasts, taking into account strategic initiatives, and sensitivity analysis based on reasonably possible changes in trading performance. The COVID-19 pandemic means these original forecasts will not be met. Whilst it is difficult to fully quantify the impact on financial performance, the Committee has reviewed the downside scenarios modelled as set out on page 80 and the immediate mitigating actions implemented.

Under these downside scenarios there are risks that financial covenants could be breached unless a waiver agreement is reached with the senior finance facility and revolving credit facility lenders within the next twelve months, and that additional liquidity could be required, thus indicating the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

The Committee has noted the commitment to the business expressed by the Group's lenders, and the Government measures being put in place to support industry through these uncertain times. These reinforce that 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 costs related to cost reduction projects, an increase overall in the provision for onerous leases, accelerated amortisation on debt issue costs following repayment of debt, and the impairment by the Group of tangible assets in locations which have been closed. The Committee assessed that the approach adopted in respect of exceptional items is appropriate.

New accounting standards

IFRS 16 *Leases* is mandatory for periods beginning on or after 1 January 2019. During the year, the Committee reviewed the Group's work with third party specialists to develop IFRS 16 policies, along with processes and systems to manage their implementation, and agreed that the Group would not adopt IFRS 16 *Leases* early for the year ended 28 December 2019 as had been planned and was noted in the Annual Report and Accounts 2018. The date of initial application will now be for the financial year commencing on 29 December 2019. The Committee's view was that taking the time allowed by the standard would give management the opportunity to perform a full review of its lease portfolio and more accurately assess the impact of IFRS 16 and the required disclosure.

IFRS 16 will have a significant impact on reported results when implemented in the 2020 financial year. HSS will adopt the modified retrospective approach which means the initial asset being reported at the start of the 2020 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. This will be a material change as the previous operating lease rentals included in reported EBITDA for the 2019 and prior years are replaced by depreciation and interest on the liability that are reported outside of EBITDA.

FRC thematic review of companies' disclosures relating to the impairment of non-financial assets

The Committee was pleased to note that the Group received from the FRC a letter setting out its intent to use certain disclosure examples from the 2018 Annual Report and Accounts as examples of good practice in its thematic review of companies' disclosures relating to the impairment of non-financial assets.

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. Following the Committee's involvement in the selection of a new partner in charge of the audit, Sophia Michael took on this role for the 2019 audit. Sophia replaced Kieran Storan, who had held the role for five years, the maximum term for which a partner in charge can perform the role.

Corporate Governance

Audit Committee Report continued

BDO has been auditor to certain companies within the Group for 16 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 2019 as noted above. 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 five 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 28 December 2019.

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 FY19 audit. The fees for both audit and non-audit services paid to BDO are set out in note 9 to 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, during separate meetings between the Audit Committee Chair and Audit Partner 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 2019, BDO provided non-audit-related services to the Group; principally these relate to the review of historic tax returns, provided to the Group's Irish branch. Notwithstanding this, the Committee concluded that the independence of the external 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 2019, together with a summary of the principal risks facing the Group, is provided on pages 26 to 31.

During 2019, 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. In addition, as it does periodically, the Committee has initiated a review of the internal audit function to ensure that it continues to operate effectively as the HSS business and wider environment continues to develop.

There was specific focus in the year on two risks; cyber risk and Brexit. A review of the internal audit and IT work assessing cyber risk and the Group's approach to managing this (which included reviewing assessments by third party specialists) was undertaken. In addition, the Committee built on the work carried out during 2018 to review the Group's ongoing assessment of the risk associated with Brexit and the resultant mitigating actions. It remains an ongoing agenda item to monitor the evolution of this risk and the 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 2020.

Financial reporting and preparation of accounts

The main features of the Group's risk management and internal controls in respect of financial reporting and the preparation of accounts are:

- a comprehensive annual business planning and budgeting process, subject to Board approval, through which risks are identified and considered;
- a single financial reporting system within which actual and forecast results are compared with approved budgets on a monthly basis and reviewed by the Board;
- Group accounting policies, which are regularly reviewed and reported against at Audit Committee; and
- an investment evaluation process to ensure capital expenditure is properly approved.

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 51). The Committee reviewed the steps taken to heighten awareness of the policy and process across the business and conducted a review of the Group's whistleblowing register.

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

Remuneration at a Glance

Remuneration at a glance

We provide market competitive remuneration which is aligned with the Company's purpose, values and culture, and is simple and transparent.

Summary of our current Policy and remuneration structure

Component	Key features
Base salary and benefits	<ul style="list-style-type: none"> → Attract and retain Executives of a suitable calibre ➤ Read more on page 60
Annual bonus	<ul style="list-style-type: none"> → Maximum opportunity of 100% of salary → Linked to key financial and strategic KPIs → Any bonus earned in excess of 50% of maximum is deferred into shares over a two-year period ➤ Read more on page 60
LTIP	<ul style="list-style-type: none"> → Maximum opportunity of 125% of salary (set at 100% of salary for FY19) → Focus on long-term profitability and growth and ongoing drive for capital and operational efficiency → Five-year life span (three-year performance period plus two-year holding period) ➤ Read more on page 61
Shareholding guidelines	<ul style="list-style-type: none"> → Chief Executive: 200% of salary guideline (actual holding of 34% of salary as at 28 December 2019) → Chief Financial Officer: 125% of salary guideline (actual holding of 7% of salary as at 28 December 2019) → Post-employment: unvested DBP awards ordinarily vest at the normal vesting date (following vesting period) and unvested/vested LTIP awards ordinarily released at the normal release date (following holding period) ➤ Read more on page 62

• Adjusted EBITDA
 • Core Hire Rental Revenue
 • Net Leverage Ratio
 • Reduction in RIDDORs

→ Strong link between performance and reward
 → Supports long-term stewardship
 → Takes into account risk management

Strong Policy support from shareholders

- Shareholders voted 99.98% in favour of our current Policy at the 2019 AGM
- Our current Policy can be reviewed in the FY18 Annual Report available at www.hsshiregroup.com/investor-relations/financial-results
- Amendments are proposed to our current Policy as set out in this report (see LTIP)

Group performance in FY19

See Strategic Report for further details

The Group delivered another year of significant progress against a broad range of KPIs that are linked to remuneration:

- Record performance in terms of Adjusted EBITDA at £63.9m (2018: £60.0m)
- Rental and related revenues grew by 1.3% to £229.0m (2018: £226.0M)
- Significant reduction in leverage (total operations) at 2.8x (2018: 3.3x)
- RIDDORs reduced by 45% to 11 occurrences (2018: 20)
- 70% growth in Adjusted diluted EPS – earnings of 2.31p per share (2018: earnings of 1.36p per share)
- Step-change in ROCE to 20.8% from 16.7% in 2018

Reward linked to performance

Annual bonus earned by Executive Directors

Measure	Weighting	Target	Actual	Bonus earned (% salary)
Adjusted EBITDA	50%	£67m	£63.9m	13%
Core Hire Rental Revenue	20%	£172.9m	£168.5m	0%
Net Leverage Ratio	20%	2.90x	2.81x	13%
Reduction in RIDDORs	10%	18	11	10%
Total	100%			36%

No LTIP award was capable of vesting in respect of FY19.

Wider colleague considerations

The Committee considers pay policies and practices for colleagues across the Group when making remuneration decisions for Executive Directors.

- 2.2% average increase to base salaries across the Group effective from 1 July 2019 (Executive Directors elected not to receive an increase)
- 52% of colleagues received a bonus in respect of FY20
- The Sharesave Scheme came to an end on 31st December 2019 and there are currently no plans to replace
- Chief Executive Pay ratio of 27:1 (against median colleague pay)

Corporate Governance

Directors' Remuneration Report



Amanda Burton
Chair of the Remuneration Committee

“ FY19 saw continued profit and returns progression, however COVID-19 means reward has been reconsidered in early 2020.”

Dear shareholder

I am pleased to present, on behalf of the Board, our Directors' Remuneration Report in respect of the year ended 28 December 2019.

The Group's Directors' Remuneration Policy (the 'Policy') was approved at the 2019 AGM with a vote in favour of 99.98% and can be reviewed in the FY18 Annual Report available at www.hsshiregroup.com/investor-relations/financial-results.

As noted below, shareholder approval will be sought at the 2020 AGM for an amendment to the Policy (and associated amendment to the rules of the Company's LTIP) to permit the grant of Restricted Stock awards.

The Annual Report on Remuneration, which provides details of the remuneration earned by Directors in FY19 and how we intend to apply the Policy in FY20, is available on page 60. At the 2020 AGM, to be held on 25 June 2020, the Annual Report on Remuneration will be subject to an advisory vote, and separate shareholder approval will be sought for the amendment to the Policy and LTIP rules in connection with the award of Restricted Stock.

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 developed based on the following key principles:

- **Aligned** to the Company's purpose, values and culture, and clearly linked to the Company's long-term strategy.
- **Simple and transparent** for key stakeholders and take into account remuneration and related policies for the wider workforce.
- **Predictability** on the potential values that may be earned through the remuneration arrangements in the Policy.
- **Stewardship** to encourage long-term shareholding by Executive Directors that promotes sustainable success. Executive Directors are subject to within-employment and post-employment shareholding requirements.
- **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. Malus and clawback provisions apply to annual bonus and LTIP awards and the Committee has the means to apply discretion and judgement to vesting outcomes.
- **Proportionality and fairness** of total remuneration delivered should fairly reflect Company and individual performance.

We believe that colleague engagement is key to our success and we have continued to build on our colleague voice and feedback channels to ensure wider workforce remuneration is considered when determining executive pay. The colleague engagement framework is outlined on page 39. We have a variety of colleague feedback channels including regular regional Simply Safety forums that shine a light on any issues, including pay and benefits, and capture potential areas for improvement. In addition, we conduct an annual colleague engagement survey and hold benefits roadshows, with colleague feedback having informed a significant increase to our benefits offering. This has resulted in an improved uptake from colleagues in many areas. All such developments are captured in a colleague dashboard that provides key information on workforce demographics and wider workforce pay and reward and is reviewed by the Committee at least twice yearly.

Chief Executive pay ratio

Although we are not required to disclose the ratio of our Chief Executive's pay to that of the wider workforce in respect of FY19, we have done so voluntarily in the interests of transparency and best practice; the information is included on page 64.

FY19 performance and variable pay outcome

The FY19 annual bonus was subject to Adjusted EBITDA (50% of the overall opportunity), core hire rental revenue growth (20% of the overall opportunity), Net Leverage Ratio (Net Debt/Adjusted EBITDA) performance (20% of the overall opportunity) and a reduction in RIDDORs (10% of the overall opportunity). Reflecting the performance against the measures, as discussed on page 61, the Executive Directors earned bonuses of 36% of salary for FY19. The Committee reviewed performance against these performance measures, considered the underlying performance of the Group during the performance period and concluded the overall bonus outcomes to be appropriate. The payment of bonuses has been delayed to support the Group's cash-flow position over the near future in light of COVID-19.

There were no long-term incentive awards which were capable of vesting in respect of performance ending during FY19.

The Executive Directors elected not to receive a salary increase during FY19. The average salary increase awarded to colleagues across the Group was 2.2%.

Reward for FY20

A summary of the application of the Policy in FY20 is set out below and more information is provided on page 64.

Executive Director salaries

Given the impact that COVID-19 is having on the business, in FY20 there will be no pay increases in the year and the Board has agreed to forego salaries and fees for three months.

Annual bonus

No changes are proposed to the maximum opportunity or structure of the annual bonus. 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.

Any annual bonus award earned in excess of 50% of the maximum award will ordinarily be deferred into shares over a two-year period. Deferred shares are not subject to any additional performance measures.

LTIP

Given the current impact of COVID-19 on the economy and markets, the Committee delayed the grant of LTIP awards. To remove the challenge of setting long term targets in an uncertain and volatile market the Committee has decided to award Restricted Stock instead of LTIPs in 2020. This recognises the need to reward long term value creation through and beyond this very challenging period requiring significant leadership and resilience. Accordingly we are proposing an amendment to our LTIP rules and Remuneration Policy at the 2020 AGM to facilitate the grant of Restricted Stock. In line with investor guidelines, the maximum Restricted Stock award will not exceed half the LTIP quantum that would otherwise have been granted. The Restricted Stock awards will continue to be subject to a three year vesting period and a two year holding period for Executive Directors.

Under the annual bonus plan and LTIP, the Committee has discretion to amend the pay-out should the amount vesting not reflect the Committee's assessment of overall business performance over the performance or vesting period.

Conclusion

The Committee and I believe that ongoing dialogue with our major shareholders is of key importance. Should you have any queries in relation to this Report, please contact me or the Company Secretary.

I trust that you will support the resolutions to be proposed at the 2020 AGM in relation to the Directors' Remuneration Report and the proposed amendments to the Remuneration Policy and LTIP rules.

Amanda Burton

Chair of the Remuneration Committee

26 May 2020

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 Policy approved by shareholders at the FY19 AGM.

Single figure table

The following table sets out total remuneration for each Director in respect of FY19 and FY18:

	Salary and fees £000		Benefits £000		Annual bonus £000		LTIP ² £000		Pension £000		Total remuneration £000	
	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18	FY19	FY18
Executive Directors												
Steve Ashmore	368	363	20	20	132	263	–	1	31	31	551	678
Paul Quested	265	262	17	17	95	190	–	1	24	24	401	494
Non-Executive Directors												
Alan Peterson OBE	150	150	–	–	–	–	–	–	–	–	150	150
Amanda Burton	50	50	–	–	–	–	–	–	–	–	50	50
Douglas Robertson	50	50	–	–	–	–	–	–	–	–	50	50
Thomas Sweet-Escott ¹	40	40	–	–	–	–	–	–	–	–	40	40
Total (Executive and Non-Executive Directors)	923	915	37	37	227	453	–	2	55	55	1,242	1,462

1 Thomas Sweet-Escott's fee is paid directly to Exponent.

2 No LTIP award was capable of vesting in respect of the performance period ending during FY19.

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

Salary and fees	The amount of salary/fees received in the year.
Benefits	The taxable value of benefits received in the year. These are principally medical insurance, company car or car allowance.
Annual bonus	The annual bonus is the cash value of bonus earned in respect of the year and includes amounts deferred into shares.
LTIP	The LTIP values represent amounts earned in respect of the year, i.e. schemes that have vested 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.

