Moving forward for our customers

HSS Hire Group plc
Annual Report 2016

About HSS

The HSS Hire Group is a leader in the UK tool and equipment hire market, with a strong national presence and well-established brand.

In addition to the hire of traditional smaller tools and equipment such as drills, cement mixers and breakers, we offer our customers expertise in specialist categories such as power generation and powered access. Together with our valued supply partners, through HSS OneCall, we can provide a one-stop-shop for all of our customers' needs regardless of whether we own the tools and equipment being hired.

In addition to our financial performance, this Report provides you with an overview of the changes to our operating model implemented during the year to drive increased efficiency and effectiveness of our operations.

This investment has strengthened our ability to deliver the kit our customers need, anytime and anywhere in the UK and reflects our unrelenting focus on moving forward for our customers.

Key performance highlights

Revenue	Adjusted EBITDA	Adjusted EBITA	Operating (loss)/profit
£342.4m	**£68.6m**	**£20.5m**	**(£2.7m)**
+9.6%	(3.4%)	+1.0%	£6.8m

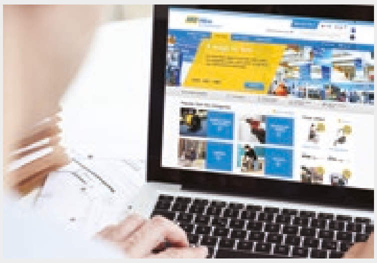
Reported EPS (basic and diluted)	Adjusted EPS (diluted)	Core utilisation (LTM)	Specialist utilisation (LTM)
(11.18p)	**2.94p**	**50%**	**75%**
(1.32p)	(0.26p)	+2pp	(1pp)

Find out more in our Financial Review 26

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

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

Rental



Our Rental segment comprises rental income earned from HSS owned tools and equipment and directly related revenue e.g. resale, transport and other ancillary revenues. Through our core HSS brand and specialist brands of ABird, All Seasons Hire, Apex and UK Platforms, we can offer customers access to a broad range of 23 owned equipment categories which can be delivered or picked up nationwide from our national network of Customer Distribution Centres (CDCs) and local branches.

HSS Hire – You're better equipped

UK Platforms POWERED ACCESS

ABIRD POWER SOLUTIONS

APEX POWER SOLUTIONS

reintec cleaning equipment services PART OF HSS Hire

All Seasons Hire HEATING & COOLING SPECIALISTS PART OF HSS Hire

+ Find out more in our Financial Review 26

Services

Our Services segment directly complements our Rental offering and comprises income from the group's third party supplied rehire business (HSS OneCall), HSS Training and TecServ. In addition to trading directly with customers, together with our Rental offering, these businesses allow us to provide a true one-stop-shop tool and equipment hire and related Services offering to our customers across the UK.

HSS OneCall – You're better equipped

HSS Training – You're better equipped

TecServ EQUIPMENT MAINTENANCE

To view our Annual Report online visit hssannualreport2016.com

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Chairman's Statement

2016 was a year of investment in innovation, particularly in the ongoing development of our distribution and engineering model. Our clear objectives are to increase capital and operational efficiency and deliver the benefits of a significantly enhanced customer service proposition for competitive advantage in our Branch Network over the medium term. These underpin the Board's commitment to creating profitable growth and shareholder value.

Alan Peterson
Chairman

Welcome to the HSS Hire Group plc Annual Report and Accounts for 2016. The year was a transformational one for HSS, in which we invested in our operating model to incorporate an industrialised engineering function alongside our retail-like logistics capability. This will drive a real competitive advantage for our Branch Network, providing a paradigm shift in kit availability within our markets where we expect to see growth in the medium term. In addition, we grew our Services revenue significantly in 2016, delivering an attractive return with minimal capital investment. However, we were disappointed with our earnings out-turn, which was below our initial expectations for the year, as a consequence of our complex programme of change.

We took the decision to extend implementation of our network transformation programme into Q1 17 in order to minimise execution risk. We will now leverage our investment, concentrating on reinvigorating Rental revenues through reconnecting with customers who were impacted through the change. We expect the benefits of the transformation and sales plans to accrue in H2 17.

The Board remains confident that the changes undertaken in the year will position the business to drive improved shareholder returns over the medium term. Our focus in 2017 is firmly on cost control, operational and capital efficiency and deriving clear competitive advantage from our enhanced customer experience.

Our customer proposition

Our customer proposition is concentrated on ensuring instant, same-day and next-day hire availability of our extensive range of tools and equipment, through a multichannel offer, combining the UK's largest branch network, strategically located Customer Distribution Centres and our e-commerce platform, which enjoys 60% market share of online hire. We complement our core tools and equipment Rental proposition with a wide range of specialist equipment from diesel booms to large power generation. We have also strengthened our operational management team in early 2017 as we leverage our investment to drive sales growth in our core Rental business, where the marginal profit on every additional sale is highly attractive.

In 2016 we grew our Services revenue significantly. This largely comprises our successful rehire operation, which provides an attractive return on assets, through the provision of equipment such as large plant, without the need for capital investment. It contributes to our ability to provide a one-stop-shop for customers from large organisations where we manage complex supply chains on their behalf, to smaller trades, seeking equipment across the spectrum.

Market environment

HSS has seen little or no impact amongst its larger customers following the decision to leave the EU, reflected in the strong performance of our Key Account portfolio. Revenue from our mid-sized and smaller customers however has been softer than originally expected, possibly in part due to weakness in the broader RMI market, which has been widely reported by other businesses in the sector. In broader market coverage, the European Rental Association downgraded its forecast for UK tool and equipment market growth to 2.8% from 3.7% for 2016 and to 1.9% from 2.6% for 2017 seemingly as a consequence of market uncertainty following the Brexit vote.

Internal factors have played more of a role in our performance through 2016, principally the impact caused by the significant operational change programme we have implemented across the business. We extended this programme into Q1 17 to minimise the disruption on the business through the end of 2016, and I am pleased to confirm that the implementation of our National Distribution and Engineering Centre (NDEC) across England, Wales and Scotland is now complete, enabling us to move from the implementation phase to continuous improvement as we learn from and refine our operating model.

Our strategy and plan

HSS is committed to delivering operational innovation to hire. Our investment in an NDEC is at the heart of our commitment to industrialising engineering within hire to deliver quality and productivity benefits in what is typically a de-centralised industry. Our network – which we continue to 'right-size' – is designed to provide scalable benefits important to our future: capital and operational efficiencies and an enhanced customer proposition that drives up equipment availability when our customers need it – their primary concern.

Our strategy starts with our customer needs – availability, safety, support and value is centred on three strategic priorities: winning new, and deepening existing, customer relationships; optimising our distribution and Branch Network; and continued development and growth of our specialist brands.

Our achievements against these priorities and the five strategic enablers which support them are outlined in the Chief Executive Officer's Review on page 6.

+ Find out more about **Our Business in Action 18**

Our results

Group turnover increased 9.6% to £342.4m, principally due to strong growth with new and existing Key Account customers, and Services revenue, from which we generated Adjusted EBITA of £20.5m (FY15: £20.3m) and delivered a Return on Capital Employed (ROCE) of 9.7% (FY15: 11.2%). Our results are discussed in more detail in the Financial Review on page 26.

+ Find out more in our **Financial Review 26**

Our Board and management team

In August 2016 we welcomed Paul Quested to the Group as Chief Financial Officer. Paul brings a broad range of financial, operational and strategic experience across global multi-site businesses and has quickly integrated himself within the business during a period of significant operational change.

Our CEO, John Gill, is supported by a broader senior management team which has responded well to the challenges we saw in 2016. I would like to thank our non-executive directors, who have continued to provide wise counsel and effective governance throughout. In early 2017, we welcomed Tom Shorten and Max Morgan to our senior management team. Tom Shorten was appointed to the newly created role of Chief Commercial Officer where he will bring considerable experience to the task of driving volume growth through our Branch Network. Max Morgan joined us as Group HR Director bringing valuable experience in the development and delivery of people strategies that support business performance improvement to the Group.

+ Find out more about our **Board of Directors 42**

Governance

We welcomed the introduction of the Modern Slavery Act 2015 and responded with appropriate training for relevant managers and additional governance, with our first Modern Slavery Act statement to be made available on our website in due course. We also reinforced, with updated training, the requirements of the Bribery Act.

We have strong governance structures through our committees, systems and policies; my belief is that this provides a strong foundation for our day-to-day activities, the protection of our assets and the delivery of our business plan.

+ Find out more about **Governance 39**

Capital structure

On 28 December 2016 we placed 15,445,238 new ordinary shares with our two largest shareholders at an undiscounted placing price of 83.875p per share. As a result the total issued share capital increased by 9.98% to 170,207,142 shares. The placing raised c. £13.0m before expenses and was undertaken to strengthen the Group's balance sheet and provide additional flexibility to fund fleet investment.

Our people

I continue to be extremely impressed with the motivation, can-do attitude and achievements of HSS people across our Group, which is reflected in our consistently high customer satisfaction scores. During the year we have made improvements in the diversity of our workforce and established targets for further progress which are reported on page 37.

+ Find out more about **Corporate Responsibility 34**

Corporate responsibility

Our primary responsibility is to ensure the safety of HSS colleagues and customers; our Board agenda starts with Health and Safety in an ethos of individual ownership, which is reflected across the Group. We also pay close attention to reducing the impact we have on the environment and in the role we play as a community business across the UK and Ireland. You can read more about our corporate responsibility activities on page 34 and in the separate Corporate Responsibility Report published on our website www.hsshiregroup.com.

+ Find out more about **Corporate Responsibility 34**

Dividend

The Board is focused on reducing net debt and, after careful consideration of the significant cash investments made during 2016 and the continuing optimisation of the network underway, believes it is in the best interests of the shareholders for the Group to not pay a final dividend in respect of 2016. As a result of this decision the total dividend paid and payable by the Group in respect of FY16 totals 0.57p per ordinary share, reflecting the interim dividend of 0.57p per share paid in October 2016.

Looking ahead

We have entered 2017 with a firm agenda to capture the full benefits from the material operational changes and investment made across the Group through 2016 and beyond. We have strengthened our sales leadership to drive Rental growth through our Branch Network via a significantly enhanced customer proposition. The Board remains fully committed to optimising this investment to deliver profitable growth and create shareholder value.

Alan Peterson
Chairman

Q&A with John Gill

John Gill, CEO, answers questions on Group performance and strategy going forward.

Q.
What should we expect from HSS over the next 12 months?

A.
Over the next 12 months and beyond, we will be focused on: driving core tool and equipment hire revenue growth; lowering the operating costs of our network; and reducing the Group's leverage and net debt position. We will achieve this by using our Services capability to win a greater share of wallet from our customers and through leveraging our unique and innovative operating model – collectively our local branches, CDCs and our centralised engineering and distribution activity – to drive sales and operating and capital efficiencies. Our net debt position will be reduced through a combination of our trading performance, our focused capital investment plans and working capital improvement actions across the Group.

Our plan is all about driving profitability, cash generation and capital and operational efficiency. We couldn't do any of this without our fantastic team of HSS colleagues who demonstrate their can-do attitude to customer service every day.

+ Find out more about **Our Business in Action 18**

Q.
The share price performance since the IPO has been disappointing – what are you doing to restore shareholder value?

A.
As a shareholder myself I can only agree.

As a Board, we are wholly committed to ensuring that we achieve value and improve returns for our shareholders and this is, of course, about cost control, cash generation, capital and operational efficiency and enhancing our customer service to drive more volume through our branch network. The investment we have made during the year is designed to address these areas and to enhance the fleet availability our customers – large and small – are seeking. Our innovative approach to distribution and engineering supports this well-differentiated customer proposition.

Since the Initial Public Offering (IPO), we have grown the revenues earned from our Services offerings significantly. We are now focusing on reinvigorating growth in our Rental business.

Q.
How long will it take to start to see the recovery?

A.
With a year of significant investment and innovation behind us and an ongoing programme of network refinement ahead of us, 2017 will commence a programme of recovery and growth in sustained profitability. We can expect to see benefits over the medium term. We are moving sensibly at the right pace, with more active performance management of our branch portfolio and a focus on reinvigorating the growth of our Rental revenues. Both these objectives are supported by the appointment of a new Chief Commercial Officer in early 2017. We are now positioned to respond to growing customer demand and take opportunities to increase our scale.

Q.
What benefits will investment in the engineering and distribution network bring to the Group?

A.
In essence, we have moved kit closer to our customers through an evolution of our Branch Network and CDCs backed by a national facility which maintains, tests and repairs our high volume lines, and a sophisticated retail-like network to replenish our branches. Quite simply, this means a slicker operation which ensures our kit is available to our customers when they need it. It is also a more capital efficient and completely scalable model, which has established the foundations of our future growth.

It has been a complex programme, which took longer than initially expected, and it is also ongoing as we work to continually learn from, and refine, our operating model.

Q.
Services growth was strong in the year but growth in the Rental business was less robust – how are you planning to accelerate growth in the Core business?

A.
We were pleased by the growth in our Services revenue during 2016. Our Services customers rely on HSS as a single point of contact for equipment both from our own fleet and equipment that we rehire from other providers via our HSS OneCall offer. We also benefited from our appointment as Managed Service Provider to Amey through a ground-breaking contract where we deploy our systems and controls to manage their complex equipment supply chain. The rest of our Key Accounts portfolio – customers in retail, facilities management, airports and infrastructure – also performed well and typically use HSS as a one-stop-shop. Our Services revenue was also boosted by the growth of complementary equipment services such as the health and safety training courses we provide via HSS Training.

Services revenues require minimal capital expenditure, through our leveraging of our supply partners' hire fleets or, in the case of training, the intellectual property of the course. As such, they are accretive to EBITA and ultimately the Group's ROCE and earnings per share.

We are now focusing on reinvigorating growth in our Rental business, which accounts for a larger proportion of our cost base, both in terms of capital investment and operating costs, but more importantly, has the potential to drive disproportionate growth in profits as we leverage the economies of scale available through our established network.

Our Core Rental business was impacted during 2016 by the considerable change we implemented throughout our network. We need to work hard to extract the benefits from that investment, reconnecting with customers who were impacted by the change, with a clearly articulated customer message of superior availability that will differentiate HSS. We are particularly concentrating on reinvigorating growth in our small and medium-sized customer base.

Q.
Does the Group have the right capital structure to execute its growth strategy effectively?

A.
The Group benefits, in particular, from the support of its two largest shareholders who, through the equity placing at the end of 2016, enabled us to strengthen the Group's balance sheet and provide additional flexibility to fund tactical fleet investment. In addition to equity holders, large and small, we also benefit from the support of a range of other capital providers including the holders of our senior secured notes and the providers of our revolving credit facility and finance leases. Coupled with the Group's cash flow expectations for the year, these sources of funding provide sufficient headroom to invest in and grow our business.

Q.
Is M&A still a feature of Group strategy?

A.
We will always look at appropriate opportunities where they support our customer proposition and increase the breadth of our offering. In 2017 however our focus is on growing our core business in tool and equipment hire organically, to capitalise on the significant investment we made in innovation and organisational efficiency within the business during 2016.

Q.
Speculation on consolidation of the tool hire sector was a feature of the year – what is your view of the opportunities?

A.
We believe that our industry is fragmented and would benefit from future consolidation to enable it to capture cost and scale advantage. But it would not be appropriate for us to comment on speculation.

Q.
What is your view of the competitive environment in the year ahead? Do you expect more Brexit-related turbulence?

A.
We have yet to see any Brexit-related impact on our larger customers but have potentially seen some impact within our small and medium-sized customers, with some softening within the RMI markets following the Referendum as widely reported by others in our sector. The European Rental Association has also downgraded its growth forecast for the UK in 2017 as a result of what it describes as 'market uncertainty'. That said, we believe we should continue to grow ahead of the overall tool and equipment rental market, because we operate in the more resilient repair, maintain and operate segments and since our investment in improving availability leaves us well placed to grow customer volumes.

Chief Executive Officer's Review

Our strategy continues to be centred on three priorities which are inherent to the creation of long-term shareholder value, through a strong focus on the scalable benefits of operational and capital efficiency and enhanced customer service.

In 2016, we focused hard on implementing a network transformation that will create clear competitive advantage for our Branch Network through ensuring industry-leading kit availability to our customers – in short ensuring that we have the tools they need exactly when they need them. This programme has been complex and taken longer to achieve than originally anticipated – and we will continue to refine our network to support our customers, positioning us well for long-term growth and scale.

John Gill
Chief Executive

Overview

In 2016 we invested heavily in our network to drive future operational and capital efficiency through centralised, industrialised engineering and logistics processes for our high-volume product lines. This new capability is supported by regional engineering expertise for larger Specialist hire fleet and lower transactional volume products and a retail-like logistics network replenishing our equipment in our national network of local branches. Our objective is to ensure certainty of kit availability through a very clear customer proposition delivered via a cost-efficient network.

The change programme was ambitious; we took the decision to delay implementation of the final element (Scotland) into early 2017 and I am pleased to say that the process is now complete, but we will continue to refine and right-size our network going forward as part of our culture of continuous improvement. We should start to see the benefits over the medium term.

The investment and extended period of change impacted our profit performance. Whilst we delivered strong revenue growth in Services and via our larger customer accounts, both of which are earnings enhancing, performance in our local and regional customers was weaker than expected, leading to lower profits than anticipated at the start of 2016. We are now well positioned to leverage our investment through the implementation of sales plans that will win back customers impacted by the change. We are therefore focused hard on ensuring profitable Rental revenue growth in our Core customer base of smaller and regional accounts. We have invested in our senior management team, with the creation of a new post of Chief Commercial Officer, to drive this forward in 2017.

Customer needs

Availability
Safety
Support
Value

Our strategy

1. **Win new, and deepen existing, customer relationships**
2. **Optimise the distribution and branch network**
3. **Continued development and growth of our specialist businesses**

Scalable benefits

Enhanced customer service proposition

Operational and capital efficiencies

Shareholder value

The HSS difference

HSS continues to strive to innovate in our markets. Our research shows that our customers' top priority is product availability: easy access to the tools and equipment they need for their task. We have therefore positioned and stocked our network of local branches and Customer Distribution Centres (CDCs) to ensure that we have a clear competitive advantage through greater availability of equipment for customers to pick up, order to collect or for delivery to site.

Our customers also require support and our expertise and excellence in customer service is reflected in our customer satisfaction metrics, with our NPS scores continuing to be well above the industrial and services sector benchmark. We also responded during the year to their need for value, via strategic price reductions in our Trade Essentials range and a wider simplification of pricing, to the benefit of customers and colleagues. Safety, of course, is our primary concern and we continue to drive a culture that ensures we all own, and are accountable for, safety for colleagues and customers.

Find out more about **Our Business in Action 18**

Our performance

We continued to grow our Group revenue well above the European Rental Association's forecast for the UK marketplace of 2.8% in 2016, suggesting further market share gains through the year. Rental revenue was flat year on year and Services revenue, which includes Training and our Rehire operation, HSS OneCall, grew significantly at 60.8%.

Our performance reflects the scale and complexity of the operational change programme implemented across the Group in the year, including the launch of the National Distribution and Engineering Centre (NDEC), which opened in March 2016 in parallel with the existing network, and impacted our core Rental revenue performance. We also opened 11 branches during the year in specific markets where we are under-represented and closed 18 in locations which were underperforming or not cost-efficient to serve. This programme of active network optimisation continues.

Find out more in our **Financial Review 26**

Our markets

Our marketplace is described on pages 12 and 13. We operate throughout the UK and Ireland, where we believe we are the second largest tool and equipment hire provider. The European Rental Association (ERA) estimates that the UK plant, tool and equipment rental market grew 2.8% in 2016 and generated total turnover of c. £5.7bn. The ERA notes that its research suggests that 'political uncertainty has put industry growth on hold' citing a downward revision in their forecast for 2017 to 1.9% 'due to the unknown effects of the Brexit vote'. HSS has yet to see any specific impacts of Brexit on our larger customers; but it may be that the softness in the RMI markets reported by others in the sector is a consequence of Brexit and is impacting our performance with smaller and mid-sized customers. We are however aware that our change programme had an impact within these latter customer groups in the second half of the year.

HSS focuses on the fit-out, operation and maintenance of the built environment – airports, retailers and facilities managers for example – through both our core businesses and specialist brands. The ERA notes that the split of rental demand between construction and non-construction is estimated at 60:40% with the 'share of non-construction demand in the UK being one of the most important in Europe'.

We benefit from strong customer propositions in the 'non-construction' segment, from our Reintec business, where we offer hire, sales and service of cleaning equipment, through to our Managed Service Provider (MSP) offer where we manage complex supply chains for some of our largest customers, often using HSS OneCall to supplement our hire fleet offering.

We also serve certain construction markets through HSS OneCall, our rehire operation – providing for example, diggers and dumpers and plant for ground-up construction – through a simple one-stop-shop model. Our powered access and power generation businesses also support a wide range of construction environments and our Trade Essentials range is aimed at local tradespeople who move between building and maintenance of local domestic and commercial premises.

Our resilience is underpinned by our diverse range of customers, from blue-chip organisations through to individual consumers; and, importantly, by the ability to supply more of their equipment needs, through both our own complementary brands and through the efficient, one-stop-shop rehire of other providers' assets. Frequently, we are a major channel to market for many of these members of our supply chain and our customers benefit from one point of contact and contract.

Chief Executive Officer's Review
Continued

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

HSS is at the forefront of many of the next-generation market initiatives identified by the ERA and other market reports including online investment – where we have continued to invest in our market-first, mobile-enabled, fully transactional and award-winning web platform www.hss.com. The ERA also notes that rental companies in the UK are reacting to ongoing price pressure with projects to optimise fleet utilisation – again, HSS has continued to evolve our network over a number of years, centralising engineering for capital and operational efficiency. We continue to review and refine our operating model.

Find out more about Our Marketplace 12

Our strategy

Our strategy continues to be centred on three priorities, which are inherent to the creation of long-term shareholder value through a strong focus on the scalable benefits of operational and capital efficiency and enhanced customer service.

1 Win new, and deepen existing, customer relationships

We made good progress in our key accounts over the year, benefiting specifically from a major contract win with infrastructure company, Amey, which we mobilised in the first quarter of 2016, as well as strong growth in our larger strategic accounts. Many of these organisations increasingly see HSS as a one-stop-shop for equipment hire both via our core offering and through our specialist brands such as UK Platforms and our power generation brands Apex in Scotland and ABird in England and Wales. We also manage complex supply chains on behalf of larger customers through our Managed Service Provider offering, where we deploy our systems and people to manage volume and duration of hire and decrease supply costs over time.

Services revenue growth was strong in the year, particularly in our rehire operation, HSS OneCall, and in our leading health and safety training business, HSS Training, which now operates from 46 centres nationwide and delivers over 250 different courses which complement our equipment offering. We also saw strong growth in our Irish business across all customer groups. In addition, we continued to move our specialist businesses forward following the large fleet investment made over the last few years.

We were however impacted in the year by a lack of growth in our medium-sized and smaller customers, due principally to the impact of the extended implementation of the network changes which inhibited availability in some markets for short periods. With the most extensive branch network in the UK, and having completed a major period of change, we are now focused on ensuring customers have the best possible access to the equipment they need.

2 Optimising our branch and distribution network

In 2016 we started the programme to centralise and industrialise our high-volume engineering into a single National Distribution and Engineering Centre (NDEC). This facility consolidates repetitive processes into a production facility with rigorous quality and safety Key Performance Indicators (KPIs) and is supported by a retail-like logistics network for separate Branch and Customer Distribution Centre replenishment. We took a phased approach to the implementation and, as previously announced, actively delayed the original roll-out plan to incorporate our Scottish network in the first quarter of 2017. The longer implementation impacted our hire volumes in the second half of the year and the investment was a contributor to our profitability being lower than our original plans for the year. The roll-out is now complete – although we will continue to refine it – and we move to a period where we can focus on starting to deliver the efficiency and customer service benefits.

The NDEC is just part of a considerable programme of change across our network. We closed 18 underperforming branches in the year and consolidated older distribution centres into new purpose-built customer distribution facilities at Aberdeen, Treforest in South Wales and Cork, Ireland. Our latest consolidation is Bellshill in the central belt of Scotland, which will be fully operational in Q2 of this year.

This significant change created challenges but leaves HSS well positioned to benefit from the operational and capital efficiencies that are at the heart of the strategic rationale for the programme.

3 Continued development and growth of our specialist businesses

Our specialist businesses continued to benefit from investment during the year. Specifically, we opened two new strategically placed co-located depots, at Thurrock in East London and Iver in West London, to efficiently supply powered access, power generation and mini-plant – via a new relationship with Kubota – into the fast-moving and fast-growing London markets. These depots concentrate engineering resource and create transport efficiencies, and we will continue to look for strategic sites for larger depots for our specialist businesses as we go forward, further consolidating our network.

We have invested in our most recent acquisition, All Seasons Hire, our specialist heating ventilation and air conditioning business, expanding its depot reach to Scotland and Manchester during 2016 and investing significantly in the fleet. The business continues to grow benefiting, as all our specialist brands do, from closer links to, and cross-selling opportunities from being part of, the HSS Group.

Find out more about Our Business in Action 18

Our five strategic enablers

These three strategic priorities are driven by our values which are our customers' requirements for safety, value, availability and support. It is also important that we consider each element of our plan in line with our five strategic enablers, set out below, which support continued business growth and shareholder value creation. These strategic enablers are identified by a series of icons throughout this Report to help with easy access to relevant information.

1. Ensuring safe, sustainable working environments for colleagues and customers

Our RIDDOR frequency ratio – one measure of safety related to reportable accidents – was 0.40 in 2016. During the year an enhanced accident reporting system was implemented and our 2015 RIDDOR calculated using this system was 0.48, suggesting an improvement in safety year on year. We continue to put an emphasis on the ownership of safety from the Board through to every colleague. We also take seriously our commitment to sustainability and have made good progress throughout 2016 with our industry-leading refurbishment centre which extends the life of large assets – typically powered access – by up to five years, therefore contributing to a reduction in manufacturing emissions and contributing to the 'circular economy'.

Find out more about Corporate Responsibility 34

> Despite operating in a fragmented and competitive marketplace, we have continued to grow our revenues and build market share through offering new and existing customers access to a broad range of well-maintained products and complementary value-adding services.

2. Deliver value and quality to our customers

We continually strive to improve our customer experience, and measure it daily through customer feedback. In late 2016, while we continued to enjoy very high satisfaction scores, we saw some impact in our availability measures from the transformational changes made to our distribution and engineering network. Post-implementation we have moved into a continuous improvement phase to reduce the likelihood of any such impacts going forward. We underpinned our commitment to value with simplified pricing and our successful, everyday low price Trade Essentials range.

3. Focus on profitability and growth

Despite operating in a fragmented and competitive marketplace, we have continued to grow our revenues and build market share by offering new and existing customers access to a broad range of well-maintained products and complementary value-adding services. During 2016 this did not translate into sufficient profit growth, due to the short-term impact that the operational changes had on our business. It is therefore appropriate that none of the Executive Directors are receiving a bonus in respect of 2016. Moving into 2017 we have completed the implementation phase and have moved into one of continuous improvement, with a real focus on supporting profitable revenue growth with enhanced cost control to drive improved Group profitability.

4. Drive availability and operational efficiency

The operational changes implemented during 2016 were designed and implemented to enable us to drive improvements to our customer availability proposition, supporting our 'delivering the kit you need, anytime, anywhere' offer, which we believe sets us apart from our competitors. In 2016 these changes impacted performance as we moved through their implementation. We are now leveraging the experience gained from 2016 to refine and enhance our operations to ensure that we deliver the availability improvements targeted through operational and capital efficiency.

Executed effectively, our focus on profitability and growth, together with increased efficiency will enable us to improve our cash generation and de-leverage the business through 2017 and beyond.

5. Invest in our colleagues

During the year we launched our formal talent management 'stretch' programmes, which invite colleagues at multiple levels within the business to study for management qualifications (typically from the Institute of Leadership and Management) to help them develop both personally and professionally, to the benefit of the individual and the Group. The first cohorts from this initiative – colleagues from across all business areas and all geographies – have now graduated from the programmes inspiring others to apply.

Our Branches of Excellence programme is in operation throughout our core business, providing induction courses and ongoing training to colleagues across the network. In addition, we continually develop our colleagues' skills in customer service as well as the technical and safety requirements of the roles they undertake every day.

Our colleague engagement survey in June 2016 showed high levels of engagement but also highlighted a number of areas for improvement. In particular we are now taking feedback from our colleagues more frequently and improving our communication with them.

I would like to thank our colleagues for these great ideas and for the roles they individually play every day in building our business.

Find out more about our colleague training and engagement on page 36.

Outlook

Having completed a year of change, we are now concentrating on extracting the efficiencies that result from our investment and continuing the refinement of our operating model. This means maintaining a culture of continuous improvement to support our customer availability promise, but it also means a necessary and heavy focus on cost control, cash generation and delivering the operational and capital efficiencies which will determine future shareholder return. The trading environment remains competitive but we are well positioned to outperform our markets and to facilitate scalable growth in the medium term. We expect the benefits of the transformation and our sales plans to accrue in H2 17.