Additional disclosures in respect of the single figure table

Base salary

Details of annual base salaries for Executive Directors for FY19 and FY18 are set out below.

	Base salary at 28 December 2019 £000	Base salary at 29 December 2018 £000
Executive Directors		
Steve Ashmore	367.5	367.5
Paul Quested	265.0	265.0

FY19 annual bonus

The maximum annual bonus opportunity for FY19 was maintained at 100% of salary. The bonus was set 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). These bonus measures reflect the KPIs of the business and support the strategy of growth, profit improvement and balance sheet strength.

Any annual bonus award earned in excess of 50% of the maximum opportunity is deferred into shares over a two-year period. Deferred shares are not subject to any additional performance measures.

The following table sets out the bonuses earned by the Executive Directors for FY19 and how this reflects performance for the year.

Performance measure	Proportion of bonus determined by measure	Threshold performance (payout £133k)	Target performance (payout £265k)	Maximum performance (payout £530k)	Actual performance	Bonus earned (% of salary)
Adjusted EBITDA	50%	£63.9m	£67.0m	£70.0m	£63.9m	13%
Core hire rental revenue growth	20%	£176.8m	£172.9m	£176.9m	£168.5m	0%
Net Leverage Ratio (Net Debt/Adjusted EBITDA)	20%	3.0x	2.90x	2.63x	2.81x	13%
Reduction in RIDDORs	10%	19	18	17	11	10%
Total	100%					36%
Proportion paid in cash						100%
Proportion to be deferred into shares over a two-year period						0%

The Committee reviewed performance against these performance measures and considered the underlying performance of the Group during the performance period and concluded the overall bonus outcomes to be appropriate.

The payment of bonuses has been delayed to support the Group's cash-flow position over the near future in light of COVID-19.

Long-term incentives granted during FY19

Details of the awards granted to Executive Directors on 4 June 2019 are set out below.

	Type of award	Number of shares	Face value at grant ¹	% of award vesting at threshold	Performance period
Steve Ashmore	LTIP	1,020,833	£367,500 100% of salary	25%	FY19 to FY21
Paul Quested	LTIP	736,111	£265,000 100% of salary	25%	FY19 to FY21

¹ The face value of the award is calculated by multiplying the number of shares over which the award was granted by 36p, the average closing share price for each of the five business days prior to the date of grant.

A summary of the performance conditions for these awards is set out below.

Each award is subject to a performance condition based on the Company's earnings per share as at the end of FY21 (as regards 75% of the award) and subject to a return on capital employed performance condition (as regards 25% of the award).

Adjusted EPS element (75% of award)			ROCE element (25% of award) ¹		
		Vesting percentage			Vesting percentage
Threshold	4.0 pence	25.0%	Threshold	20.0%	25.0%
Target	5.4 pence	50.0%	Target	22.5%	50.0%
Maximum	9.0 pence	100.0%	Maximum	25.0%	100.0%
<i>Straight-line vesting between points</i>			<i>Straight-line vesting between points</i>		

¹ The ROCE targets were provisionally disclosed within the FY19 Directors' Remuneration Report as 20%, 22.4% and 24% for threshold, target and maximum performance respectively. Prior to grant, the Committee agreed to increase the targets to 22.5% and 25% for target and maximum performance respectively.

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.

Deferred Bonus Plan (DBP) incentives granted during FY19

On 16 April 2019, nil-cost options were awarded to Executive Directors in accordance with the Company's 2015 DBP and relating to the 2018 annual bonus. Details of the awards are set out below.

	Type of award	Number of shares	Face value at grant ¹
Steve Ashmore	DBP	203,708	£79,650 22% of salary
Paul Quested	DBP	147,007	£57,480 22% of salary

¹ The face value of the award is calculated by multiplying the number of shares over which the award was granted by 39.1p, the average closing share price for each of the five business days prior to the date of grant.

Deferred shares are not subject to any additional performance measures after the application of the performance measures, which determined the amount of the annual bonus award earned. Awards will vest two years from the date of grant.

Corporate Governance

Directors' Remuneration Report continued

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 is required to build up and maintain a shareholding in the Company equivalent in value to at least 200% of annual salary, and other Executive Directors are required to build up and maintain a shareholding in the Company equivalent in value to at least 125% of annual salary. Since joining the Group in May 2017, the Chief Executive has built his shareholding in the Company from 0% to 34% 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 7% 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 28 December 2019 were as follows:

	Type	Owned outright	Unvested and subject to performance conditions	Unvested and not subject to performance conditions	Total as at 28 December 2019
Executive Directors					
Steve Ashmore	Shares	313,479	–	–	313,479
	FY17 LTIP (market value share options) ^{1 4}	–	2,849,708	–	2,849,708
	FY18 LTIP (market value share options) ^{2 4}	–	5,415,255	–	5,415,255
	FY18 CSOP options ^{3 4}	–	84,745	–	84,745
	FY19 DBP (nil-cost share options) ⁵	–	–	203,708	203,708
	FY19 LTIP (nil-cost share options) ⁵	–	1,020,833	–	1,020,833
Paul Quested	Shares	47,000	–	–	47,000
	FY17 LTIP (market value share options) ^{1 4}	–	1,404,094	–	1,404,094
	FY18 LTIP (market value share options) ^{2 4}	–	3,165,255	–	3,165,255
	FY18 CSOP options ^{3 4}	–	84,745	–	84,745
	FY19 DBP (nil-cost share options) ⁵	–	–	147,007	147,007
	FY19 LTIP (nil-cost share options) ⁶	–	736,111	–	736,111
Non-Executive Directors					
Alan Peterson OBE	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 an 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 on page 64 of the FY18 Directors' Remuneration Report, 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 FY19 DBP awards granted during the year are discussed on page 61.

6 The performance conditions applying the FY19 LTIP awards are set out on page 61.

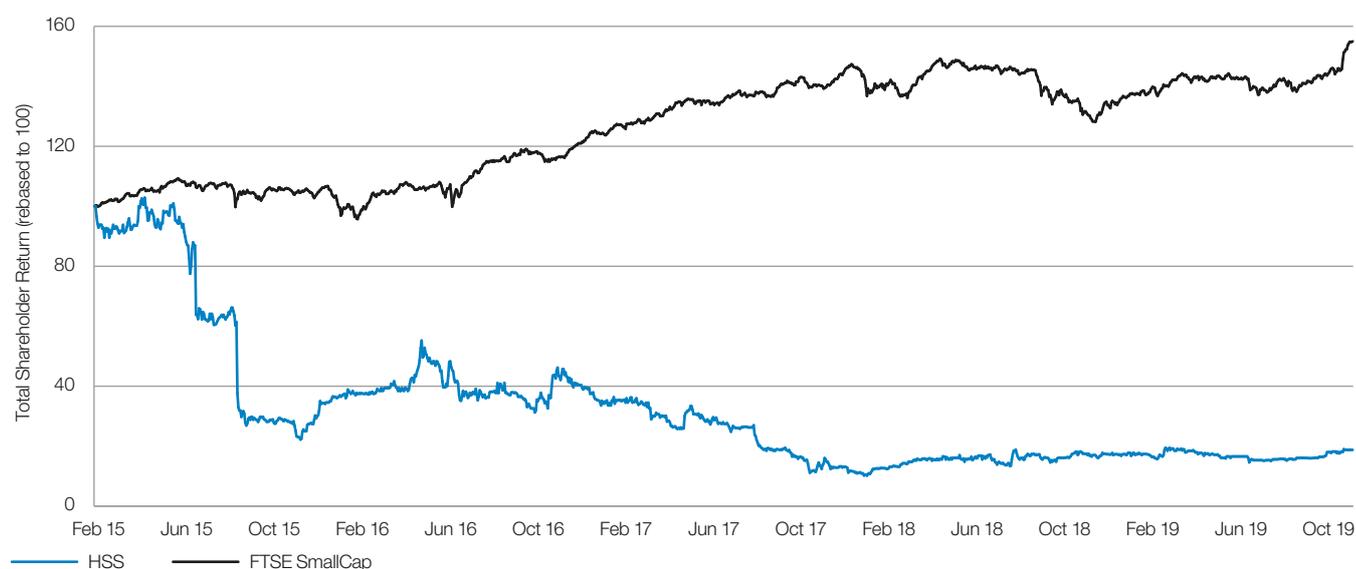
As at 26 May 2020, the Company has not been advised of any changes to the interests of the Directors and their connected persons as set out in this table.

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 58 to 62 have been audited as required by the Companies Act 2006.

Performance graph and historical Chief Executive 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 9 February 2015 to 28 December 2019. The Company has historically been 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 28 December 2019, of £100 invested in the Group over the period compared with £100 invested in the FTSE SmallCap 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 for FY15 to FY19.

Chief Executive	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	148	–	N/A
FY17/Steve Ashmore ⁴	240	–	N/A
FY18/Steve Ashmore ⁴	678	71.9%	0%
FY19/Steve Ashmore ⁴	551	36%	N/A

1 There were no LTIPs capable of vesting in respect of performance periods ended in FY15, FY16, FY17 and FY19.

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 Chief Executive 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 Chief Executive with effect from 1 June 2017 until the end of FY19.

Change in Chief Executive element of pay 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 FY19 and FY18 but excludes Executive and Non-Executive Directors.

Chief Executive element of pay in relation to all employees' pay	Chief Executive	Wider workforce
Salary	0%	2.2% ¹
Benefits ²	0%	0%
Annual bonus	-50%	0%

1 The wider workforce received a 2.2% 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.

2 Taxable value of benefits received in the year comprising medical insurance and company car or car allowance.

Corporate Governance

Directors' Remuneration Report continued

Chief Executive pay in relation to all employees

The Group is required to disclose its Chief Executive pay ratio from FY20. However, in line with best practice, the Committee has decided to also disclose the Group's Chief Executive pay ratio for FY19.

The table below sets out the Chief Executive's total remuneration as a ratio against the full-time equivalent remuneration of the 25th, 50th and 75th percentile UK employees.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
FY19	Option B	28: 1	27: 1	20: 1

Option B methodology (i.e. using the hourly rate data from the most recent gender pay gap reporting) was selected on the basis that it is an efficient and robust approach, given the complexity of our payrolls. The calculations for the relevant representative employees were performed as at 28 December 2019. Sensitivity analysis was performed around the 25th, 50th and 75th percentile employees to ensure that they were reasonably representative.

A substantial proportion of the Chief Executive's total remuneration is performance-related and delivered in shares. The ratios will therefore depend significantly on the Chief Executive's annual bonus and long term incentive outcomes, and may fluctuate year on year.

The Board believes that the median pay ratio is consistent with the pay, reward and progression policies for the UK employee population.

Total pay and benefits used to calculate the ratios

The table below shows the UK employee percentile pay and benefits used to determine the above pay ratios and the salary component for each figure. The Chief Executive remuneration is the single total figure remuneration for the year ended 28 December 2019 as disclosed on page 60.

£	Chief Executive	25th percentile	Median	75th percentile
Total pay and benefits	550,863	19,673	20,444	28,000
Salary component	367,500	19,287	20,043	28,000

The total full-time equivalent pay and benefits for the relevant employees has been calculated based on the amount paid or receivable in respect of the financial year. The UK employee percentile pay and benefits has been calculated on the same basis as required for the Chief Executive's remuneration for single total figure purposes. For pension-related benefits, employer pension costs have been estimated using the employer contribution rates applicable to the member's pension scheme.

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 FY18 and FY19.

£000	Year ended 28 December 2019	Year ended 29 December 2018	Percentage change
Dividends and share buy backs	(nil)	(nil)	N/A
Overall total expenditure on pay	88,998	94,358	(5.7)%

Implementation of the Policy for FY20

Information on how the Company intends to implement the Policy for FY20 is set out below.

Salary/fees and benefits

Given the impact that COVID-19 is having on the business, in FY20 there will be no pay increases in the year and the Board has agreed to forego salaries and fees for three months.

Annual bonus

The maximum annual bonus opportunity for FY20 will remain at 100% of salary. The FY19 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 FY20 budget and require outperformance of the budget for the maximum bonus to be earned) will be fully disclosed in the FY20 Directors' Remuneration Report on the same basis as the FY19 disclosure set out on page 61.

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.

Any annual bonus award earned in excess of 50% of the maximum opportunity will ordinarily be deferred into shares over a two-year period. Deferred shares are not subject to any additional performance measures.

LTIP

Given the current impact of COVID-19 on the economy and markets, the Committee delayed the grant of LTIP awards. As set out in the Committee Chair statement on page 59, we are proposing an amendment to our LTIP rules and Remuneration Policy at the 2020 AGM to facilitate the grant of Restricted Stock. The maximum Restricted Stock award for FY20 will not exceed 62.5% of salary for each of the Executive Directors. The Restricted Share awards will be subject to a three year vesting period and a two year holding period. The Committee has discretion to amend the pay-out should the amount vesting not reflect the Committee's assessment of overall business performance over the vesting period.

Statement of voting at last AGM and general meeting

The following table sets out actual voting in respect of the resolutions to approve the Policy and Annual Report on Remuneration at the Company's FY19 AGM.

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Policy (FY19 AGM)	132,930,615	99.98	21,900	0.02	3,498
Annual Report on Remuneration (FY19 AGM)	132,930,615	99.98	21,900	0.02	3,498
Amendments to the LTIP and DBP	132,928,165	99.98	23,039	0.02	4,809

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.

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

Name	Commencement	Notice period	Unexpired term remaining
Steve Ashmore	1 June 2017	12 months ¹	N/A ¹
Paul Quested	22 August 2016	12 months ¹	N/A ¹
Alan Peterson OBE	9 February 2015	N/A ²	1.04 years ⁴
Amanda Burton	9 January 2015	N/A ²	1.04 years ⁴
Douglas Robertson	9 January 2015	N/A ²	1.04 years ⁴
Thomas Sweet-Escott	9 January 2015	N/A ³	1.04 years ^{3,4}

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 for a further three year term, subject to re-election at the AGM.

3 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. Thomas 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, if earlier, termination, so long as the Exponent shareholders are entitled to exercise or to control the exercise of less than 10% of the votes able to be cast.

4 Calculated from 28 December 2019 to the expiry date of each letter of appointment, being 9 January 2021.

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 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 the 2016 Code and disclosure requirements.

Advisers to the Remuneration Committee

During FY19, 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 £23,040 (FY18: £31,620), 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 26 May 2020 and signed on its behalf by:

Amanda Burton

Chair of the Remuneration Committee

Corporate Governance

Other Statutory Disclosures

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

Information	Location within Annual Report
Dividends	Chairman's Statement (page 7)
Directors' powers	Page 66
Directors' indemnities	Page 66
Statement on disclosure of information to the auditor	Corporate Governance (page 52)
Greenhouse gas emissions	Corporate Responsibility (page 39)
Political donations and expenditure	Page 66
Financial instruments	Page 66
Events and developments impacting the Company	Page 66
Acquisition of own shares	Page 66
Equality and diversity	Page 66
Employee involvement	Page 67
Impact of change of control/ takeover bid	Page 67
Directors' interests	Directors' Remuneration Report (page 62)
Share capital	Note 20 to the Financial Statements (page 108)
Restrictions on share transfers	Page 67
Significant shareholders	Relations with shareholders (page 52)
Shares related to employee share schemes	Page 67
Voting rights and restrictions	Page 68
Agreements between holders of securities	Page 68
Appointment and replacement of Directors	Page 68
Amendments to the Company's Articles of Association	Page 68

Directors' powers

At the AGM to be held on 25 June 2020, 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 20 June 2019, 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 FY19 year (FY18: £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 110 and 111.

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 8 in the Strategic Report.

Acquisition of own shares

At the AGM held on 20 June 2019, 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 2020 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 attracting, engaging and developing a diverse workforce with a view to reflecting the communities it serves. Promoting an understanding and awareness of diversity and having respect for all is a foundation in its training and development material.

We encourage colleagues to reach their full potential through open dialogue to calibrate performance and agree development needs. Training is based on colleagues' individual development needs and the requirements of the role. We seek always to ensure that 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, gender, sexual orientation, disability, race, religion, or beliefs, or on any other criteria unrelated to an individual's ability to perform in a role.

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

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.

Employee engagement

The Company is committed to communicating and engaging with 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 and via job-related mobile devices; 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; and 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 along with frequent director site visits and director/colleague breakfasts. We keep our approach to internal communications under review to ensure that the methods used for disseminating information to colleagues are both effective and take into account any confidentiality requirements. We also encourage two-way dialogue in all that we do, to promote an open culture where giving and receiving feedback is the norm and where we know how messages land. 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. We have a strong track record of making improvements based on colleagues' feedback and believe this is the key to staying connected and continuing to improve levels of colleague engagement and performance.

Further details on our stakeholder engagement activities are included in the Strategic report, pages 42 to 43.

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 and a make whole premium which would be dependent on the remaining term.
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.

In addition, there are a number of commercial agreements which either the Company or a subsidiary of the Company is party to which are terminable upon a change in control of the Company or the Group following a takeover. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole. On a change of control, options and awards granted to senior managers under the Company's share plans may vest and become exercisable, subject to the extent to which any applicable performance conditions have been met at that time.

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 senior management long-term incentive schemes (as detailed earlier).

Corporate Governance

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

26 May 2020

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	Remuneration Directors' Report (pages 58 to 65)
LR 9.8.4(R)(14)	Agreement with controlling shareholders	Page 68 (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 page 42 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 26 May 2020 and is signed on its behalf by:

Steve Ashmore

Director

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 a 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 46 and 47, 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 26 May 2020 and is signed on its behalf by:

Steve Ashmore
Director

26 May 2020

Approval of the Directors' Report

The Directors' Report on pages 48 to 69 was approved by the Board of Directors on 26 May 2020 and is signed on its behalf by:

Steve Ashmore
Director

26 May 2020

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 28 December 2019 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 Consolidated 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 (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 28 December 2019 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; 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 Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard 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.

Material uncertainty related to going concern

We draw attention to note 1e in the financial statements, which indicates that the Group and Parent Company may breach their bank covenants and may require further liquidity due to the possible effects of the ongoing COVID-19 pandemic. As stated in note 1e, these events or conditions, along with other matters as set out in note 1e, indicate that a material uncertainty exists that may cast significant doubt on the Group and Parent Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

The directors' assessment of going concern involves a number of subjective judgements, which have been materially amplified by the current COVID-19 pandemic. We have therefore spent significant audit effort in assessing the appropriateness of the assumptions involved, and as such this has been identified as a Key Audit Matter.

We highlighted going concern as a key audit matter as a result of the uncertainty created by the Coronavirus pandemic and resulting potential impact of the risk and the effect on our audit strategy.

Our audit procedures in response to this key audit matter included the following:

- Review of the internal forecasting process to confirm the projections are prepared by appropriate personnel that are aware of the detailed figures in the forecast but also have a high level understanding of the entity's market, strategy and profile in the customer base, and the potential impact that COVID-19 might have on these projections. Obtaining an understanding of the financing facilities, including the nature of facilities, repayment terms and financial covenants. We reviewed management's financial covenant compliance calculations through to December 2021 and assessed the consistency of such calculations with the ratios stated in the relevant lender agreements.
- Review of the forecasts prepared by management and challenge of the key assumptions against prior year and our knowledge of the business. As referred to in Note 1e, management have modelled reasonably possible downside scenarios to incorporate the expected impact of the COVID-19 pandemic. We have considered the appropriateness of the downside scenarios in respect of the impact of COVID-19 and challenged management to confirm that they have suitably addressed the inputs, which are most susceptible to change, including those in respect of revenue, margins and cost savings.
- We challenged management's assessment of reasonably possible scenarios on the impact of trading against actual trading results subsequent to the Government's lockdown instruction.
- We challenged management on the suitability of the mitigating actions identified by management in their assessment and the quantum and period ascribed to these mitigating actions.
- Scenarios modelled by management include a reverse stress test to analyse the levels of revenue reduction that could be sustained without breaching banking covenants. We challenged the assumptions used and mitigating actions included within this scenario and reviewed the reverse stress test calculations.
- Considered the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and stress test scenario.

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 28 to 31 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 28 in the annual report that they have carried out a robust assessment of the principal risks, including those that would threaten its business model, future performance, solvency or liquidity;
- the directors' statement set out on page 51 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 page 51 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.

Apart from the impact of the matters disclosed in the material uncertainty related to going concern referred to in this report, we confirm that we have nothing material to add or draw attention to in respect of these requirements.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified, including those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter

Hire stock and renovation work

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.

Therefore we consider hire stock and renovation costs to be a key audit matter.

Refer to page 55 (Audit Committee Report), pages 85 and 86 (accounting policy) and pages 101 and 102 (financial disclosures).

How we addressed the matter in our audit

We sample tested 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 for certain assets, 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 further agreed the existence of a sample of assets with reference to their continuing hire.

We selected a sample of assets acquired in the year and agreed the amounts recorded on the fixed asset registers to invoices.

For a sample of items 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, historic disposal values and the group's industry peers.

We agreed, on a sample basis, the capitalisation of the renovation work undertaken to supporting documentation and tested on sample basis that the capitalisation was appropriate with reference to the underlying asset.

We evaluated the adequacy of the Group's disclosures of the judgements and estimates utilised in assessing the valuation.

Key observations

We noted no material exceptions thorough performing these procedures.

Financial Statements

Independent Auditor's Report

to the members of HSS Hire Group plc continued

Key audit matter
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.

The effect of the COVID-19 pandemic is considered to be a non-adjusting post balance sheet event and does not therefore impact the carrying value of goodwill.

Refer to page 55 (Audit Committee Report), pages 85 and 86 (accounting policy) and pages 99 and 100 (financial disclosures).

How we addressed the matter in our audit

For each of the key inputs to the impairment model we reviewed management's assumptions by reference to Board approved budgets, historical trends, and reviewed the sensitivity analysis performed.

We obtained explanations and, where appropriate, support from 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 of short term and long term trading performance and discount rate used 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 mechanics of the modelling and 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.

Key observations

Based on the evidence obtained we did not identify any indications that the fair value assessments made by management were inappropriate.

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.

Therefore we consider revenue to be a key audit matter.

Refer to page 55 (Audit Committee Report), page 84 (accounting policies) and pages 90 to 92 (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.

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.

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.

Key observations

We noted no material exceptions through performing these procedures.

Onerous lease provisions

The Group has a significant number of property related provisions relating to the ongoing lease obligations of properties that the Group either no longer utilises in the business or where the trading performance of those sites is not sufficient to meet the unavoidable operating costs.

The completeness and accuracy of the provisions involve management judgement and estimates in assessing mitigating future lease costs as a result of the economic benefits expected to be received under the contracts through trading or sub-letting of the properties. Additional management judgement and estimates relate to determining break clauses, other unavoidable costs and the appropriateness of the discount rate used.

Therefore we consider onerous lease provisions to be a key audit matter.

Refer to page 55 (Audit Committee Report), page 87 (accounting policy) and pages 105 and 106 (financial disclosures).

Our audit work involved checking a sample of the movements in provisions against prior years and obtaining and verifying explanations for material movements.

For any newly created onerous lease provisions we reviewed and considered with management the basis of the provisions made, including a review of the lease terms in place.

We considered management's evaluation of future expected trading income and costs with reference to current year performance. We challenged assumptions used for break clauses and subletting with reference to underlying agreements.

The basis of the discount rate applied was considered against third party support.

We evaluated the adequacy of the Group's disclosures in relation to the judgements and estimates used in the estimation of the onerous lease provision.

Key observations

We noted no material exceptions through performing these procedures.

Key audit matters remain consistent with those in the prior year with the exception of going concern. Going concern has been included in the current year as a result of the material uncertainty and therefore increased significance in the audit of the financial statements for the year ended 28 December 2019.

Our application of materiality

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 (2018: £1,000,000). Given similar levels of trading activities in 2017, 2018 and 2019 and the volatility of the Group's profit/loss, materiality has been calculated with regard to a normalised Group profit/loss over the past three years excluding certain exceptional items in respect of the Group's network reconfiguration in 2017.

Materiality represents 3.66% of the normalised Group profit/loss before tax. Materiality in 2018 was determined with reference to a benchmark of the Group loss and represented 4.54% of the normalised Group loss before tax.

Materiality for the parent company was set at £900,000, being 90% (2018: £900,000 based on 90%) of group materiality.

Performance materiality was set at 60% (2018: 60%) of materiality for the Group audit, and 60% (2018: 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.

We set materiality for each component of the Group based on a percentage of between 18% and 90% (2018: 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 £184,000 to £900,000 (2018: £170,000 to £900,000).

In the audit of each component, we further applied performance materiality levels of between 60% and 75% (2018: 60% and 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 £40,000 (2018: £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. We identified twelve reporting units at the year-end which had non-trivial external transactions. We identified six reporting units 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 six units comprise over 90% of Group turnover and over 90% of Group gross assets.

All audit work on the six 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.

How the audit was considered capable of detecting irregularities, including fraud

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 and financial statements 2019, 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** – 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 position, performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or

Financial Statements

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

→ **Audit committee reporting** – 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** – 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.

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 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, 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 28 December 2019, we were reappointed by resolution of the members of the company at the annual general meeting held on 20 June 2019. The period of total uninterrupted engagement is five years, covering the years ending 31 December 2015 to 28 December 2019 for the Company.

The 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.

Sophia Michael (Senior Statutory Auditor)

For and on behalf of BDO LLP, Statutory Auditor

London

UK

26 May 2020

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

Consolidated Income Statement

For the year ended 28 December 2019

	Note	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Revenue	5	328,005	322,767
Cost of sales		(149,706)	(145,549)
Gross profit		178,299	177,218
Distribution costs		(33,190)	(33,980)
Administrative expenses		(128,830)	(132,514)
Other operating income	6	542	494
Adjusted EBITDA	5, 32	63,929	59,967
Less: Depreciation	15	(37,396)	(37,883)
Adjusted EBITA	32	26,533	22,084
Less: Exceptional items (non-finance)	7	(4,094)	(4,965)
Less: Amortisation	14	(5,618)	(5,901)
Operating profit		16,821	11,218
Finance expense	8	(22,609)	(20,374)
Adjusted profit before tax		5,806	3,170
Less: Exceptional items (non-finance)	7	(4,094)	(4,965)
Less: Exceptional items (finance)	7	(1,882)	(1,460)
Less: Amortisation	14	(5,618)	(5,901)
(Loss) before tax		(5,788)	(9,156)
Income tax (charge)/credit	12	(436)	2,749
(Loss) from continuing operations		(6,224)	(6,407)
Profit on disposal of discontinued operations	28	14,770	(2,080)
Profit from discontinued operations, net of tax	28	162	4,067
Profit/(loss) for the financial year		8,708	(4,420)
Profit/(loss) per share (pence)			
Continuing operations			
Basic and diluted loss per share	13	(3.66)	(3.76)
Adjusted basic earnings per share ⁽¹⁾	13	2.76	1.51
Adjusted diluted earnings per share ⁽¹⁾	13	2.31	1.36
Continuing and discontinued operations			
Basic and diluted earnings/(loss) per share	13	5.12	(2.60)
Adjusted basic earnings per share ⁽¹⁾	13	2.84	3.81
Adjusted diluted earnings per share ⁽¹⁾	13	2.38	3.45

(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.

The notes on pages 80 to 115 form part of these financial statements.

Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 28 December 2019

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Profit/(loss) for the financial year	8,708	(4,420)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	(782)	(245)
Losses arising on cash flow hedges	(144)	(162)
Other comprehensive loss for the year, net of tax	(926)	(407)
Total comprehensive income for the year	7,782	(4,827)
Attributable to owners of the Company	7,782	(4,827)

The notes on pages 80 to 115 form part of these financial statements.