John Gill
Chief Executive Officer

Our Key Performance Indicators

Financial

KPI	Strategic enabler	Importance of KPI	FY16 performance	Track record
Revenue	Focus on profitability and growth	Simplest measure of the ongoing growth of the Group's sales from which profits can be generated and shareholder value created. See Financial Review 26	**£342.4m** +9.6%	Growth FY16 £342.4m 9.6% FY15 £312.3m 9.7% FY14 £284.6m 25.5%
Adjusted EBITDA and margin	Focus on profitability and growth	Widely recognised measure of profitability before amortisation, impacts of depreciation policies and capital structure (interest and tax) and exceptional costs. Metric also used in leverage and covenant calculations. See Financial Review 26	**£68.6m** 20% margin	Margin FY16 £68.6m 20.0% FY15 £71.0m 22.7% FY14 £71.1m 25.0%
Adjusted EBITA and margin ✓	Focus on profitability and growth	Measure of profitability before amortisation, impacts of capital structure (interest and tax) and exceptional costs. See Financial Review 26	**£20.5m** 6.0% margin	Margin FY16 £20.5m 6.0% FY15 £20.3m 6.5% FY14 £31.2m 11.0%
Adjusted EPS (diluted)	Focus on profitability and growth	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. See Financial Review 26	**2.94p** (0.26p) per share	FY16 2.98p FY15 3.20p FY14 8.37p
Return on Capital Employed (ROCE) ✓	Focus on profitability and growth; Drive availability and operational efficiency	Measure of the return-generating ability of the business adopted at the direction of the Remuneration Committee. See Financial Review 26	**9.7%** FY15: 11.2%	FY16 9.7% FY15 11.2% FY14 23.1%
Leverage ✓	Focus on profitability and growth; Drive availability and operational efficiency	Measure of net debt present in the business, expressed as a multiple of Adjusted EBITDA. See Financial Review 26	**3.2x** FY15: 3.1x	FY16 3.2x FY15 3.1x FY14 4.5x
Fleet investment	Focus on profitability and growth; Deliver value and quality to our customers	Measure of investment in hire fleet. Excludes assets acquired through acquisition. See Financial Review 26	**£27.3m** (58.0%)	FY16 £27.3m FY15 £65.0m FY14 £71.9m

Strategic enablers

- Ensure safe, sustainable working environments for colleagues and customers
- Deliver value and quality to our customers
- Focus on profitability and growth
- Drive availability and operational efficiency
- Invest in our colleagues

✓ **Denotes key performance indicators which are considered when assessing FY16 Executive Director remuneration (see page 54)**

Performance

KPI	Strategic enabler	Importance of KPI	FY16 performance	Track record
Net Promoter Score (NPS) Score		Third-party survey of how likely customers are to 'promote' HSS. The score shown for each year is for the last research wave completed in each year. A higher score indicates a better customer experience. The benchmark for industrial services from our provider, TNS, is 12. See **Corporate Responsibility 34**	**42** FY15: 36	FY16 42 FY15 36 FY14 25
Utilisation (Core)		Useful measure as to how effectively we have employed capital invested in our Core hire fleet. Assessed over the last 12 months. Should be considered in tandem with ROCE to assess whether assets are being profitability deployed. See **Financial Review 26**	**50%** +2pp	FY16 50% FY15 48% FY14 47%
Utilisation (Specialist)		Useful measure as to how effectively we have employed capital invested in our Specialist hire fleet. Assessed over the last 12 months. Should be considered in tandem with ROCE to assess whether assets are being profitability deployed. See **Financial Review 26**	**75%** (1pp)	FY16 75% FY15 76% FY14 70%
Average revenue per account customer		Measure of the average customer spend with the Group in each financial year. Useful measure of value generated per customer from which we can generate shareholder returns. See **Financial Review 26**	**£8.7k** FY15: £8.1k	FY16 £8.7k FY15 £8.1k FY14 £7.7k

Responsibility

KPI	Strategic enabler	Importance of KPI	FY16 performance	Track record
RIDDORs		Widely recognised measure of safety in the workplace. Safety is at the heart of how HSS operates. See **Corporate Responsibility 34**	**0.40** FY15: 0.48(1)	FY16 0.40 FY15 0.48 FY14 0.50
Carbon emissions in our built environment (kg CO_2 per m²)		As we pursue our local branch roll-out strategy we recognise we have the duty to do so in a manner where our impact on the environment is minimised. We therefore track our carbon emissions per m². See **Corporate Responsibility 34**	**36** FY15: 43	FY16 36 FY15 43 FY14 42
Training days per colleague		People are at the heart of our Service offerings. With training we can ensure that colleagues are best prepared to help our customers in their projects. See **Corporate Responsibility 34**	**4.1 days** FY15: 4.3 days	FY16 4.1 FY15 4.3 FY14 4.3

(1) Due to the introduction of an enhanced accident reporting system in 2016, historical figures have been restated to be comparable.

Our Marketplace

Our market

HSS is a leading tool, equipment hire and related services provider operating in a growing business sector. Total turnover for the UK tool and equipment hire market is estimated to be in the region of £5.7bn in 2016, representing estimated growth of 2.8% from 2015. The market is highly fragmented with over 3,800 registered companies, the vast majority of which employ less than 50 staff and are therefore most likely to focus on serving their local and regional geographies.

Construction-related customers (residential, non-residential and infrastructure) are estimated to account for c. 60% of all UK equipment hire market revenues. The service and industrial sectors constitute the remainder of the market.

The Group's main customer groups are in the facilities management, retail operations, commercial fit-out, property, utilities and waste, infrastructure and energy supply services sectors. We also work with charities, government entities, house builders and construction contractors.

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

Our position in the market

We provide customers with a wide range of equipment ranging from kit we own, which includes smaller tools and equipment, specialist heating and cooling equipment and larger high-value equipment such as powered access and power generators, to equipment we don't own, such as plant, which we typically rehire on our customers' behalf.

As a Group we are more focused on serving the fit-out, maintenance and operation of the built environment segments of the market than the construction segments, although we do provide some support to this area.

Through HSS OneCall, our rehire operation, we provide diggers and dumpers and plant for ground-up construction through a simple one-stop-shop model. Our UK Platforms and ABird and Apex generator businesses also support a wide-range of construction environments and our Trade Essentials range is aimed at local tradespeople who move between building and maintenance of local domestic and commercial premises.

Within the non-construction segment of the market we benefit from strong customer propositions such as our Reintec business, where we offer hire, sales and service of cleaning equipment through to our Managed Service Provider (MSP) offer where we manage complex supply chains for some of our largest customers, often using HSS OneCall to supplement our hire fleet offering.

Taken as a whole, the Group is estimated to be the second largest operator in the UK tool and equipment rental market, with a c. 6% share of this highly fragmented and competitive marketplace. The top five largest revenue businesses are estimated to account for c. 24% of the market with the remainder of the market split between a large number of small local and regional suppliers.

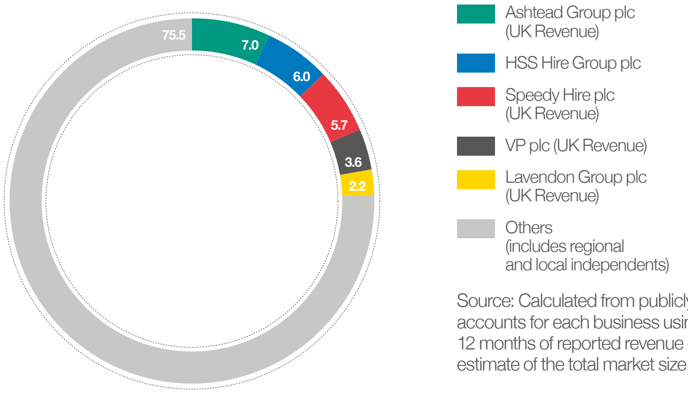
We believe the Group is the second largest provider of temporary power generation and distribution equipment in the UK, as well as being the second largest provider of powered access equipment.

Number of rental companies by employees size group 2013

> 250 employees	18
50–249 employees	76
1–49 employees	3,753

Source: European Rental Association (ERA) 2016 Equipment Rental Industry Report

Market share 2016



Source: Calculated from publicly reported financial accounts for each business using the latest available 12 months of reported revenue divided by the ERA estimate of the total market size in 2016

How we go to market

Our operation can be divided into two broad segments: Rental and Services.

Rental

This includes the hire of all of our owned equipment, ranging from small tools and equipment through to large powered access and generators through our UK Platforms and ABird/Apex businesses respectively. This includes the provision of directly related elements such as transport.

Services

This includes the provision of specialist complementary services to our customers. The largest of these is rehire through our HSS OneCall business where we source equipment, most of which we do not own, for our customers. This can be on an ad-hoc basis or as part of a wider supply contract where we offer a one-stop-shop to our customers to drive efficiencies by managing the entire hire process and all associated administration. We also offer over 250 specialist courses nationwide through our HSS Training business.

Market drivers

Renting equipment offers significant advantages for customers compared with ownership, particularly the opportunity to outsource the time-consuming management and administration associated with equipment fleets. Recognition of this led to the development of our Managed Service Provider (MSP) offer where we manage complex supply chains for some of our largest customers, often using HSS OneCall to supplement our hire fleet offering.

The key benefits for customers of meeting their equipment needs through hire rather than ownership can be summarised as follows:

- → less large-scale capital outlay required for equipment purchases, particularly in times of uncertainty, such as those that now exist with Brexit;
- → access to a comprehensive range of well-maintained, ready-to-use equipment;
- → 'just in time' equipment supply, avoiding the costs of idle fleet;
- → less exposure to variable and unpredictable credit market conditions;
- → lower costs for equipment storage, maintenance and transportation;
- → access to complementary support services from the rental company, such as our MSP offering; and
- → easier allocation and movement of equipment across the country/regions through rental company distribution networks.

The operational innovation and changes we have implemented through 2016 were all designed to improve our capital and operational efficiency. These changes enable us to drive increased fleet availability to better serve our customers with the right equipment in the right place at the right time to support their projects.

Market prospects

Rental turnover increased by an estimated 2.8% in 2016, and is expected to grow by 1.9% in 2017 and 3.1% in 2018.

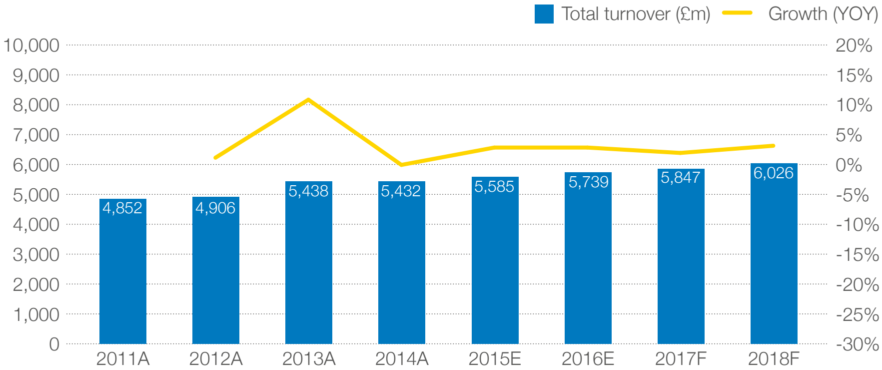
Political uncertainty has had an impact on the industry's growth expectations, with the unknown effects of the Brexit vote leading the European Rental Association (ERA) to revise their 2016 forecasts down from the levels previously published in their 2015 Market Report.

The ERA reports that larger rental companies are reacting to increasing pressure on hire rates by streamlining fleets and driving the utilisation of their core rental fleets.

They also note that rental companies are reorganising their depot networks to realise operational efficiency, service quality and control of logistic costs. HSS is at the forefront of these developments in the UK.

Our resilience in this market is underpinned by serving a diverse set of customers, from consumers to blue-chip organisations, and, importantly, the ability to supply more of their equipment needs, through both our own complementary brands and the efficient, one-stop-shop rehire of other providers' assets. Frequently, we are a major channel to market for many of these members of our supply chain and our customers benefit from one point of contact and contract.

UK equipment rental market



Source: European Rental Association (ERA) 2016 Equipment Rental Industry Report, which includes revisions to all years post-2012.

Our Business Model

We aim to maximise the utilisation of our hire fleet by ensuring it is well maintained, safe, serviced and available to our customers wherever and whenever they need it. Our operational network, comprising our Local Branches, Customer Distribution Centres (CDCs) and National Distribution and Engineering Centre (NDEC) allow us to deliver this value-creating business model.

Our values

Our focus is on what matters most to our customers

- Safety
- Value
- Availability
- Support

Our strategic enablers

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

- Ensure safe, sustainable working environments for colleagues and customers
- Deliver value and quality to our customers
- Focus on profitability and growth
- Drive availability and operational efficiency
- Invest in our colleagues

Our strategic priorities

1. Win new customers and deepen existing customer relationships
2. Optimise our distribution and branch network
3. Continue the development and growth of our specialist businesses

Build long-term relationships

Our customers
We work with a wide range of customers from tradespeople to large businesses operating across the UK. At the heart of building and developing these relationships is recognition of what our customers value and our ability to innovate our service offerings to deliver mutually beneficial outcomes.

> 90%
B2B customers

> 37,000
Live accounts

Our suppliers
We work closely with leading equipment suppliers to source the broad range of tools and equipment that our customers rely on for their projects. The strength of these relationships has resulted in product innovation – including the development of our award-winning anti-entrapment device, Activ' Shield, for our powered access fleet.

> 200
suppliers

Our partners
We have developed strong long-term relationships with other, typically specialist, plant and equipment hire businesses to support the rehire services we offer via HSS OneCall. This enables us to expand the range of products we offer our customers and drives sales for our partners.

> 350
partners

Purchase and source products

We invest in our hire fleet throughout the year, constantly reviewing product developments, customer demand and opportunities to refine our hire fleet offering. This includes assessing whether it would be more capital efficient to purchase hire fleet or source it through a trusted rehire provider.

£133.9m
NBV of hire fleet

Build the right team

Our people are at the heart of our business model, and key to the delivery of our leading customer service proposition. Our excellent customer appreciation levels testify to the skill, motivation and drive of our workforce at all levels within our business.

42
NPS score

+ Find out more
Corporate Responsibility 34

+ Find out more
Our Board of Directors 42

Maximise equipment utilisation

We operate in a capital-intensive industry where it is important to drive asset utilisation, with sensible pricing control and discipline, to generate returns on our investment. The innovation in our operating model through 2016 is designed to help us further enhance our utilisation rates.

50% Core utilisation

75% Specialist utilisation

+ Find out more
Our Business in Action 18

Create added-value services

In addition to our core rental offering we have developed value-added services such as outsourced equipment management, specialist training courses and online e-commerce and reporting systems to support our customers.

> 250 industry recognised courses

+ Find out more
Our Business in Action 18

Drive operational efficiency

Through centralising our high-volume engineering activity into the NDEC and separating branch fulfilment from customer deliveries and collections we aim to drive further operational efficiency into the business.

+ Find out more
Financial Review 26

Drive capital efficiency

The efficient movement of our hire fleet from customers, through the NDEC and back to customers via our CDC and Branch Network enables us to target enhanced utilisation rates. Combined with the 'recycling' credentials of our refurbishment centre, this increases the returns we can generate on our capital investment.

+ Find out more
Financial Review 26

Deliver value

Customers

Our business model is designed to make sure we deliver the right kit and services at the right time and in the right place for our customers, enabling them to focus 100% on their projects.

42
NPS score

Shareholders

Our focus on enhanced operational and capital efficiency means we can increase profitability and drive shareholder returns.

£1.8m
Dividends to shareholders in 2016

Employees

Through our training and development programmes, we offer our people continued personal development opportunities regardless of their gender, background or origin.

59%
staff promoted internally

Society

Equipment hire is inherently more sustainable than individual ownership of tools and equipment. By making our service offering increasingly cost effective and easy to use we are contributing directly to society.

50%
Discount for local charities and armed forces and emergency services personnel

Reinvest

Delivering the equipment you need anytime, anywhere...

Refurbishment Centre

Local Branches

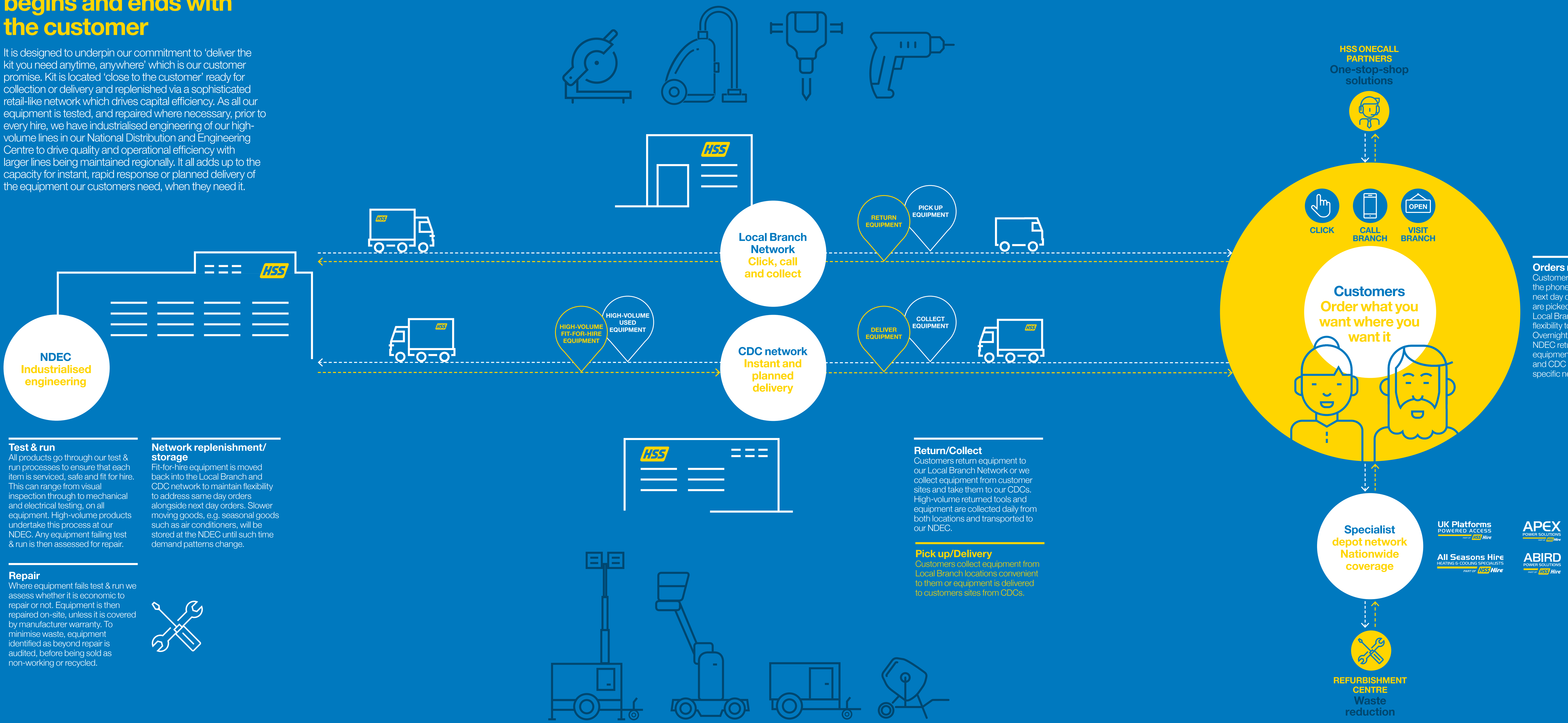
Customer Distribution Centre

Learn more
Short videos giving you an overview of our Customer Distribution Centres, Local Branches and our e-commerce offering can be accessed by scanning the QR code to the right.

To scan the QR code you will first need to download a QR reader on either the Apple App Store (for iOS devices) or Google Play (for Android devices) to your mobile device. Alternatively each of these videos can be accessed at www.hsshiregroup.com/news-resources/media-centre/.

Our Operational Model begins and ends with the customer

It is designed to underpin our commitment to 'deliver the kit you need anytime, anywhere' which is our customer promise. Kit is located 'close to the customer' ready for collection or delivery and replenished via a sophisticated retail-like network which drives capital efficiency. As all our equipment is tested, and repaired where necessary, prior to every hire, we have industrialised engineering of our high-volume lines in our National Distribution and Engineering Centre to drive quality and operational efficiency with larger lines being maintained regionally. It all adds up to the capacity for instant, rapid response or planned delivery of the equipment our customers need, when they need it.



Test & run
All products go through our test & run processes to ensure that each item is serviced, safe and fit for hire. This can range from visual inspection through to mechanical and electrical testing, on all equipment. High-volume products undertake this process at our NDEC. Any equipment failing test & run is then assessed for repair.

Repair
Where equipment fails test & run we assess whether it is economic to repair or not. Equipment is then repaired on-site, unless it is covered by manufacturer warranty. To minimise waste, equipment identified as beyond repair is audited, before being sold as non-working or recycled.

Network replenishment/ storage
Fit-for-hire equipment is moved back into the Local Branch and CDC network to maintain flexibility to address same day orders alongside next day orders. Slower moving goods, e.g. seasonal goods such as air conditioners, will be stored at the NDEC until such time demand patterns change.

Return/Collect
Customers return equipment to our Local Branch Network or we collect equipment from customer sites and take them to our CDCs. High-volume returned tools and equipment are collected daily from both locations and transported to our NDEC.

Pick up/Delivery
Customers collect equipment from Local Branch locations convenient to them or equipment is delivered to customers sites from CDCs.

Orders received and picking
Customers place orders online, on the phone or in person for same or next day delivery/pick-up. Orders are picked from local inventory in Local Branches or CDCs, with flexibility to satisfy same day orders. Overnight fulfilment deliveries from NDEC return ready to hire equipment to our Local Branch and CDC network and address specific next day orders.

Our Business in Action

We support our customers and their projects across the breadth of the UK and Ireland. The following pages give an overview of the variety of sectors we serve, the exceptional service and products we constantly seek to deliver, and examples of how we invest in our colleagues and work to reduce our impact on the environment.

Outstanding training for a leading recruitment provider

It's good to know that your service to clients has been exemplary. Particularly when the clients are themselves a service operation.

HSS Training supplies all the training needs of Minstrell Recruitment, one of the UK's leading recruitment specialists in the construction, engineering and facilities management sectors. Gary Watson, training & apprenticeship manager for this nationwide recruitment company, knows good service when he sees it.

Gary recruits for every role you can think of in construction – from groundworkers to site managers. And as all construction employees now need technical and safety accreditation, HSS Training smooth out any wrinkles in the recruitment process.

Gary confirms: "HSS organise training and the necessary certificates and qualifications with great insight and skill once they know our requirements. If new recruits need to take an accredited course, they'll organise it for us.

"Their organisation and scope is outstanding. With 250 training centres nationwide, an excellent selection of courses and a great attitude to client service, if we require anything that's not there, they'll sort it out immediately.

"As well as that, all their prices are spot on. In the 3 years I've dealt with them, it's been a completely pain-free relationship."

> HSS Training? Their service has been superb. It's been absolutely everything I've wanted from day one.
>
> **Gary Watson**
> Minstrell Recruitment

Training support for a global player in power and energy supply

As well as being a global player in power and energy supply and distribution, Engie is a major supplier of maintenance and facilities support to industry, utility companies, defence and aerospace contractors, telecoms and transport services.

With 16,000 UK employees, a team of five training admin staff, and up to 400 different types of training to organise Caroline O'Connor, Engie's learning and development admin manager, needs all the support she can get from her training partners.

HSS Training has given her that support for the last ten years.

"They're very reliable. They organise everything with no fuss, and everything is dealt with quietly and efficiently.

"80% to 90% of what we do is outsourced, and we often have to organise training in courses that we've never come across before.

"HSS Training often acts as our research service. They listen carefully to what we need, and help us to find the more obscure courses.

"What I really admire is their resolve, and determination to solve problems. If something goes wrong, they're upfront and open about it.

"We have very demanding clients – companies like BMW, EDF and government departments such as the DWP. The last thing I need is for clients to let us know about problems and setbacks in our training and procedures that we didn't know about.

"With HSS Training, one call seems to solve everything. They're very reliable, very good at what they do, and we'll continue to put a lot of business their way for all these reasons."

"What I like about HSS Training is their can and will do attitude.

Caroline O'Connor
Engie

Heroes of hire

Celebrating exceptional colleagues across the HSS Hire Group and our commitment to the community.

Find out more at heroesofhire.com

Business Unit of the Month:
UK Platforms

'HBP hired two MEWPS, deliveries were fast and efficient. Repairs were arranged with no hassle. Phil Carter was a big help, and often sent courtesy emails and calls to ensure everything was okay with hire. Highly recommended.'

Branch Winner:
Gateshead

'Tony at the Gateshead store was lovely and very helpful, we needed the goods the next day and it was done with no hassle. Would definitely use HSS again for all our hire needs.'

Business Unit Winner:
Reintec

'Richard Wakeley our account manager and his engineer Kevin are both very helpful and provide us with an excellent service that can't be faulted. If all our suppliers gave the same service we wouldn't experience some of the problems we tend to get. Well done and thank you.'

Branch Winner:
Kenley

'A straightforward and knowledgeable service provided with a friendly attitude. Staff in the branch had my hire ready to go and in good order. The paperwork was simple and gives good information with on/off hire dates. What else does a person hiring plant need? Nothing.'

Customer Delighter of the Month:
Mark Carlton Hyde, Driver at Wrexham

'Delivery and collection were on time and the driver was extremely helpful in offloading the goods. The tools were used for a charity project at Hope House Children's Hospice and they and all of the Redrow Graduates are extremely grateful to HSS for organising the equipment, many thanks.'

Business Unit Winner:
Lauren Keough, HSS OneCall

'We had a complicated and multi-faceted order to process with a quick turnaround required. Lauren was extremely helpful and endeavoured to deliver everything we required, as a result we are enjoying a successful and efficient installation. Thank you Lauren for your hard work.'

Our Business and Our Performance
Our Responsibilities
Governance
Financial Information
Other Information

Our Business in Action
Continued

Flexible, 24/7 support

When Arcus Facilities Management took on the new cleaning contract for all 51 Sainsbury's stores in Scotland, they faced a few big challenges.

Not least, the fact that a different approach to cleaning required a new 24/7 operations schedule, adaptable specialised equipment for Sainsbury's individually designed stores, and an intensive training programme for 200 staff across 35 locations.

In one week, HSS Reintec made it happen.

A dedicated team of trainers, the supply and mobilisation of over 200 large and small scrubber dryers and a follow up programme of daily reporting, 24/7 call out support and client feedback were all put in place by Reintec.

But what really impresses facilities specialist Derek Quinn is the fact that no equipment capital costs were involved.

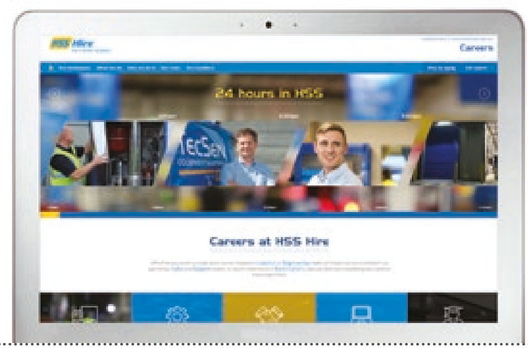
"Amazing flexibility" is how Derek describes it. "Reintec substituted 43 individual pieces of equipment for us within the first five months of our contract starting in October 2016.

"Because of the new demands of the contract, and the individual nature of Sainsbury's stores, we needed a constant supply of bespoke equipment. Only Reintec were flexible enough to offer us this service.

"They replaced equipment within 24 hours when it wasn't suitable for specific locations and tasks. And best of all, there were no capital costs involved.

"They've been fantastic. And they offer great value for money!"

> We're cleaning all Sainsbury's stores in Scotland with no capital outlay on new equipment. Reintec gave us the flexibility to do it.
>
> **Derek Quinn** in partnership with Arcus



Award-winning employer initiative

Celebrating exceptional colleagues across the HSS Hire Group and our commitment to the community.

+ Find out more at hsscareers.co.uk

Award-winning employer brand initiative

During 2016 we focused on enhancing colleague engagement, completing a thorough rebrand of colleague-facing materials to create a strong brand concept that reflects our values, and the opportunities we offer.

Award-winning results

The new branding was introduced across our recruitment materials including the careers website and social media channels. We created new designs, photography and dynamic content to illustrate what it's like to work at HSS. This was then extended to all applicable touch points for our existing colleagues, including benefits literature and internal communications materials. These pieces help to inform colleagues of the benefits and progression opportunities available to them. Our employer branding won the Best Employer Brand Award at The Drum's Recruitment Business Awards 2016, ahead of national companies such as Asda, Costa and House of Fraser.

Longer-term goals

The new branding will develop further throughout 2017, creating a recognisable look to all colleague-facing materials. During early 2017 we have focused on our female colleagues in the build-up to International Women's Day on 8 March, highlighting the diversity of our workforce, and the support, progression and benefits we offer female colleagues.

Making equipment available for a world leader in rail engineering

Atkins is, amongst their many other capabilities, a world leader in rail engineering, maintaining and developing current networks as well as implementing new projects. Phil Johnston is a facilities manager for Atkins, working in Cornwall on projects for Network Rail including vital signalling renewal and level crossing engineering improvements.

His take on HSS Hire is simple: "I use them because of the quality of their kit, their service and the good relationships I enjoy with my HSS contacts."

Phil has come to rely on the availability of equipment from HSS: "Atkins have a lot of the equipment I need, but it's often in exactly the wrong place at the time I need it. One call to HSS, and I normally get anything I order the next day."

This could include all kinds of drills, various types of scaffolding or storage facilities. But the one thing that Phil singles out is the engineering standard of the equipment HSS supply: "Usually brand new kit, but more importantly, it's tested and reliable.

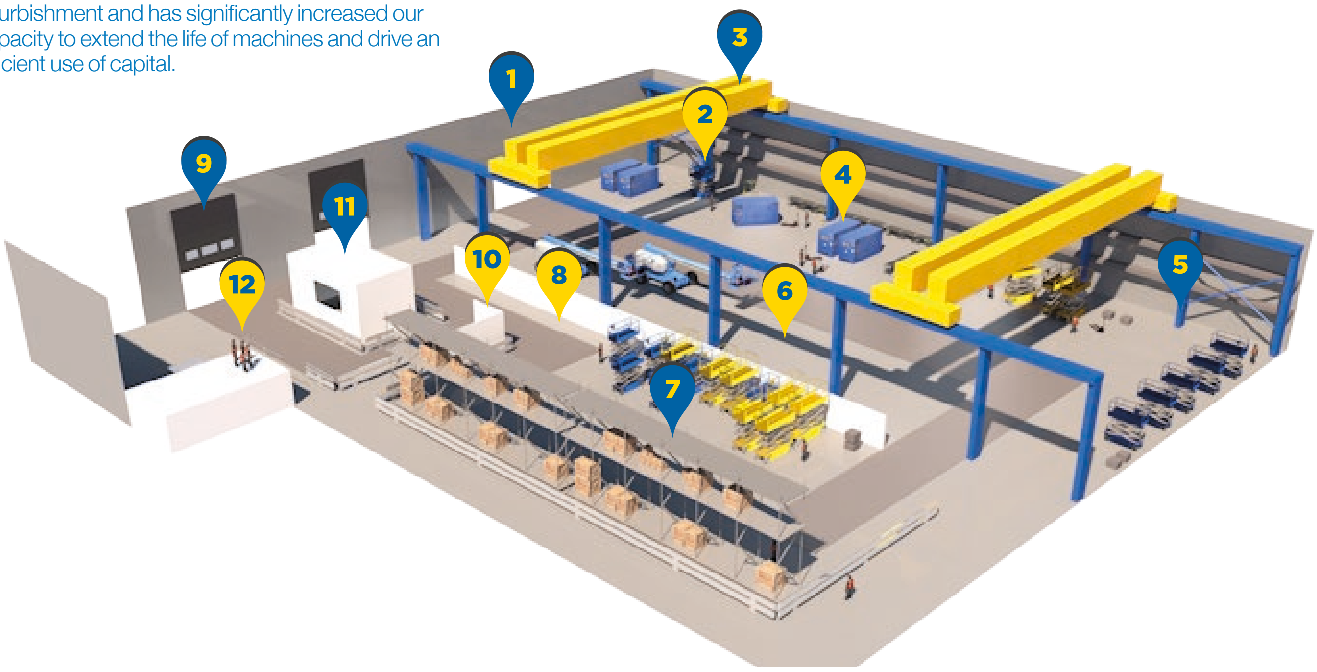
"I haven't been let down by untested kit with HSS, unlike other suppliers I could mention, who might be a touch cheaper, but don't have HSS's commitment to quality."