Consolidated Statement of Financial Position

For the year ended 28 December 2019

	Note	Year ended 28 December 2019 £000s	Year ended 29 December 2018 (restated) £000s
ASSETS			
Non-current assets			
Intangible assets	14	160,378	163,657
Property, plant and equipment	15	101,851	109,129
Deferred tax assets	21	–	2,500
Derivative financial instruments	25	14	405
		262,243	275,691
Current assets			
Inventories	16	3,735	4,333
Trade and other receivables	17	88,396	93,981
Cash		22,658	17,832
Assets classified as held for sale	27	–	46,716
		114,789	162,862
Total assets		377,032	438,553
LIABILITIES			
Current liabilities			
Trade and other payables	18	(66,031)	(72,008)
Borrowings and finance lease liabilities	19	(5,355)	(19,304)
Provisions	20	(8,145)	(10,284)
Current tax liabilities		–	(101)
Liabilities associated classified as held for sale	27	–	(13,544)
		(79,531)	(115,241)
Non-current liabilities			
Borrowings and finance lease liabilities	19	(185,729)	(217,630)
Provisions	20	(32,470)	(34,048)
Deferred tax liabilities	21	(341)	(1,168)
		(218,540)	(252,846)
Total liabilities		(298,071)	(368,087)
Net assets		78,961	70,466
EQUITY			
Share capital	22	1,702	1,702
Warrant reserves	23	2,694	2,694
Merger reserve		97,780	97,780
Foreign exchange translation reserve		(602)	180
Cash flow hedging reserve		(306)	(162)
Retained deficit		(22,307)	(31,728)
Total equity		78,961	70,466

The notes on pages 80 to 115 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 26 May 2020 and were signed on its behalf by:

P Queded

Director

26 May 2020

Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 28 December 2019

	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 30 December 2018 as restated	1,702	2,694	97,780	180	(162)	(31,728)	70,466
Total comprehensive income for the year							
Profit for the year	-	-	-	-	-	8,708	8,708
Foreign currency translation differences arising on consolidation of foreign operations	-	-	-	(782)	-	-	(782)
Hedging of financial instruments	-	-	-	-	(144)	-	(144)
Total comprehensive income for the year	-	-	-	(782)	(144)	8,708	7,782
Transactions with owners recorded directly in equity							
Share-based payment charge	-	-	-	-	-	713	713
At 28 December 2019	1,702	2,694	97,780	(602)	(306)	(22,307)	78,961
Total comprehensive loss for the year							
(Loss) for the year	-	-	-	-	-	(4,420)	(4,420)
Foreign currency translation differences arising on consolidation of foreign operations	-	-	-	(245)	-	-	(245)
Hedging of financial instruments	-	-	-	-	(162)	-	(162)
Total comprehensive loss for the year	-	-	-	(245)	(162)	(4,420)	(4,827)
Transactions with owners recorded directly in equity							
Share-based payment charge	-	-	-	-	-	24	24
Warrants issued (note 23)	-	2,694	-	-	-	-	2,694
At 29 December 2018 – as previously presented	1,702	2,694	97,780	180	(162)	(30,731)	71,463
At 29 December 2018 – as restated	1,702	2,694	97,780	180	(162)	(31,728)	70,466

The notes on pages 80 to 115 form part of these financial statements.

Consolidated Statement of Cash Flows

For the year ended 28 December 2019

	Note	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Cash flows from operating activities			
Profit/(loss) after income tax		8,708	(4,420)
Adjustments for:			
– Tax		436	(2,172)
– Profit on disposal of discontinued operations	28	(14,770)	2,080
– Amortisation	14	5,525	5,946
– Depreciation	15	28,750	31,509
– Accelerated depreciation relating to hire stock customer losses and hire stock write offs	15	8,257	11,455
– Impairment of property, plant and equipment	15	363	533
– Disposal of intangible assets	14	96	–
– Impairment of intangible assets	14	–	60
– Loss on disposal of property, plant and equipment	15	576	455
– Share-based payment charge	24	714	24
– Foreign exchange gains on operating activities		(474)	(360)
– Finance expense	8	22,609	20,814
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		589	828
– Trade and other receivables		5,863	(2,548)
– Trade and other payables		(4,362)	(54)
– Provisions		(3,718)	(8,302)
Net cash flows from operating activities before changes in hire equipment		59,162	55,848
Purchase of hire equipment	15	(18,972)	(18,544)
Cash generated from operating activities		40,190	37,304
Net interest paid		(18,498)	(17,265)
Income tax repaid/(paid)		490	(231)
Net cash generated from operating activities		22,182	19,808
Cash flows from investing activities			
Proceeds on disposal of businesses, net of cash disposed of		45,618	–
Disposal of assets held for sale		–	1,500
Purchases of non-hire property, plant, equipment and software	14, 15	(6,670)	(7,238)
Net cash flows generated from/(used in) investing activities		38,948	(5,738)
Cash flows from financing activities			
Bank arrangement fee		–	(11,237)
Proceeds from borrowings (third parties)		–	233,000
Repayment of borrowings		(51,018)	(205,000)
Capital element of finance lease payments		(7,361)	(12,510)
Acquisition of derivative financial instruments		–	(567)
Net cash (paid)/received from financing activities		(58,379)	3,686
Net increase in cash		2,751	17,756
Cash at the start of the year – total		19,907	2,151
Cash at the end of the year – total		22,658	19,907
Cash at the end of the year – continuing operations		22,658	17,832

The notes on pages 80 to 115 form part of these financial statements.

Financial Statements

Notes to the Consolidated Financial Statements

For the year ended 28 December 2019

1. Basis of preparation

a) Reporting entity

The Company is a public limited company which is listed on the London Stock Exchange and is incorporated under the Companies Act and domiciled in the United Kingdom. The address of its registered office is Oakland House 76 Talbot Road, Manchester M16 0PQ. These Consolidated Financial Statements comprise the Company and its subsidiaries (the 'Group').

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 cover the 52 week period from 30 December 2018 to 28 December 2019 (2018: 31 December 2017 to 29 December 2018).

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

At 28 December 2019, the Group's financing arrangements consisted of a fully drawn senior finance facility of £182.0m, undrawn overdraft and revolving credit facilities of £23.2m and finance lease lines to fund hire fleet capital expenditure, of which £13.4m had not been utilised. Both the senior finance facility and revolving credit facility are subject to a net debt leverage financial covenant test every quarter. At the financial year end the Group had 30% headroom against this covenant. Subsequent to year end the Group drew down the remaining £17.2m from the RCF.

The Group's forecasts and projections (prior to COVID-19), taking into account strategic initiatives and reasonably possible changes in trading performance, show that the business will be able to operate within the level of its facilities for at least 12 months from the approval date of these Consolidated Financial Statements.

The uncertainty as to the future impact of the COVID-19 pandemic has been considered as part of the Group's adoption of the going concern basis.

In the first 12 weeks of FY20 COVID-19 did not have a material impact on the Group's performance. However, the first signs of a trading slowdown were detected in week 13, following the Government's lockdown instruction. In response to this instruction, the Group temporarily closed the majority of its UK branches and moved to a delivery-only operation through its national network of Customer Distribution Centres (CDCs) and its OneCall re-hire business, providing essential equipment to critical customers. Since this date, and after establishing additional safe working practices, the Group has added click and collect capability at each CDC.

Whilst it is difficult to quantify the impact of COVID-19 on the Group's financial results, the Directors have considered a number of downside scenarios. In preparing these, key revenue assumptions have been applied for the period from April 2020 to April 2021; namely material reductions in revenue of between 35% and 55% against the Group's original forecasts for Q2 FY20 followed by varying degrees of recovery through the remainder of the period. All scenarios assume being 10% below previous revenue expectations from April 2021 to December 2022. Further assumptions have been made on the recoverability of trade receivables being delays in receiving £20m to £30m and £10m not being recovered.

These downsides have been mitigated by the expected impact of immediate actions taken including: the deferral of capital expenditure, overhead reduction of £2.5m per month as colleagues are entered into the Government's job retention scheme and management take salary reductions for a period of three months from April 2020, rent payment holiday negotiations with landlords, advantage taken of available tax relief and extending payment terms with a number of the Group's stakeholders.

Taking a view in which not all expected benefits of mitigating actions are achieved and the £10m of trade receivables referenced above are not recovered, the Group could sustain the following loss of revenue against the original forecasts referenced above without breaching the financial covenants or requiring additional liquidity: Q2 FY20 39%, Q3 FY20 13%, Q4 FY20 6%, Q1 FY21 5%, Q2 FY21 5%.

There are certain forecast scenarios which indicate that financial covenants would be breached and other scenarios which indicate a breach in covenants together with a need for additional liquidity would arise. Should a breach occur, the Group would seek to obtain a waiver agreement with the senior finance facility and revolving credit facility lenders, including accessing government-backed schemes. Should further liquidity be required, the Group would seek to agree additional short-term facilities with lenders and deferral of capital and interest payments. Given the lack of certainty on reaching agreement with the lenders on a waiver in the event of a breach of covenant, and on securing the additional liquidity required, the existence of a material uncertainty which may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern is indicated. The Directors have noted that preliminary discussions with the Group's lenders have resulted in an ongoing commitment being expressed to the business and support for the Board's response to the COVID-19 pandemic. Accordingly, the Group continues to adopt the going concern basis in preparing its Consolidated Financial Statements.

The financial statements do not include the adjustments that would be required should the going concern basis of preparation no longer be appropriate.

1. Basis of preparation continued

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.

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

g) Prior year adjustment

During the year the Group identified a historical error related to the understatement of customer deposits for certain cash customers. The issue goes back a number of years and although immaterial in each financial year has the cumulative impact of reducing reserves by £997k and increasing creditors by the same amount. Separately, changes made to process mean that the issue has not reoccurred in 2018 or 2019. A full balance sheet as at 30 December 2017 has not been presented in accordance with IAS 1 given the limited number of line items affected. The adjustment has no impact on reported EPS. The effect of the adjustment posted to correct this historical error has been included in the table below.

	2018 As previously presented £000s	2018 Effect of adjustment £000s	2018 As restated £000s
Other creditors	368	997	1,365
Retained (deficit)	(30,731)	(997)	(31,728)

	2017 As previously presented £000s	2017 Effect of adjustment £000s	2017 As restated £000s
Other creditors	916	997	1,913
Retained (deficit)	(26,335)	(997)	(27,322)

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.

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 year 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. Improvements have been made during the financial year with the implementation of a new asset management system which is in use for the 2020 financial year by the core UK hire business. The Directors expect to make further improvements to the recording and management of property, plant and equipment across the group.

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.

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 28 December 2019

2. Critical accounting estimates and judgements continued**Estimates** continued**Onerous lease provision**

Provisions have been made for onerous leases on loss-making and non-trading stores, distribution centres and unused office space within the Group's property portfolio. The assessment of whether a site is onerous is based on forecast trading performance and sub-let income over the length of the lease. The carrying amount of the onerous lease provision will be affected by changes in the discount rate, lease disposal, changes in trading performance and 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 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 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 income recognised before the end of the period. The Group's bad debt and credit note provisions are disclosed in note 17.

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, and therefore are not leases.

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 28 December 2019 these include the accelerated amortisation of debt issue costs, the cost of onerous leases (net of sub-let rental income), the cost reduction programme, and business divesture.

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

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

Standards effective for the first time in the year

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

Standards effective in future periods

IFRS16 Leases Implementation

IFRS 16 Leases is mandatory for periods beginning on or after 1 January 2019. The Group has worked with third party specialists to develop IFRS 16 policies along with processes and systems to manage their successful implementation. This work was ongoing through 2019, as such the decision was taken not to adopt IFRS16 early for the financial year 30 December 2018 to 28 December 2019 as had been planned and noted in the Annual Report and Financial Statements 2018. The date of initial application (DIA) will now be for the financial year starting 29th December 2019. Taking the time allowed by the standard gives management the opportunity to perform a full review of its lease portfolio and accurately assess the impact of IFRS 16 and the required disclosure. The Group is in the process of finalising the detailed reconciliations required prior to full implementation of its new lease management system which will drive the IFRS16 accounting.

Capitalisation of lease contracts

Under IFRS 16, the Group will capitalise the right of use of all its property leases, vehicle leases, hire and other equipment leases previously held under operating leases, other than leases ending within twelve months or where the asset is of low value. The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual termination or extension options.

The Group will apply the cumulative catch-up ('modified') transition method. Under this option the Group will apply the option that calculates the right-of-use asset as equal to the lease liability for leases previously accounted for as operating leases. The comparative information will not be restated and will continue be reported under IAS 17 and IFRIC 4. The Group will recognise a right of use (ROU) asset representing its right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments. The ROU asset is adjusted for any prepaid or accrued lease payments relating to that lease that were recognised in the statement of financial position immediately before the DIA. The company has taken the practical expedient available to rely on its assessment of whether a lease is onerous by applying IAS 37 immediately before the date of initial application, reducing the carrying value of its ROU asset at the DIA.

Operating lease expenses will be replaced by a depreciation of right of use assets expense and an interest expense as the interest rate implicit in the Group's lease liabilities unwinds.

Discount rates

The Group has assessed that the interest rate implicit in the lease is not readily determinable for any of its leases and will therefore be using an incremental borrowing rate for all leases, with a single rate applied to leases of similar characteristics. The discount rate selected for non-property leases is the rate at which the Group expects to finance assets of a similar class. For property, rates are those at which the Group might expect to borrow at if acquiring an interest in property, over five and ten year tenures. These rates are adjusted upwards for properties considered to be higher risk because of geographic region or age.

Lessor accounting

The Group acts as intermediate lessor on vacant properties it sublets to assist in covering costs until the lease term ends or a break clause can be triggered. The Group will assess whether the sub-lease is a finance or operating lease in the context of the ROU asset being leased, not the underlying asset. When the sublet is identified as a finance lease, a net investment in the sublease will be created and included in Trade and other receivables and the corresponding ROU asset will be accounted for as a disposal.

Sale and leaseback transactions

Under IFRS 16 the Group will continue to account for its various sale and leaseback transactions entered into for large hire equipment prior to 28 December 2019 as a sale and leaseback transaction. The Group will recognise a lease liability and ROU asset on 29 December 2019 measured in the same way as other finance leases on this date.