> HSS supply us with anything and everything we need to maintain a rail network.
>
> **Phil Johnston**
> Atkins

Our Business in Action
Continued

Our Refurb Centre extending the life of our kit

Opened in late 2015, our purpose-built 36,000 sq. ft. refurbishment centre in Manchester provides an innovative and industry leading approach to equipment refurbishment and has significantly increased our capacity to extend the life of machines and drive an efficient use of capital.



The main items that we refurbish are boom lifts, scissor lifts and larger generators. As a minimum we aim to extend the useful life of every machine by at least five years.

Working closely with our supplier partners and equipment manufacturers, the major mechanical, electrical and hydraulic components on equipment can be fully overhauled, refurbished or replaced to manufacturer approved specifications, at a lower cost than buying a brand-new machine. In addition to increasing our capital efficiency, this means that there is less wastage of raw materials in machines.

Operated on manufacturing and production principles with particular consideration for the environment, the refurbishment centre is consistent with our declared values of equipment safety, quality and sustainability through engineering excellence.

1

Goods in
Equipment collected or delivered from the network is unloaded and undergoes a basic function test to confirm no major equipment issues.

2

Strip down and assessment
Engineers strip and assess the equipment removing stickers and parts whilst inspecting the electrical and mechanical components to confirm the work required to complete refurbishment. Units are then moved to a specialist external partner for media blast (e.g. shot) and painting.

5

Scissor lift refurbishment
This area is specifically for the refurbishment of our scissor lift products with major mechanical and electrical components being refurbished or replaced. Equipment includes hydraulic lifting and trestles for safe and comfortable working.

6

Boom lift refurbishment
The engineering team complete refurbishment and final assembly of our Booms range in a dedicated area which includes hydraulic hose preparation and component cleaning equipment.

9

Goods out
Once final inspection is passed, equipment is transported back to a customer depot and immediately available for customer hire.

10

Communications cell
This is a colleague engagement and team communications area for operational performance review and planning to support effective operations.

A readily available range of equipment

When you are in the business of building clean and controlled environments for leading biotech, electronics and healthcare companies, the quality of your hired-in tools and equipment is important. As is the quality of the service you expect from your suppliers.

For Clair Bone, administration manager at York-based specialist MSS Clean Technology, HSS scores highly on both points.

The range and availability of the equipment Clair hires for sites all over the UK is a top priority too. As is the fact that all the kit delivered to what will be high-tech, highly controlled environments needs to be safe, modern, clean and well serviced.

"The staff in our local HSS office are incredibly impressive. We run our sites nationwide using just them and the HSS national network they're plugged into", says Clair. She goes on: "They're extremely reliable and helpful, and if they say it can be done, it will be done.

"If I have to get hold of specialist equipment quickly, the HSS OneCall service always seems to find it and deliver it whenever and wherever it's needed. And if some of our staff need special training in materials handling or site technology, HSS Training simply steps in and supplies it.

"Also, once equipment goes off-hire, it's important to us that it's collected quickly. HSS take equipment off-site as and when the hire period is complete. They often make four or five collection visits to a site in a week! That's exceptional for an equipment hire company. But then, the service we get from HSS is exceptional."

> If we have an urgent need for specialised equipment, they'll move heaven and earth to get it.
>
> **Clair Bone**
> MSS Clean Technology

3

Overhead lifting
Overhead cranes have been installed to enable the safe movement of heavy equipment or components e.g. large generator sets or the top section of boom lifts within the refurbishment area.

4

Power generation refurbishment
This is a designated area for the refurbishment of power generation equipment and as such includes dedicated facilities for engine build and external extraction equipment.

7

Product staging
Equipment that comes back from being painted is stored with the associated parts and then fed into the refurbishment production against a weekly production schedule.

8

Final inspection
Final inspection of equipment, including operational testing, takes place here. All refurbishment work undertaken is recorded against each piece of equipment's asset record for future reference.

11

Production planning
Daily management of all workshop activity to include weekly production schedule and product movement.

12

Visitor gallery
Location which gives visitors, such as suppliers or colleagues, a bird's eye view of the entire centre allowing us to explain the refurbishment process and the many purpose-designed features in the facility.

> We love the fact that our customers and colleagues find it very difficult to tell the difference between new and fully refurbished machines.
>
> **Michael Pearce**
> Refurbishment Engineer Manager

> Moving into a purpose-built centre has enabled us to design the layout from scratch thereby increasing our efficiency and doubling our capacity.
>
> **Amy Jagger**
> Refurbishment Engineer

Our Business in Action
Continued

Next day delivery, around the country

As a senior facilities and logistics manager with Atkins, Mark Schofield has no time to micromanage suppliers. "I'm all around the country from day to day, setting up sites for rail and infrastructure projects. My office is my car.

"I get a list of requirement from my site managers – including drills, cutters, lifts, scaffolding, generators, shelter, fuel – and with one call to my main HSS contact in Cardiff, I know it will be there.

"It's very rare that they can't deliver the next day. I've never been disappointed by them. 'Just in time', 'Where the hammer hits the anvil' – however you want to put it, they get the equipment to my sites, fully serviced, checked, documented and working, right there at the point of impact, when it's needed."

Moving from Cornwall, to Kent, to Surrey to Wolverhampton, Mark faces endless pressure to come up with equipment nationwide. He cannot praise HSS enough for their network and the availability of their equipment – even noting that if they don't have the exact gear, they'll source an alternative – often higher spec – but still supply it at the same price. "They stand by their pricing."

As Mark says, "When you're looking for honesty, straight dealing, extremely good service and flexibility, with HSS you're pushing at an open door."

> HSS? They're everything you'd expect and more. I can't fault them at all.
>
> **Mark Schofield**
> Atkins

Partnerships in the UK and abroad

Blackrow Engineering are specialists in equipment for the food processing industry.

For example, this Grimsby-based company makes and installs the dual hot water jacketed pipes that keep Thornton's Chocolate liquid as it flows into moulds, the rice cookers for Kellogg's cereal products such as Rice Krispies, as well as the trial production lines for Walkers Crisps.

But for Richard Hudson, Blackrow procurement manager, HSS Hire is the really essential ingredient for his day-to-day operations.

"We use pretty much everything that HSS offer. Power, safety gear, extractors, powered access, general tools, cutters, lifting and high access gear, plus small and large plant of all types. They're our one-stop shop for all hired in and specialist equipment.

"We install our machinery all over the UK. Their network helps massively. Because wherever you're working on an installation, you can stand outside the factory front door and more or less touch a local HSS branch. We also use them for their partnerships abroad, and they are very supportive of our overseas operations.

"I really rate their customer service and their extreme helpfulness. They're very knowledgeable about their products, and keep me up to date on what's available to help our operations run as smoothly and efficiently as possible.

"They understand the pressures of our business. Their online real-time ordering service is brilliant too – it takes away the stress of hiring equipment for me. I have a very good relationship with my HSS team, and we've developed a very good rapport. There's a real interaction. It's like dealing with really knowledgeable friends!"

The food industry is extremely time-critical. HSS Hire keeps our operations up to speed.

Richard Hudson Blackrow Engineering

Essential business support

UK Platforms are the HSS powered access specialists. Working at height is one of the most closely regulated and dangerous areas of construction, and UK Platforms has one of the largest fleets of safe, fully serviced, and up to date lifts, booms, platforms and masts in the UK.

For Martin Hannan, buyer at Ashford Cladding, UK Platforms are simply an essential part of his business. He is completely reliant on the range of equipment that UK Platforms supply – like many UK industrial roofing and cladding sub-contractors, his company holds little or no height access equipment itself.

"Their range of equipment is superb – up to 20 metres in height, they can't be beat. They've got everything.

"We have nine jobs on the go at the moment. From the biggest job we've ever done, a Waste to Energy site in Hull, that needs the biggest scissor lifters and booms that we've ever had to deal with, to smaller but still considerable jobs in Birmingham, Wetherby, and Skegness.

"If we had to buy and service the access equipment for all of it we'd have an inventory to rival UK Platforms themselves!'

When asked about the attitude and customer support he gets from UK Platforms, Martin is a man of few, but telling words.

"Availability of equipment? Customer support? Value for money? National network? All ten out of ten. Their speed of delivery is spot on too, as is the relationship we have with our local UK Platform reps and senior management.

"When we need powered access to work at height, whatever we need and wherever it is, it's there when we need it.

"And that's all that I can ask for."

I pick up the phone and it's there – you can't get much better than that.

Martin Hannan Ashford Cladding

Financial Review

Revenue
£342.4m
2015: £312.3m

Operating profit / (loss)
(£2.7m)
2015: £6.8m

Adjusted EBITDA
£68.6m
2015: £71.0m

Adjusted EBITA
£20.5m
2015: £20.3m

Adjusted EPS (diluted)
2.98p
2015: 3.20p

Reported EPS (basic and diluted)
(11.18p)
2015: (9.86p)

Core LTM utilisation
50%
2015: 48%

Specialist LTM utilisation
75%
2015: 76%

> 2016 was a year of significant change, laying down the foundations for improved customer experience and shareholder returns.
>
> **Paul Quested**
> Finance Director

Overview

I am pleased to be writing my first report as Chief Financial Officer of HSS Hire Group plc. 2016 has been a year of significant change for the Group, setting up our new operating model with central distribution and engineering capability. The scale and complexity of this change has required considerable investment and impacted on performance.

Since joining the business in August, I have taken the opportunity to meet colleagues, customers and suppliers. This has reinforced that the changes made in 2016 and the early part of 2017 will enhance and differentiate our customer service through greater availability.

Whilst performance in 2016 is not where it should be, I remain confident that leveraging this investment in the future will deliver improved sustainable returns.

Financial highlights

	Revenue		Contribution[1]		Adjusted EBITDA[2]		Adjusted EBITA[2]		Operating profit[2]	
£m	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
Rental	**£262.8m**	£262.9m	**£179.4m**	£182.1m						
Services	**£79.6m**	£49.5m	**£10.3m**	£6.1m						
Group	**£342.4m**	£312.3m	**£189.7m**	£188.2m	**£68.6m**	£71.0m	**£20.5m**	£20.3m	**(£2.7m)**	£6.8m

(1) Contribution is defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs (for each segment).
(2) These measures are not reported on a segmental basis because branch and selling costs, central costs and exceptional items (non-finance) are allocated centrally rather than to each reportable segment.

Revenue

Group revenue grew 9.6% to £342.4m (2015: £312.3m) significantly ahead of the UK tool and equipment hire market growth rate of 2.8% for 2016 as estimated by the ERA. The main drivers of this result were:

- Continued strong growth in our Services revenues, up 60.8% year on year to £79.6m, mainly driven by performance in our rehire business, HSS OneCall, complemented with the continued development of our HSS Training business;
- Significant increases in revenues from Key Account customers, both new and existing, with headline revenues of £148.1m, 43.9% higher than in 2015. This includes revenue from a number of new customers including Amey; and
- Rental and related revenues remained broadly flat, with growth amongst our specialist brands, whilst small and mid-sized customers of our core rental offering in particular were impacted through the second half of the year by the operational changes implemented.

Revenue and revenue growth is one of our KPIs (see pages 10 and 11) as, combined with estimates of market size and growth rates, it provides us with a measure of our evolving market share. Pleasingly we continued to grow revenues at a faster rate than the UK tool and equipment hire market, suggesting that we continued to increase our market share.

As detailed in the Chief Executive Officer's Review, one of our three strategic objectives is to win new, and deepen existing, customer relationships. The simplest way to measure this is to review our average spend (revenue) per account customer. In 2016 average spend per account customer increased to £8.7k (from £8.1k in 2015), largely driven by strong growth in our Key Account customers, particularly new customers, during the year. This is one of our KPIs (see pages 10 and 11).

Segmental performance

Rental (and related revenues)

Our Rental revenues were flat year on year at £262.9m (FY15: £262.8m) and accounted for 76.8% of Group revenue (FY15: 84.2%). Performance in the second half of the year, particularly amongst our small and medium customers in England and Wales, was affected by the implementation of our new operating model.

Contribution, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs of £179.4m was 1.5% lower year on year (FY15: £182.1m) reflecting the change in revenue mix and growth in costs as we worked through the implementation of our new operating model.

LTM core utilisation improved to 50% (2015: 48%) and LTM specialist brand utilisation remained in the mid 70s at 75% (2015: 76%). These are both KPIs (see pages 10 and 11). Our utilisation rates remain at the top end of the industry range, with the performance of the core business being particularly pleasing given the seasonal nature of some kit and the availability issues in the second half.

In early Q1 17 we put in place sales plans to win back customers impacted by our operational changes and to reinvigorate and drive profitable growth amongst the smaller and regional accounts. This has included adding to our senior management team with the appointment of a Chief Commercial Officer to drive these initiatives.

Services

Services revenues increased 60.8% to £79.6m (FY15: £49.5m) and accounted for 23.2% (FY15: 15.8%) of Group revenues. This was principally due to strong growth in HSS OneCall, but also due to the continued development of HSS Training. Our Services revenues benefited from existing and new Key Account contracts where our one-stop-shop offering has provided clear market differentiation.

Contribution from Services grew 68.2% to £10.3m (FY15: £6.1m), slightly ahead of the revenue growth rate, reflecting margin improvement achieved using the existing teams and infrastructure to support increased levels of activity.

Costs

Our cost analysis set out below is on a reported basis and therefore includes exceptional investment associated with our operating model change. Year on year variances driven by such costs are identified in the commentary. Our cost of sales increased by £24.3m (20.1%) during the year to £145.2m, mainly reflecting the growth in our Services revenues (principally HSS OneCall and HSS Training) and the associated third-party supply costs incurred to support this activity, together with £3.4m of exceptional costs relating to the implementation of the new operating model: £1.8m of NDEC parallel running and a £1.6m write down of resale stock. As part of the NDEC set-up and branch and distribution centre closures, inventory held for sale has been centralised into fewer locations. Based on the excess quantity and age profile of the consolidated inventory and a decision to streamline certain stock ranges, estimated future sales value is deemed to be lower than cost. Accordingly an impairment of

Financial Review
Continued

£0.9m has been recognised within cost of sales. In addition, stock losses arising from the centralisation of resale stock and associated branch and distribution centre closures amounted to £0.6m which is also included within cost of sales.

Our distribution costs increased by £3.8m (9.1%) from £41.3m to £45.1m. This is largely due to the increased transport wages and vehicle related costs driven by the phasing in of the NDEC alongside the existing distribution network through 2016. Distribution costs in FY16 include £1.3m of exceptional costs relating to the NDEC, £1.1m of which relates to parallel running costs prior to Q4, and £0.2m of which relates to redundancy costs. As reported in our trading update in November 2016, as we intentionally delayed the implementation of the new centralised operating model in Scotland to Q1 17.

Our administrative expenses grew £11.8m (8.2%) to £156.0m. Exceptional costs accounted for a £13.5m increase: £7.0m relate to the NDEC, with parallel running costs and project management, design and set-up costs accounting for the majority at £4.1m and £2.6m respectively; £4.5m relates to the recognition of onerous lease provisions in relation to branches closed during the current and previous years. These provisions represent the discounted value of future rent payments on properties we are not trading from until lease expiry; and £1.6m relates to the cost of implementing the cost reduction plan during the year, moving to a new divisional structure. Growth in administration costs was slightly reduced as a result of cost savings identified and implemented through the year.

Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA for 2016 was £68.6m, 3.4% lower than in FY15 (£71.0m) reflecting the mix of revenue and costs of the new network from Q4, before the right sizing of the old network takes place to mitigate this increase. As a result, combined with the growth in group revenue, the Group's Adjusted EBITDA margin for FY16 was 20.0% (FY15: 22.7%). Adjusted EBITDA and margin are included in our KPIs (see pages 10 and 11).

Our Adjusted EBITA grew 1.0% to £20.5m (FY15: £20.3m). The small increase year on year reflects the positive contribution of our Services revenue growth offset by the parallel running costs of the network in the final quarter of 2016 at the point that these were no longer classed as exceptional. The Group's resulting Adjusted EBITA margin was 6.0% (FY15: 6.5%). Adjusted EBITA and margin are included in our KPIs (see pages 10 and 11).

Other operating income

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

Operating profit/(loss)

Our operating profit decreased by £9.5m, from a £6.8m profit in FY15 to a £2.7m loss in FY16. The £8.5m growth in non-finance exceptional costs, to £17.0m (FY15: £8.5m), accounts for the majority of this decline.

Finance costs

Net finance expense (finance expenses less finance income) reduced £6.0m year on year to £14.7m (FY15: £20.7m). This reduction principally reflects the impact of the IPO and partial repayment of the senior secured notes in February 2015 and the associated £4.3m early redemption premium paid on the senior secured notes in 2015. The IPO resulted in the conversion of investor loan notes into equity, reducing the interest cost by £0.9m year on year and the partial redemption of the senior secured notes resulted in a £1.9m decrease in debt issue costs and a £0.4m decrease in interest from 2015 to 2016. Drawings on our RCF and finance leases increased during the year to finance the investment in the new operating model and this led to a small increase in the amount of interest payable on both.

Taxation

The Group generated a net tax credit of £0.1m in 2016 compared with a tax expense of £0.4m in 2015. The net tax credit in FY16 reflects a tax charge for the Irish part of the business and a release of deferred tax liability relating to intangible assets caused by announced future reductions to the main rate of UK corporation tax. The FY15 tax charge principally reflected an Irish tax charge and release of a deferred tax asset in respect of the utilisation of prior year tax losses.

Reported and adjusted earnings per share

Our basic and diluted reported loss per share increased to 11.18p (FY15: 9.86p). This was due to the larger loss generated in the year, partially offset by an increase in the weighted average number of shares from 144.5m to 155.1m shares. As a result of the placing completed in December 2016 the weighted average number of shares in issue will increase in FY17.

Our basic adjusted earnings per share, being profit before amortisation and exceptional costs less tax at the prevailing rate of corporation tax divided by the weighted average number of shares, decreased from 3.20p in FY15 to 2.98p in FY16. Our diluted adjusted earnings per share, calculated in the same manner as basic adjusted earnings per share, but with the weighted average number of shares increased to reflect LTIP and Sharesave options, decreased from 3.20p in FY15 to 2.94p in FY16. These reflect Adjusted EBITA growth and the broadly flat net finance costs in each period (pre exceptional finance costs) which was partially offset by the increase in the weighted average number of shares year on year. Adjusted EPS (diluted) is one of our KPIs (see pages 10 and 11) and is also used to assess Executive Director remuneration (see page 54).

Capital expenditure

Fixed asset additions in the year (excluding any assets acquired on acquisition) were £42.4m, a £41.6m or 49.5% decline year on year. Within this £27.3m was spent on hire fleet (2015: £65.0m) reflecting the managed reduction of spend in these areas after two years of significant expenditure. The remaining £15.1m was spent on non-hire additions (land, buildings, plant and machinery) (2015: £19.0m). The changes to the Group's operating model implemented through 2016 and the actions and initiatives underway in Q1 17 are designed to promote and support enhanced capital and operational efficiency across the Group. Executed effectively, this should require lower levels of growth capital expenditure to support further revenue growth, although this will vary depending on the evolution of the Group's revenue mix and the asset categories which are being purchased. Fleet investment is one of our KPIs (see pages 10 and 11).

Return on Capital Employed (ROCE)

Our ROCE for FY16 was 9.7% compared with 11.2% for FY15. ROCE is calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets and cash) less average current liabilities (excluding current debt items). Whilst we grew Adjusted EBITA 1.0% year on year, the average capital employed by the Group increased 16.8% from the level calculated at the end of 2015, principally reflecting the full-year impact of significant fixed asset additions in FY15. This is one of our KPIs (see pages 10 and 11) and is also used to assess Executive Director remuneration (see page 54).

Cash generated from/utilised in operations

Cash generated from operations was £26.6m for FY16, an increase of £34.0m over the prior year (FY15: £7.4m cash utilised in operations). This reflects the planned reduction in hire fleet asset capital expenditure and the lower associated cash settlement compared with FY15.

> The changes to the Group's operating model implemented through 2016 and the actions and initiatives underway in Q1 17 are designed to promote and support enhanced capital and operational efficiency across the Group.

Leverage and net debt
Net debt (stated gross of issue costs) increased by £1.3m to £219.4m (FY15: £218.1m). This small increase reflects the significant investment in the new operating model during 2016 offset by the c. £13m equity placing completed in December 2016. As at 31 December 2016 the Group had access to £42.2 million of combined liquidity from available cash and undrawn committed borrowing facilities. Our leverage, calculated as net debt divided by Adjusted EBITDA, increased marginally from 3.1x in FY15 to 3.2x at the end of FY16. This was primarily due to the lower Adjusted EBITDA generated in FY16. Leverage or Net Debt Ratio is one of our KPIs (see pages 10 and 11) and is also used to assess Executive Director remuneration (see page 54).

Use of alternative performance measures to assess and monitor performance
In addition to the statutory figures reported in accordance with IFRS, we use alternative performance measures or (APMs) to assess the Group's ongoing performance. The main APMs we use are Adjusted EBITDA, Adjusted EBITA, Adjusted profit before tax, Adjusted earnings per share, leverage (or Net Debt Ratio) and ROCE, all of which are included in our key performance indicators as set out on pages 10 and 11.

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.

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

Analysts and investors also assess our earnings per share using an Adjusted earnings per share measure, calculated by dividing an adjusted profit after tax by the weighted average number of shares in issue over the period. This approach aims to show the implied underlying earnings of the Group. The Adjusted profit before tax figure comprises the reported loss before tax of the business with amortisation and exceptional costs added back. This amount is then reduced by an illustrative tax charge at the prevailing rate of corporation tax (currently 20%) to give an adjusted profit after tax. Adjusted earnings per share is used as a performance metric for the vesting of 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 on page 72. A reconciliation of reported loss per share to Adjusted earnings per share is provided in note 10 of the accounts.

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

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

Paul Quested
Chief Financial Officer

Principal Risks and Uncertainties

Managing risk

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

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

The Group then manages its risk through a group risk register which is maintained by the Risk and Assurance Director. This is subject to regular quarterly review by the Audit Committee, where changes to the risk landscape, risk ratings (regarding likelihood and impact) and assurance activity are documented.

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

Principal risks and strategy

The Board has carried out a robust assessment of the principal financial and operating risks facing the Group, based on its three strategic priorities, which are: to optimise our branch and distribution network; to deepen our customer relationships and win new accounts; and the continued development and growth of our specialist businesses.

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

The Board has identified five key strategic enablers which underpin the achievement of these strategic priorities. These are as follows:

- **Ensure safe, sustainable working environments for colleagues and customers**
- **Deliver value and quality to our customers**
- **Focus on profitability and growth**
- **Drive availability and operational efficiency**
- **Invest in our colleagues**

2016 risk management developments

Through 2016 the Group has continued to improve its approach to the management of risk, with the following developments:

→ increased cross-working and improved sharing of information across the assurance teams, including Investigation Team expertise in relevant HSEQ issues and closer working between the assurance and HSEQ functions on external accreditation for the business;

→ development and review of the potential financial impact of key risks;

→ introduction of risk trend analysis;

→ further development of controlled risk self-assessment (CRSA), consolidating the branch-based assurance activity and establishing reporting summaries;

→ development of automated reports to improve information and identify emerging risk; examples include HSEQ where trends in geographical or practice-based incidents are identified, and automated reports where unusual transactional patterns are identified to highlight potential areas for investigation; and

→ increased communication with industry peers and police to share information and reduce fraud across the hire industry.

2017 planned improvements to risk management process

The Group will continue to develop its risk management process with the following:

→ the Risk and Assurance Director holding regular one-to-one sessions with the executive management team to continually improve the risk management culture across the Group;

→ increased training to improve the ownership of risk at executive Board level; and

→ improvements in the monitoring of risk and identification of risk trends by enhancing measurable indicators on the key risks.

Key risks	Strategic enabler	Description and impact	Mitigation	Risk change
Macroeconomic conditions		An economic downturn in the UK and Ireland may adversely affect the Group's revenue and operating results by decreasing the demand for its services and the prices it may charge. The Brexit referendum result has caused economic uncertainty with potential short-term and long-term effects on demand for services within the Group's industry and broad customer base.	The Group focuses on the 'fit-out, maintain and operate' markets, which are less cyclical, less discretionary and have a larger proportion of recurring spend than the new-build construction sector. While the Group is not isolated from the construction sector, it focuses on the non-construction portion of the market, with specific exposure in the facilities management, retail, commercial fit-out, property, utilities and waste, infrastructure and energy services markets.	Increased – due to market and industry uncertainty caused by Brexit
Competitor challenge		The Group's industry is highly competitive, and competition may increase. The equipment rental industry is highly fragmented, with competitors ranging from national equipment rental companies to smaller multi-regional companies and small, independent businesses operating in a limited number of locations. Competition in the market has led to frequent excess capacity and resultant pricing pressure.	The Group is ranked number two in its main markets and the resulting economies of scale enable it to be highly competitive, whilst the fragmented nature of the market may offer consolidation opportunities enabling the continued growth of the specialist businesses within the Group. The Group's highly developed distribution service model provides improved customer availability and increases the efficiency of its operations.	Unchanged
Operational disruption		The provision of the Group's expected service levels depends on its ability to transport its hire fleet across its network in a timely and cost-effective manner and on the successful operation of its distribution centres and Branch Network.	The Group established a National Distribution and Engineering Centre (NDEC) in 2016 which provides distribution of a number of key fast-moving products to the Customer Distribution Centres (CDCs) and Branch Network. There is flexibility built in below this where CDCs can service the Group's customers if failure occurs.	Increased in 2016 during the transition to, and implementation phase of, the new operating model. Risk expected to reduce in 2017 as operating model is refined.
IT infrastructure		The Group requires an IT system that is appropriately resourced to support the business, managing the growing network and successful assimilation of any acquisitions. Any IT systems malfunction or disruption at the NDEC, any of the Group's CDCs or offices may impact on the ability to manage its operations and distribute its hire fleet to service its customers, affecting revenue and reputation. A cyber security attack on the business systems could lead to a potential loss of confidential information and disrupt the business' transactions with customers and suppliers.	The current IT system has been fully reviewed to ensure that it is the best possible option to optimise the success of the Group's strategy. This review also included assurance that there is adequate knowledge resource available to support the system in future. Disaster recovery tests are carried out on a regular basis including with our third-party partners who run the NDEC. Firewalls are in place to protect against malicious attempts to penetrate the IT environment. Penetration testing is carried out on a regular basis to detect weaknesses in our IT and cyber security. Ongoing investment takes place to ensure our mitigating actions are updated to respond to the changing sophistication of cyber attacks.	Unchanged
Customer credit / Supplier payment		Some of the Group's customers may have liquidity issues and ultimately may not be able to fulfil the terms of their rental agreements with the Group. Bad debts and credit losses can also arise due to service issues or fraud. Unauthorised, incorrect or fraudulent payments could be made, leading to financial loss or delays in payment which could adversely affect the relationship with suppliers and lead to a disruption in supply.	The Group runs extensive credit checking for its account customers and maintains strict credit control over its diversified customer base. The Group's investigation team conducts proactive and reactive work in order to minimise the Group's exposure to fraud, and all new staff are provided with training in this area. Payments and amendments should only be made in line with a regularly reviewed authorisation matrix.	Unchanged

Principal Risks and Uncertainties Continued

Key risks	Strategic enabler	Description and impact	Mitigation	Risk change
Equipment supply, maintenance & availability		The reliable supply of safe and good-quality equipment is critical for delivering our customer promise; unavailable or unreliable equipment can reduce potential revenue and drive additional costs into the business. The Group is dependent on its relationships with key suppliers to obtain equipment and other services on acceptable terms. Any disruption in supply could affect its ability to provide its customers with expected service levels, increasing the risk of lost customers or reduced trading levels. The changes in the operating model impacted the availability of supply during implementation.	The Group makes every effort to evaluate its counterparties prior to entering into significant procurement contracts and seeks to maintain a range of suppliers. The changes to the Group's operating model during the year, principally the opening of the new NDEC, are designed to increase the efficiency and effectiveness of the Group's supply chain to ensure appropriate service standards are provided to its customers. The 2017 fleet plan is based on improving the availability of products, by efficiently investing against demonstrable demand patterns to drive profitability.	Increased in 2016 during the transition to, and implementation phase of, the new operating model. Risk expected to reduce in 2017 as operating model is refined.
Customer retention and brand reputation		A decline in the Group's customer service levels could result in a loss of customers and market share. The Group's business depends on strong brands and any failure to maintain, protect and enhance its brands could have an adverse effect on its ability to grow the business.	The Group has developed extensive plans as part of its regular planning process to improve availability, flexibility in service and delivery to promise, post the implementation of the new operating model and on an ongoing basis. Service levels are tracked via the Group's innovative Customer Delight programme. The Group invests substantially in areas such as marketing, community relations and colleague training, aimed at delivering the highest standards of customer service and colleague engagement. The Group actively engages in print and online advertisements, targeted promotional mailings and email communications, and engages on a regular basis in public relations and sponsorship activities to promote its brands and its business.	Increased in 2016 during the transition to, and implementation phase of, the new operating model. Risk expected to reduce in 2017 as operating model is refined.

Key risks	Strategic enabler	Description and impact	Mitigation	Risk change
Outsourcing of services		The Group outsources certain activities of its business to third parties, with the NDEC being the most significant. If any third parties become unable or refuse to fulfil their obligations, or violate laws or regulations, there could be a negative impact on the Group's operations or it could lead to adverse publicity and a decline in demand. Inability to repair equipment will affect the ability to manage demand, affecting revenue and increasing costs of re-investment in equipment.	Outsourcing of services by the Group is subject to stringent procurement and service criteria and all contracts are subject to demanding service level agreements which are closely monitored and enforced. Performance and quality metrics and KPIs are tracked throughout the life of contracts.	Increased in 2016 during the transition to, and implementation phase of, the new operating model. Risk expected to reduce in 2017 as operating model is refined.
Inability to attract and retain personnel		Turnover of members of the Group's management and colleagues and its ability to attract and retain key personnel may affect its ability to efficiently manage its business and execute its strategy.	The Group has established and maintains competitive pay and benefit packages, as well as the right working environment for its colleagues. Training will be provided within branches of excellence whilst the Training Academy facility provides development training for management, a process that is mirrored at more senior management levels by various tailored development programmes. The Group supports personal development with the provision of appropriate training courses. A colleague survey was undertaken and reported in 2016; this covered a wide range of subjects considered important to colleague satisfaction.	Unchanged
Legal and regulatory requirements		Failure to comply with laws or regulation, such as the Companies Act, accounting regulations, health and safety law, Bribery Act or Road Traffic Act, leading to material misstatement and potential legal, financial and reputational liabilities for non-compliance.	Robust governance within the Group, including a strong financial structure, with adequate assurance provision from internal and external audit. Additional assurance and support is provided by a fully skilled HSEQ team and an internal group investigation team.	Unchanged

Corporate Responsibility

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

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

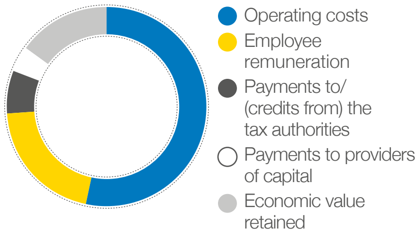
Our full Corporate Responsibility Report is published at www.hsshiregroup.com/corporate-responsibility and the following pages summarise our activities and achievements.