Expected impact

Subject to the finalisation of the new system, related policy and specific judgements in determining the lease terms on adoption of IFRS 16, the Group expects to recognise circa £85m of additional lease liabilities and around £84m ROU assets related to existing operating leases. The reduction in the ROU asset versus lease liability is the result of transfers from onerous lease provisions, rent accruals and prepayments on the balance sheet. 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 would be a reduction in profit before tax for the year ending 26 December 2020 which is expected to be less than £2m, assuming no change to the lease portfolio. The standard will not impact the Group's underlying cash flows. The standard will also impact 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.

Other standards

The Company is currently assessing the impact of the following accounting standards and amendments:

IFRIC 23 Uncertainty over Income Tax Treatments (IFRIC 23), which comes into effect for accounting periods starting on or after 1 January 2019;

IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material); which comes into effect for accounting periods starting on or after 1 January 2020;

IFRS 3 Business Combinations (Amendment – Definition of Business), which comes into effect for accounting periods starting on or after 1 January 2020;

Revised Conceptual Framework for Financial Reporting.

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 28 December 2019

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 available for use by the customer 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 from the end of the month of invoice or to such terms as have been specifically negotiated up to a maximum of 90 days from the end of the month of invoice.	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 by deducting this 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 the customer; or have otherwise been accepted by the customer. 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.

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.

4. Accounting policies continued

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. 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 year, 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.

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.

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 2019 to the depreciation rates applied.

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

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 this to have an indefinite life and it is not amortised, but instead subjected to annual impairment testing.

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 28 December 2019

4. Accounting policies continued**g) Intangible assets** continued

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 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 one or more of the cash generating units (CGUs) that are 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.

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 the derivative 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.

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.

4. Accounting policies continued

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.

The provision for impairment of trade receivables consists of a bad debt and a credit note provision (see note 2). The Group applies the IFRS 9 simplified approach of using a lifetime expected credit loss provision for trade receivables based upon past default experience. Trade receivables and contract assets are grouped based on similar credit risk and aging.

The estimated credit loss rates are based on historical loss rates and then adjusted for current and forward-looking macroeconomic factors affecting the Group's operating environment. The Group has identified expected GDP growth, inflation and unemployment rates as key in this regard.

Receivables over two years past their due date are expensed in their entirety and written back to income if subsequently recovered.

The creation and release of bad debt provision are charged or credited to administrative expenses in the income statement and movements in the credit note provision are charged or credited to revenue.

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 loss-making or non-trading stores and distribution centres as well as unused office space measured at the value of the future unavoidable lease costs, net of expected rental income, is assessed when the leased space becomes loss-making or vacant and 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 future profitability of the site and ultimate cost to the Group, including the nature, timings and cost of exiting a lease, 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' reports, where available and remaining properties are covered by estimates based on gross internal area. Provisions for dilapidations are recognised in full when the related facilities are installed.

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.

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Notes to the Consolidated Financial Statements continued

For the year ended 28 December 2019

4. Accounting policies continued**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

The retained earnings/accumulated deficit represents the accumulated profits, losses and distributions of the Group.

Foreign exchange reserve

The foreign exchange reserve represents cumulative exchange differences arising from the translation of foreign operations and reported in other comprehensive income (note 4e).

Merger reserve

The merger reserve is the amount arising on the difference between the nominal value of shares issued on a merger and the carrying value of the interest in the 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

The warrant reserve represents the issue-date fair value of warrants that will be settled by a future issue of shares in the Group.

Cash flow hedging reserve

The cash flow hedging reserve represents the effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges and recognised in other comprehensive income (note 4i).

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.

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.

4. Accounting policies continued

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 employees' 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 their fair value and the present value of the minimum lease payments at the inception of the related 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).

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.

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Notes to the Consolidated Financial Statements continued

For the year ended 28 December 2019

4. Accounting policies continued**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.

w) 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.

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 (2018: one).

	Year ended 28 December 2019			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers from continuing operations	228,973	99,032	–	328,005
Contribution	155,490	15,518	–	171,008
Branch and selling costs			(83,974)	(83,974)
Central costs			(23,105)	(23,105)
Adjusted EBITDA				63,929
Less: Exceptional items			(4,094)	(4,094)
Less: Depreciation and amortisation	(32,817)	(217)	(9,980)	(43,014)
Operating profit				16,821
Net finance expenses				(22,609)
(Loss) before tax from continuing operations				(5,788)
Income tax				(436)
Profit on disposal of discontinued operations				14,770
Profit for the year from discontinued operations				162
Profit after tax and discontinued operations				8,708

5. Segment reporting continued

	Year ended 28 December 2019			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	27,097	29	4,277	31,403
Intangibles	–	878	1,461	2,339
Non-current assets net book value				
Property, plant and equipment	76,794	187	24,870	101,851
Intangibles	155,624	785	3,969	160,378
Unallocated corporate assets				
Financial instruments			14	14
Current assets			114,789	114,789
Current liabilities			(79,531)	(79,531)
Non-current liabilities			(218,540)	(218,540)
				78,961
Year ended 29 December 2018				
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers from continuing operations	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				59,967
Less: Exceptional items			(4,965)	(4,965)
Less: Depreciation and amortisation	(31,551)	(171)	(12,062)	(43,784)
Operating profit				11,218
Net finance expenses				(20,374)
(Loss) before tax from continuing operations				(9,156)
Income tax				2,749
Profit for the year from discontinued operations				1,987
(Loss) after tax and discontinued operations				(4,420)

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Notes to the Consolidated Financial Statements continued

For the year ended 28 December 2019

5. Segment reporting continued

	Year ended 29 December 2018 (restated)			
	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	79,707	377	29,045	109,129
Intangibles	158,420	324	4,913	163,657
Unallocated corporate assets				
Financial instruments			405	405
Other non-current deferred tax assets			2,500	2,500
Assets held for sale (net)			33,172	33,172
Current assets			116,146	116,146
Current liabilities			(101,697)	(101,697)
Non-current liabilities			(252,846)	(252,846)
				70,466

6. Other operating income

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Other operating income	542	494

Other operating income relates to sub-let rental income received on vacant properties which are not onerous.

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 year ended 28 December 2019 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 28 December 2019 £000s
Costs related to onerous properties	–	9	2,924	(46)	–	–	2,887
Cost reduction programme	17	308	519	–	–	–	844
Impairment of property, plant and equipment	–	–	363	–	–	–	363
Exceptional items (non-finance)	17	317	3,806	(46)	–	–	4,094
Accelerated amortisation of debt issue costs	–	–	–	–	1,882	–	1,882
Exceptional items – continuing operations	17	317	3,806	(46)	1,882	–	5,976
Business divesture – discontinued operations	–	–	–	–	–	(14,770)	(14,770)
Total	17	317	3,806	(46)	1,882	(14,770)	(8,794)

7. Exceptional items continued

During the year ended 29 December 2018, 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	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
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 (non-finance)	2	34	5,396	(467)	–	–	4,965
Costs expensed on refinancing	–	–	–	–	1,460	–	1,460
Exceptional items – continuing operations	2	34	5,396	–	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

Exceptional items incurred in 2019 and 2018

Costs related to onerous properties: branch and office closures

In 2017 and 2018 the number of branches was reduced to remove less profitable locations with activity centralised into remaining locations. During the year, a distribution centre was closed with operations transferred to nearby centres resulting in an onerous lease provision of £2.1m. No other branches were closed (2018: 12), however the decision to cease using one of the floors at the Manchester registered office resulted in an additional onerous lease provision of £1.0m. The remaining reduction of £(0.2)m relates to the reassessment of existing dark store and onerous lease provisions.

Provisions are created net of expected sub-let income. During the year, sub-let income of £0.7m was received and recognised as negative provision utilisation.

Cost reduction programme

In light of headwinds that emerged in the market during the year, the Group has undertaken initiatives to reduce costs. These include the closure costs of a centre used to refurbish hire stock and costs to exit contracts related to the operation of a cross-dock facility used to redistribute assets across the network. Internal restructuring was also carried out, resulting in £0.8m of total costs which include £0.6m redundancy costs.

In 2018 costs of £1.1m were recognised, largely relating to redundancy, when the Group carried out restructuring as it implemented plans to reduce central overhead.

Accelerated amortisation of debt issue costs

During 2019 an element of proceeds from the UK Platforms disposal was used to repay debt. The early repayment resulted in accelerated amortisation of debt issue costs of £1.9m.

Business divesture

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). The transaction completed in 2019 and has been treated as a discontinued operation (note 27). The clearance of this transaction was secured from the Competitions 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 expensed in 2018. See note 28 for details of the profit on disposal recognised during the year.

In 2017 the Group sold the Reintec branded fleet of cleaning machines, and the associated Tecserv equipment maintenance business, which were not considered core to the strategy. In 2018 £0.2m was recognised as exceptional, being a revision to the consideration received on disposal.

Impairment of closed branch property, plant and equipment

Following the branch closures management 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 28 December 2019, an impairment of £0.4m (2018: £0.5m) to property, plant and equipment was recognised in the closed distribution centre and Manchester registered office referenced above.

Exceptional items incurred in 2018 only

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 during the year ended 29 December 2018 to complete this review.

Costs expensed on refinancing

The Group refinanced in July 2018, terminating the previous finance facility earlier than scheduled. The £1.5m expensed in 2018 largely relate to a write-off of debt issue costs related to that facility.

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8. Finance income and expense

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Bank loans and overdrafts	325	1,620
Interest on financial instruments	247	–
Term facility	16,552	9,440
Senior secured notes	–	4,822
Finance leases	721	774
Interest unwind on discounted provisions	414	169
Debt issue costs	2,468	2,089
Exceptional accelerated amortisation of debt issue costs	1,882	–
Exceptional finance cost on refinancing the business	–	1,460
	22,609	20,374

9. Operating profit

Operating profit is stated after charging/(crediting):

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Amortisation of intangible assets	5,522	5,901
Depreciation of property, plant and equipment	28,601	26,823
Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	8,257	9,776
Loss on disposal of tangible assets	576	751
Impairment of tangible assets	363	533
Loss on disposal of intangible assets	96	–
Operating lease rentals:		
– land and buildings	17,117	14,950
– motor vehicles	10,272	10,323
– hire stock	919	1,948
Sublease rental income	(542)	(494)
Foreign currency translation gains	(14)	(234)
	£000s	£000s

Auditors' remuneration

– audit of Group and Company financial statements	248	63
– audit of subsidiary financial statements	218	288
– other audit related assurance services	28	82
– corporate finance services	–	150
– taxation compliance services	3	12
	497	595

Operating lease rentals of land and buildings includes £2.8m (2018: £1.4m) of exceptional costs relating to onerous leases.

10. Employees

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

	Year ended 28 December 2019 Number	Year ended 29 December 2018 Number
Distribution	518	528
Hire stock and inventory maintenance	294	375
Sales and administration	1,803	1,883
	2,615	2,786
Discontinued operations	(10)	(116)
Continuing operations	2,605	2,670

The aggregate remuneration costs of these employees were as follows:

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Wages and salaries	78,669	84,963
Social security costs	7,754	7,680
Pension costs	1,843	1,691
Share-based payment expense	714	24
	88,980	94,358
Discontinued operations	(165)	(4,348)
Continuing operations	88,815	90,010

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 Executive 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 28 December 2019 £000s	Year ended 29 December 2018 £000s
Wages and salaries	3,706	3,548
Employer's national insurance contributions and similar taxes	444	336
Other pension costs	146	98
Share-based payment expense	413	24
	4,709	4,006
Discontinued operations	-	(718)
Continuing operations	4,709	3,288

At 28 December 2019 £0.7m was payable to key management personnel (2018: £0.5m).

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11. Directors' remuneration

The remuneration costs of the Company's Directors were:

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Aggregate emoluments	960	952
Bonus	227	453
Pension costs	55	55
Directors' emoluments	1,242	1,460
Share-based payment expense	185	2
Total emoluments	1,427	1,462

There is no compensation for loss of office payable as at 28 December 2019 (29 December 2018: £nil). Included above is the fee of £40,000 (2018: £40,000) for one director (2018: one) that is paid to Exponent Private Equity LLP (note 29).

The remuneration of the highest paid Director was:

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Aggregate emoluments	388	383
Bonus	132	263
Pension costs	31	31
Directors' emoluments	551	677
Share-based payment expense	114	1
Total emoluments	665	678

12. Income tax charge

(a) Analysis of tax charge in the year

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Current tax (credit)/charge		
UK corporation tax on the result for the year	58	266
Adjustments in respect of prior years	(1,295)	(39)
Total current tax charge/(credit) – continuing operations	(1,237)	227
Deferred tax charge/(credit) for the year		
Deferred tax charge/(credit) for the year	1,643	(2,956)
Deferred tax charge impact of change in tax rate	175	–
Adjustments in respect of prior years	(145)	(20)
Total deferred tax charge/(credit) (see note 19)	436	(2,749)

The Group received refunds of tax in Ireland related to prior years totalling £1.3m.

(b) Factors affecting the income tax charge/(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 28 December 2019 £000s	Year ended 29 December 2018 £000s
(Loss) before tax – continuing operations	(5,788)	(9,156)
(Loss) before tax multiplied by the effective standard rate of corporation tax of 19% (2018: 19%)	(1,100)	(1,739)
Effects of:		
Utilisation of tax losses brought forward	(3)	(2,512)
Unprovided deferred tax movements on short term temporary differences and capital allowance timing differences	(609)	(1,001)
Adjustments in respect of prior years	(1,513)	(58)
Expenses not deductible for tax purposes	677	1,456
Losses carried forward	452	839
Difference in foreign tax rate	58	266
Deferred tax write-back	2,237	–
Impact of change in tax rate	237	–
Income tax charge/(credit)	436	(2,749)

The majority of the deferred tax asset recognised for the year ended 29 December 2018 was not realised due to lower profit before tax and higher capital allowances than had been forecast.

(c) Factors that may affect future tax charge

The standard rate of corporation tax in the UK is 19% and it is also the rate applied to the Group's profit for the year ended 28 December 2019.