1 Economic performance and governance

A responsible company generates and shares wealth in order to perform for its stakeholders – delivering a financial return for shareholders as well as ensuring continuity of supply and support for its customers and secure employment and development for its colleagues. As this Report details, HSS generated revenues of £342.4m which was shared as represented in the pie chart amongst the various stakeholders in our business including our suppliers and their own supply chains, our colleagues and investors, the government and our local communities as well as a retained element to help fund future investment and growth.

Sharing of economic value

£342.4m



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

Full details of our corporate governance are set out in pages 38 to 65 of this Report.

2

Supporting our customers

Being a responsible company includes recognising that we are an integral part of our customers' supply chains and taking a responsible approach to the way we work with them and the service we deliver to them. We provide a customer experience that focuses on the things they told us matter most – safety, value, availability and support – and we measure customer feedback on a daily basis to ensure continual improvement. In 2016, we were delighted to have achieved our highest ever NPS customer satisfaction score of 42.

NPS score

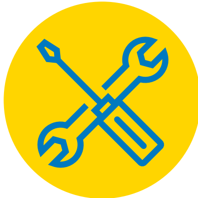
42

(2015: 36)

3

Reducing environmental impact through our product lifecycle

We recognise that there are environmental and social impacts at every stage of the product lifecycles of all the equipment in our fleet so we are committed to a responsible approach in the way that we purchase and dispose of this equipment, as well as to extending the life of kit and reducing product waste. Our innovative, purpose-built refurbishment centre has provided the capacity for us to significantly increase our previous refurbishment capability and in 2016, we almost doubled our refurbishment activity from a previous annual average of 315 units to 526 machines.



526

machines refurbished through centre

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Corporate Responsibility
Continued

4

Reducing environmental impact though our operations

We also work responsibly to limit any negative environmental impact that arises from our day-to-day business operations. As well as developing efficiency and effectiveness throughout our operations to optimise our branch and distribution networks, we also drive energy efficiency within our built environment too. We work to – and are accredited against – recognised environmental standards and work hard to regulate our use of natural resources, reduce polluting emissions and minimise waste. In 2016 we reduced our Group energy consumption by almost 12%.

HSS is fully compliant with both ESOS and CRC reporting. In 2016 we commenced reporting to level 3 Carbon Disclosure Protocols and continue to be committed to attaining ISO 50001 accreditation by 2018, including full International Performance Measurement and Verification Protocol compliance.

Greenhouse Gas Emissions

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

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

Unless otherwise stated all data is provided for the period 1 April 2015 to 31 March 2016. This reporting period does not cover the same period covered by the Financial Statements, but has been adopted to allow the majority of data used to be actual recorded data rather than estimated consumption.

The total emissions produced by the Group during this period was 28,116 TCO_2 (2015: 21,972).

ESOS

The UK Government established ESOS (the Energy Savings Opportunity Scheme) to implement Article 8 (4 to 6) of the EU Energy Efficiency Directive (2012/27/EU). The ESOS Regulations 2014 give effect to the scheme and the Environment Agency is the UK scheme administrator. ESOS is a mandatory energy assessment scheme for organisations in the UK that meet the qualification criteria. The Group was required to carry out an ESOS assessment in 2016, undertaken by our energy and environmental consultants Maloney Associates. It included a full review of the energy use throughout our portfolio and transport fleet.

In March 2016 the Group was selected by the Environmental Agency for an external audit of ESOS compliance and it was confirmed that we had conducted the review and produced reports to an exceptionally high standard.

69 kWh/m²
Group electricity usage (2015: 78 kWh/m²)

36
carbon emissions per m²
(2015: 43)

68%
commercial waste diverted from landfill
(2015: 67%)

	2016			2015		
	Consumption	**Conversion factor**	**Emissions (TCO_2)**	Consumption	Conversion factor	Emissions (TCO_2)
Scope 1 emissions						
Fuel combustion	**2,515,448 kWh**	**0.18407**	**480**	931,100 kWh	0.184557	181
Company vehicles	**4,956,014 litres**	**2.5839**	**12,829**	5,243,586 litres	2.5839	13,549
Leeds bunkered diesel	**209,000 litres**	**2.5839**	**540**	196,822 litres	2.6024	509
Fugitive emissions	**1,797 litres**	**0.21468**	**0.4**	7,727 litres	2.6024	20
Scope 2 emissions						
Purchased electricity	**14,127,033 kWh**	**0.49636**	**7,012**	14,917,614 kWh	0.49023	7,313
Scope 3 emissions						
Business travel*	**24, 355, 118 miles**	**0.293416**	**7,794**	3,045,916 miles	0.289469	909
Total greenhouse gas emissions			**28,116**			21,972

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

Emission category	Methodology
Fuel combustions (gas data for HSS building portfolio)	Based on CRC statements provided by gas suppliers for the period 1 April 2015 to 31 March 2016.
Company vehicle emissions	Collated using data from fuel card provider and direct purchase records for cars and commercial vehicles in litres converted according to Defra guidelines.
Leeds bunkered 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 1 April 2015 to 31 March 2016.
Business travel	Collated from expensed mileage claims and converted according to Defra guidelines.

* The business mileage reporting approach was improved during the year resulting in the capture of more business mileage than reported in 2015. Due to the way the data is collected it is not possible to restate the 2015 mileage.

5

Colleagues

Central to the delivery of our business plan – and ultimately to our success – is our people. It's the people that really make HSS so we want to make sure that we have a diverse workforce, representative of the communities in which we operate and that they are happy at work with the knowledge and support they need in order to deliver the best possible service to our customers. We put their safety first, provide for and protect their wellbeing and invest in their training and development to ensure that they are both appropriately skilled and motivated. In 2016 we were pleased to see a 17% reduction in RIDDOR occurrences and we kept our training days per colleague almost level at 4.1 days per colleague and 59% of managerial appointments were given to internal candidates, an increase of almost 44%. We also extended our colleague engagement survey to all areas of the business and were delighted with the feedback.

As at 31 December 2016, 512 (17%) of all of our employees were female, an improvement of 13% from the level of 15% reported in 2015 but we recognise that we would like to develop this further still. At the Board level, one Non-Executive Director was female (representing 20% of the Board) and at the senior management level (excluding Board members) 11 were female (14%). In both Board and senior manager positions we have improved from 2015 when we had ratios of 14% and 13% respectively.

0.40
RIDDOR
(2015: 0.48)

4.1
training days per colleague
(2015: 4.3 days)

59%
management promotions
(2015: 41%)

17%
women
(2015: 15%)

67%
colleague engagement score

6

Communities

As a local business with a national presence, we're aware of the role we play in the communities in which we operate and take a proactive approach to engaging with, respecting and becoming part of our local communities. Our long-running Heroes of Hire programme provides a platform for us to share our skills, expertise and resources within those communities by volunteering on build and refurbishment projects and we support charitable initiatives by offering a discount and holding fundraising events. In 2016 our community activity was extended to include an emphasis on training and support for employment skills. We also joined the London Benchmarking Group to more formally record and report our activity in these areas.

1,000
hours' work experience

50%
charity discount

7

Our commitments

We are pleased to report our progress against our long-term targets

Focus area	2018 target	Measured by	Current position
HSEQ	Consistent year on year reduction in RIDDOR frequency ratio	Weekly accident reporting for executive team	**0.40** (2015: 0.48)* (2014: 0.50)
People	5.0 training days per colleague per year	CITB Grant and internally audited training days	**4.1 days** (2015: 4.3 days)
	A workforce that is 75% promoted from within and 33% women	% internal promotions Female % of workforce	**59%** (2015: 41%) **17%** (2015: 15%)
Product lifecycle	Reduce our product wastage year on year through responsible sourcing and extending the products useful life	Stock write-off by value as a % of total fleet value	**14.0%** (2015: 9.8%)
Carbon reduction**	Reduce energy consumption in Local Branches by 5% per annum when compared with the overall floor area occupied	External measurement by Maloney Associates	**64 kWh per m²** (2015: 63 kWh per m²)
	Reduce energy consumption across the group by 5% per annum when compared with the overall floor area occupied	External measurement by Maloney Associates	**69 kWh per m²** (2015: 78 kWh per m²)
	Year on year reduction in miles per job and miles per branch	Measured using internal IT systems	**13.4 miles per job** (2015: 12.8 miles per job) **38,782 miles per branch** (2015: 38,804 miles per branch)
Community	300 job seekers benefiting from the Heroes of Hire commitment to building a future for local communities	Number of colleague volunteering events per year Number of HSS Training events, up-skilling local communities	**2 volunteering events** **14 mock interview sessions and work experience placements**

* Due to the introduction of an enhanced accident reporting system in 2016, historical figures have been restated to be comparable.

** Due to the strategic optimisation of our Branch Network in 2016, it is now more appropriate to measure the energy consumption of the Group as a whole, rather than just Local Branches. We have reported both this year but going forward will measure ourselves against Group targets.

Approval of the Strategic Report
The Strategic Report on pages 02 to 37 was approved by the Board of Directors on 5 April 2017 and is signed on its behalf by:

J.B. Gill
Director
5 April 2017


Passionate FUN
Drying
Clock Value What
Care

Governance

Chairman's Introduction

> My fellow Directors and I firmly subscribe to the vision that corporate governance should form the backbone of our culture and growth strategy. We have established strong governance structures through our committees, systems and policies and together these contribute to our day-to-day activities, the protection of our assets and the delivery of our business plan.

Alan Peterson
Chairman

On behalf of the Board, I am pleased to present the corporate governance report for the 2016 financial year.

This part of the Annual Report provides an overview of the Group's existing approach to corporate governance and how we continue to evolve our corporate governance structure(s) to better mitigate risk and ensure compliance with prevailing legislation on an ongoing basis. Reports from the Chairs of each of the sub-committees of the Board (the Audit, Nomination, Market Disclosure and Remuneration Committees) are included in the following pages and outline the work and initiatives each has undertaken during the year.

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

Operational change and trading performance
Despite a period of significant transformational operational change and investment in the business, we delivered year on year revenue growth through 2016 and made progress against a number of our strategic objectives. However, our earnings performance was impacted by the scale and complexity of the operational changes particularly amongst our smaller and regional customers and we therefore fell short of our initial expectations for the year. The progress of the NDEC implementation has been carefully and continually monitored at Board level through the course of the year, from March when implementation commenced to its implementation in Scotland in early 2017. Its ongoing performance will continue to form a key element of the materials reviewed by the Board at each Board meeting as we continue to learn from and refine our operating model.

The Board remains confident that the changes implemented will position the business to drive improved earnings per share and shareholder returns in the medium term. Our focus in 2017 is firmly on cost control, operational and capital efficiency and driving a clear competitive advantage from our enhanced customer proposition.

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Board evaluation

We completed our 2016 internal Board and Committee evaluation in early 2017. Further details on this process and its findings are provided in the Nomination Committee report on page 52.

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

Board and senior management training

During the course of the year all Directors were given training by the Company's legal advisers in respect of the Market Abuse Regulation. A number of senior managers in the business also attended professional development courses at the Cranfield School of Management. The Group ensures that senior managers benefit from a range of personal and professional development programmes designed to enhance and develop strategic management skills.

Further detail on training provided to members of the Board during the year is set out on page 46.

Senior management reorganisation

During the course of 2016 we reorganised our senior management structure to simplify and shape the business to better match how we operate and how we trade with our customers. We have made further appointments to our senior leadership team in early 2017 including a Group HR Director and a Chief Commercial Officer, the latter being specifically focused on reinvigorating our core sales growth.

Legislative and regulatory change

There were notable developments in the legal and regulatory landscape which took effect during 2016. The Group has updated its policies and procedures following the introduction of the Market Abuse Regulation on 3 July 2016. The Modern Slavery Act became effective during 2015 and has been implemented in the Group's internal policies and is referred to in the Group's Code of Ethics available on the corporate website (www.hsshiregroup.com). The Modern Slavery Act requires the Group to publish an annual slavery and human trafficking statement for each financial year that ends on or after 31 March 2016. The first such statement will be made available on the corporate website during 2017 and will summarise the steps the Group has taken to ensure that human slavery or trafficking is not taking place in its supply chains or its business.

Equality and diversity policy

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

Currently we have one female Non-Executive Director, meaning 50% of our Independent Non-Executive Directors are female and 17% of the Board is female. Further detail on the gender split for senior management and employees is provided within the Strategic Report on page 37.

Based on our annual Board evaluation we believe that the current mix of experience, background and perspectives amongst the Directors contributes to the effectiveness of the Board as a whole, however we recognise that female representation and diversity at Board and senior management levels remains limited and both represent continuing development opportunities for the Group.

As and when Director or senior management appointments are being made or succession planning is being undertaken, all candidates are considered on merit and against objective criteria, with due regard for the benefits of diversity on the Board and amongst the senior management team, including gender, whilst also taking care that appointees have enough time available to devote to the position.

Further details on our approach to equality and diversity can be found on page 62 and within our Corporate Responsibility report available for download at www.hsshiregroup.com/corporate-responsibility.

Looking ahead

The investment in and reorganisation of our senior management team together with the results of our 2016 Board evaluation process give me confidence that we have assembled a strong operational team and an experienced Board, both of which together will drive the long-term success of the business.

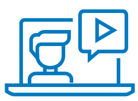
Following the completion of the NDEC implementation in early 2017, we now move into an exciting period where we can consolidate the operational changes made and drive continuous improvement and efficiency across our operations. As a Board we remain confident that the initiatives and innovations we have implemented through this period will position the business to drive improved shareholder returns in what remains a competitive and fragmented marketplace.

I once again look forward to meeting shareholders at our next Annual General Meeting, which will be held at Hilton Garden Inn, Hatton Cross on 14 June 2017.

Alan Peterson
Chairman

5 April 2017

> During the course of 2016 we reorganised our senior management structure to simplify and shape the business to better match how we operate and how we trade with our customers.



Further details on our approach to equality and diversity can be found on page 62 and within our Corporate Responsibility report available for download at www.hsshiregroup.com/corporate-responsibility.

Board of Directors

Alan Peterson
Chairman

John Gill
Chief Executive Officer

Paul Quested
Chief Financial Officer

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

Alan became 3i's first Industrialist in Residence in 2001, serving until 2005. He is a graduate of Loughborough University and is a Companion of the Chartered Management Institute.

Alan also chairs the Board's Nomination Committee.

John Gill joined the Group as Chief Financial Officer in February 2009 and was appointed Chief Operating Officer in 2014. In September 2015, John was appointed Chief Executive Officer of the Group. Before joining the Group, he served as finance director at Screwfix Direct Limited, a subsidiary of Kingfisher plc, from June 2006. Prior to that, John held a number of roles at Kingfisher plc, including those of senior corporate development manager, head of corporate development and head of corporate strategy.

John worked for GE Capital between 1995 and 2000, ultimately serving as the finance director of the French operations of their asset leasing company, European Equipment Finance, and then finance manager of mergers and acquisitions for GE Capital. He spent his early career in various finance roles at Cable & Wireless and BP. John holds a bachelor's degree in Chemistry from University of Sheffield and is an Associate of the Chartered Institute of Management Accountants.

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

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

Amanda Burton

Senior Independent Non-Executive Director

Amanda Burton is the senior independent non-executive director of Monitise plc and an independent non-executive director of Countryside Properties plc and Skipton Group Holdings Limited. She chairs the Remuneration Committee for both Monitise plc and Countryside Properties plc and is a member of the Remuneration Committee at Skipton Group. Amanda is also the Chair of the Battersea Dogs and Cats Home. Until December 2014 she served as the chief operating officer of Clifford Chance LLP. She was also previously the senior independent non-executive director of Galliford Try plc and a non-executive director of Fresca Group Limited.

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

Amanda holds a law degree from Durham University and is also a qualified solicitor.

Douglas Robertson

Independent Non-Executive Director

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

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

Doug holds a bachelor's degree in Economics from the University of Leeds and is a Fellow of the Institute of Chartered Accountants.

Thomas Sweet-Escott

Non-Executive Director

Tom Sweet-Escott co-founded Exponent in 2004. He is primarily responsible for investments in the financial services sector and also serves on the Board of Pattonair Holdings Limited. He has previously served on the Boards of Trainline plc, V. Group and Lowell, and worked for 3i in London and in Madrid. He has a master's degree in Natural Sciences from the University of Cambridge.

Key to Committees

- A Audit Committee
- MD Market Disclosure Committee
- N Nomination Committee
- R Remuneration Committee

Corporate Governance

Compliance with the Governance Code

The Board is committed to the highest standards of corporate governance and as such has complied with the UK Corporate Governance Code (the Code) during the FY16 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. Mr Sweet-Escott stepped down from the Nomination Committee in April 2016 to ensure the Committee had a majority of independent members.

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 and to date, the Company has been outside the FTSE 350 for the year immediately preceding the reporting year. Therefore, as at 31 December 2016 the Company is compliant with the requirements of the Code in this respect. On 22 January 2015, the Company, Exponent and the Exponent shareholders entered into a Relationship Agreement which regulates the ongoing relationship between them. The principal purpose of this agreement is to ensure that the Company and its subsidiaries are capable of carrying on their business independently of Exponent and the Exponent shareholders and that any transactions and relationships between them are at arm's length and on normal commercial terms.

The Code is publicly available at the following web address: www.frc.org.uk/Our-Work/Publications/Corporate-Governance/UK-Corporate-Governance-Code-April-2016.pdf

Leadership

Key roles and responsibilities

Chairman
Alan Peterson

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

Chief Executive Officer
John Gill

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
- undertaking the annual Chairman's performance evaluation.

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

There is a clear differentiation and division of responsibilities.

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

Alan Peterson
Chairman

Role:

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

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

Role:

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

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

Role:

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

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

Role:

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

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

Role:

- Advise the Board on composition and membership succession planning
- Advise the Board on appointments

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

Role:

- Ensure compliance with disclosure requirements

Executive management
Chief Executive Officer; Chief Financial Officer; Chief Commercial Officer; Group HR Director; and Managing Director of Specialist Brands.

Role:

- Fulfil Group strategy
- Operational management of the Group

Company Secretary
Daniel Joll

Role:

- Support the Board and Committees

Attendance at Board and Committee meetings of which each Director is a member held between 27 December 2015 and 31 December 2016

Director	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors				
John Gill	17/17	–	–	–
Steve Trowbridge(1)	5/5	–	–	–
Paul Quested(2)	7/7	–	–	–
Non-Executive Directors				
Alan Peterson	17/17	–	–	3/3
Neil Sachdev(3)	7/8	3/3	3/3	2/2
Amanda Burton	17/17	6/6	5/5	3/3
Douglas Robertson	16/17	6/6	5/5	2/3
Thomas Sweet-Escott(4)	15/17	–	–	2/2

(1) Steve Trowbridge resigned as a Director on 20 April 2016 and attended Board and certain Committee meetings up to that date.
(2) Paul Quested joined as a Director on 22 August 2016.
(3) Neil Sachdev resigned as a Non-Executive Director on 15 June 2016 and stepped down from the Committees on 28 April 2016.
(4) Thomas Sweet-Escott stepped down from the Nomination Committee on 28 April 2016.

Corporate Governance
Continued

Election of Directors
All the individuals who were Directors as at 31 December 2016 offer themselves for re-election at the next AGM of HSS Hire Group plc to be held at 11.00am on 14 June 2017 at Hilton Garden Inn, Hatton Cross.

The biographical details of each of the Directors, including details of their other directorships and relevant skills and experience, are on pages 42 and 43 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 term of appointment for each Director.

The Chairman devotes such time to the affairs of the Company as is required by his duties. In 2016 the Non-Executive Directors spent on average 23 days carrying out their duties. There is no fixed period required to be committed by the Non-Executive Directors, so this may change over time as their various duties and commitments change if required by changing circumstances.

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

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

The Market Disclosure Committee did not meet during the year.

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 has a long-standing business relationship with Exponent and is chairman of Pattonair Holdings Limited, BBI Group Holding Limited, BBI Acquisition Limited, 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.

Amanda Burton is a Non-Executive Director of certain existing customers of the Group.

The Board has satisfied itself that none of these customers are material enough to create a potential conflict of interest. In the event that HSS's relationship with any customers or other companies where any of the Directors are also appointed as Directors becomes material by virtue of their trade with the Group or another business reason, the relevant Director would be expected to declare their connection to the customer/company and the Board would assess whether a conflict of interest arises and the appropriate action to be taken.

Save as set out above, there are no current or potential conflicts of interest between any duties owed by the Directors or senior management to the Company and their private interests or other duties.

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

Effectiveness
Board composition
The Board and Committees are considered to have an appropriate range of experience, skills and knowledge to fulfil their duties. Profiles of each of the members of the Board are provided on pages 42 and 43.

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

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

Appointments to the Board
The Nomination Committee, which is composed entirely of Non-Executive Directors, will be responsible for any future appointments to the Board. The Nomination Committee is chaired by the chairman of the Board, Alan Peterson other than at such time when the Nomination Committee is dealing with the appointment of a successor to the Chairman. 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 2016
The Board met 17 times during 2016.
Regular agenda items for the Board included, and will include in 2017:

- → operating and financial performance;
- → health and safety;
- → risk and the risk register;
- → internal policies and procedures – introduction, review, monitoring;
- → setting and approving strategy; and
- → major capital expenditure; and evaluation of acquisition opportunities.

Ad hoc and specific items reviewed by the Board during the year included, and will include in 2017:

- → the Annual Report and Accounts;
- → the Interim (half-year) Report and Accounts;
- → the quarterly reporting required under the reporting requirements of the Notes together with any associated trading updates;
- → RNS releases relating to Directorate changes (as applicable); and
- → approval of the annual budget.

The Board delegates authority to the following Committees:

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

Board evaluation
Internal evaluation of the Board and the our sub-committees has been carried out as detailed on page 53.

Board training
Following the introduction of the Market Abuse Regulation, the Company's legal advisers provided training to the Board and changes to Company policy and procedures were made as appropriate. 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.

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

Accountability

Financial and business reporting

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations, and as set out in the Directors' Responsibility Statement (see page 65), 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 30 to 33.

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 make-up, remit and report are set out on pages 49 to 51) 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 in an annual review, which is supported by the findings of specific projects/investigations completed by the internal audit team, the findings of which are presented to the Audit Committee during the financial year.

Whistleblowing

The company has a formal whistleblowing process, whereby any colleague may, in complete anonymity, contact certain nominated members of senior management to raise any concerns. These concerns are then investigated independently and the results shared with the whistleblower for further discussion if appropriate. This process is communicated to all colleagues annually to their home addresses, and details are also made available to colleagues on a dedicated section of the group intranet, HSS World. The whistleblowing policy was updated during 2016 and approved by the Board.

Modern Slavery Act 2015

As a result of the introduction of the Modern Slavery Act 2015, the Group has introduced a Code of Ethics, a Modern Slavery Act policy for colleagues and has rolled out training programmes for staff. The Group has also increased its level of supplier due diligence. The Group will publish its first Modern Slavery Act statement on its website during 2017.

Going concern and long-term viability statement

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

In summary, taking into account the adequacy of the Group's debt facilities, current and future developments and the principal risks and uncertainties (see page 30), and after making appropriate enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Accordingly they continue to adopt the going concern basis in preparing the Financial Statements included within this Annual Report.

In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group over a three-year period, taking into account the Group's current position, strategic plans, and the potential impact of the principal risks and uncertainties documented on pages 30 to 33. 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 28 December 2019.

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 following were considered in greater detail during the sensitivity analysis: macroeconomic conditions and competitor challenge, in addition to a changing cost profile.

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

- → reductions in revenue growth rates, and associated impacts on capex and variable cost base;
- → increases in costs/rates of cost growth – distribution, stock maintenance, rehire costs and inflation, independent of changes to revenue profile/growth rates;
- → change in capex costs and requirements; and
- → changes in finance cost – LIBOR increases, affecting RCF service cost.

In addition to the mitigating factors identified on pages 31 to 33, the Board noted that: the Group has a diversified customer base; a history of winning new customers; and low customer concentration with no single customer currently accounting for more than 10% of revenues and the top 20 customers accounting for less than 25% of revenues. Alongside this the Group has a continuous profile of lease expiries that allows a material portion of the portfolio to be exited in any one year and the Group's ability to match capital investment to customer demand acts to support cash generation.

With regards to sources of finance, the Board has no reason to believe the Group will not be able to re-finance the Group's existing £136m senior secured notes and revolving credit facility before they become repayable in 2019.

Corporate Governance
Continued

Statement on disclosure of information to the auditor

The Directors who held office as at 5 April 2017 each confirm that:

a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

b) he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the company's auditor is aware of that information.

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

Remuneration

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

The Remuneration Committee (whose make-up, remit and report are set out on pages 54 to 61) sets the policy for and detail of Executive remuneration.

The Chair of the Remuneration Committee, Amanda Burton, has significant prior experience on the remuneration committees of other listed companies including, but not limited to, Galliford Try plc, Monitise plc and Countryside Properties plc.

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 is 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 2016 there have been a total of over 50 such meetings/presentations, one externally facilitated investor conference has been attended and a HSS capital markets day was held at our NDEC, in Cowley.

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.

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 on a quarterly basis.

The Company also produces quarterly financial reports consolidated at the Hero Acquisitions Limited group level to meet the reporting obligations of the Notes issued in February 2014. The Notes are held within HSS Financing plc, a wholly owned direct subsidiary of Hero Acquisitions Limited, itself a wholly owned subsidiary of HSS Hire Group plc. The quarterly reports are therefore principally of use to noteholders as they provide information on the financial performance of the Notes' guarantor group rather than the Company and Group. To aid shareholders' understanding of the difference between Hero Acquisitions Limited's and HSS Hire Group plc's consolidated results, the Company provides the afore mentioned trading updates for HSS Hire Group plc on a quarterly basis.

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

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 5 April 2017 are as follows:

Name	Number of ordinary shares of 1p	% holding
Exponent[1]	85,681,709	50.34%
Toscafund Asset Management LLP[2]	43,384,064	25.49%
Standard Life Capital Partners LLP	13,958,979	8.20%

(1) Comprises shareholdings held by Exponent Private Equity Partners GP Ltd (UK) and Exponent Havana Co-Invest Partners (UK).
(2) Comprises shareholdings held by the Tosca Mid-Cap fund, the Tosca Opportunity fund and the Pegasus fund.

Details of Directors' interests in the Company's ordinary share capital are provided in the Directors' Remuneration Report on pages 54 to 61.

Annual General Meeting

The Company's Annual General Meeting will be held at 11.00am on 14 June 2017 at Hilton Garden Inn, Hatton Cross. All shareholders are invited to the Company's AGM, at which they will have the opportunity to put questions to the Board. Details of the resolutions proposed and being voted on are provided in the Notice of AGM provided to shareholders and available for download at the Group website, www.hsshiregroup.com.

Relations with other capital providers

As part of the reporting requirements of the Notes we report consolidated results for the Hero Acquisitions Limited group to noteholders on a quarterly basis. This includes a conference call, where noteholders have the opportunity to speak with the Chief Executive Officer and Chief Financial Officer. During 2016 we also invited other capital providers to the capital markets day at our NDEC. The Board continues to recognise the contribution made by noteholders, and all other providers of capital to the growth and performance of the Group and welcomes the views of such parties in relation to the Group's approach to corporate governance.

Audit Committee Report

In its first full calendar year of operation since IPO, the Committee has undertaken a broader range of activities, including an increased focus on the usage of, and potential risks and mitigation associated with, digital technology across the Group.

Douglas Robertson
Committee Chairman

Dear shareholder,

On behalf of the Audit Committee (the Committee), I am pleased to present our report for the 2016 financial year.

The Committee has reviewed the contents of the 2016 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 Group, as well as maintaining an appropriate relationship with the external auditor of the Group and reporting its findings and recommendations to the Board.

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

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

Activities

The Committee met six times in 2016. All members attended these meetings.

The Committee's core activities during 2016 included, and will include in 2017:

- planning agenda items and work schedule for the year;
- approving external auditors and audit plan;
- defining and approving the non-audit policy and subsequent annual review;
- reviewing accounting policies;
- reviewing and enhancing disclosure in areas of judgement of estimates within the notes to the Financial Statements;
- reviewing internal control systems;
- regular review of the work and findings of the internal audit function;
- considering risk management systems; and
- reviewing the risk register.

Audit Committee Report
Continued

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

- → reviewing the internal bespoke ERP system and associated risks;
- → assessing the Group's exposure to cyber risk;
- → reviewing data protection regulation compliance;
- → assessing the implications of the EU Market Abuse Regulation (MAR); and
- → completing an Audit Committee effectiveness review.

A more detailed explanation of each of these work streams is provided below:

Reviewing the internal bespoke ERP system
The Group maintains a specialist, internally built and managed ERP solution called Spanner. At the request of the Committee, the IT Director presented a risk assessment of the system, highlighting its strengths, development opportunities, risks of using the system and the associated mitigating actions and the risks and limitations of moving to an alternative third-party solution. Actions in relation to the upgrade and further development of Spanner were recommended and the proposed work streams will be reviewed during FY17.

Cyber risk assessment
At the request of the Committee, the IT Director presented a paper outlining the potential cyber risks faced by the Group, the current mitigating actions applied, giving specific examples of the effectiveness of these measures, and identifying areas where the approach to cyber risk could be further enhanced. Specific actions to continually improve the Group's approach to cyber risk were recommended and the more detailed implementation proposals will be reviewed during FY17.

Reviewing data protection regulation compliance
During the year the Committee reviewed the Group's compliance with the eight principles of the Data Protection Act. A small number of enhancements for existing policies and procedures, staff training and internal audit workstreams were identified and will be implemented during FY17.

Assessing the implications of the EU MAR
The Committee considered the implications of the EU's new Market Abuse Regulation which took effect in July 2016, including the need for suitable training for the Board and for appropriate and effective systems and controls to be in place to ensure continued compliance with MAR.