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £9.6m (2018: £17.0m) and relating to losses of £10.4m (2018: £8.1m – restated).

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.

In the March 2020 Budget the Government announced that the 2020 Finance Bill will contain provisions for the standard rate of UK corporation tax to remain at 19%, meaning that legislation previously enacted for a reduction to 17% from 1 April 2020 will be reversed. The previously enacted rate of 17% has however been used to calculate the above deferred tax disclosures as the 2020 Finance Bill is not yet substantively enacted.

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13. Earnings per share

	Loss after tax from continuing operations £000s	Weighted average number of shares £000s	Loss after tax from continuing operations per share pence
Year ended 28 December 2019	(6,224)	170,207	(3.66)
Year ended 29 December 2018	(6,407)	170,207	(3.76)

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 year.

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), market value options, Sharesave Scheme share options and warrants, as disclosed in notes 23 and 24.

For the years ended 28 December 2019 and 29 December 2018, all of the Group's potentially dilutive equity derivative securities were anti-dilutive for the purpose of diluted basic loss per share and dilutive for the purpose of diluted adjusted earnings per share, with the exception of the 2017 options which were anti-dilutive.

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

	Year ended 28 December 2019 pence	Year ended 29 December 2018 pence
Basic (loss) per share	(3.66)	(3.76)
Add back:		
Exceptional items per share ⁽¹⁾	3.51	3.77
Amortisation per share ⁽²⁾	3.30	3.47
Income tax (charge)/credit per share	0.26	(1.62)
Charge:		
Tax (charge) at prevailing rate	(0.65)	(0.35)
Adjusted basic earnings per share	2.76	1.51

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

(2) Amortisation per share is calculated as the amortisation charge divided by the weighted average number of shares in issue through the year.

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

	Year ended 28 December 2019 pence	Year ended 29 December 2018 pence
Basic and diluted (loss) per share	(3.66)	(3.76)
Add back:		
Adjustment to basic loss per share for the impact of dilutive securities ⁽¹⁾	0.59	0.36
Exceptional items per share ⁽²⁾	2.94	3.41
Amortisation per share ⁽³⁾	2.77	3.13
Income tax (charge)/credit per share	0.21	(1.46)
Charge:		
Tax (charge) at prevailing rate	(0.54)	(0.32)
Adjusted diluted earnings per share	2.31	1.36

(1) The warrants, LTIP, market value options and Sharesave share options were dilutive in the year ended 28 December 2019 and 29 December 2018 for the purpose of calculating adjusted diluted earnings per share.

(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 year.

(3) Amortisation per share is calculated as the amortisation charge divided by the diluted weighted average number of shares in issue through the year.

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 28 December 2019 Weighted average number of shares 000s	Year ended 29 December 2018 Weighted average number of shares 000s
Basic	170,207	170,207
Market value options (note 24)	14,915	10,292
Warrants (note 23)	8,510	4,501
LTIP share options (note 24)	7,576	1,240
CSOP options (note 24)	585	940
Sharesave scheme options (note 24)	972	1,373
Directors' bonus shares	247	–
Diluted	203,012	188,553

14. Intangible assets

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 30 December 2018	124,877	26,744	23,222	22,228	197,071
Additions	–	–	–	2,339	2,339
Disposals	–	–	–	(158)	(158)
At 28 December 2019	124,877	26,744	23,222	24,409	199,252

Amortisation

At 30 December 2018	–	15,996	427	16,991	33,414
Charge for the year	–	2,698	98	2,726	5,522
Disposals	–	–	–	(62)	(62)
At 28 December 2019	–	18,694	525	19,655	38,874

Net book value

At 28 December 2019	124,877	8,050	22,697	4,754	160,378
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	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
Cost 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 year	–	2,650	100	3,151	5,901
Accumulated depreciation 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
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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	256	6,849	140,502
Climate control	7,327	–	336	820	8,483
Power generation	6,053	–	205	381	6,639
At 28 December 2019	124,877	21,900	797	8,050	155,624

	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

The remaining life of intangible assets other than goodwill and indefinite life brands is between one and fifteen years (2018: two and sixteen 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 five years (2018: five years) together with a terminal value using a long-term growth rate. The key assumptions underpinning the recoverable amounts of the CGUs tested for impairment are those regarding the discount rate, forecast revenue, EBITDA and capital expenditure.

The key variables applied to the VIU calculations were determined as follows:

- Cash flows were derived based on the budget for 2020 and model of the business for the following two years (to the end of 2022).
- 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 years giving a model of five years in total after which a terminal value was calculated. The long-term growth factor used was 1.4% for each of the CGUs (2018: 1.8%).
- A pre-tax discount rate of 9.1% (2018: 9.7%), calculated by reference to a weighted average cost of capital (WACC) based on 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 28 December 2019 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 light of the potential impact of a hard Brexit. Given the level of headroom in VIU these calculations show, the Directors did not envisage reasonably possible changes, either individually or in combination, to the key assumptions that would be sufficient to cause an impairment charge at the balance sheet date.

In respect of HSS Core, at 28 December 2019, the headroom between VIU and carrying value of the related assets was £192.7m (2018: £122.0m). The Directors' sensitivity analysis with regard to HSS Core shows that an increase in the discount rate to 26.7% (2018: 13.4%) or a reduction in the long-term growth rate to a decline of 4.2% (2018: decline of 2.5%) would eliminate the headroom shown. In addition, the Directors have assessed the combined impact of the long-term growth rate falling to zero (2018: zero) and an increase in the discount rate to 10.15% (2018: 10.89%). This shows that the headroom drops to £131.3m (2018: £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.

Since the balance sheet date the COVID-19 pandemic has emerged as a threat and means that the Directors' assessment of economic risk has changed. As detailed in note 1e, forecasts prepared since the balance sheet date show a large drop in profits in the short-term which could reduce or eliminate entirely the headroom identified in the reviews carried out during 2019. A reasonable estimate of the financial effects in this regard cannot yet be made.

For the purpose of calculating adjusted EBITDA and adjusted EBITA, amortisation, as disclosed on the face of the income statement, is calculated as the total of the amortisation charge for the year and the loss on disposal of intangible assets.

15. Property, plant and equipment

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 30 December 2018	73,293	62,685	195,384	331,362
Foreign exchange differences	–	(95)	(840)	(935)
Additions	2,415	1,891	27,097	31,403
Disposals	(2,131)	(1,482)	(37,988)	(41,601)
Transfers	(72)	(1,074)	1,146	–
At 28 December 2019	73,505	61,925	184,799	320,229
Accumulated depreciation				
At 30 December 2018	51,431	55,125	115,677	222,233
Foreign exchange differences	–	(79)	(546)	(625)
Charge for the year	4,316	2,521	21,764	28,601
Impairment	209	154	–	363
Disposals	(1,568)	(1,469)	(29,157)	(32,194)
Transfers	49	(316)	267	–
At 28 December 2019	54,437	55,936	108,005	218,378
Net book value				
At 28 December 2019	19,068	5,989	76,794	101,851
Cost				
At 31 December 2017 ¹	71,778	61,033	271,134	403,945
Foreign exchange differences	–	–	115	115
Additions	4,983	2,421	22,578	29,982
Transferred to assets held for resale	(2,304)	(649)	(69,907)	(72,860)
Disposals	(1,164)	(120)	(28,536)	(29,820)
At 29 December 2018	73,293	62,685	195,384	331,362
Accumulated depreciation				
At 31 December 2017 ¹	46,918	53,556	152,556	253,030
Charge for the year	6,090	2,241	18,492	26,823
Impairment loss	–	–	533	533
Transferred to assets held for resale	(1,159)	(557)	(37,144)	(38,860)
Disposals	(418)	(115)	(18,760)	(19,293)
At 29 December 2018	51,431	55,125	115,677	222,233
Net book value				
At 29 December 2018	21,862	7,560	79,707	109,129

¹ Although assets acquired through historic business combinations were correctly recognised as additions at their fair value, in line with the carrying value in the subsidiary financial statements, on disposal, the gross cost and accumulated depreciation was disposed of. An adjustment has been recognised to the Group cost and accumulated depreciation as at 31 December 2017, reversing entries previously made in this regard. These adjustments had no impact on the net book value.

The net book value of materials and equipment held for hire includes an amount of £24.9m (2018: £24.4m) in respect of assets held under finance leases. The depreciation charge for assets held under finance leases in the year ended 28 December 2019 was £5.4m (2018: £4.7m).

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

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15. Property, plant and equipment continued

For the purpose of calculating adjusted EBITDA and adjusted EBITA, depreciation, as disclosed on the face of the income statement, is calculated as the total of the depreciation charge for the year, the accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals and the loss on disposal of other tangible assets.

16. Inventories

	28 December 2019 £000s	29 December 2018 £000s
Inventories	2,503	2,594
Inventory spares	1,576	2,009
Total inventories	4,079	4,603
Provision for impairment	(344)	(270)
Inventories	3,735	4,333

	28 December 2019 £000s	29 December 2018 £000s
Provision for impairment of inventories		
Balance at the beginning of the year	270	396
Increase/(decrease) in impairment provision during the year	74	(126)
Balance at the end of the year	344	270

The cost of inventories recognised as an expense and included in cost of sales is £27.1m (2018: £25.2m).

17. Trade and other receivables

	28 December 2019 £000s	29 December 2018 £000s
Gross trade receivables	72,056	78,026
Less provision for impairment	(3,745)	(3,819)
Net trade receivables	68,311	74,207
Other debtors	2,762	3,477
Prepayments	10,499	6,997
Accrued income	6,824	9,300
Total trade and other receivables	88,396	93,981

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.

The total amount expensed was £3.6m (2018: £4.4m); unless the counter-party is in liquidation, these amounts are still subject to enforcement action. The Group considers current and forward-looking information on macroeconomic factors affecting the Group's operating environment when considering adjustments to the loss experience. At the balance sheet date, the Group had considered economic uncertainty around Brexit, and expected GDP growth, inflation and unemployment rates in determining the level of adjustment required.

Provisions are made for credit notes expected to be raised after year end for income recognised during the year (see note 2).

The overall provisions for bad debt and credit notes amount to 5.2% of trade receivables at 28 December 2019 (2018: 4.9%). A 0.5% increase in the rate of provision required would give rise to an increased provision of £0.4m (2018: £0.4m).

The Group implemented a new system to manage the OneCall rehire business in April 2019. The new system invoices all sales at the end of each period, this is main driver of the reduction in accrued income.

Since the balance sheet date the COVID-19 pandemic has emerged as a threat and means that the Directors' assessment of economic risk has changed. In forecasts prepared since the balance sheet date the Directors have considered scenarios where £20m-£30m of trade receivables are recovered late and £10m are not recovered.

17. Trade and other receivables continued

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

	28 December 2019 £000s	29 December 2018 £000s
Balance at the beginning of the year	(3,819)	(4,429)
Movement in provision	74	324
Balance related to discontinued operations	–	286
Balance at the end of the year	(3,745)	(3,819)

The provision for impairment of trade receivables is comprised as follows:

	28 December 2019 £000s	29 December 2018 £000s
Bad debt provision	(1,568)	(1,885)
Credit note provision	(2,177)	(1,934)
	(3,745)	(3,819)

The bad debt provision based on expected credit losses and applied to trade receivables, all of which are current, is as follows:

28 December 2019	Current	0-60 days past due	61-365 days past due	1-2 years past due	Total
Contract assets, £000s	63,633	7,500	6,631	1,116	78,880
Expected loss rate	1.0%	3.0%	8.3%	13.9%	2.0%
Provision for impairment charge, £000s	633	228	552	155	1,568

29 December 2018	Current	0-60 days past due	61-365 days past due	1-2 years past due	Total
Contract assets, £000s	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, £000s	8	84	1,540	253	1,885

Contract assets consist of trade receivables and accrued income.

18. Trade and other payables

	28 December 2019 £000s	29 December 2018 (restated) £000s
Current		
Trade payables	33,841	43,139
Other taxes and social security costs	6,856	4,104
Other creditors	1,565	1,365
Accrued interest on borrowings	3,608	4,557
Accruals	20,058	18,623
Deferred income	103	220
	66,031	72,008

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19. Borrowings

	28 December 2019 £000s	29 December 2018 £000s
Current		
Obligations under finance leases	5,355	6,304
Revolving credit facility	–	13,000
	5,355	19,304
Non-current		
Obligations under finance leases	11,228	9,468
Senior finance facility	174,501	208,162
	185,729	217,630

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

	28 December 2019 £000s	29 December 2018 £000s
Senior finance facility	181,982	220,000
Revolving credit facility	–	13,000
	181,982	233,000

The Group's senior finance facility and revolving credit facility (RCF) 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 facility 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 RCF is guaranteed in a similar way to the senior finance facility, save the lenders under the RCF rank above those under the senior finance facility.

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 28).

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

			28 December 2019	29 December 2018
Finance leases	Floating	%age above LIBOR	3.10%	3.10%
Revolving credit facility	Floating	%age above LIBOR	3.00%	3.00%
Senior finance facility	Floating	%age above LIBOR	8.00%	8.00%

The weighted average interest rates on the Group's borrowings are as follows:

	28 December 2019	29 December 2018
Weighted average interest rate on borrowings	10.4%	7.0%
Weighted average interest rate on leases	4.8%	5.7%

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 continued

The Group's leases and borrowings have the following maturity profile:

	28 December 2019		29 December 2018	
	Finance leases £000s	Borrowings £000s	Finance leases £000s	Borrowings £000s
Less than one year	6,306	–	6,927	13,000
Two to five years	11,615	237,228	9,993	306,158
	17,921	237,228	16,920	319,158
Less interest cash flows:				
Senior finance facility	–	(55,246)	–	(86,158)
Finance leases	(1,338)	–	(1,148)	–
Total principal cash flows	16,583	181,982	15,772	233,000

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. In addition, the £13.0m drawn under the RCF was repaid in February 2019 and a new £6.0m overdraft facility was 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 £36.6m at 28 December 2019 (2018: £27.1m). Including net cash balances, the Group had access to £59.3m of combined liquidity from available cash and undrawn committed borrowing facilities at 28 December 2019 (2018: £44.7m). This includes the ability to borrow up to £30m (outstanding at any time) under its finance lease facilities. Subsequent to year end, the Group drew down the remaining RCF of £17.2m.