Audit Committee effectiveness review
At the end of 2016, all Directors answered a Board evaluation questionnaire which also covered the operation of each of the four Committees. The questionnaire covered items including the suitability of each Committee's terms of reference and composition, its perceived effectiveness and performance during the year. The Committee was assessed to be functioning effectively. All comments from Directors have been received and reviewed by the members of the Committee and where appropriate integrated into the Committee's 2017 planning schedule.

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 Combined Code.

The Committee reviewed the annual and interim Financial Statements and trading 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; and
- → exceptional items.

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 have concluded that appropriate systems are in place.

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

Revenue recognition – cut-off, revenue-related rebates and credit note provisions
The Committee examined the procedures and controls in place to ensure that the reporting and recognition of revenue, especially for open hires over the year end, and also whether the recognition of any revenue-related rebate accruals or credit note provisions is appropriate and complete.

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

Exceptional items
The Committee reviewed with management the expenses classified as exceptional during the year, which included costs relating to the parallel operations of the Group's new NDEC, the cost reduction plan implemented during the year and onerous leases on dark stores. The Committee assesses that the approach adopted in respect of exceptional items is appropriate.

External auditor
The Committee oversees the Group's relationship with the external auditor (BDO) and formally reviews the relationship, policies and procedures to ensure their 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.

BDO has been auditor to certain companies within the Group for 13 years since its appointment in respect of the 2004 year end, with the lead audit partner being rotated on a regular basis, most recently in 2015. The last tender for the audit of HSS Hire Service Group Limited and its subsidiaries occurred in 2005.

BDO has been auditors to the Public Interest Equity, HSS Hire Group plc for two 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 31 December 2016.

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 FY16 audit. The fees for audit services paid to BDO are set out in note 6 of the Financial Statements.

The Committee also reviewed the effectiveness of the external audit process during the year. This assessment was based on the Committee's interaction with BDO at Committee meetings and through feedback from the Group Finance team on their 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 auditors 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 auditors are engaged to provide non-audit services the provision of those services does not impair nor can it be to seen to impair the external auditor's independence and objectivity.

In 2016, BDO did not provide any non-audit related services to the Group, and as such, combined with a wider consideration of the interaction with the auditors through the course of the year, the Committee concluded that the independence of the auditors 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 2016, together with a summary of the principal risks facing the Group, is provided on pages 30 to 33.

During 2016 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 CFO, 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.

As a result of this review, and the workstreams 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 2017.

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 47).

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.

Douglas Robertson
Committee Chairman

5 April 2017

Market Disclosure Committee Report

There were no circumstances during the year where the Market Disclosure Committee was required to meet in lieu of a full Board meeting.

Amanda Burton
Committee Chair

Dear shareholder

On behalf of the Market Disclosure Committee (the Committee), I am pleased to present our report for the 2016 financial year.

Roles and responsibilities

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

- → ensuring that the Company complies with its disclosure requirements under the Disclosure and Transparency Rules; and
- → considering certain information and deciding whether such information is insider information and whether it gives rise to an obligation to make an announcement.

Activities

The Committee did not meet in 2016. There were no circumstances during the year where the Committee was required to meet in lieu of a full Board meeting.

Meeting schedule

The Committee will meet as often as is deemed necessary. The membership of the Committee is flexible in order to facilitate speed of action in the event of market sensitive information arising at short notice.

Amanda Burton
Committee Chair

5 April 2017

Nomination Committee Report

The Committee has played an important role in the evolution of the Group's organisational structure during 2016 with changes at both Board and senior management levels as we simplify and shape the business to better match how we operate and how we trade with our customers.

Alan Peterson
Committee Chairman

Dear shareholder

On behalf of the Nomination Committee (the Committee), I am pleased to present our report for the 2016 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 overseeing:

- Board and senior management appointments, to evaluate the balance of skills, knowledge, experience, independence and diversity on the Board;
- Board composition, including the balance of Executive and Non-Executive Directors;
- succession planning;
- 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 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 and with due regard to the benefits of diversity.

Policy on diversity

In performing its activities through the year, the Committee has applied the Group's equality and diversity policy, which it believes is appropriate for application at all levels of the business, including Board and senior management appointments and/or succession planning. Further detail on the Group's equality and diversity policy is provided on page 62.

Activities

The Nomination Committee had three scheduled meetings in 2016 to deal with routine business, as well as liaising on ad hoc matters (such as directorate changes) arising over the course of the year.

At the meeting held in January 2016, the findings of the internal and external Board evaluations in respect of FY15 were considered and resulting actions, including the realignment of the Group's organisational leadership structure with the evolving operational model, were approved. The March 2016 meeting then reviewed the implementation of the actions agreed at the January meeting.

Following the resignation of Neil Sachdev from his role as an Independent Non-Executive Director, which was announced on 20 April 2016 and which became effectively immediately in respect of the Committee, in order to remain compliant with the Code, Tom Sweet-Escott stepped down from the Committee at the April 2016 Board meeting.

In the meeting held in September, the approach and timeline for the 2016 Board evaluation was agreed, senior management potential and succession planning was discussed and the current externally facilitated development programmes in use within the Group were reviewed. The composition of the Board and the internal Executive team was also reviewed and discussed. The Committee also undertook a review of its terms of reference which were approved without any changes required. The Committee's terms of reference can be found on the Company's website at www.hsshiregroup.com/investor-relations/corporate-governance.

The Committee also liaised on directorate changes during the course of 2016, in particular in relation to the resignations of Steve Trowbridge and Neil Sachdev and the subsequent appointment of an Interim Chief Financial Officer in April 2016 before the appointment of Paul Quested as Chief Financial Officer which was announced in May 2016.

The Group engaged with Blackwood Recruitment LLP (Blackwood), an external search consultancy firm, to assist in the search for each of these individuals. The Group has previously engaged with Blackwood in relation to other senior management roles and for the purposes of the external Board evaluation conducted in 2015. The Group continues to maintain an arm's length relationship with Blackwood.

So far in 2017 one meeting has been held in March to discuss the findings and to agree the actions following the FY16 internal Board evaluation.

Board evaluation

Following the use of external advisers as part of an evaluation of Executive Directors and senior management from 2015 to 2016, the Board elected not to appoint external advisers for the FY16 Board evaluation. The FY16 Board evaluation therefore comprised an internal evaluation of the Board using feedback collated from Board members' responses to an evaluation questionnaire (the questionnaire). The questionnaire addressed the key requirements of the Code in relation to the Board and its sub-committees, including each Committee's terms of reference, composition and frequency of meetings.

In relation to the Board, additional questions focused on leadership, the relationship between the Executive and Non-Executive Directors, the role of the Chairman, issues of material importance concerning the Group and information on the Group's risk management systems. The responses to the questionnaire were discussed by the Committee and the Board, with the Committee determining any required actions following the evaluation.

Following a discussion of the responses, the Committee considered it appropriate to focus on the following four actions areas during 2017:

- **Composition of the Board.** Noting that the Group currently complies with requirements in terms of number of Independent Non-Executive Directors, the Committee nevertheless acknowledged the benefits a further Independent Non-Executive Director with the appropriate skill set could bring to the Board at an appropriate stage to be determined in due course.
- **Board meetings.** Whilst both the Board and the Committee had noted the need for the Board's attention to be focused on operational matters over the period of significant operational change in the Group, the Committee noted the Board's wish to include more strategic discussion at Board meetings going forwards.
- **Communication.** Over the course of the year, the Board feedback had shown that the nature and style of reporting made available to the Board had improved. This could be improved further through the provision of more concise and yet more frequent reporting to the Board as and when required.
- **Succession planning.** The Committee noted that good progress had been made, but noted the importance of continuing to build talent through the Group to ensure greater strength in depth.

In addition to the 2016 Board evaluation, the Committee played an integral role in reviewing and approving organisational changes proposed by the Executive Directors to simplify and shape the business to better match how we operate and how we trade with our customers. These actions reflected the conclusions drawn from the review of the Blackwood Evaluation (completed in 2016 and referred to in the 2015 Annual Report), which focused on identifying talented individuals for promotion and their specific development needs.

Meeting schedule

In 2017, the Committee has scheduled meetings in March and July and any additional meetings will be arranged as required.

Alan Peterson
Committee Chairman

5 April 2017

Directors' Remuneration Report

"The Committee has continued to review the appropriateness of the reward framework through the year and has made one change to the measures attaching to the annual bonus. We also continued to exercise restraint; no amount was awarded under the personal objectives element of our annual bonus in recognition that the financial targets were not met.

Amanda Burton
Committee Chair

Dear shareholder

I am pleased to present, on behalf of the Board, our Directors' Remuneration Report in respect of the year ended 31 December 2016.

The Group's Directors' Remuneration Policy was approved at the FY16 AGM with a vote in favour of 99.96% and can be reviewed in the 2015 Annual Report available at hssannualreport2015.com.

The Annual Report on Remuneration, which provides details of the remuneration earned by Directors in the year ended 31 December 2016 and how we intend to apply the Directors' Remuneration Policy in FY17, is available on page 56. At the FY16 AGM, to be held on 14 June 2017, the Annual Report on Remuneration will be subject to an advisory vote.

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

How we link executive remuneration to our strategy

We take a disciplined approach to executive remuneration, ensuring that we incentivise and reward the right behaviours to support the overall strategy of the Group. Our executive remuneration arrangements are designed to support the Company's three strategic priorities. In the summary below, we have highlighted how certain elements of the remuneration policy are related to the strategic enablers which underpin those strategic priorities.

Annual bonus	**Focus on profitability and growth:** The two principal performance measures for the annual bonus are Adjusted EBITA, and Net Debt Ratio (Net Debt/Adjusted EBITDA) reflecting our focus on cash generative profitability and growth and a healthy balance sheet.
	Ensure safe, sustainable working environments for colleagues and customers: We use a health and safety measure as the strategic objective for the annual bonus, reflecting that this is a key market differentiator for our customers.
Deferred Bonus Plan	**Focus on profitability and growth:** The deferral of any bonus over 50% of the maximum strengthens alignment between executive reward and the longer-term profitability and growth of the business.
LTIP	**Focus on profitability and growth:** The Adjusted EPS element of the LTIP awards captures long-term earnings growth and the delivery of value to shareholders over the longer term.
	Drive availability and operational efficiency: The use of ROCE reflects the focus on operational and capital efficiency.
All employee share plan	**Invest in our colleagues:** We adopted an all employee SAYE scheme at IPO (in 2015) to enable the wider workforce to share in value created and strengthen a team ethos. The scheme was launched during the Autumn of 2016, with payments by colleagues commencing in December 2016.

Our policy on executive remuneration is designed to promote the long-term success of the Company, in line with our focus on profitability and growth. The policy aligns the interests of shareholders and executives by the use of shareholding guidelines. Alignment is further enhanced by the deferral of part of the bonus under the Deferred Bonus Plan and the two-year holding period applied to any LTIPs awarded by the Company.

FY16 performance and annual bonus outcome

FY16 was the first full year of operation of our Directors' Remuneration Policy. The policy was subject to a binding shareholder vote at the 2016 AGM and following approval by shareholders (a vote in favour of 99.96%) the policy became effective from that date.

The Group's performance in FY16 is summarised on pages 26 to 29. Whilst we continued to deliver strong revenue growth through the year, significantly ahead of the growth figures reported by the ERA for the UK tool and equipment hire market, and largely completed our transformational operational investment, our Adjusted EBITA only grew 1.0% year on year. Accordingly we did not meet threshold EBITA performance and no financial element of the bonus has been earned. In recognition of this and despite strong personal performance by our executive, the Committee has decided that no amount under the strategic element of the annual bonus will be paid.

The Company's first long-term incentive awards were granted under the LTIP in April 2016 and therefore there was no vesting during the year.

Reward for FY17

Executive Director salaries

In line with the salary review timetable for all other employees, the Executive Directors' base salaries were reviewed during June 2016. John Gill's salary was maintained at the same level as in FY15, whereas salaries in the wider workforce grew by 0.9%. Our newly appointed CFO, Paul Quested, did not receive a salary increase in 2016. This timetable will be followed again in June 2017, with any changes taking effect from 1 July 2017. Any increase is expected to be modest and in line with the range of salary increases awarded to other employees in the Group.

Annual bonus

The overall bonus opportunity will remain at 100% of salary. The Committee reviewed the bonus measures and their relevance to the business and the key areas of focus for the senior team over the next 12 months. As a consequence of this review we have introduced a new financial metric alongside the Adjusted EBITA measure, of Net Debt/ Adjusted EBITDA (we refer to this as the Net Debt Ratio or NDR), with equal weightings across both measures equating to 45% of the bonus for each. The balance for personal objectives has been reduced to 10% and the sole metric will be based on health and safety performance. This re-balancing recognises that the cash generated by the business has equal importance to the profitability, and that converting profits into cash which can then manage our debt levels and the quality of our capital base is particularly important.

While the Adjusted EBITA and NDR targets are not disclosed for commercial confidentiality reasons, consistent with the approach adopted for 2016, we will disclose them in full in the 2017 Directors' Remuneration Report (DRR) when we report the performance out-turn for 2017. The targets have been set by reference to the 2017 budget and require outperformance of the budget for the maximum Adjusted EBITA and NDR elements of the bonus to be earned. The personal objectives have been simplified and reflect one key area for the business in terms of health and safety performance. No amount can be earned under this element unless target EBITA is achieved. The health and safety performance targets are similarly confidential. We will report in the 2017 DRR on how we performed against these targets and how any bonus earned for 2017 by reference to them reflects 2017's performance.

LTIP

The first awards under the LTIP were made in April 2016 and, taking into account the prevailing share price, were at the level of 100% of salary (with smaller awards for below board participants).

It is the Remuneration Committee's intention to again grant a maximum opportunity of 100% of salary in 2017, rather than the usual maximum opportunity of 125% allowed under our policy, taking into account the current share price, but this will be assessed at the time. Awards will vest subject to performance over a three-year period ending with the Company's 2019 financial year. The performance conditions will be based on Adjusted EPS (as regards 75% of the award) and ROCE (as regards 25% of the award). The grant of awards under the LTIP and the targets attaching are currently under review by the Committee. Grants will be deferred until after our mid-year results by which time the Committee consider it will be able to attach appropriate and stretching EPS and ROCE targets. These will be disclosed in our interim results RNS announcement and in the 2017 DRR in full.

The LTIP awards will continue to include a two-year holding period following the end of the performance period, demonstrating our commitment to shareholders and recognising the importance of stewardship within our business.

I hope that you will agree that these proposals continue to reflect a sensible, disciplined approach to Executive Director remuneration and that you will support the resolution being proposed at the FY16 AGM in relation to the Directors' Remuneration Report.

Amanda Burton
Chair of the Remuneration Committee

5 April 2017

At a glance summary: Executive Directors' remuneration

- → No annual bonus to be paid in respect of FY16 (see page 57).
- → No change in maximum bonus opportunity for FY17. Bonus will be based on Adjusted EBITA (45%), Net Debt Ratio (45%) and Health and Safety (10%) (see page 61).
- → Salaries for FY17 will be considered in June at the same time as for the wider workforce. Any increase will be in line with the range of increases awarded to other employees.
- → FY17 LTIP awards to be made later in 2017 but to be based on Adjusted EPS and ROCE targets and which we are expecting to continue to be scaled back to 100% of salary (lower for other senior management) although this will be assessed at the time (see page 61).
- → Following its introduction for our first awards in FY16, a two-year holding period will again be applied to any FY17 LTIP awards following the performance period (see page 61).

Directors' Remuneration Report Continued

Annual Report on Remuneration

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

Single figure table

The following table sets out total remuneration for each Director in respect of FY16 and FY15:

	Salary and fees £000		Benefits £000		Annual bonus £000		LTIP £000		Pension £000		Total remuneration £000	
	FY16	FY15	**FY16**	FY15	**FY16**	FY15	**FY16**	FY15	**FY16**	FY15	**FY16**	FY15
Executive Directors												
John Gill(1)	**326**	289	**22**	20	**–**	21	**–**	–	**33**	29	**381**	359
Steve Trowbridge(2)(3)(4)	**68**	214	**10**	100	**(16)**	16	**–**	–	**7**	21	**69**	351
Paul Quested(5)	**99**	–	**10**	–	**–**	–	**–**	–	**3**	–	**112**	–
Non-Executive Directors												
Alan Peterson	**150**	139	**–**	–	**–**	–	**–**	–	**–**	–	**150**	139
Amanda Burton	**50**	49	**–**	–	**–**	–	**–**	–	**–**	–	**50**	49
Douglas Robertson	**50**	49	**–**	–	**–**	–	**–**	–	**–**	–	**50**	49
Neil Sachdev(6)	**28**	59	**–**	–	**–**	–	**–**	–	**–**	–	**28**	59
Thomas Sweet-Escott(7)	**40**	40	**–**	–	**–**	–	**–**	–	**–**	–	**40**	40
Total (Executive and Non-Executive Directors)	**811**	839	**42**	120	**(16)**	37	**–**	–	**43**	50	**880**	1,046

(1) John Gill was appointed as CEO on 25 September 2015. His FY15 salary therefore reflects his role as both COO and CEO during the year.
(2) Steve Trowbridge resigned as a Director on 20 April 2016. The figures in the table above for FY16 therefore reflect his remuneration earned from the start of FY16 until the date of his resignation as a Director.
(3) Steve Trowbridge's FY15 benefits figure includes a one-off payment equal to £78,645 in relation to the acquisition of Company shares prior to Admission.
(4) The FY15 Annual Report showed a bonus of £16k due to Steve Trowbridge. Following his resignation this bonus was not paid to Steve Trowbridge and his annual bonus and total remuneration figures in respect of FY16 have been adjusted accordingly in the above table.
(5) Paul Quested was appointed as CFO on 22 August 2016. His salary therefore reflects his salary from this date until 31 December 2016.
(6) Neil Sachdev resigned as a Director on 20 April 2016, effective from 15 June 2016, the date on which the FY16 AGM was held. The figures in the table above reflect his remuneration earned from the start of FY16 until the 15 June 2016, his effective date of resignation as a Director.
(7) Thomas Sweet-Escott's fee is paid directly to Exponent.

The figures in these single figure tables above are derived from the following:

Salary and fees	The amount of salary/fees received in the year (up to the date of resignation as a Director in the case of Directors who left during the year or from the date of appointment for Directors who joined during the year).
Benefits	The taxable value of benefits received in the year (up to the date of resignation as a Director in the case of Directors who left during the year or from the date of appointment for Directors who joined during the year). These are principally medical insurance, company car or car allowance and SAYE options granted during the year. SAYE options are valued based on the difference between the market value of the shares at grant and the exercise price and, subject to the rule of the scheme, will ordinarily vest on 1 January 2020 and be exercisable for a period of six months.
Annual bonus	The annual bonus is the cash value of the bonus earned in respect of the year (up to the date of resignation as a Director in the case of Directors who left during the year or from the date of appointment for Directors who joined during the year). The bonus for the full financial year is disclosed below.
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 (up to the date of resignation as a Director in the case of Directors who left during the year or from the date of appointment for Directors who joined during the year).

Additional disclosures in respect of the single figure table

Base salary

Details of annual base salaries for Executive Directors for FY16 and FY15 are set out below.

	Base salary at 26 December 2015 £000	**Base salary at 31 December 2016 £000**
Executive Directors		
John Gill	326	**326**
Steve Trowbridge(1)	218	**–**
Paul Quested(1)	–	**260**

(1) Steve Trowbridge resigned as a Director on 20 April 2016. Paul Quested was appointed as CFO on 22 August 2016.

FY16 annual bonus and Deferred Bonus Plan

Subject to performance against targets which support the strategic direction of the Group, the Executive Directors are eligible to earn an annual bonus in respect of each financial year.

In our 2015 Annual Report the Executive Directors were awarded a maximum bonus opportunity equal to 100% of base salary and the performance measures for any annual bonus awarded in respect of FY16 were defined as (1) Adjusted EBITA and (2) personal/strategic measures in a weighting of 85%:15%.

Adjusted EBITA targets for future financial years are not disclosed for commercial confidentiality reasons, but are reported in respect of the financial year being reported on to give context for any bonus amounts awarded. The personal and strategic measures are similarly confidential, but tie directly into the Company's strategy and support the strategic enablers which underpin the achievement of our strategic priorities.

Under the Deferred Bonus Plan (DBP), in the event that Executive Directors are awarded an annual bonus in excess of 50% of the maximum annual bonus opportunity for that year, they are required to defer any annual bonus award earned in excess of 50% of the maximum award into shares over a two-year period.

The Committee may decide to pay the whole of the bonus earned in cash where the amount to be deferred would, in the opinion of the Committee, be so small as to make operation of the DBP administratively burdensome. Deferred shares will typically take the form of nil-cost share options but may be structured as an alternative form of share award. Deferred shares are not subject to any additional performance metrics after the application of the performance metrics which determines the amount of annual bonus award earned.

The following sections set out the bonuses earned by the Executive Directors for FY16 and how this reflects performance for the year.

Adjusted EBITA element

Performance measure	Proportion of bonus determined by measure	Threshold performance	Target performance	Maximum performance	Actual performance	Bonus earned (% of salary)
Adjusted EBITA	85%	£28.3m	£29.8m	£32.0m	£20.5m	0%

Strategic element

The strategic element of each Executive Director's annual bonus opportunity was based on a number of different performance measures, both qualitative and quantitative, reflecting the Company's strategic priorities and the strategic enablers which underpin them. The Executive Directors delivered strong performance against key priorities which included: continued improvement in the Group's NPS; continued reduction in the Group's RIDDOR; and the continued development of the senior management team. However, after careful consideration, the Committee determined that no amount should be paid in respect of this element of the bonus on the basis that financial targets were not met.

FY16 long-term incentives

The first awards were granted under the Company's LTIP in April 2016, in respect of FY16. The following table summarises those awards granted to Executive Directors of the year during FY16.

Paul Quested's FY16 LTIP Awards were granted in September 2016 following his appointment as CFO in August 2016. The awards were scaled back to reflect his reduced period of employment over the performance period.

	Type of award	Number of shares	Market value at grant	Share price used to determine the award	% of award vesting at threshold	Performance period
John Gill	LTIP	388,095	£326,000 (100% salary)	84p	25%	3 years
John Gill	CSOP[1]	35,714	£30,000	84p	25%	3 years
Steve Trowbridge	LTIP[2]	259,523	£218,000 (100% salary)	84p	25%	3 years
Steve Trowbridge	CSOP[1][2]	35,714	£30,000	84p	25%	3 years
Paul Quested	LTIP	263,376	£202,800 (78% salary)	77p	25%	3 years
Paul Quested	CSOP[1]	38,961	£30,000	77p	25%	3 years

(1) Company Share Option Plan (CSOP) awards were granted in the form of HMRC tax-qualifying market value options and are subject to the same performance metrics as apply to the LTIP awards. If the CSOP awards are exercised at a gain then LTIP awards will be reduced by the same value to ensure that the combined pre-tax value delivered to Executive Directors is not increased by the grant of the tax-qualifying market value options.
(2) Both the LTIP and CSOP awards made to Steve Trowbridge during 2016 lapsed on the date of his resignation as a Director.
(3) The share price used to determine the award was the mid-market closing quotation on the day prior to grant. The date of grant for John Gill and Steve Trowbridge was 7 April 2016. The date of grant for Paul Quested was 28 September 2016.

Directors' Remuneration Report Continued

The FY16 LTIP awards are subject to EPS and ROCE performance metrics as follows:

Adjusted EPS element (as regards 75% of the FY16 LTIP awards)

	FY18 Adjusted EPS	Vesting percentage
Threshold	11p	25%
Target	12p	50%
Stretch	13.5p	75%
Maximum	15p	100%

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

ROCE element (as regards 25% of the FY16 LTIP awards)

	FY18 ROCE*	Vesting percentage
Threshold	16.5%	25%
Target	17.4%	50%
Maximum	18%	100%

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

*For these purposes, ROCE shall be calculated as:

$$\frac{\text{Adjusted EBITA}}{\text{average capital employed (excluding cash and short-term debt)}}$$

No LTIP awards vested in respect of performance in the year.

Payments made to former Directors during the year

No payments were made to former Directors during the year.

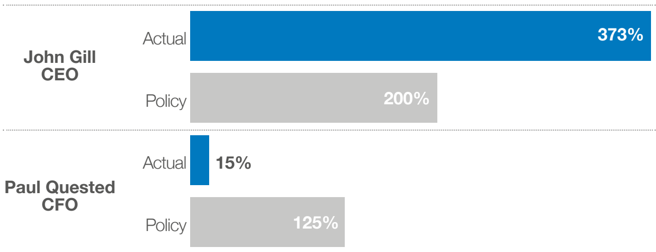
Payments for loss of office made during the year

As announced by the Company on 20 April 2016, Steve Trowbridge did not receive a termination payment on leaving the Company, did not receive any annual bonus payment in respect of FY15, will not receive any annual bonus payment in respect of FY16, and his FY16 LTIP awards have lapsed in full. The Company made a payment of £2,000 in respect of Steve Trowbridge's legal fees relating to his resignation as a Director.

Directors' share interests

The Committee has adopted a shareholding guideline for Executive Directors in accordance with which the Chief Executive Officer is required to build up and maintain a shareholding in the Company at least equivalent in value to 200% of annual salary, and other Executive Directors are required to build up and maintain a shareholding in the Company equivalent in value to 125% of annual salary. As shown in the following chart, the Chief Executive Officer held shares with a value, based on the market value of a share on 31 December 2016 (81.5p), in excess of the requirement of the guideline. Since joining the Group in August 2016 the Chief Financial Officer has built his shareholding in the Company from 0% to 15% of annual salary and under the guidelines adopted by the Group has until August 2021 to build his shareholding to 125% of his annual salary.

Value of shareholding vs shareholding policy (% of salary)



The interests of the Directors and their connected persons in the Company's ordinary shares as at 31 December 2016 (or, if earlier, the date on which the Director resigned from the Board) were as follows:

	Type	Owned outright	Unvested and subject to performance conditions	Unvested and not subject to performance conditions	Total as at 31 December 2016(1)
Executive Directors					
John Gill	Shares	1,491,189			1,491,189
	2016 LTIP (nil-cost share options)(3)		388,095		388,095
	2016 CSOP options(4)		35,714		35,714
	2016 SAYE options(5)			15,597	15,597
Steve Trowbridge(2)	Shares				657,787
Paul Quested	Shares	47,000			47,000
	2016 LTIP (nil-cost share options)(3)		263,376		263,376
	2016 CSOP options(4)		38,961		38,961
	2016 SAYE options(5)			15,597	15,597
Non-Executive Directors					
Alan Peterson	Shares	937,217			937,217
Amanda Burton	Shares	35,714			35,714
Douglas Robertson	Shares	9,523			9,523
Neil Sachdev	Shares	11,904			11,904

(1) Or, if earlier, the date of resignation from the Board, which applies to Steve Trowbridge and Neil Sachdev.
(2) Steve Trowbridge's LTIP awards and CSOP options lapsed on the date of his resignation as a Director.
(3) LTIP awards will vest subject to performance over a three-year period ending with the Company's 2018 financial year.
(4) CSOP options issued at a market value of 84p per share.
(5) SAYE options granted at an exercise price of 57.7p per share.

As at 5 April 2017, 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.

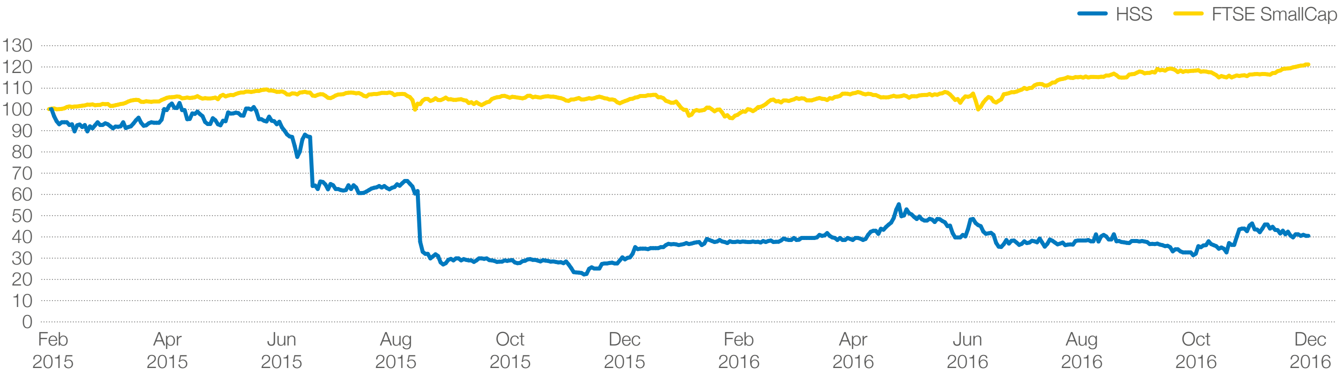
The disclosures on Directors' remuneration set out on pages 56 to 59 have been audited as required by the Companies Act 2006.

Directors' Remuneration Report Continued

Performance graph and historical Chief Executive Officer remuneration outcomes

The graph below shows the total shareholder return (TSR) performance for the Company's shares in comparison with the FTSE SmallCap Index for the period from Admission to 31 December 2016. The Company is a constituent of this Index and as such it has been selected as an appropriate comparator group. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 31 December 2016, of £100 invested in the Group over the period compared with £100 invested in the FTSE Small Cap Index.

Total shareholder return



The table below shows details of the total remuneration, annual bonus and LTIP vesting (as a percentage of the maximum opportunity) for the Chief Executive Officer for FY15 and FY16. The table shows the remuneration for Chris Davies in the period from the start of the FY15 until he resigned as a Director on 25 September 2015, and John Gill's remuneration as CEO from that date until the end of FY15.

CEO	Total remuneration £000	Annual bonus as a % of maximum opportunity	LTIP as a % of maximum opportunity[1]
FY15/Chris Davies	297	–	N/A
FY15/John Gill	90	7.1%	N/A
FY16/John Gill	381	–	N/A

(1) No LTIP vested in respect of performance in FY15 or FY16.
(2) John Gill's benefits as at the date of his appointment as CEO have been used for the purposes of calculating the percentage change in benefits.

CEO pay increase in relation to all employees

The table below sets out in relation to salary, taxable benefits and annual bonus, the percentage change in pay for John Gill 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 FY16 and FY15 but excludes Executive and Non-Executive Directors.

CEO	CEO	Wider workforce
Salary[1]	–	0.9%
Benefits[2] [3]	2.6%	4.7%
Annual bonus	N/A[4]	N/A[4]

(1) John Gill's salary as at the date of his appointment as CEO has been used for the purposes of calculating the percentage change in salary.
(2) John Gill's benefits as at the date of his appointment as CEO have been used for the purposes of calculating the percentage change in benefits.
(3) Taxable value of benefits received in the year comprising medical insurance and company car or car allowance. This does not include any SAYE options granted in the year.
(4) As no annual bonuses were awarded in respect of FY16.

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 FY15 and FY16. As the Company was a newly listed company during FY15, the FY15 dividend amount only includes one interim dividend, whereas the FY16 dividend amount includes both a final dividend in respect of FY15 and the interim dividend in respect of FY16. This explains the significant growth in dividends between the two years shown in this table, whereas the actual dividends paid per share have stayed flat over this period.

£000	Year ended 26 December 2015	**Year ended 31 December 2016**	Percentage change
Dividends	882	**1,764**	+100%
Overall expenditure on pay	90,529	**92,485**	+2.2%

The Board is focused on reducing net debt and, after careful consideration of the significant cash investments made during 2016 and the continuing optimisation of the network underway, believe it is in the best interests of the shareholders for the Group to not pay a final dividend in respect of 2016. As a result of this decision the total dividend paid and payable by the Group in respect of FY16 totals 0.57p per ordinary share, reflecting the interim dividend of 0.57p per share paid in October 2016.

Implementation of Directors' Remuneration Policy for the financial year commencing 1 January 2017

Information on how the Company intends to implement the Directors' Remuneration Policy for the financial year commencing on 1 January 2017 is set out below.

Salary/fees and benefits

In line with the salary review timetable for all other employees, the Executive Directors' base salaries will be reviewed during June 2017, with any changes taking effect from 1 July 2017. Non-Executive Directors' fees will be reviewed during the year. Any increase to any Executive Director's salary or Non-Executive Director's fee is expected to be modest and will be in line with the range of salary increases awarded to other employees in the Group.

Annual bonus

The maximum annual bonus opportunity for FY17 will remain at 100% of salary. The bonus will be subject to stretching performance conditions based on Adjusted EBITA as regards 45% of the overall opportunity, Net Debt Ratio as regards 45% of the overall opportunity and health and safety measures as regards the balance (10%).

The Committee considers that the EBITA performance targets, the Net Debt Ratio (NDR) performance targets and the details of the personal/strategic measures should remain confidential to the Company as they give our competitors an insight into our plans and expectations. However:

- → the Adjusted EBITA and NDR targets (which have been set by reference to the FY17 budget and require outperformance of the budget for the maximum Adjusted EBITA and NDR elements of the bonus to be earned) will be fully disclosed in the FY17 Directors' Remuneration Report on the same basis as the FY16 disclosure set out on page 57; and
- → the Committee intends that the sole personal objective and performance in relation to the health and safety metric will be disclosed in the 2017 DRR.

LTIP

It is the Committee's intention to grant any FY17 LTIP awards on the same basis as the FY16 LTIP awards were made with the level once again restricted to a maximum level of 100% of salary, as opposed to the usual maximum opportunity of 125% of salary which is set out in the remuneration policy although this will be assessed at the time. FY17 LTIP awards will be subject to an Adjusted EPS performance measure (as regards 75% of the award) and a ROCE performance measure (as regards 25% of the award). Performance will be assessed over a three-year performance period, and any awards which vest by reference to that performance will be subject to a further two-year holding period.

Adjusted EPS is currently the critical KPI for the Company supporting our focus on profitability and growth and has, therefore, been chosen as the primary LTIP metric. ROCE has been chosen as the secondary LTIP metric and is aligned with our strategic focus on capital efficiency and the ongoing drive for operational efficiency.

The performance targets attached to the award are still under consideration by the Committee. It is anticipated that the award will be made after the half-year results by which time the Committee will be in a better position to set appropriate and stretching three-year targets. Accordingly the targets will be disclosed in our interim report announcement and in the 2017 DRR in full.

Statement of voting at last AGM

The following table sets out actual voting in respect of the resolutions to approve the Remuneration Policy and Annual Report on Remuneration at the Company's 2016 AGM.

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Remuneration Policy	113,407,717	99.96	41,198	0.04	476
Annual Report on Remuneration	113,424,930	99.98	23,985	0.02	476

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 generally be limited to 12 months' notice by the Company.

As noted above, Paul Quested joined the Company as CFO on 22 August 2016. His service contract is in line with the provisions on service contracts in the Group's Remuneration Policy.

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 of service contract
J Gill	9 January 2015	12 months[1]	N/A[1]
P Quested	22 August 2016	12 months[1]	N/A[1]
A Peterson	9 January 2015	N/A[2]	374 days[4]
A Burton	9 January 2015	N/A[2]	374 days[4]
D Robertson	9 January 2015	N/A[2]	374 days[4]
T Sweet-Escott	9 January 2015	N/A[3]	374 days[3][4]

(1) Executive Directors' service contracts are on a rolling basis and have no defined expiry date.
(2) Contracts expire 9 January 2018, 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. Mr Sweet-Escott is Exponent's current appointee. His contract commenced on 9 February 2015 and therefore expires on 9 February 2018, subject to re-election at the AGM, or, if earlier, at the point that 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 31 December 2016 to the expiry date of each letter of appointment.

Consideration by the Directors of matters relating to Directors' remuneration

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

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

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

Advisers to the Remuneration Committee

During FY16, the Committee received independent advice from Deloitte LLP in relation to the Committee's consideration of matters relating to Directors' remuneration. Deloitte's fees for this advice during the year were £40,860, 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 5 April 2017 and signed on its behalf by:

Amanda Burton
Chair of the Remuneration Committee
5 April 2017

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:

Directors' powers

At the Annual General Meeting to be held on 14 June 2017, shareholders will be asked to renew the Directors' power to allot shares, grant rights to subscribe for or to 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 and remain in force at the date of approval of this Report without any payment having been made under them. The Company also maintains Directors' and officers' liability insurance which gives appropriate cover for legal action brought against its Directors.

Political donations and expenditure

At the Annual General Meeting held on 15 June 2016, 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 FY16 year (FY15: £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 21 of the Financial Statements on pages 98 to 100.

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 06 in the Strategic Report.

Branches outside the UK

The Company has no branches outside the UK, as defined in section 1046(3) of the Act.

Acquisition of own shares

At the Annual General Meeting held on 15 June 2016, the Company was authorised to make market purchases of up to 15,476,190 or 10% of the current ordinary shares in issue. The Company has made no purchases of its own ordinary shares pursuant to this authority. This authority expires at the close of the 2017 AGM of the Company on 14 June 2017. A special resolution will be proposed at this year's Annual General Meeting to authorise the Company to make market purchases of up to 17,020,714 (10% of issued share capital of 170,207,142) ordinary shares.

Equality and diversity

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

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

If 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 providing retraining for alternative work where necessary.

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

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

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

The Group is committed to ensuring that the diversity of the communities served is reflected at all levels within the workforce and that an understanding and awareness of diversity is promoted in all training and development material.

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

Employee involvement

The Company uses a combination of ways to communicate with employees including, but not limited to, the intranet (HSS World) that is regularly updated and available on PCs at all locations; its internal newsletter (HIYA!), that reports on recent news, developments, initiatives and events in the business which is circulated a minimum of 18 times annually, and delivered to all locations; a weekly email 'bulletin' supplements 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. Meetings and conference calls also form a regular communication channel across the Group. The method of information dissemination adopted depends on the information being made available to employees and the associated confidentiality requirements. The company also sends correspondence of high importance by mail to employees' home addresses.

Employees are consulted formally on issues where their interests are affected via consultation processes led by management and are asked to give feedback. Colleagues are also invited to raise issues via the online communications forum 'Yammer' and receive feedback.

In June 2016 the Group implemented its first Group-wide employee engagement survey. All employees were asked to anonymously populate an online or paper questionnaire which covered a wide range of aspects of their lives as HSSers including, but not limited to, their job, their safety, their team, their manager and the company. Headline findings of this survey were as follows:

- → 70% of employees responded to the survey, with an overall engagement score of 67% (higher than the national average of 59.6%).
- → 97% of respondents said they cared about the Company, 92% said they are proud to work at HSS and 90% said that safety was at the forefront of our business.
- → Employees identified that inter-departmental working and communications were areas with opportunities for improvement.

A project called Simply HSS was introduced on the back of the employee engagement results. The project aims to simplify and improve internal processes, and remove barriers to make doing business for all employees easier.

Employees are encouraged to send their ideas in via a Simply HSS email, or via one of the Simply HSS branded 'ideas boxes' that have been installed at all locations.

Focus groups have also been carried out at key Group locations, to discuss the employee engagement results, and gain more detailed feedback from employees.

At a meeting of the Directors held on 28 July 2016, the Board agreed to roll out a 3-year Sharesave scheme. This scheme was previously referred to in the IPO prospectus and had been discussed and approved in 2015, but was held back until such time that the Board thought it appropriate to implement it.

The Company's financial results and performance is regularly communicated via two mechanisms: 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 and supplements in the company newsletter HIYA! At the senior colleague conference calls, there is an opportunity to ask questions of the executive. An announcement is also made company-wide from our CEO providing the top-level results and factors involved in our performance to colleagues via email.

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
Senior secured notes	Following a change of control the Group would be required to offer to repurchase all outstanding Notes at a purchase price in cash equal to 101% of the principal amount redeemed on the date of purchase plus accrued and unpaid interest, if any, to the date of purchase.
Revolving credit facility	Following a change of control all outstanding amounts, together with accrued interest would become immediately due and payable.
Finance leases (from various finance providers)	Certain of the Group's finance leases have conditions where a change of control could lead to early repayment.

Restrictions on share transfers

a) 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.

b) Uncertificated shares

Subject to the provisions of the Uncertificated Securities Regulations, 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 with special rights with regard to control of the Company

There are no shares in issue with special rights with regard to control of the Company.

Shares related to employee share schemes

No shares have been issued in relation to employee share schemes, although options have been issued under the Sharesave scheme (as detailed earlier).

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.

Other Statutory Disclosures
Continued

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 Annual General Meeting. All proxy votes are counted and the numbers for, against or withheld in relation to each resolution are announced at the Annual General Meeting and published on the Company's website after the meeting.

Under the 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 50.3% 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 Annual General Meeting all Directors at the date of Notice of Annual General Meeting 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:

a) he/she ceases to be a Director by virtue of any provision of the Act or is prohibited from being a Director by law;

b) he/she is subject to a bankruptcy order or compounds with his/her creditors generally;

c) he/she becomes physically or mentally incapable of acting as a Director and may remain so for more than three months;

d) he/she resigns or retires;

e) 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

f) 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

5 April 2017

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 54 to 61)
LR 9.8.4(R)(14)	Agreement with controlling shareholders	Page 64 (see below)

No further LR 9.8.4 disclosures are required.

As required by LR 9.2.2AR (2)(a) the Company has entered into a Relationship Agreement with Exponent (see page 44 for further details on this agreement). The Board of Directors confirm 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 9.2.2AR (2)(a) was approved by the Board of Directors on 5 April 2017 and is signed on its behalf by:

J.B. Gill
Director

5 April 2017

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

In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group or parent Company will continue in business; and
- prepare a directors' Report, a Strategic Report and Directors' Remuneration Report which comply with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Directors' responsibilities pursuant to DTR4

Each of the Directors, whose names and functions are detailed on pages 42 and 43, confirms that to the best of his or her knowledge:

- the Group Financial Statements have been prepared in accordance with International Financial Reporting Standards (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 or the principal risks and uncertainties that they face.

This Responsibility Statement was approved by the Board of Directors on 5 April 2017 and is signed on its behalf by:

J.B. Gill
Director

5 April 2017

Approval of the Directors' Report

The Directors' Report on pages 38 to 65 was approved by the Board of Directors on 5 April 2017 and is signed on its behalf by:

J.B. Gill
Director

5 April 2017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Financial information

Independent Auditor's Report

to the members of HSS Hire Group plc

For the year ended 31 December 2016

Opinion on Financial Statements

In our opinion:

- the Financial Statements give a true and fair view of the state of the Group's and the parent Company's affairs as at 31 December 2016 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent Company Financial Statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

The Financial Statements of HSS Hire Group plc for the year ended 31 December 2016 comprise the Consolidated income statement, Consolidated statement of comprehensive income, Consolidated and parent Company statements of financial position, Consolidated and parent Company statements of changes in equity, Consolidated cashflow statement and the related notes. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and 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 ("UK Generally Accepted Accounting Practice").

Respective responsibilities of Directors and auditors

As explained more fully in the statement of Directors' responsibilities set out on page 65, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Financial Reporting Council's (FRC's) Ethical Standards for Auditors.

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

Our assessment of risks of material misstatement

In preparing the Financial Statements, the Directors made a number of subjective judgements and significant accounting estimates that involved making assumptions and considering future events that are, by their nature, inherently uncertain (see note 1 f) to the Consolidated Financial Statements). We primarily focused our work in these areas by assessing the Directors' judgements against available evidence, including the risk of management override and bias, forming our own judgements and evaluating the disclosures in the Financial Statements.

In arriving at our audit opinion above on the Group Financial Statements the following risks have had the greatest impact on our audit strategy and scope, including the allocation of resources in the audit:

Risk area	Our response
Existence and valuation of hire stock Hire stock represents over 1.1m assets which have a high frequency of movement in individual assets through asset purchases, hires, disposals and transfers around the branch network. Judgement is required in ensuring that depreciation charges are accurately calculated, having regard to economic useful lives and residual values, together with the valuation of renovation work undertaken on specific classes of assets.	Our audit work in respect of this area included the identification and testing of the operating effectiveness of key controls in respect of the existence and value of hire stock, including the authorisation of additions, the use of unique asset identification numbers, and the reconciliation of the fixed asset registers to the accounting records. We attended a number of the hire stock asset counts to test the design and effectiveness of controls and performed test counts ourselves in order to ensure the accuracy of the counting performed, and therefore the existence of assets. We also tested that the records from the counts had been used to update both the fixed asset register and the accounting ledgers. We selected a sample of assets acquired in the year and agreed the amounts recorded on the fixed asset registers to invoices. Using data analytical and re-performance techniques we recalculated the depreciation in the fixed asset registers for the current year, and reconciled this to the charge included in the accounting ledgers. We critically challenged for a sample of asset classes the useful economic lives and residual values applied by management by reference to data available to the business and externally. This included the specific review of actual disposal proceeds achieved to support residual values. We evaluated the capitalisation of the renovation work undertaken and tested for a sample of the assets that their useful lives had been extended by reference to their continuing hire. We evaluated the adequacy of the Group's disclosures of the judgements and estimates utilised in assessing the valuation.

Risk area	Our response
Carrying value of goodwill and other intangible and tangible assets Management perform 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. Additionally, the Company's market capitalisation at 31 December 2016 was below the Group's net asset value which may indicate that the goodwill and other intangible assets require impairment.	Our audit procedures included detailed testing of the Directors' impairment testing model for each CGU performed in the year. For each of the key inputs to the impairment model we critically assessed the reasonableness of management's assumptions by reference to internal and external data, Board-approved budgets and historical trends, and reviewed the sensitivity analysis performed. We challenged management on their forecasts for revenue, costs and EBITDA in the impairment model particularly in light of the recent trading performance and operational model changes. In addition, we performed our own additional sensitivity analysis in respect of the key assumptions which included assessing by how much each assumption would need to change for an impairment to arise. We utilised our own valuation specialists, particularly around the appropriateness of the discount rates used by the Directors comparing this against the cost of capital for the Group and other comparable companies in the industry. We evaluated the adequacy of the Group's disclosures in respect of their 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.
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.	We reviewed and tested the design and effectiveness of key controls over revenue recognition. We checked a sample of transactions to ensure the revenue recognition criteria used are in accordance with the stated accounting policy and in line with IFRS. We obtained the calculations of the accrued revenue at the year end and the underlying data, and we recalculated a sample included in the accrued revenue. For a sample of items we checked that there was a subsequent invoice to a third party. We tested the calculation of rebates payable for a sample of customers by reference to sales data and the underlying agreements, compared rebates by customer against those payable in previous years and investigated the reasons for significant variances, and considered the rebate arrangements in place with major new customers won in the year. We obtained the calculations of the credit note provisions at the year end and the underlying data for the credit notes issued in the year and the related invoices and confirmed the accuracy of the period taken to issue credit notes. We considered the credit note provision together with the bad debt provision which separately assesses the level of provision against receivables that are overdue for payment. We also considered the historic experience of trends in the issue of credit notes. Based on this we recalculated the credit note provision using our own estimates. We evaluated the adequacy of the Group's disclosures in relation to the estimation of the credit note provision.
Onerous lease provisions The Group has a significant number of property-related provisions relating to the ongoing lease obligations of properties that the Group no longer utilises in the business (dark stores). The completeness, existence and accuracy of the provisions involve management judgement and estimates in assessing the likelihood of mitigating future lease costs as a result of break clauses or subletting of the properties as well as other unavoidable costs and the appropriateness of discount rate used.	Our audit work involved checking a sample of the movements in provisions against prior years and obtaining and verifying explanations for material movements. We also obtained details of properties sublet or disposed of in the year and confirmed that any existing provisions had been appropriately released. For any newly created dark stores we reviewed and considered with management the basis of the provisions made, including a review of the lease terms in place. We challenged management on the evaluation of future expected costs and the basis of the discount rate applied. 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.

Independent Auditor's Report
Continued

Risk area	Our response
Exceptional items The Group has classified a number of expenses as exceptional during the year, including certain costs relating to the parallel operations of the NDEC Centre opened in the year, the cost reduction plan and onerous leases on non-trading stores. The identification and allocation of costs and income to exceptional items involves management estimation and judgement. A significant proportion of exceptional costs relate to costs of restructuring the business and operating model, including commencement of operations at the NDEC. Management have determined that a reasonable approximation of the parallel running costs of the NDEC is the total costs of operating the NDEC up to the point where 50% of the operational volumes are processed through the NDEC rather than the original branch and distribution network.	We have obtained a breakdown of the costs classified by the Group as exceptional and checked that they are in accordance with the accounting policy in respect of exceptional items. We have challenged management as to the basis of the allocation of these costs, and ensured that adequate disclosure was made of that basis within the Financial Statements. We have tested a sample of the costs to backing documentation and schedules. We have challenged Management on the assessment of the costs and confirmed both the costs and the measurement and timing of the operational volumes achieved to third-party documentation. We have evaluated the adequacy of the Group's disclosures in relation to the exceptional items.

In addition, as in all our audits, we have addressed the risk of management override of internal controls including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

The Audit Committee's consideration of these judgements and risks is set out on pages 50 and 51.

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

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

We determined materiality for the Group as a whole to be £1,000,000 determined with reference to a benchmark of the Group profit before amortisation of intangibles, interest and tax, normalized to exclude the exceptional items disclosed in note 4 to the Consolidated Financial Statements. Materiality therefore represents 4.9% of that figure.

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

We tailored the scope of our audit to ensure we performed enough work to be able to give an opinion on the Financial Statements as a whole, taking into account the geographic structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's accounting process is structured around a Group finance function at its head office in Mitcham, which also acts 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 parts of one of its UK operations.

The Group's operating companies vary significantly in size, and we identified 15 reporting units, six of which, in our view, required an audit of their complete financial information due to their size or risk characteristics. These six units comprise 90% of Group turnover and 94% of Group gross assets.

In establishing the overall approach to the Group audit we determined that all work on the six units could be performed by us, the Group audit team. Our work on the other units comprised analytical procedures and certain tests of detail supported by the work on the international component performed by the local BDO network office as local component auditors, operating under instructions from the Group engagement team. This gave us the evidence we needed for our opinion on the Group Financial Statements.

A description of the scope of an audit of Financial Statements is provided on the FRC's website at www.frc.org.uk/auditscopeukprivate.

Opinion on 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 Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

Statement regarding the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Company

We have nothing material to add or to draw attention to in relation to:

- the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements; and
- the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, 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 entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any material disclosures drawing attention to any necessary qualifications or assumptions.

Matters on which we are required to report by exception

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

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited Financial Statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Company acquired in the course of performing our audit; or
- is otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the Annual Report is fair, balanced and understandable and whether the Annual Report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the 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.

Under the Listing Rules we are required to review:

- the Directors' statements, set out on page 47, in relation to going concern and in relation to longer-term viability; and
- the part of the corporate governance statement relating to the company's compliance with the provisions of the UK Corporate Governance Code specified for review by the auditor in accordance with Listing Rule 9.8.10 R(2).

We have nothing to report in respect of these matters.

Kieran Storan (senior statutory auditor)
For and on behalf of BDO LLP, statutory auditor
London
UK

5 April 2017

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

Consolidated Income Statement

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Revenue	2	**342,410**	312,333
Cost of sales		**(145,232)**	(120,884)
Gross profit		**197,178**	191,449
Distribution costs		**(45,091)**	(41,315)
Administrative expenses		**(155,969)**	(144,161)
Other operating income	3	**1,151**	869
Operating (loss)/profit		**(2,731)**	6,842
Adjusted EBITDA(1)	2	**68,638**	71,047
Less: Depreciation(1)		**(48,175)**	(50,702)
Adjusted EBITA(1)		**20,463**	20,345
Less: Exceptional items (non-finance)	4	**(16,957)**	(8,522)
Less: Amortisation(1)		**(6,237)**	(4,981)
Operating (loss)/profit		**(2,731)**	6,842
Finance income	5	**3**	24
Finance expense	5	**(14,689)**	(20,706)
Loss before tax		**(17,417)**	(13,840)
Adjusted profit before tax		**5,777**	5,808
Less: Exceptional items (non-finance)	4	**(16,957)**	(8,522)
Less: Exceptional items (finance)	4	**–**	(6,145)
Less: Amortisation	6	**(6,237)**	(4,981)
Loss before tax		**(17,417)**	(13,840)
Income tax credit/(expense)	9	**104**	(405)
Loss for the financial year		**(17,313)**	(14,245)
Loss attributable to:			
Owners of the company		**(17,313)**	(14,245)
(Loss)/profit per share			
Basic and diluted loss per share	10	**(11.18)**	(9.86)
Adjusted basic earnings per share(2)	10	**2.98**	3.20
Adjusted diluted earnings per share(2)	10	**2.94**	3.20

(1) Adjusted EBITDA is defined as operating profit before depreciation, amortisation and exceptional items. For this purpose, depreciation and amortisation includes customer losses, hire stock write-offs and hire stock asset disposals. Adjusted EBITA is defined as operating profit before amortisation and exceptional items.
(2) Adjusted earnings per share is defined as profit before tax with amortisation and exceptional costs added back less tax at the prevailing rate of corporation tax divided by the weighted average number of ordinary shares.

The notes on pages 77 to 111 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Loss for the financial period	**(17,313)**	(14,245)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**1,533**	(475)
Other comprehensive loss for the period, net of tax	**1,533**	(475)
Total comprehensive loss for the period	**(15,780)**	(14,720)
Attributable to owners of the Company	**(15,780)**	(14,720)

The notes on pages 77 to 111 form part of these Financial Statements.

Consolidated Statement of Financial Position

At 31 December 2016

	Note	31 December 2016 £000s	26 December 2015 restated £000s
ASSETS			
Non-current assets			
Intangible assets	11	**178,755**	180,242
Property, plant and equipment	12	**178,473**	183,213
Deferred tax assets	19	**780**	1,900
		358,008	365,355
Current assets			
Inventories	13	**7,898**	9,095
Trade and other receivables	14	**103,744**	97,585
Cash	15	**15,211**	1,812
		126,853	108,492
Total assets		**484,861**	473,847
LIABILITIES			
Current liabilities			
Trade and other payables	16	**(89,150)**	(89,236)
Borrowings	17	**(66,000)**	(47,535)
Provisions	18	**(6,431)**	(3,822)
Current tax liabilities		**(501)**	(520)
		(162,082)	(141,113)
Non-current liabilities			
Trade and other payables	16	**(17,266)**	(21,583)
Borrowings	17	**(133,212)**	(132,189)
Provisions	18	**(10,712)**	(10,851)
Deferred tax liabilities	19	**(8,203)**	(9,842)
		(169,393)	(174,465)
Total liabilities		**(331,475)**	(315,578)
Net assets		**153,386**	158,269
EQUITY			
Share capital	20	**1,702**	1,548
Share premium		**–**	–
Merger reserve		**97,780**	85,376
Retained earnings/(deficit)		**53,904**	71,345
Total equity attributable to owners of the Group		**153,386**	158,269

The notes on pages 77 to 111 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 5 April 2017 and were signed on its behalf by:

P Quested
Director

5 April 2017

Consolidated Statement of Changes in Equity

For the year ended 31 December 2016

	Note	Share capital £000s	Share premium £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 26 December 2015		1,548	–	85,376	71,345	158,269
Total comprehensive loss for the period						
Loss for the period		–	–	–	(17,313)	(17,313)
Foreign currency translation differences arising on consolidation of foreign operations		–	–	–	1,533	1,533
Total comprehensive loss for the period		–	–	–	(15,780)	(15,780)
Transactions with owners recorded directly in equity					–	
New share issue for cash	20	154	–	12,800	–	12,954
Share issue costs	20	–	–	(396)	–	(396)
Share based payment charge		–	–	–	103	103
Dividends paid		–	–	–	(1,764)	(1,764)
At 31 December 2016		1,702	–	97,780	53,904	153,386

	Note	Share capital £000s	Share premium £000s	Merger reserve £000s	Accumulated deficit £000s	Total equity £000s
At 27 December 2014		645	–	(544)	(11,606)	(11,505)
Total comprehensive loss for the period						
Loss for the period		–	–	–	(14,245)	(14,245)
Foreign currency translation differences arising on consolidation of foreign operations		–	–	–	(475)	(475)
Total comprehensive loss for the period		–	–	–	(14,720)	(14,720)
Transactions with owners recorded directly in equity						
Preference shares issued	20	50	–	–	–	50
Preference shares redeemed	20	(50)	–	–	–	(50)
Acquisition of loan notes via share issue in subsidiary		411	–	85,920	–	86,331
New share issue for cash	20	492	102,629	–	–	103,121
Share issue costs	20	–	(4,076)	–	–	(4,076)
Capital reduction		–	(98,553)	–	98,553	–
Dividends paid		–	–	–	(882)	(882)
At 26 December 2015		1,548	–	85,376	71,345	158,269

The notes on pages 77 to 111 form part of these Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 31 December 2016

	Note	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Cash flows from operating activities			
Loss before income tax		**(17,417)**	(13,840)
Adjustments for:			
– Amortisation		**6,237**	4,981
– Depreciation		**37,729**	39,379
– Accelerated depreciation relating to hire stock customer losses, hire stock write-offs and other asset disposals		**9,762**	11,217
– Loss on disposal of property, plant and equipment		**684**	106
– Share based payment		**103**	–
– Finance income		**(3)**	(24)
– Finance expense		**14,689**	20,706
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):			
– Inventories		**1,197**	(2,180)
– Trade and other receivables		**(5,717)**	(13,334)
– Trade and other payables		**2,571**	5,831
– Provisions		**(1,187)**	(3,587)
Net cash flows from operating activities before changes in hire equipment		**48,648**	49,255
Purchase of hire equipment		**(22,085)**	(56,642)
Cash generated/(utilised) from operating activities		**26,563**	(7,387)
Net interest paid		**(12,974)**	(18,392)
Income tax (paid)/received		**(373)**	1,143
Net cash generated/(utilised) from operating activities		**13,216**	(24,636)
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	24	**–**	(11,010)
Acquisition of subsidiaries, deferred consideration paid	24	**–**	(700)
Purchases of non hire property, plant, equipment and software		**(16,804)**	(20,278)
Net cash used in investing activities		**(16,804)**	(31,988)
Cash flows from financing activities			
Proceeds from the issue of ordinary share capital	20	**12,954**	103,121
Share issue costs	20	**(170)**	(4,076)
Proceeds from borrowings (third parties)		**31,000**	57,000
Repayments of borrowings		**(11,000)**	(94,500)
Capital element of finance lease payments		**(12,498)**	(9,620)
Dividends paid	26	**(1,764)**	(882)
Net cash received from financing activities		**18,522**	51,043
Net increase/(decrease) in cash		**14,934**	(5,581)
Cash at the start of the period		**277**	5,858
Cash at the end of the period	15	**15,211**	277

The notes on pages 77 to 111 form part of these Financial Statements.

Notes to the Consolidated Financial Statements

1. Accounting policies

a) Reporting entity

The Company is incorporated and domiciled in the United Kingdom.

These Consolidated Financial Statements comprise the Company and its subsidiaries (the Group).

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

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 Group and Company Financial Statements were approved by the Board of Directors on 5 April 2017.

b) Statement of compliance

The Group Financial Statements of HSS Hire Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS) and the Companies Act 2006.

The Directors have taken advantage of the option within section 390 of the Companies Act 2006 to prepare their Financial Statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts therefore cover the period from 27 December 2015 to 31 December 2016 (2015: 28 December 2014 to 26 December 2015).

c) Functional and presentational currency

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

d) Basis of preparation

The Financial Statements for the year ended 26 December 2015 were the first set of consolidated Financial Statements of HSS Hire Group plc, which was the new ultimate holding company of Hampshire Topco Limited, following a reconstruction of the Group to facilitate the Initial Public Offering on 9 February 2015.

The Consolidated Financial Statements have been prepared under the merger method of accounting because the transaction under which HSS Hire Group plc became the holding company of Hampshire Topco Limited was effectively a Group reconstruction with no changes in the ultimate ownership of the Group and all the shareholdings in Hampshire Topco plc were exchanged via a share for share transfer. HSS Group plc did not actively trade at the time. The Group reconstruction took place on 4 February 2015.

The Financial Statements have been presented as a continuation of the Hampshire Topco Limited business. The result of the application is to present the Financial Statements as if HSS Hire Group plc has always owned the Group, and the comparatives have been prepared on this basis.

Under merger accounting the shares issued on merger were recorded in the consolidated financial balance sheet at the nominal value of the shares issued plus the fair value of any additional consideration. The difference between the nominal value of the shares issued and the nominal value of the shares acquired, if any, is taken to a merger reserve in the Group accounts. The assets and liabilities of the subsidiaries are consolidated at book value in the Group accounts and the consolidated reserves of the group are adjusted to reflect the statutory share capital, share premium and merger reserve of HSS Hire Group plc as if it had always existed, adjusted for movements in the underlying Hampshire Topco Ltd share capital and reserves until the share for share exchange.

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 principal steps of the Group reorganisation were as follows:

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

HSS Hire Group plc replaced Hampshire Topco Limited as the holding company of the Group, immediately following determination of the offer price on 3 February 2015, through a share for share exchange.

As part of the reorganisation, and immediately prior to the share for share exchange, the external loan note holders in the Hampshire Topco Group transferred all of their interests in the notes to Hampshire Topco Limited in consideration for the issue of ordinary shares in Hampshire Topco Limited. An aggregate loan note balance of approximately £86,000,000 including £795,500 of accrued interest was converted into ordinary shares. Such shares in Hampshire Topco Limited were subsequently exchanged for shares in HSS Hire Group plc as part of the reorganisation.

In addition, at the same date, the 50,000 preference shares were redeemed.