The maturity profile, excluding interest cash flows, of the Group's finance leases is as follows:

	28 December 2019 £000s	29 December 2018 £000s
Less than one year	5,355	6,304
Two to five years	11,228	9,468
	16,583	15,772

Finance leases principally relate to hire fleet assets.

20. Provisions

	Onerous leases £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 30 December 2018	4,745	16,779	22,808	44,332
Additions	4,942	555	–	5,497
Utilised during the year	(2,570)	(790)	(3,580)	(6,940)
Unwind of provision	20	49	345	414
Released	(2,304)	(360)	–	(2,664)
Foreign exchange	–	(24)	–	(24)
At 28 December 2019	4,833	16,209	19,573	40,615
Of which:				
Current	2,043	2,990	3,112	8,145
Non-current	2,790	13,219	16,461	32,470
	4,833	16,209	19,573	40,615

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20. Provisions continued

	Onerous leases £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 31 December 2017	6,607	13,975	32,612	53,194
Assets held for sale	–	(573)	–	(573)
Additions	2,054	5,841	–	7,895
Utilised during the year	(3,254)	(1,312)	(9,918)	(14,484)
Unwind of provision	11	44	114	169
Released, including disposal on sale of business	(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

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 uses or where a site is partially in use and the lease as a whole is loss-making. These liabilities, assessed on a lease-by-lease basis, are expected to arise over a period of up to 8 years (2018: 9 years) with the weighted average being 3.9 years (2018: 2.5 years). They are stated net of expected sub-let income based on existing sub-let agreements. The onerous lease provision has been discounted at a rate of 0.9% (2018: 0.9%). A 1% increase in the discount rate at 28 December 2019 would reduce the onerous lease provision by £0.1m (2018: £0.1m).

The assessment of whether a site is onerous is based on the current year profit or loss being projected forward to the end of the lease. In considering profitability, expected sub-let income for unused space is considered. The amount of expected sub-let income leases included in the onerous lease provision amounted to £0.9m at 28 December 2019 (2018: £0.5m). Variations in the actual timings or amounts of sub-let income or to the underlying trading and profitability of the site will lead to a commensurate increase or decrease in the amount of provision required in the future.

Since the balance sheet date the COVID-19 pandemic has emerged as a threat and means that the Directors' assessment of economic risk has changed. As detailed in note 1e, forecasts prepared since the balance sheet date show a large drop in profits in the short-term which could result in additional leases becoming onerous. Forecasts have not been prepared at a site level and so this has not been quantified.

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 28 December 2019 was £8.63 per square foot (psf) (2018: £8.34 psf). The small change in psf amount is the result of changes in the property portfolio and updates based on survey or landlord negotiations. Estimates for future dilapidations costs are regularly reviewed as and when new information is available. A £0.50 psf increase in the dilapidations provision would lead to an increase in the provision at 28 December 2019 of £0.9m (2018: £1.2m).

The dilapidations provision has been discounted at a rate of 1.26% (2018: 1.26%) at 28 December 2019 based on 10 year UK gilt yields. A 1% increase in the discount rate at 28 December 2019 would decrease both the dilapidations provision and associated fixed asset by £0.8m (2018: £0.6m).

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. Under the terms of the agreement at 28 December 2019 £20.3m is payable over the period to 2026 (2018: £24.2m) and £3.6m has been paid during the year (2018: £9.6m). The provision has been discounted at a rate of 1.19% (2018: 1.19%). A 1% increase in the discount rate at 28 December 2019 would decrease the provision by £0.6m (2018: £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 2018 – continuing operations	2,500	(841)	(327)	1,332
(Charge)/credit to the income statement	(2,500)	841	(14)	(1,673)
At 28 December 2019	-	-	(341)	(341)

The Group has no recognised deferred tax assets at 28 December 2019.

	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)
Deferred tax assets/(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

Deferred tax assets are recognised in respect of certain tax losses that are expected to be utilised within the next 12 months against future suitable taxable profits.

At 28 December 2019 £0.3m (2018: £1.2m) of the deferred tax liability is expected to crystallise after more than one year.

At 28 December 2019 the Group had an unrecognised deferred tax asset relating to trading losses of £10.4m (2018: £8.1m – restated). The gross balance at 28 December 2019 was £61.2m (2018: £42.6m – restated).

The Group also has an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £9.6m (2018: £17.0m). The gross balance at 28 December 2019 was £56.5m (2018: £89.4m).

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.

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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 28 December 2019 and 29 December 2018	170,207,142	1,702

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.

	Number	Nominal value £000
At 28 December 2019 and 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 Group operates a number of share-based payment schemes as part of its reward and retention strategies. The key points of each of the Group's share schemes for grants up to 28 December 2019 are summarised below. All schemes are equity-settled. All disclosure relates to both the Group and the Company.

Long Term Incentive Plan

On 4 June 2019 share awards under the Long Term Incentive Plan ("LTIP") were issued to eligible colleagues in the form of nil-cost options over ordinary shares. The LTIP options will vest subject to performance conditions based on earnings per share and return on capital employed measured over the three-year period ending with the group's 2021 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. The awards were valued as the grant-date share price, adjusted for anticipated dividends payable.

During 2018, share awards under the LTIP were issued to eligible colleagues in the form of nil-cost options over ordinary shares. The LTIP options will vest subject to share price performance measured over the three-month period ending with the Company's 2021 financial year.

On the same dates as the LTIP awards, 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.

Market value options

During 2018, share awards (the 2018 Awards) were granted to eligible colleagues in the form of market value options over ordinary shares.

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 award will lapse if the award made in 2017 (see below) vests.

During 2017, share awards (the 2017 Awards) were granted to eligible colleagues in the form of market value options over ordinary shares. 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.

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.

24. Share-based payments continued

Deferred Bonus Plan

On 16 April 2019 shares were issued to Directors under the Group's Deferred Bonus Plan ("DBP"). The awards are not subject to any performance conditions and will ordinarily vest after a two-year holding period. The awards were valued as the grant-date share price, adjusted for anticipated dividends payable.

2016 3-year Sharesave Scheme (SAYE Plan)

During 2016, the Group offered all colleagues the opportunity to participate in the 2016 Sharesave Scheme, a SAYE plan. The Sharesave Scheme 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 during the 6 month period from 1 January 2020.

No awards have been made under the SAYE Plan since 2016.

The table below reconciles the options outstanding during the year ended 28 December 2019:

	MVO Number	LTIP Number	CSOP Number	DBP Number	SAYE Number
Outstanding at 30 December 2018	21,477,547	4,762,622	1,967,025	–	1,102,474
Granted	415,388	6,570,227	242,808	350,715	–
Lapsed	–	(1,239,622)	–	–	–
Cancelled	–	–	–	–	(260,580)
Outstanding at 28 December 2019	21,892,935	10,093,227	2,209,833	350,715	841,894
Exercisable at end of year, number	–	–	–	–	–
Weighted average exercise price, pence	38.4	–	24.3	–	57.7
Weighted average remaining contractual life, years	8.3	9.2	8.5	1.3	0.5
Weighted average fair value of options granted, pence	7.5	25.6	5.1	37.3	23.0

The table below reconciles the options outstanding during the year ended 29 December 2018:

	MVO Number	LTIP Number	CSOP Number	DBP Number	SAYE Number
Outstanding at 31 December 2017	7,076,202	1,239,622	666,660	–	1,660,893
Granted	14,500,000	3,523,000	1,355,920	–	–
Cancelled	(98,655)	–	(55,555)	–	(558,419)
Outstanding at 29 December 2018	21,477,547	4,762,622	1,967,025	–	1,102,474
Exercisable at end of year, number	–	–	–	–	–
Weighted average exercise price, pence	40.4	–	42.6	–	57.7
Weighted average remaining contractual life, years	3.9	3.4	3.9	–	1.3
Weighted average fair value of options granted, pence	9.2	5.2	9.0	–	23.0

The total charge for the year relating to employee share-based payment plans during the year ended 28 December 2019 was £713,000 (2018: £24,000), all of which related to equity-settled share-based payment transactions.

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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. 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.

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 £2.1m (2018: £1.0m).

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	
	28 December 2019	29 December 2018	28 December 2019	29 December 2018
Effect of:	£m	£m	£m	£m
100 basis points increase	1.8	1.1	1.8	1.1
200 basis points increase	3.7	2.3	3.7	2.3

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. At the balance sheet date, the Board was satisfied that sufficient cash was forecast to repay the £15.0m of the senior finance facility that is to be repaid not later than 10 January 2021, however the risk has increased as a result of COVID-19 as detailed later in this note. The remainder of the Group's senior finance facility and RCF expire on 10 July 2023 and 10 January 2023 respectively.

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 relatively small size of the Republic of Ireland operations compared to the Group, the Directors do not consider this to be a significant risk to the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter-party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

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 carrying amount of each financial asset represents the maximum exposure to credit loss.

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.

The financial covenant in place on the Group's senior finance and revolving credit facilities at 28 December 2019 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 4.0 times (2018: 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.

25. Financial instruments continued

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, a senior finance facility 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	28 December 2019 £000s	29 December 2018 £000s
Financial assets			
Derivative financial instruments – fair value hedge	Level 2	14	405

COVID-19

Since the balance sheet date the COVID-19 pandemic has emerged as a threat and means that the Directors' assessment of financial risk has changed.

As detailed in note 1e, forecasts prepared since the balance sheet date show a large drop in profits in the short-term. Certain forecast downside scenarios would result in breach of covenants and require additional liquidity, thereby impacting Group's ability to repay the £15m of the term facility due no later than the 10 January 2021 – increasing liquidity and capital management risks. Credit risk has also increased due to COVID-19's impact on the Group's customers and in the scenarios considered the Directors have assumed that between £20m and £30m of trade receivables are recovered late and £10m are not recovered at all.

26. Commitments and contingencies

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

	28 December 2019 £000s	29 December 2018 £000s
Land and buildings		
Within one year	10,104	10,001
Between two and five years	30,072	31,678
After five years	10,693	11,711
	50,869	53,390
Other		
Within one year	8,437	8,454
Between two and five years	15,537	12,835
After five years	–	187
	23,974	21,476
	74,843	74,866

The land and buildings commitments for 2018 have been restated following a review of lease break dates.

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For the year ended 28 December 2019

26. Commitments and contingencies continued

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:

	28 December 2019 £000s	29 December 2018 £000s
Sub-lease rental income		
Within one year	551	499
Between two and five years	1,134	1,017
After five years	595	161
	2,280	1,677

The Group has issued a guarantee for £1.8m (2018: £1.8m) 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 £3.4m (2018: £2.2m).

27. 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 were classified as held for sale in the consolidated statement of financial position in 2018. The Group completed the disposal on 11 January 2019 (note 28) and the results of this business until that date have been classified as a discontinued operation. At 29 December 2018, the balance sheet of this business was:

	29 December 2018 £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 held for sale	46,716
Debt – finance leases	(5,300)
Trade and other payables	(6,281)
Provisions	(561)
Deferred tax liabilities	(1,402)
Liabilities 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:

	28 December 2019 £000s	29 December 2018 £000s
Operating cash inflow	607	4,286
Cash outflow from investing activities	(262)	(225)
Cash outflow from financing activities	(47)	(4,197)

28. Business disposal

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:

	£000s
Description of assets and liabilities:	
Intangible assets (including goodwill)	4,749
Property, plant and equipment	30,725
Current assets, excluding cash	6,454
Cash	2,373
Debt – finance leases	(5,253)
Current liabilities, excluding debt	(2,943)
Deferred tax liabilities	(1,375)
Net assets disposed of	34,730
Proceeds of disposal less transaction costs	47,420
Total profit from disposal of UK Platforms Limited	12,690
Costs incurred on disposal of discontinued operations in 2018	(2,080)
Profit on disposal of discontinued operations in 2019	14,770
Total profit from disposal of UK Platforms Limited	12,690

The table below shows the result of discontinued operations:

	28 December 2019 £000s	29 December 2018 £000s
Result of discontinued operations		
Revenue	1,115	29,722
Expenses other than finance costs, amortisation and depreciation	(801)	(18,524)
Amortisation	(3)	(45)
Depreciation	(149)	(6,069)
Finance costs	–	(440)
Income tax charge	–	(577)
Profit from discontinued operations, net of tax	162	4,067
Profit on disposal of discontinued operations	14,770	–
Costs incurred on disposal of discontinued operations	–	(2,080)
Profit for the year	14,932	1,987

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 £44,292 (2018: £42,803) and £nil was outstanding at 28 December 2019 (2018: £nil). Additionally Exponent Private Equity invests in businesses whom the Group trade with. 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

The Directors do not recommend the payment of dividend for the year ended 28 December 2019 (2018: nil).

No interim dividends were paid or proposed during the year (2018: nil).

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For the year ended 28 December 2019

31. Note supporting statement of cash flows

	At 30 December 2018 £000s	Cash flows £000s	Discontinued operations £000s	Other non-cash movements £000s	At 28 December 2019 £000s
Cash	17,832	4,826	–	–	22,658
Current borrowings	(13,000)	13,000	–	–	–
Non-current borrowings ⁽¹⁾	(208,162)	38,018	–	(4,357)	(174,501)
Finance lease liabilities	(15,772)	7,361	(47)	(8,126)	(16,583)
Total	(219,102)	63,205	(47)	(12,483)	(168,426)
Accrued interest on borrowings	(4,557)	18,498	–	(17,549)	(3,608)
Debt issue costs ⁽¹⁾	(11,838)	–	–	4,357	(7,481)
Net debt⁽²⁾	(235,497)	81,703	(47)	(25,675)	(179,515)
	At 31 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)	(72,763)	–	(1,157)	(208,162)
Finance lease liabilities	(25,997)	12,510	5,301	(7,586)	(15,772)
Total	(227,088)	13,372	3,357	(8,743)	(219,102)
Accrued interest on borrowings	(3,904)	17,265	–	(17,918)	(4,557)
Debt issue costs ⁽¹⁾	(1,758)	(11,237)	–	1,157	(11,838)
Net debt⁽²⁾	(232,750)	19,400	3,357	(25,504)	(235,497)

(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.