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

e) New accounting standards and accounting standards not yet effective

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

Standards effective in future periods

The following new standards, amendments and interpretations to existing standards, which are applicable to the Group, have been published and are mandatory for the Group's accounting periods beginning after 1 January 2017 or later and which the Group has decided not to adopt early.

- IFRS 15 Revenue from Contracts with Customers, which provides guidance on the recognition, timing and measurement of revenue, and is effective for periods beginning on or after 1 January 2018
- IFRS 9 Financial Instruments, which replaces IAS39 Financial Instruments: Recognition and Measurement in its entirety, and is effective for periods beginning on or after 1 January 2018
- Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses
- Amendments to IAS 7 – Disclosure Initiative
- Amendments to IFRS 2 – Classification and Measurement of Share-based Payment Transactions
- Annual Improvements to IFRS (2014–2016 Cycle)
- IFRIC 22 Foreign Currency Transactions and Advance Consideration

Notes to the Consolidated Financial Statements Continued

1.Accounting policies (continued)

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

The Directors anticipate that adoption of these Standards and Interpretations in future periods will not have a material impact on the Financial Statements of the Group.

→ IFRS 16 Leases, which sets out the principles for the recognition, measurement, presentation and disclosure of leases, effective for periods beginning on or after 1 January 2019.

The Group is in the process of assessing the impact that the application of IFRS 16 will have on the Financial Statements, but it is expected to be material given the number of operating leases the Group has entered into, as detailed in note 23. IFRS 16 will require the Group to recognise a liability and right of use asset for the majority of the leases currently treated as operating. This will affect fixed assets, current and non-current liabilities, and the measurement and disclosure of expenses associated with the leases (depreciation and interest expense compared to operating lease rentals currently). It is not practicable to provide a reasonable estimate of the effects of the adoption of IFRS 16 until a detailed review has been completed, given the complexity of the standard and volume of leases.

f) Critical accounting estimates and judgements

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

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

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

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

These assets are reviewed annually or more frequently if there is an indication of impairment to ensure that they are not carried above their estimated recoverable amounts. To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary from such estimates of discounted future cash flows. Such calculations require assumptions related to the appropriate discount rate, the long term growth rate and also short term performance and cash flows. The directors consider historic performance as well as referencing to external information to arrive at these assumptions. Further details of the impairment reviews undertaken, assumptions and sensitivities are given in note 11.

Onerous lease provision

Provisions have been made for onerous leases on non-trading stores associated with the Group's property portfolio. The carrying amount of the onerous lease provision will be affected by changes in the discount rate. The discount rate used to calculate these provisions is based on UK gilt yields to approximate a risk free rate and as at 31 December 2016 was 0.48 % (2015: 1.90 %). The interest rate used in discounting the cash flows is reviewed annually. Further details of the assumptions and sensitivities are given in note 18.

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

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

Useful economic life and residual value of assets

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

The net book value of materials and equipment held for hire was £133.9 million at 31 December 2016 (2015: £143.3 million) and the related depreciation charge was £27.9 million (2015: £31.8 million). The majority of hire stock items are given no residual value. Certain plant (powered access and power generation) have residual values of between 10 and 20% of original cost.

Recoverability of trade receivables

Judgements are required in assessing the recoverability of overdue trade receivables and determining whether a provision against those receivables is required. The Group monitors the risk profile of debtors and makes provisions for amounts that may not be recoverable based on past default experience and the directors' assessment of the economic environment. The recoverability of overdue receivables is considered together with the sales credit note provision.

The Group's bad debt and credit note provision is disclosed in note 14.

Exceptional items

The Group has classified a number of expenses as exceptional during the year because of their size or nature or because they are non-recurring. The Group incurred costs restructuring the business and its operating model, including commencement of operations at the National Distribution and Engineering Centre (NDEC). The Group has recognised certain of these costs as exceptional to better reflect the underlying results of the business. This allocation to exceptional costs involved considerable judgement. As branches and distribution centres rolled into the NDEC there was a period of increased costs due to the operation of both the new and old models in parallel. The Group has determined that a reasonable approximation of these parallel running costs to be the total costs incurred in operating the NDEC up to the point where 50% of the operational volumes were processed through the NDEC rather than the original branch and distribution network.

The Groups exceptional items are disclosed in note 4.

1. Accounting policies (continued)

g) Going concern

Note 22 includes the Group's objectives, policies and processes for capital management and for financial risk management including market risk, credit risk and liquidity risk.

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

- there is no requirement to redeem any of the senior secured notes until 1 August 2019.
- the terms and financial covenants relating to the revolving credit facility secured by the Group, as detailed in notes 17 and 22.

The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, and senior debt and interest repayments falling due, as detailed in note 17, show that the Group is expected to be able to operate within the level of its current facilities for the foreseeable future.

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

h) Basis of consolidation

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

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

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

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

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

i) Restatements

On 8 May 2015, the Group acquired the entire share capital of All Seasons Hire Limited, one of the leading heating, ventilation and air-conditioning ("HVAC") hire companies in the UK. At 26 June 2015 and 26 December 2015, a provisional fair valuation of the identifiable assets and liabilities was recorded.

In accordance with IFRS 3, measurement period adjustments have now been made to provisional values which result in a restatement of amounts previously recognised at 26 December 2015. The result of these adjustments changes the provisional goodwill from £7.0 million, as reported at 26 December 2015, to £7.3 million.

Further details may be found in note 24.

j) Segment reporting

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

k) Foreign currency translation

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

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

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

Notes to the Consolidated Financial Statements Continued

1) Accounting policies (continued)

l) Property, plant and equipment

Land and buildings comprise leasehold and freehold branches, workshops and offices, and are stated at cost, less depreciation or provision for impairment where appropriate. Land is not depreciated and depreciation on other assets is calculated using the straight-line method to allocate their cost or revalued amounts to their residual values over their estimated useful lives, as follows:

Material and equipment held for hire:	
→ Tools and general equipment	Two to ten years
→ Powered access	Five to ten years
→ Power generation	Five to ten years
→ Climate control	Two to ten years
Non-hire assets:	
→ Leasehold properties with less than fifty years unexpired	Over unexpired period of lease
→ Freehold buildings and long leasehold properties	Over fifty years
→ Plant & machinery	Two to ten years

The Group reviews its depreciation policy annually. Effective 27 December 2015, the directors have assessed that the residual values of certain powered access assets should be changed from 10% to 20% and residual values of 10% should be introduced for power generation assets. As a result of these changes, which have been applied prospectively from the beginning of the year, the depreciation charge for the year ending 31 December 2016 has been reduced by £4.2 million. During the year ended 26 December 2015, the directors aligned the useful lives of powered access and power generation assets across the group, resulting in a reduction of the depreciation charge for the year ended 26 December 2015 of £2.0 million.

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

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

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

m) Intangible assets

Goodwill

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

Impairment of goodwill

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

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

Intangible assets acquired on acquisition

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

The HSS brand was first established in the late 1950's, and therefore given its longevity the directors consider the HSS brand to have an indefinite life and it is not therefore amortised, but instead subjected to annual impairment testing using the relief from royalty methodology to calculate the fair value of the brand.

All other brands and customer relationships are amortised on a straight-line basis over their useful economic life. The directors have assessed the brands of ABird, UK Platforms, TecServ and Apex and estimated that they have useful economic lives of 20 years. The directors have estimated the customer relationship intangible assets recognised on the acquisition of Hero Acquisitions Limited, TecServ Cleaning Equipment Services Limited and Apex Generators Limited as having useful economic lives of 10 years. Amortisation is charged to administrative expenses.

During 2015 the Group acquired All Seasons Hire Limited (note 24). The directors have assessed the brand and the customer relationship intangible assets recognised on acquisition to have useful economic lives of 10 and 12 years respectively.

Software development costs

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

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

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

1. Accounting policies (continued)

m) Intangible assets (continued)

Other intangible assets

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

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

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

n) Derivative financial instruments

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

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

o) Inventories

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

p) Trade receivables

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

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

q) Cash

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

r) Share capital

Ordinary shares

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

Share premium

The amount subscribed for share capital in excess of nominal value, less any costs directly attributable to the issue of new shares.

Retained earnings/accumulated deficit

Cumulative net gains and losses recognised in the income statement.

Dividends

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

Merger reserve

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

s) Trade and other payables

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

t) Borrowings

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

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

u) Cost of sales, distribution costs and administrative expenses

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

v) Non-IFRS financial measures

Earnings before interest, taxation, depreciation and amortisation (EBITDA) and Adjusted EBITDA, earnings before interest, 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 by the Group as operating profit before depreciation, amortisation and hire stock disposals and write-offs. Exceptional items are excluded from EBITDA to calculate Adjusted EBITDA.

Notes to the Consolidated Financial Statements Continued

1. Accounting policies (continued)

v) Non-IFRS financial measures (continued)

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

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

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

w) Finance income and expense

Finance income comprises interest receivable on cash balances.

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

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

x) Current and deferred income tax

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

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

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

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

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

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

y) Employee benefits

Short term employee benefits

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

Pension obligations

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

Termination benefits

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

z) Provisions

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

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

Provisions for dilapidation are recognised in full when the related facilities are installed. A corresponding amount equivalent to the provision is also recognised as part of the cost of the related property. The timing and amounts of future cash flows related to lease dilapidations are subject to uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and third party surveyors reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change. The amount recognised is the estimated cost of dilapidations, discounted to its net present value, and is reassessed each year in accordance with local conditions and requirements. Changes in the estimated timing of dilapidations or dilapidations cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dilapidations provision is included as a finance expense.

1. Accounting policies (continued)

z) Provisions (continued)

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

aa) Revenue recognition

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

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

→ hire activities	over the period of hire on a straight-line basis;
→ damaged/lost hire stock compensation	when the loss or damage is identified; and
→ training and support services	when a right to consideration arises on the delivery of the training course.

Revenue arising from the sale of ex-hire fleet assets, fuel and consumables is recognised in the income statement within the revenue line when the significant risks and rewards of ownership have been transferred to the buyer.

bb) Leases

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

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

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

cc) Fair value measurement

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

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

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

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

Derivative instruments (level 2)

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

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

dd) Exceptional items

Exceptional items are disclosed separately in the income statement where it is necessary to do so to provide further understanding of the underlying financial performance of the Group. Exceptional items are items of income or expense that have been shown separately due to the significance of their nature or amount and include IPO costs (see note 1 ee) below) acquisition costs, restructuring costs and accelerated debt issuance costs. Restructuring costs incurred in 2016 primarily relate to costs associated with the implementation and ramp-up of the Group's new operating model, principally the National Distribution & Engineering Centre (NDEC). The NDEC is more fully discussed in our Financial Review and note 4.

ee) Listing costs

As disclosed in note 1d, HSS Hire Group plc was admitted to the premium listing segment of the Official List of the Financial Conduct Authority on 9 February 2015. As part of the IPO, the Group incurred certain costs. These costs have been allocated between those relating to the issue of new shares, those related to the issue of existing shares, and those costs related to other activities associated with the IPO. Costs that relate to the issue of new shares have been set against HSS Hire Group plc's share premium account in accordance with IAS 32 (Financial Instruments: Presentation. All other IPO-related costs are charged to profit or loss.

ff) Credit note provision

The Group makes provision for credit notes raised and expected to be raised after the end of the reporting period that relate to customer invoices raised before the end of the period, net of any impairment charges relating to the customer invoices.

gg) Share based payments

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

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

Notes to the Consolidated Financial Statements Continued

2. Segment reporting

For management purposes, the Group's operations have historically been segmented into HSS Core and HSS Specialist, as follows:

- HSS Core – the provision of tool and equipment hire and related services.
- HSS Specialist – the provision of generator, climate control, powered access and cleaning equipment hire and the provision of cleaning maintenance services, under specialist brands.

These segments distinguished between the long-standing tool and equipment hire business of the Group and the specialist businesses, enabling visibility of their performance post acquisition. Now that the Specialist businesses are more integrated into the Group and with the increase in the Group's rehire business, changes have been made to the way segmental analysis is presented to enable improved understanding of contribution relative to revenue.

Accordingly for the year ended 31 December 2016, the Group's operations are segmented into the following new reportable segments:

- Rental and related revenue.
- Services.

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

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

The comparative segmental reporting has therefore been adjusted to reflect these new reportable segments.

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

All segment revenue, operating profit, assets and liabilities are attributable to the principal activity of the Group being the provision of tool and equipment hire and related services in, and to customers in, the UK and the Republic of Ireland. The Group has no single external customers that provide more than 10% of Group turnover.

	Year ended 31 December 2016			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	**262,817**	**79,593**	**–**	**342,410**
Contribution	**179,429**	**10,317**	**–**	**189,746**
Branch and selling costs			**(89,294)**	**(89,294)**
Central costs			**(31,814)**	**(31,814)**
Adjusted EBITDA				**68,638**
Less: Exceptional items (non-finance)	**–**	**–**	**(16,957)**	**(16,957)**
Less: Depreciation and amortisation	**(40,572)**	**(267)**	**(13,573)**	**(54,412)**
Operating loss				**(2,731)**
Finance income				**3**
Adjusted finance expense				**(14,689)**
Exceptional finance expenses				**–**
Loss before tax				**(17,417)**

2. Segment reporting (continued)

	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
				Year ended 31 December 2016
Additions to non-current assets				
Property, plant and equipment	**27,337**	**115**	**14,945**	**42,397**
Intangibles	**–**	**149**	**4,590**	**4,739**
Acquired on acquisitions				
Intangibles	**–**	**–**	**–**	**–**
Non-current assets net book value				
Property, plant and equipment	**133,922**	**387**	**44,164**	**178,473**
Intangibles	**169,748**	**542**	**8,465**	**178,755**
Unallocated corporate assets				
Non current deferred tax assets			**780**	**780**
Current assets			**126,853**	**126,853**
Current liabilities			**(162,082)**	**(162,082)**
Non current liabilities			**(169,393)**	**(169,393)**
				153,386

	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
				Year ended 26 December 2015
Total revenue from external customers	262,850	49,483	–	312,333
Contribution	182,101	6,134	–	188,235
Branch and selling costs			(86,012)	(86,012)
Central costs			(31,176)	(31,176)
Adjusted EBITDA				71,047
Less: Exceptional items (non-finance)			(8,522)	(8,522)
Less: Depreciation and amortisation	(45,701)	(170)	(9,812)	(55,683)
Operating profit				6,842
Finance income				24
Adjusted finance expense				(14,561)
Exceptional finance expenses				(6,145)
Loss before tax				(13,840)

Notes to the Consolidated Financial Statements Continued

2. Segment reporting (continued)

	Year ended 26 December 2015			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	65,020	240	18,779	84,039
Intangibles	–	577	4,505	5,082
Acquired on acquisitions				
Intangibles	9,762	–	–	9,762
Non-current assets net book value				
Property, plant and equipment	143,260	396	39,557	183,213
Intangibles	172,665	600	6,977	180,242
Unallocated corporate assets				
Non current deferred tax assets			1,900	1,900
Current assets			108,492	108,492
Current liabilities			(141,113)	(141,113)
Non current liabilities			(174,465)	(174,465)
				158,269

3. Other operating income

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Other operating income	**1,151**	869
	1,151	869

Other operating income includes £1.2 million (2015: £0.9 million) in respect of sub-let rental income received on vacant properties, which has been recognised within exceptional items (note 4).

4. Exceptional items

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

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

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Year ended 31 December 2016 £000s
NDEC exceptional costs					
Project management, design, set-up	508	–	2,560	–	3,068
Parallel running	1,036	1,128	4,130	–	6,294
Non-recurring transitional engineering costs	125	–	226	–	351
Branch and CDC closure redundancies	162	163	116	–	441
Total NDEC exceptional costs	1,831	1,291	7,032	–	10,154
Branch and distribution centre closure onerous leases	–	–	4,492	–	4,492
Group restructuring	15	5	1,622	–	1,642
Resale stock impairment	1,552	–	–	–	1,552
Pre-opening costs	–	8	172	–	180
Cost reduction programme	–	–	–	–	–
IPO fees	–	–	74	–	74
Acquisitions	–	–	–	–	–
Sub-let rental income on onerous leases	–	–	–	(1,137)	(1,137)
Exceptional items (non-finance)	3,398	1,304	13,392	(1,137)	16,957
Refinancing costs					
Included in finance expense	–	–	–	–	–
Exceptional items (finance)	–	–	–	–	–
Total exceptional items	3,398	1,304	13,392	(1,137)	16,957

Notes to the Consolidated Financial Statements Continued

4. Exceptional items (continued)

During the year ended 26 December 2015, the Group has recognised total exceptional costs, analysed as follows:

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Year ended 26 December 2015 £000s
NDEC exceptional costs					
Project management, design, set-up	–	–	1,856	–	1,856
Parallel running	–	–	–	–	–
Non-recurring transitional engineering costs	–	–	–	–	–
Branch and CDC closure redundancies	–	–	–	–	–
Total NDEC exceptional costs	–	–	1,856	–	1,856
Branch and distribution centre closure onerous leases	–	–	2,627	–	2,627
Group restructuring	–	–	–	–	–
Resale stock impairment	–	–	–	–	–
Pre-opening costs	–	–	215	–	215
Cost reduction programme	–	–	1,571	–	1,571
IPO fees	–	–	2,868	–	2,868
Acquisitions	–	–	254	–	254
Sub-let rental income on onerous leases	–	–	–	(869)	(869)
Exceptional items (non-finance)	–	–	9,391	(869)	8,522
Refinancing costs					
Included in finance expense	–	–	–	–	6,145
Exceptional items (finance)	–	–	–	–	6,145

Exceptional items (non-finance)

Changes to the operating model

During the year ended 31 December 2016, the Group incurred costs restructuring the business and its operating model, including the commencement of operations at the National Distribution and Engineering Centre ("NDEC"), closure of branches and distribution centres across England, Wales and Scotland, centralisation of activity into fewer locations and creating a new divisional structure.

NDEC

The NDEC is a centralised engineering and replenishment centre set-up to serve our branch and distribution network which will provide improved customer experience, operational and capital efficiency. This replaces the former hub and spoke model deployed by the Group.

After an initial implementation planning period, operations began at the NDEC in March 2016 with the phased national roll-in of operational activities from branches and distribution centres across England, Wales and Scotland. During the set-up and roll-in phase, the Group has incurred significant implementation costs, including a dedicated project team, warehouse design, running of the original branch and distribution network in parallel with the NDEC and non-recurring transitional and rectification costs associated with enabling the NDEC to become operationally efficient. The Group has recognised certain of these costs as an exceptional expense in order to better reflect the underlying results of the business. This allocation to exceptional costs involved considerable judgement by the Directors but it has no impact on operating profit nor on the net assets of the Group as the only impact is on Adjusted EBITDA and Adjusted EBITA. The Directors consider that their allocation results in a meaningful measure to help gauge the underlying trend of the business following a significant change in the business model as discussed in more detail below.

A dedicated project team comprising HSS and third party employees was set up at the outset of the project to oversee the implementation covering operational, system and people changes. Operational changes included warehouse design, stock re-profiling, logistic route planning and overseeing the roll-in of operations from each branch and distribution centre. This also required systems integration between HSS and our third party provider involving specialist IT resource being utilised throughout the project. Associated costs incurred amounted to £3.1 million, of which £0.5 million has been included within cost of sales, and £2.6 million within administrative expenses. Included in exceptional items within administrative expenses for the year ended 26 December 2015 was £1.9 million in relation to set-up costs of the NDEC.

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4. Exceptional items (continued)

Exceptional items (non-finance) (continued)

As branches and distribution centres rolled into the NDEC, there was a period of increased costs due to the operation of both the new and old models in parallel. The Group has determined that a reasonable approximation of these parallel running inefficiencies to be the total costs incurred in operating the NDEC up to the point where 50% of operational volumes are processed through the NDEC rather than the original branch and distribution network. At this point in time the Group would be reasonably able to reduce the costs of the old operating model to offset the increased costs of the NDEC. By the end of July 2016, 50% of the branches had rolled in, but the point where 50% of operational volumes were processed through the NDEC was not reached until the beginning of October 2016. Accordingly all related NDEC costs have been included to this point in October 2016, which amounted to £6.2 million of which £1.0 million has been included within cost of sales, £1.1 million within distribution costs, and £4.1 million within administrative expenses.

Given the scale and complexity in the operational change, the decision was made in the 4th quarter 2016 to redesign certain aspects of the project. As a consequence of this decision further non-recurring costs were incurred principally related to the implementation of new engineering processes for the testing and maintaining of assets. This has resulted in a further £0.5m being included in project management, design and set up costs within cost of sales. This also resulted in additional costs being incurred in rectifying the issues and resultant operational backlogs. These non-recurring transitional engineering costs amounted to £0.3 million, of which £0.1 million has been included within cost of sales and £0.2 million within administrative expenses.

Branch and distribution centre closure

As part of the business restructuring a number of branches and distribution centres were closed. The restructuring costs associated with these non-trading locations comprised onerous leases and dilapidations costs of £4.5 million (2015: £2.6 million) which has been included within administrative expenses.

Associated redundancy costs of £0.5 million have been allocated within total NDEC exceptional items above of which £0.2 million has been included within cost of sales, £0.2 million within distribution costs, and £0.1 million within administrative expenses.

Group restructuring

In parallel with the implementation of the NDEC, the Group changed its operating model moving to a new divisional structure. This resulted in a reduction in headcount leading to a redundancy cost of £1.6 million which has been included within administrative expenses.

Resale stock impairment

As part of the NDEC set up and branch and distribution centre closures, inventory held for sale has been centralised into fewer locations. Based on the excess quantity and age profile of the consolidated inventory and a decision to streamline certain stock ranges, estimated future sales value is deemed to be lower than cost. Accordingly an impairment of £0.9 million has been recognised which has been included within cost of sales. Additionally, experience of stock losses arising from the centralisation of resale stock and associated branch and distribution centre closures amounted to £0.7 million which has been included within cost of sales.

Pre-opening costs

Included in exceptional items (non-finance) is £0.2 million (2015: £0.2 million) relating to costs of new branch openings and relocations. These amounts have been included within administrative expenses.

Cost reduction programme

Included in exceptional items (non-finance) for the year ended 26 December 2015 is £1.6 million of exceptional expenses incurred by the Group executing its cost reduction plan, principally redundancies, which have been included within administrative expenses.

IPO fees

Included in exceptional items (non-finance) within administrative expenses for the year ended 31 December 2016 is £0.1 million incurred in relation to the IPO.

Included in exceptional items (non-finance) for the year ended 26 December 2015 is £2.9 million incurred in relation to the IPO and related to professional adviser and broker fees, which have been included within administrative expenses.

Acquisition fees

During 2015 the Group incurred £0.3 million relating to acquisitions. Principally, these costs related to legal and professional fees associated with the acquisitions. In accordance with IFRS, these were expensed as incurred.

Exceptional items (finance)

Refinancing costs

On 12 February 2015 the Group made an early redemption of £64.0 million of its 6.75% senior secured notes as described in note 28. This gave rise to a bond redemption premium of £4.3 million and the acceleration of the write-off of debt issuance costs of £1.8 million.

Notes to the Consolidated Financial Statements Continued

5. Finance income and expense

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Interest received on cash deposits	**(3)**	(24)
Finance income	**(3)**	(24)
Bank loans and overdrafts	**2,039**	1,315
Investor loan notes	**–**	945
Senior secured notes	**9,331**	9,711
Finance leases	**1,792**	1,410
Interest unwind on discounted provisions	**484**	55
Debt issue costs	**1,043**	2,950
Bond redemption premium	**–**	4,320
Finance expense	**14,689**	20,706
Net finance expense	**14,686**	20,682

The bond redemption premium charged in to profit and loss in 2015 relates to the early partial redemption of the senior secured note using part of the funds raised from the IPO. Debt issue costs in 2015 include £1.8 million of accelerated write-off of previous debt issuance costs due to the partial redemption.

6. Operating (loss)/profit

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

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Amortisation of intangible assets	**6,237**	4,981
Depreciation of property, plant and equipment	**37,729**	39,379
Accelerated depreciation relating to hire stock customer losses, hire stock write-offs and other asset disposals	**10,446**	11,323
Operating lease rentals:		
– land and buildings	**19,463**	16,762
– motor vehicles	**9,393**	8,530
– hire stock	**748**	–
Sublease rental income	**(1,151)**	(869)
Foreign currency translation gains	**85**	7
	82,950	80,113

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Auditors' remuneration		
– audit of Group and Company Financial Statements	**58**	80
– audit of subsidiary Financial Statements	**232**	231
– other audit-related assurance services	**–**	–
– corporate finance services	**–**	72
	290	383

7. Employees

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

	Year ended 31 December 2016 Number	Year ended 26 December 2015 Number
Distribution	**593**	614
Hire stock and inventory maintenance	**391**	460
Sales and administration	**2,270**	2,270
	3,254	3,344

The aggregate remuneration costs of these employees were as follows:

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Wages and salaries	**83,434**	81,447
Social security costs	**7,386**	7,486
Pension costs	**1,665**	1,596
Share-based payment expense	**103**	–
	92,588	90,529

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

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

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

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Wages and salaries	**1,905**	1,489
Employer's national insurance contributions and similar taxes	**243**	234
Compensation for loss of office	**–**	470
Other pension costs	**99**	71
Share-based payment expense	**103**	–
	2,350	2,264

At 31 December 2016 there were no amounts due to key management personnel (2015: £nil).

Notes to the Consolidated Financial Statements Continued

8. Directors' remuneration

The remuneration costs of the Company's directors were:

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Aggregate emoluments	853	1,383
Bonuses not paid	(16)	–
Pension costs	43	58
Directors' emoluments	880	1,441
Share-based payment expense	25	–
Total emoluments	905	1,441

The remuneration of the highest paid director was:

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Aggregate emoluments	348	330
Pension costs	33	29
Directors' emoluments	381	359
Share-based payment expense	20	–
Total emoluments	401	359

9. Income tax (credit)/expense

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

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Current tax charge/(credit)		
UK corporation tax on the loss for the year	389	183
Adjustments in respect of prior years	26	(141)
Total current tax charge	415	42
Deferred tax (credit)/charge		
Deferred tax charge for the year	443	363
Deferred tax charge impact of change in tax rate	(961)	–
Adjustments in respect of prior years	(1)	–
Total deferred tax (credit)/charge	(519)	363
Income tax (credit)/charge	(104)	405

9. Income tax (credit)/expense (continued)

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

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

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Loss before tax	**(17,417)**	(13,840)
Loss before tax multiplied by the standard rate of corporation tax of 20% (2015: 20.25%)	**(3,483)**	(2,803)
Effects of:		
Expenses not deductible for tax purposes	**501**	1,349
Adjustments in respect of prior years	**25**	(141)
Difference in foreign tax rate	**389**	188
Unprovided deferred tax movements on short term temporary differences and capital allowance timing differences	**3,425**	1,812
Impact of change in tax rates	**(961)**	–
Income tax (credit)/charge	**(104)**	405

c) Factors that may affect future tax charge

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, the Group's profits for the year ended 26 December 2015 were taxed at an effective rate of 20.25%.

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £14.8 million (2015: £11.4 million) and relating to losses £1.4 million (2015: £3 million).

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

10. Earnings per share

	Year ended 31 December 2016		
	Loss after tax £000s	**Weighted average number of shares(1) 000s**	**Loss per share pence**
Basic loss per share	**(17,313)**	**154,887**	**(11.18)**
Potentially dilutive securities	**–**	**–**	**–**
Diluted earnings per share	**(17,313)**	**154,887**	**(11.18)**

(1) The ordinary shares issued on 28 December 2016 (see note 20) had no material impact on the weighted average number of shares for the year ended 31 December 2016.

	Year ended 26 December 2015		
	Loss after tax £000s	Weighted average number of shares 000s	Loss per share pence
Basic and diluted loss per share	(14,245)	144,534	(9.86)

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

Diluted loss per share is calculated using the loss for the year divided by the weighted average number of shares outstanding assuming the conversion of its potentially dilutive equity derivatives outstanding, being nil cost share options (LTIP shares) and Sharesave Scheme share options, as disclosed in note 21. All of the Group's potentially dilutive equity derivative securities were anti-dilutive for the year ended 31 December 2016 for the purpose of diluted loss per share. There were no potentially dilutive equity derivative securities outstanding during the year ended 26 December 2015 for the purpose of diluted loss per share.

Notes to the Consolidated Financial Statements Continued

10. Earnings per share (continued)

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

	Year ended 31 December 2016	Year ended 26 December 2015
Basic and diluted loss per share (pence)	**(11.18)**	(9.86)
Add back:		
Exceptional items per share(1)	**10.95**	10.15
Amortisation per share(2)	**4.03**	3.45
Tax charge per share	**(0.07)**	0.28
Charge:		
Tax at prevailing rate	**(0.75)**	(0.82)
Adjusted basic earnings per share (pence)	**2.98**	3.20

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

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

	Year ended 31 December 2016	Year ended 26 December 2015
Basic loss per share (pence)	**(11.18)**	(9.86)
Add back:		
Adjustment to basic loss per share for the impact of dilutive securities(1)	**0.12**	–
Exceptional items per share(2)	**10.83**	10.15
Amortisation per share(3)	**3.98**	3.45
Tax charge per share	**(0.07)**	0.28
Charge:		
Tax at prevailing rate	**(0.74)**	(0.82)
Adjusted diluted earnings per share (pence)	**2.94**	3.20

(1) The LTIP and Sharesave share options (note 21) were dilutive for purposes 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 period.
(3) Amortisation per share is calculated as the amortisation charge divided by the diluted weighted average number of shares in issue through the period.

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

	Year ended 31 December 2016 Weighted average number of shares 000s	Year ended 26 December 2015 Weighted average number of shares 000s
Basic	**154,887**	144,534
LTIP share options (note 21)	**1,256**	–
Sharesave scheme options (note 21)	**378**	–
Diluted	**156,521**	144,534

11. Intangible assets

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 26 December 2015[1]	130,171	27,044	24,142	14,999	196,356
Foreign exchange differences	**11**	**–**	**–**	**–**	**11**
Additions	**–**	**–**	**–**	**4,739**	**4,739**
Transfers[2]	**(438)**	**438**	**–**	**230**	**230**
At 31 December 2016	**129,744**	**27,482**	**24,142**	**19,968**	**201,336**
Amortisation					
At 26 December 2015	–	8,014	234	7,866	16,114
Charge for the period	**–**	**2,926**	**157**	**3,154**	**6,237**
Transfers	**–**	**–**	**–**	**230**	**230**
At 31 December 2016	**–**	**10,940**	**391**	**11,250**	**22,581**
Net book value					
At 31 December 2016	**129,744**	**16,542**	**23,751**	**8,718**	**178,755**
At 26 December 2015[1]	130,171	19,030	23,908	7,133	180,242

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 24).
(2) Reclassification in respect of minor acquisitions in prior year.