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 28 December 2019 £000s	Year ended 29 December 2018 £000s	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Operating profit	16,821	11,218	16,982	16,302
Add: Depreciation of property, plant and equipment	28,601	25,973	28,750	32,042
Add: Accelerated depreciation relating to hire stock customer losses, hire stock write offs and other asset disposals	8,795	11,910	8,795	11,910
Add: Amortisation of intangible assets	5,522	5,901	5,525	5,946
Add: Loss on disposal of intangible assets	96	–	96	–
EBITDA	59,835	55,002	60,148	66,200
Add: Exceptional items	4,094	4,965	4,095	5,138
Adjusted EBITDA	63,929	59,967	64,243	71,338

Adjusted EBITA is calculated as follows:

	Continuing operations		Total	
	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s
Operating profit	16,821	11,218	16,982	16,302
Add: Amortisation of intangible assets	5,522	5,901	5,525	5,946
Add: Loss on disposal of intangible assets	96	–	96	–
EBITA	22,439	17,119	22,603	22,248
Add: Exceptional items	4,094	4,965	4,095	5,138
Adjusted EBITA	26,533	22,084	26,698	27,386

33. Post Balance Sheet Event

The emergence of COVID-19 as a threat

Since the balance sheet date, a new virus, COVID-19, has resulted in a pandemic which is impacting the Group's performance. This represents a non-adjusting post-balance sheet event. Information on the Group's response to COVID-19 can be found in note 1e (going concern). It is expected that there will be a material adverse impact on profit in 2020 and that credit risk will increase due to the Group's customers facing a drop-off in sales and reductions in liquidity headroom.

The potential impact of COVID-19 on the Group's impairment review, expected credit losses and onerous lease provisions are detailed in notes 14, 17 and 20 respectively.

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Company Statement of Financial Position

At 28 December 2019

		28 December 2019	29 December 2018
	Note	£000s	£000s
ASSETS			
Non-current assets			
Investments	2	89,906	89,193
Other receivables	3	166,839	136,924
		256,745	226,117
Current assets			
Other receivables	3	–	15,405
Cash		17	19
		17	15,424
Total assets		256,762	241,541
LIABILITIES			
Current liabilities			
Other payables	4	(11,489)	(11,160)
Total liabilities		(11,489)	(11,160)
Net assets		245,273	230,381
EQUITY			
Share capital	5	1,702	1,702
Warrant reserve	5	2,694	2,694
Merger reserve		97,716	97,716
Retained surplus		143,161	128,269
Total surplus attributable to owners of the Company		245,273	230,381

As permitted by Section 408(3) of the Companies Act 2006, the Company's income statement and statement of comprehensive income and related notes have not been presented.

The Company made a post-tax profit for the year of £14,179,000 (2018: £12,933,000).

The notes on pages 118 to 120 form part of these financial statements.

The financial statements were approved and authorised for issue by the board of directors on 26 May 2020 and were signed on its behalf by:

P Qusted

Director

26 May 2020

Company Statement of Changes in Equity

For the year ended 28 December 2019

	Share capital £000s	Warrant reserve £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 30 December 2018	1,702	2,694	97,716	128,269	230,381
Profit for the year	-	-	-	14,179	14,179
Share-based payments	-	-	-	713	713
At 28 December 2019	1,702	2,694	97,716	143,161	245,273
	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
Warrants issued	-	2,694	-	-	2,694
Profit for the year	-	-	-	12,933	12,933
At 29 December 2018	1,702	2,694	97,716	128,269	230,381

The notes on pages 118 to 120 form part of these financial statements.

Financial Statements

Notes to the Company Financial Statements

For the year ended 28 December 2019**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 Oakland House, 76 Talbot Road, Old Trafford, Manchester, M16 0PQ.

a) Reporting entity

HSS Hire Group Limited was incorporated on 7 January 2015 as a private company limited by shares in the United Kingdom and re-registered as a public limited company on 19 January 2015. The Company listed its shares on the London Stock Exchange on 9 February 2015.

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
- 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 2018 to 28 December 2019 (2018: 31 December 2017 to 29 December 2018).

The Company complies with the accounting policies defined in Notes 1 to 4 to the Group consolidated statements on pages 80 to 90 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 and the consideration includes the issue of new shares by the Company, and therefore the Company adopts merger relief under 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.

e) Recoverability of intercompany receivables

Intercompany receivables are term loans with interest accruing at a rate considered to be the market rate of interest at the date of inception. As these are term loans with expiry within twelve months, expected credit losses have been determined based on lifetime expected credit loss. These loans are expected to be rolled over into future periods as they mature and as such management judgements are required in determining appropriate alternative settlement scenarios.

Having taken into account a number of different settlement scenarios, no material expected credit loss has been identified. Changes in certain assumptions regarding the recovery amounts under alternative settlement scenarios could result in a material expected credit loss impairment.

2. Investments

	£000s
At 30 December 2018	89,193
Additions	713
At 28 December 2019	89,906

Additions comprise equity-settled share-based payment awards offered to employees in subsidiary companies.

At 28 December 2019 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%
HSS Financing plc	Indirect	United Kingdom	Financing	100%
HSS Training Limited	Indirect	United Kingdom	Training services	100%
1st Collection Services Limited	Indirect	United Kingdom	Administration of group debtors	100%
All Seasons Hire Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Hire Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Trading Limited	Indirect	United Kingdom	Dormant	100%

The registered office of the subsidiaries listed above is Oakland House, 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

Financial Statements

Notes to the Company Financial Statements continued

For the year ended 28 December 2019

3. Other receivables

	28 December 2019 £000s	29 December 2018 £000s
Non-current		
Amounts due from group undertakings	166,839	136,924
Current		
Amounts due from group undertakings	–	15,383
Prepayments	–	22
	–	15,405

4. Other payables: amounts falling due within one year

	28 December 2019 £000s	29 December 2018 £000s
Amounts owed to group undertakings	11,120	10,987
Accruals and deferred income	369	172
Other creditors	–	1
	11,489	11,160

5. Share capital

The details of the Company's share capital are set out in note 22 to the consolidated financial statements.

6. 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.

7. Related party transactions

The Company's related party transactions are set out in note 29 to the consolidated financial statements.

8. Financial instruments

Details of the Group's financial instruments policies are set out in note 25 to the consolidated financial statements.

9. Employee and Director costs

The Directors are the only employees of the Company. Their costs are borne by a subsidiary company HSS Hire Service Group Limited. Details of the Director's remuneration are set out in note 11 to the consolidated financial statements.

Five Year Summary

For the year ended 28 December 2019

	Year ended 28 December 2019 £000s	Year ended 29 December 2018 (restated*) £000s	Year ended 30 December 2017 (restated*) £000s	Year ended 31 December 2016 (restated*) £000s	Year ended 26 December 2015 (restated*) £000s
Income Statement					
Revenue	328,005	322,767	303,935	307,580	278,440
Operating profit/(loss)	16,821	11,218	(79,936)	(10,257)	(542)
Net finance costs	(22,609)	(20,374)	(13,152)	(13,678)	(19,722)
(Loss) before tax	(5,788)	(9,156)	(93,088)	(23,935)	(20,264)
Tax charge/(credit)	(436)	2,749	6,692	1,183	86
(Loss) after tax from continuing operations	(6,224)	(6,407)	(86,396)	(22,752)	(20,178)
Adjusted EBITDA					
Adjusted depreciation	(37,396)	(37,883)	(42,827)	(43,267)	(42,577)
Adjusted EBITA	26,533	22,084	(6,884)	12,775	12,785
Amortisation	(5,618)	(5,901)	(6,592)	(6,190)	(4,927)
Operating profit/(loss) excluding exceptional items	20,915	16,183	(13,476)	6,585	7,858
Exceptional items	(4,094)	(4,965)	(66,460)	(16,842)	(8,400)
Operating profit/(loss)	16,821	11,218	(79,936)	(10,257)	(542)
Assets employed					
Non-current assets	262,243	275,691	323,782	358,008	365,355
Assets held for resale (net)	–	33,172	1,500	–	–
Inventories	3,735	4,333	5,519	7,898	9,095
Trade and other receivables	88,396	93,981	96,503	103,744	97,585
Cash	22,658	17,832	2,151	15,211	1,812
	377,032	425,009	429,455	484,861	473,847
Current borrowings	(5,355)	(19,304)	(80,892)	(77,448)	(58,585)
Other current liabilities	(74,176)	(82,393)	(88,331)	(85,546)	(83,334)
	297,501	323,312	260,232	321,867	331,928
Non-current borrowings	(185,729)	(217,630)	(148,347)	(150,478)	(153,772)
Other non-current liabilities	(32,811)	(35,216)	(39,310)	(18,915)	(20,693)
Net assets	78,961	70,466	72,575	152,474	157,463
Net debt	(179,515)	(187,975)	(223,383)	(207,616)	(204,101)
Net leverage ratio (net debt/adjusted EBITDA)	2.8x	3.1x	6.2x	3.7x	3.7x
Capital expenditure	31,403	30,040	34,513	38,185	72,047
Average number of employees	2,605	2,670	2,947	3,123	3,210
Weighted average number of ordinary shares	170,207	170,207	170,207	154,887	144,534
Per ordinary 1p share					
Basic earnings, pence	(3.66)	(3.76)	(50.76)	(14.69)	(13.96)
Adjusted earnings, pence	2.76	1.51	(10.42)	(0.48)	(0.45)

* Restated due to a prior year adjustment (note 1g)

Additional Information

Shareholder Information

Annual General Meeting

The Company's Annual General Meeting will be held at 11.00am on 25 June 2020 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. Attendance in person at the 2020 AGM by shareholders and directors shall be subject to any restrictions around COVID-19, details of which shall be included in the Notice of Meeting with any further updates to be provided via the 'News & Resources' section at 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. 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)).
- 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, 25 June 2020

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

Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Legal Advisers

Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

Independent Auditors

BDO LLP
55 Baker St
London W1U 7EU

Bankers

HSBC Bank plc
8 Canada Square
London E14 5HQ

National Westminster Bank plc
250 Bishopsgate
London EC2M 4AA

Financial Public Relations

Teneo
5th Floor
6 More London Place
London SE1 2DA

Registrars

Equiniti Limited
Aspect House
Spencer House
Lancing
West Sussex BN99 6DA

Contact Centre:
UK: 0371 384 2030
Intl: +44 (0)121 415 7047

Insurance Brokers

Marsh Limited
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.

'2016 Code'	the Corporate Governance Code 2016
'2018 Code'	the Corporate Governance Code 2018
'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 CO2 emissions from fuel combustion (a scope 1 emission) and purchased electricity (scope 2 emissions) of the Group in kg CO2 divided by the total m2 of the Group's freehold and leasehold portfolio. Calculated for the period 1 April to 31 March in each 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
'colleague'	Directors and employees of HSS
'Company'	HSS Hire Group plc
'Core Hire Rental Revenue'	Revenue associated only with the rental of owned assets in the core HSS business. This excludes revenues from specialist hire businesses (ABird, Apex, All Seasons and Laois), and sales ancillary to the rental such as transport, resale etc.
'COSHH'	Control of Substances Hazardous to Health
'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
'CSOP'	Company Share Option Plan
'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
'Group'	together, HSS Hire Group plc and its direct and indirect subsidiaries
'HSS'	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
'LED'	light emitting diode, in this context referring to a type of lighting product which uses less energy than traditional lighting options on the market
'LTIP'	long-term incentive plan. A reward system designed to reward colleagues' long-term performance either by the grant of awards which are subject to defined performance conditions, which include Adjusted EPS and ROCE, or by the grant of Restricted Stock
'LTM utilisation – core'	core businesses utilisation is calculated as average value of the fleet on hire divided by the total fleet value in a reporting month, averaged over the relevant 52-week period (referred to as the last 12 months or 'LTM') for HSS Hire Service Group Ltd
'LTM utilisation – specialist'	specialist businesses utilisation is calculated as average value of the fleet on hire divided by the total fleet value in a reporting month, averaged over the relevant 52-week period (referred to as the last 12 months or 'LTM') for Abird and Apex. This calculation does not currently include data for All Seasons Hire as full LTM utilisation data is not 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 is 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 finance facility, Revolving Credit Facility, senior secured notes (excluding debt issue costs), 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'	6.75% senior secured notes due 2019 issued by HSS Financing plc in February 2014, fully redeemed in 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
'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 assets' or 'ROA'	calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets) subtracted by average current liabilities
'return on capital employed' or 'ROCE'	calculated as Adjusted EBITA divided by average capital employed. Capital employed is total assets except intangible assets, derivatives, and cash less current liabilities except current debt items'
'Restricted Stock'	conditional awards of shares under the LTIP which vest subject to continued employment and the Remuneration Committee's assessment of overall business performance over the vesting period
'Revolving Credit Facility' or 'RCF'	Revolving credit facilities made available pursuant to either the Revolving Credit Facility Agreement (£25.0m) dated 20 June 2018 that was concluded on 11 July 2018 and which expires in 2023 or the Revolving Credit Facility Agreement (£80.0m) dated January 2014 that was repaid on 11 July 2018
'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
'ROTL'	Release on Temporary Licence, a scheme that allows those serving prison sentences and near release to leave prison during the day to go to work
'RMI'	services provided in the repair, maintain and improve markets, typically to the built environment
'SHEQ'	safety, health, environment and quality
'TecServ'	TecServ Cleaning Equipment Services Limited (formerly Premiere FCM Limited)
'Term facility'	Senior finance facilities made available pursuant to the Senior Finance Facility Agreement entered into on 20 June 2018 that expires in 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 colleagues within the year, divided by the average number of colleagues in the Group
'UK'	the United Kingdom of Great Britain and Northern Ireland
'UK Platforms'	UK Platforms Limited
'Unipart Group'	Unipart Group Limited

luminous

Consultancy, design and production
www.luminous.co.uk



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