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 27 December 2014	122,385	25,700	23,510	10,032	181,627
Additions	–	–	–	5,082	5,082
Acquired on acquisition[1]	7,786	1,344	632	–	9,762
Disposals	–	–	–	(115)	(115)
At 26 December 2015[1]	130,171	27,044	24,142	14,999	196,356
Amortisation					
At 27 December 2014	–	5,409	112	5,727	11,248
Charge for the period	–	2,605	122	2,254	4,981
Disposals	–	–	–	(115)	(115)
At 26 December 2015	–	8,014	234	7,866	16,114
Net book value					
At 26 December 2015[1]	130,171	19,030	23,908	7,133	180,242
At 27 December 2014	122,385	20,291	23,398	4,305	170,379

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 24).

On the acquisition of All Seasons Hire Limited on 8 May 2015 the Group acquired £1.3 million of customer lists and £0.6 million of brand intangibles.

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

Notes to the Consolidated Financial Statements Continued

11. Intangible assets (continued)

Analysis of goodwill and indefinite life brands by cash generating units

	Goodwill £000s	Indefinite life brands £000s	Total £000s
Allocated to			
HSS Core	**112,250**	**21,900**	**134,150**
Powered access	**4,114**	**–**	**4,114**
Climate control	**7,327**	**–**	**7,327**
Power generation	**6,053**	**–**	**6,053**
At 31 December 2016	**129,744**	**21,900**	**151,644**

	Goodwill £000s	Indefinite life brands £000s	Total £000s
Allocated to			
HSS Core	112,677	21,900	134,577
Powered access	4,114	–	4,114
Climate control	7,327	–	7,327
Power generation	6,053	–	6,053
At 26 December 2015(1)	130,171	21,900	152,071

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 24).

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

The Group tests goodwill and indefinite life brands for impairment annually or more frequently if there are indicators that impairment may have occurred. The recoverable amounts of the goodwill and indefinite life brands, which are allocated to cash generating units (CGUs), are estimated from value in use (VIU) calculations which model pre-tax cash flows for the next four years (2015: five years) together with a terminal value using a long term growth rate. The key assumptions underpinning the recoverable amounts of the CGUs tested for impairment are those regarding the discount rate, forecast revenue, EBITDA, and capital expenditure.

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

→ Cash flows were derived assuming future Group growth rates in the short to medium term (up to four years) of 6% for HSS Core and an average of 4% for the remaining CGUs (2015: between 5 and 12%). The directors believe that it is prudent to lower the growth rate assumptions from prior year because of the transitional effects on trading that have occurred as a result of the commencement and ramp-up of the new operating model, as more fully explained in note 4. HSS Core's growth rate at 6% is higher than the other CGUs because the change in operating model in 2016 negatively impacted HSS Core to a greater degree, which however, is reflected by a higher relative growth rate of HSS Core in 2017 – 2020 as HSS Core enjoys the benefit of leveraging the new operating model to drive growth off a lower base.

→ Cash flows beyond 2020 (ie after four years) have been determined based on a long term growth rate of 2.5% (2015: 2.5%).

→ A pre-tax discount rate of 9.1% (2015: 10.3%), calculated by reference to a market based weighted average cost of capital (WACC). The non-IFRS pre-tax WACC of the Company, referenced to its own capital structure was 7.6% and applying this discount rate would generate a VIU with an excess of £171 million above the threshold where the VIU and the segmental assets of HSS Core would be in balance.

The directors' cash flow projections are based on key assumptions about the performance of the Group, the UK tool hire market and the general UK macro-economic environment. An impairment may be identified if changes to any of these factors were significant, including underperformance of the Group against forecast, negative changes in the UK tool hire market, or a deterioration in the UK economy, which would cause the directors to reconsider their assumptions and revise their cash flow projections.

Based on this VIU modelling and impairment testing, the directors do not consider the goodwill and indefinite life brands assets carried in the balance sheet at 31 December 2016, for any of the CGUs, to be impaired.

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

In respect of HSS Core, at 31 December 2016, the headroom between VIU and carrying value of the related assets was £65.2 million. The directors' sensitivity analysis with regard to HSS Core shows that an increase in the discount rate by 1.48%, to 10.6%, or a reduction in the long term growth rate to 0.46%, or a reduction in the short to medium term growth rate to 5.6% would eliminate the headroom shown. The short to medium term growth rate reduction equates to a reduction in EBITDA of between £3 million to £6 million annually over the medium term.

Other intangible assets

No impairment tests were considered to be required at 31 December 2016 and the carrying value of other intangible assets is considered to be appropriate.

12. Property, plant and equipment

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 26 December 2015(1)	63,313	55,914	256,208	375,435
Foreign exchange differences	**29**	**199**	**2,377**	**2,605**
Additions	**10,360**	**4,700**	**27,337**	**42,397**
Disposals	**(4,515)**	**(2,140)**	**(38,627)**	**(45,282)**
At 31 December 2016	**69,187**	**58,673**	**247,295**	**375,155**
Accumulated depreciation				
At 26 December 2015	35,258	44,016	112,948	192,222
Foreign exchange differences	**–**	**158**	**1,409**	**1,567**
Charge for the year	**6,266**	**3,582**	**27,881**	**37,729**
Disposals	**(4,429)**	**(1,542)**	**(28,865)**	**(34,836)**
At 31 December 2016	**37,095**	**46,214**	**113,373**	**196,682**
Net book value				
At 31 December 2016	**32,092**	**12,459**	**133,922**	**178,473**
At 26 December 2015(1)	28,055	11,898	143,260	183,213

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 27 December 2014	49,985	51,122	222,577	323,684
Foreign exchange differences	(4)	(68)	(708)	(780)
Additions	13,694	5,325	65,020	84,039
Acquired on acquisition(1)	32	217	2,669	2,918
Disposals	(394)	(682)	(33,350)	(34,426)
At 26 December 2015(1)	63,313	55,914	256,208	375,435
Accumulated depreciation				
At 27 December 2014	31,533	41,136	103,802	176,471
Foreign exchange differences	–	(48)	(477)	(525)
Charge for the year	4,119	3,505	31,755	39,379
Disposals	(394)	(577)	(22,132)	(23,103)
At 26 December 2015	35,258	44,016	112,948	192,222
Net book value				
At 26 December 2015	28,055	11,898	143,260	183,213
At 27 December 2014	18,452	9,986	118,775	147,213

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 24).

The net book value of materials and equipment held for hire includes an amount of £42.3 million (2015: £38.8 million) in respect of assets held under finance leases. The depreciation charge for assets held under finance leases in the year ended 31 December 2016 was £5.3 million (2015: £7.3 million).

Notes to the Consolidated Financial Statements Continued

13. Inventories

	31 December 2016 £000s	26 December 2015 £000s
Inventories	**5,016**	5,716
Inventory spares	**3,250**	3,719
Total inventories	**8,266**	9,435
Provision for impairment	**(368)**	(340)
Inventories	**7,898**	9,095

	31 December 2016 £000s	26 December 2015 £000s
Provision for impairment of inventories		
Balance at the beginning of the year	**340**	1,457
Impairment provisions recognised/(utilised) during the year	**28**	(1,117)
Balance at the end of the year	**368**	340

The cost of inventories recognised as an expense and included in cost of sales is £26.7 million (2015: £26.4 million).

14. Trade and other receivables

	31 December 2016 £000s	26 December 2015 restated(1) £000s
Gross trade receivables	**83,072**	84,763
Less provision for impairment	**(3,740)**	(4,000)
Net trade receivables	**79,332**	80,763
Other debtors	**679**	387
Prepayments and accrued income	**23,733**	16,327
Corporation tax	**–**	108
Total trade and other receivables	**103,744**	97,585

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 24).

The provision for impairment of trade receivables is estimated based upon past default experience and the directors' assessment of the current economic environment, including provisions for credit notes raised and expected to be raised after year end for customer invoices issued before year end (see note 1 ff). The overall provision for bad debts and credit notes amounts to 4.5% of trade receivables at 31 December 2016 (2015: 4.7%, as restated). Should the level of provision required ultimately be at the same level as 2015 this would result in an additional provision of £180,000. The creation and release of bad debt receivables provision is charged/(credited) to administrative expenses in the income statement, and the credit note provision is charged/(credited) to revenue.

14. Trade and other receivables (continued)

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

	31 December 2016 £000s	26 December 2015 restated(1) £000s
Balance at the beginning of the period	**(4,000)**	(3,514)
Movement in provision	**260**	(486)
Balance at the end of the period	**(3,740)**	(4,000)

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 24).

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

	31 December 2016 £000s	26 December 2015 restated(1) £000s
Bad debt provision	**(2,286)**	(2,077)
Credit note provision	**(1,454)**	(1,923)
	(3,740)	(4,000)

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 24).

The ageing profile of debtors that are overdue but not impaired is:

	31 December 2016 £000s	26 December 2015 £000s
Days overdue		
1 to 30 days	**4,919**	7,020
31 to 60 days	**2,885**	3,925
61 to 90 days	**1,625**	1,796
Over 90 days	**3,602**	4,203
	13,031	16,944

These amounts have not been impaired as there has not been a significant change in credit quality and the amounts are still considered recoverable.

15. Cash

	31 December 2016 £000s	26 December 2015 £000s
Cash (statement of financial position)	**15,211**	1,812
Bank overdrafts (note 17)	**–**	(1,535)
Cash and cash equivalents	**15,211**	277

The Group's banking arrangements are subject to a master netting arrangement with their principal bankers. The net balance of a portfolio of accounts, some of which may be in overdraft and some may be in credit, represents the balance held.

Notes to the Consolidated Financial Statements Continued

16. Trade and other payables

	31 December 2016 £000s	26 December 2015 restated[1] £000s
Current		
Obligations under finance leases	**11,448**	11,050
Trade payables	**52,505**	48,554
Other taxes and social security costs	**5,688**	10,284
Other creditors	**467**	1,730
Accrued interest on borrowings	**3,859**	3,755
Accruals and deferred income	**15,183**	13,863
	89,150	89,236

	31 December 2016 £000s	26 December 2015 £000s
Non-current		
Obligations under finance lease	**17,266**	21,583
	17,266	21,583

(1) Restated for final fair value on acquisition of All Seasons Hire Limited (see note 1(i) and note 24).

Finance leases principally relate to hire fleet assets.

The maturity profile of the Group's finance leases is as follows:

	31 December 2016 £000s	26 December 2015 £000s
Less than one year	**11,448**	11,050
Two to five years	**17,266**	14,303
Over five years	**–**	7,280
	28,714	32,633

The following table gives a reconciliation of the minimum lease payments to the carrying value of the finance lease liabilities:

	31 December 2016 £000s	26 December 2015 £000s
Less than one year	**12,639**	12,430
Two to five years	**18,133**	15,314
Over five years	**–**	7,533
	30,772	35,277
Less future interest payments	**(2,058)**	(2,644)
Carrying value of lease liabilities	**28,714**	32,633

17. Borrowings

	31 December 2016 £000s	26 December 2015 £000s
Current		
Revolving credit facility	**66,000**	46,000
Bank overdraft	**–**	1,535
	66,000	47,535
Non-current		
Senior secured note	**133,212**	132,189
	133,212	132,189

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

	31 December 2016 £000s	26 December 2015 £000s
Secured senior note	**136,000**	136,000
	136,000	136,000

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

The Group's super senior revolving credit facility is a revolving credit facility maturing in 2019.

The Group's super senior revolving credit facility and senior secured notes are both secured on a shared basis by a first ranking lien over certain assets (comprising substantially all material assets of the Group). The super senior revolving credit facility shares its security with the senior secured notes but shall get priority over any enforcement proceeds via a payment waterfall.

At 27 December 2014, the Group also had loan notes which were 10% fixed rate unsecured payment in kind (PIK) notes maturing in 2032. As part of the IPO, they were converted into ordinary shares at a price of £2.10 per ordinary share. Accrued interest at the date of conversion was settled through the issue of PIK notes that were also converted into ordinary shares at a price of £2.10 per ordinary share.

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

	31 December 2016 % above LIBOR	26 December 2015 % above LIBOR
Revolving credit facility	**2.25%**	2.00%

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

	31 December 2016 Fixed rate	26 December 2015 Fixed rate
Secured senior note	**6.75%**	6.75%

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

	31 December 2016	26 December 2015
Weighted average interest rate on borrowings	**5.28%**	5.55%

Notes to the Consolidated Financial Statements Continued

17. Borrowings (continued)

The Group's borrowings have the following maturity profile:

	31 December 2016 £000s	26 December 2015 £000s
Less than one year	**9,180**	9,180
Two to five years	**154,360**	163,540
Over five years	**–**	–
	163,540	172,720
Less interest cash flows:		
Senior secured note	**(27,540)**	(36,720)
Total principal cash flows	**136,000**	136,000

The Group had undrawn committed borrowing facilities of £27.0 million at 31 December 2016 (2015: £35.0 million). Including net cash balances (note 15), the Group had access to £42.2 million of combined liquidity from available cash and undrawn committed borrowing facilities at 31 December 2016 (2015: £35.3 million).

18. Provisions

	Onerous leases £000s	Dilapidations £000s	Other £000s	Total £000s
At 26 December 2015	4,537	10,136	–	14,673
Additions	**3,349**	**3,173**	**–**	**6,522**
Utilised during the period	**(2,223)**	**(1,460)**	**–**	**(3,683)**
Unwind of provision	**332**	**152**	**–**	**484**
Released	**(597)**	**(256)**	**–**	**(853)**
At 31 December 2016	**5,398**	**11,745**	**–**	**17,143**
Of which:				
Current	**2,876**	**3,555**	**–**	**6,431**
Non-current	**2,522**	**8,190**	**–**	**10,712**
	5,398	**11,745**	**–**	**17,143**
At 27 December 2014	7,017	7,854	21	14,892
Additions	311	3,336	–	3,647
Utilised during the period	(2,101)	(669)	–	(2,770)
Unwind of provision	(80)	112	–	32
Released	(610)	(497)	(21)	(1,128)
At 26 December 2015	4,537	10,136	–	14,673
Of which:				
Current	1,228	2,594	–	3,822
Non-current	3,309	7,542	–	10,851
	4,537	10,136	–	14,673

Provisions for onerous leases relate to the current value of contractual liabilities for future rent and rates payments and other unavoidable costs on leasehold properties the Group no longer operationally uses. These liabilities, assessed on a lease by lease basis, are expected to arise over a period of up to eight years with the weighted average being 2.8 years (2015: 3.5 years). They are stated net of existing and anticipated sublet income based on management's experience of the commercial retail property market in conjunction with specialist third party advice. The onerous lease provision has been discounted at a rate of 0.478% (2015: 1.9%). A 1% increase in the discount rate at 31 December 2016 would reduce the onerous lease provision by £0.1 million.

18. Provisions (continued)

The amount of anticipated sub-let income for vacant properties included in the onerous lease provision amounted to £2.3 million at 31 December 2016 (2015: £0.9 million). Variations in the actual timings or amounts of sub-let income will lead to a commensurate increase or decrease in the amount of provision required in the future. If the Group failed to dispose of or sub-let any of its onerous leases prior to their expiry the provision would increase by £2.3 million at 31 December 2016.

The dilapidations provision represents dilapidation costs in respect of the Group's leasehold properties and will therefore arise over the lease lives of the Group's properties, and comprises specific amounts based on surveyors' reports on a property by property basis, where available. The remaining properties are covered by a general provision based on gross internal area. The weighted average dilapidations provision at 31 December 2016 was £3.10 psf (2015: £3.12 psf). A £0.50 psf increase in the dilapidations provision would lead to an increase in the provision at 31 December 2016 of £1.7 million.

The dilapidations provision has been discounted at a rate of 1.45% (2015: 1.9%) at 31 December 2016 based on 10 year UK gilt yields. A 1% increase in the discount rate at 31 December 2016 would increase the dilapidations provision by £0.5 million and associated dilapidation fixed asset by £0.5 million, respectively.

19. Deferred tax

Deferred tax is provided in full on taxable temporary differences under the liability method using applicable tax rates. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

	Tax losses £000s	Property, plant and equipment and other items £000s	Acquired intangible assets £000s	Total £000s
At 26 December 2015	**1,900**	**(1,265)**	**(8,577)**	**(7,942)**
(Charge) /credit to the income statement	**(1,120)**	**61**	**1,578**	**519**
Arising on acquisition	**–**	**–**	**–**	**–**
At 31 December 2016	**780**	**(1,204)**	**(6,999)**	**(7,423)**
Deferred tax assets	**780**	**–**	**–**	**780**
Deferred tax liabilities	**–**	**(1,204)**	**(6,999)**	**(8,203)**
At 31 December 2016	**780**	**(1,204)**	**(6,999)**	**(7,423)**
At 27 December 2014	2,400	(625)	(8,685)	(6,910)
(Charge) /credit to the income statement	(500)	(409)	546	(363)
Arising on acquisition	–	(231)	(438)	(669)
At 26 December 2015	1,900	(1,265)	(8,577)	(7,942)
Deferred tax assets	1,900	–	–	1,900
Deferred tax liabilities	–	(1,265)	(8,577)	(9,842)
At 26 December 2015	1,900	(1,265)	(8,577)	(7,942)

At 31 December 2016 £7.6 million (2015: £9.2 million) of the deferred tax liability is expected to crystallise after more than one year.

At 31 December 2016 the Group had an unrecognised deferred tax asset relating to trading losses of £1.4 million (2015: £0.8 million).

The Group also has an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £14.8 million (2015: £12.3 million).

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

Notes to the Consolidated Financial Statements Continued

20. Share capital

Number and nominal value of ordinary shares

	Share capital Ordinary Number	Preference Number	Ordinary £000s	Preference £000s	Share premium £000s
At 26 December 2015	154,761,904	–	1,548	–	–
Issue of 15,445,238 ordinary shares of 1p each	**15,445,238**	**–**	**154**	**–**	**–**
At 31 December 2016	**170,207,142**	**–**	**1,702**	**–**	**–**

	Share capital Ordinary Number	Preference Number	Ordinary £000s	Preference £000s	Share premium £000s
At 27 December 2014	64,546,960	–	645	–	–
Issue of 50,000 redeemable preference shares of £1 each	–	50,000	–	50	–
Issue of 41,110,184 ordinary shares of 1p each in exchange for loan notes in subsidiary	41,110,184	–	411	–	–
Issue of 49,104,760 ordinary shares of 1p each	49,104,760	–	492	–	102,629
Share issue costs	–	–	–	–	(4,076)
Redemption of 50,000 redeemable preference shares of £1 each	–	(50,000)	–	(50)	–
Capital reduction	–	–	–	–	(98,553)
At 26 December 2015	154,761,904	–	1,548	–	–

December 2016 share placing

In December 2016, the Company incorporated a Jersey registered "cash box" company. This was used to facilitate the Placing of 15,445,238 new ordinary shares of 1p each on 28 December 2016 at a placing price of 83.875p per Share. The placing raised £13.0 million and the Company received cash proceeds of £12.78 million on 28 December 2016, net of expenses. The proceeds of the share issue were parcelled into the "cash box" company which was then acquired by way of a share exchange in circumstances which qualified for merger relief and so avoided the need to recognise a share premium on the share issue. After additionally accounting for HSS directly attributable expenses, the net amount booked to share capital and reserves was £12.55 million; £0.15 million allocated to nominal share capital and the excess of £12.4 million was recorded in the merger reserve account in equity. All shares are fully paid up.

2015 Capital reconstruction and IPO

During 2015 the Group underwent a capital reconstruction in advance of its initial public offering ("IPO") on 9 February 2015. Prior to the IPO, HSS Hire Group Limited (subsequently renamed HSS Hire Group plc) was incorporated, initially with share capital of £50,001 divided into 1 ordinary share of £1.00 each and 50,000 redeemable preference shares of £1.00 each.

HSS Hire Group plc replaced Hampshire Topco Limited as the holding company of the Group, through a share for share exchange. This took place immediately following determination of the IPO offer price on 3 February 2015 and resulted in the issue of the original 64,546,960 ordinary shares of 1 pence each shown above.

As part of the reconstruction that took place immediately prior to the share for share exchange, the external loan note holders in the Hampshire Topco Group transferred all of their interests in the notes to Hampshire Topco Limited in consideration for the issue of new ordinary shares in Hampshire Topco Limited. An aggregate loan note balance of approximately £86,000,000 including £795,500 of accrued interest was converted into 41,110,184 ordinary shares of 1 pence each. These shares were subsequently exchanged for shares in HSS Hire Group plc on a 1 for 1 basis as part of the reconstruction.

In addition, the £50,000 of preference shares were redeemed in full on 4 February 2015.

The IPO involved the issue of 49,104,760 ordinary shares of 1 pence each at the issue price of £2.10 each on 9 February 2015.

On 3 July 2015 the Company, by way of a Special resolution, cancelled its share premium account as confirmed by an Order of the High Court of Justice, Chancery division, on 15 July 2015.

21. Share based payments

The total charge for the period relating to employee share-based payment plans during the year ended 31 December 2016 was £103,000 (2015: nil), all of which related to equity settled share-based payment transactions.

Long Term Incentive Plan

On 7 April 2016, share awards were granted to eligible employees based on a maximum of 100% of base salary in the form of nil-cost options over ordinary shares in the Company in accordance with the Company's 2015 Long Term Incentive Plan (the "LTIP"). The LTIP awards will vest subject to performance conditions based on Earnings Per Share and Return on Capital Employed measured over the period ending with the Company's 2018 financial year. To the extent it vests, each award will, ordinarily, be released to the participant at the end of a further two year holding period.

On the same date, tax qualifying share options were granted as part of the LTIP awards ("CSOP options") via a Company Share Option Plan approved by HM Revenue & Customs ("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.

The table below reconciles the nil-cost LTIP share options outstanding:

	Year ended 31 December 2016 Number of shares	Year ended 26 December 2015 Number of shares
Outstanding at beginning of period	**–**	–
Granted	**2,012,743**	–
Exercised	**–**	–
Cancelled	**(372,379)**	–
Outstanding at end of period	**1,640,364**	–
Exercisable at end of period, number	**–**	–
Weighted average exercise price, pence	**–**	–
Weighted average remaining contractual life, years	**9.3**	–
Weighted average fair value of LTIP options granted, pence	**80**	–

LTIP nil-cost options are exercisable no later than the tenth anniversary of the date of grant. The fair value of the LTIP nil-cost options granted during the year was 80p (2015: nil), based on the market price of the ordinary shares at the date of grant, adjusted for dividends payable.

Notes to the Consolidated Financial Statements Continued

21. Share based payments (continued)

2016 3-year Sharesave Scheme ("SAYE Plan")

In November 2016, the Group offered to all employees the opportunity to participate in the 2016 Sharesave Scheme, an SAYE plan (the "SAYE Plan"). The SAYE Plan enables participating employees to choose 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 of 57.7 p per share. Alternatively, the employee may, at their request, withdraw their savings and leave the SAYE Plan at any time. Participants will be eligible to exercise their awards between 3 and 3.5 years from the grant date which was on 4 November 2016.

The table below reconciles the SAYE Plan share options outstanding:

	Year ended 31 December 2016 Number of shares	Year ended 26 December 2015 Number of shares
Outstanding at beginning of period	**–**	–
Granted	**2,459,867**	–
Exercised	**–**	–
Cancelled	**(26,828)**	–
Outstanding at end of period	**2,433,039**	–
Exercisable at end of period, number	**–**	–
Weighted average exercise price, pence	**57.7**	–
Weighted average remaining contractual life, years	**3.3**	–
Weighted average fair value of Sharesave options granted, pence	**23**	–

SAYE Plan options are exercisable no later than 3.5 years after the date of grant. The fair value of the SAYE Plan options granted during the year was 23p (2015: nil).

The Black-Scholes valuation model was used to determine the fair value of the SAYE Plan options issued by the Company. The expected volatility measured at the standard deviation of continuously compounded share returns was based on statistical analysis of the Company's historical share price taking into account the Company's historical volatility since Admission to the London Stock Exchange in 2015, and the historical volatility of a comparator group of companies listed on the London Stock Exchange operating in similar markets.

The following table represents the weighted averages of the variables used to estimate the fair value of SAYE Plan options granted during the year:

	2016 Weighted average	2015 Weighted average
Exercise price of option contract, pence	**57.7**	–
Share price on date of grant, pence	**70.5**	–
Expected term before option exercise, years	**3.25**	–
Risk free interest rate	**0.28%**	–
Expected dividend yield	**1.6%**	–
Expected share volatility	**45%**	–

22. Financial instruments

Financial risk management

The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using share capital, revenue and borrowings.

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk and foreign exchange risk), credit risk and liquidity risk.

Risk management is carried out under policies approved by the board of directors. Financial risk management is carried out by the Chief Financial Officer under a policy approved by the board. The board approves written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and liquidity risk and receives regular reports on such matters. The Group does not engage in trading or speculative activities using derivative financial instruments.

Market risk

Market risk is the risk that may change prices, such as foreign exchange rates and interest rates. They will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk of a change in the Group's cash flows due to a change in interest rates. On 9 February 2015 the Group, its ultimate parent company and its previous ultimate parent company executed a number of board-approved loans which allowed the Group to discharge existing loan notes as well as to effect an early redemption of £64 million of its 6.75% senior secured notes as summarised in Note 4.

The Group's fixed rate borrowings are now principally the senior secured notes. In addition the Group enters into finance leases in respect of hire stock assets and these carry a fixed rate of interest set at lease inception.

The Group is only exposed to interest rate risk on its variable interest borrowings, such as the revolving credit facility, the Group's overdraft and other short term borrowings. Given the most recent inflation report from the Bank of England (February 2017) which indicates that the market-implied path for the UK Bank Rate is now considerably lower than reported in the February 2016 report, and is not currently expected to reach 0.7% before Q1 2020 (previously expected in Q3 2017 in the February 2016 report), the directors do not consider this to be a significant risk to the Group. The Directors will continue to monitor developments in market interest rates on a regular basis. The effect of a 1% increase in interest rates on the Group's variable loans would be to increase the interest charge by £0.7 million.

Foreign exchange risk

Foreign exchange risk is the risk of a change in the Group's cash flows due to a change in foreign currency exchange rates. The Group is exposed to foreign currency exchange rate risk on the cash flows and carrying values of its Republic of Ireland subsidiaries. Given the relative small size of the Republic of Ireland operations compared with the Group Dhe 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 counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

The Directors consider the Group's credit risk from cash, cash equivalents and deposits to be low as the Group only enters transactions with banks or financial institutions with a credit rating of A or above.

The Group has policies in place to manage potential credit risk from trade receivables. Customer credit terms are determined using independent ratings agency data and regularly updated to reflect any changes in customer circumstances or trading conditions. If no independent rating is available an internal assessment is made of the credit quality of the customer, taking into account their financial position and past trading history of the Group. The directors do not expect any significant losses of receivables that have not been provided for as shown in note 14.

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 that it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 17) at all times so that borrowing limits or covenants on borrowing facilities are not breached.

The financial covenant in place on the Group's revolving credit facility at 31 December 2016 is a minimum Adjusted EBITDA of £35 million on a rolling 12-month basis.

Notes to the Consolidated Financial Statements Continued

22. 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 that the Group maintains sufficient liquidity and compliance with a bank covenant. In addition to the cash that the Group has generated from its operations, over recent years it has renegotiated its debt structure including the issue of a fixed interest rate bond, fixed term loan notes and secured shorter term bank borrowing through a revolving credit facility.

The principal bank covenant is to maintain an adjusted rolling EBITDA of £35 million. For the year ended 31 December 2016, Adjusted EBITDA was £68.6 million (2014: £71.0 million).

Fair value

All financial assets at the balance sheet date which comprise trade and other receivables, cash and cash equivalents are classified as loans and receivables.

All financial liabilities which comprise trade and other payables, obligations under finance leases and borrowings are classified as financial liabilities at amortised cost.

The following table shows the fair value of financial assets and financial liabilities within the Group, including their level in the fair value hierarchy. It does not include fair value information for financial assets or financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	31 December 2016 £000s	26 December 2015 £000s
Financial liabilities		
Senior secured note	**137,700**	135,568
	137,700	135,568

The senior secured notes are classified as Level 1 in the fair value hierarchy, as they are listed on the Luxembourg stock exchange and have been valued at their market value at the year end.

23. Commitments and contingencies

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

	31 December 2016 £000s	26 December 2015 £000s
Land and buildings		
Within one year	**16,140**	15,910
Between two and five years	**48,447**	47,953
After five years	**35,562**	30,799
	100,149	94,662
Other		
Within one year	**9,142**	7,607
Between two and five years	**15,952**	13,021
After five years	**321**	–
	25,415	20,628
	125,564	115,290

Other operating leases predominantly comprise hire stock assets and motor vehicles.

23. Commitments and contingencies (continued)

The Group's future minimum sub-lease rental income expected to be received under non-cancellable operating leases is as follows:

	31 December 2016 £000s	26 December 2015 £000s
Sub-lease rental income		
Within one year	**713**	862
Between two and five years	**1,181**	1,704
After five years	**274**	376
	2,168	2,942

24. Business combinations

On 8 May 2015, the Group acquired the entire share capital of All Seasons Hire Limited, one of the leading heating, ventilation and air conditioning (HVAC) hire companies in the UK.

In accordance with IFRS 3, measurement period adjustments have now been made to provisional values which result in a restatement of amounts previously recognised at 26 December 2015 and 27 June 2015. The result of these adjustments changes the provisional goodwill from £7.0 million, as reported at 26 December 2015, to £7.3 million.

The adjustments to the provisional amounts recognised during the measurement period, as reported at 26 December 2015, are as follows:

	As reported at 26 December 2015 £000s	Adjustments to provisional values £000s	Restated £000s
Intangible assets	1,976	–	1,976
Materials & equipment held for hire	2,699	(30)	2,669
Property, plant and equipment	211	38	249
Trade and other receivables	1,219	(184)	1,035
Cash at bank and in hand	317	–	317
Creditors and provisions	(2,022)	(130)	(2,152)
Deferred tax liabilities	(623)	–	(623)
Net assets acquired	3,777	(306)	3,471
Goodwill	7,021	306	7,327
Total consideration	10,798	–	10,798

As a result of the acquisition accounting being finalised, the Group has restated comparative amounts in the balance sheet as follows:

	As reported at 26 December 2015 £000s	Adjustments to provisional values £000s	Restated £000s
Intangible assets	179,936	306	180,242
Property plant and equipment	183,205	8	183,213
Trade and other receivables	97,769	(184)	97,585
Trade and other payables	(89,106)	(130)	(89,236)

Acquisition related costs of £0.25 million were charged to administrative expenses in the income statement during the year ended 26 December 2015. In addition a further immaterial acquisition was made in the year ended 26 December 2015 for £0.5 million and gave rise to goodwill of £0.4 million.

Notes to the Consolidated Financial Statements Continued

25. 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 £40,000 (2015: £40,000) and £nil was outstanding at 31 December 2016 (2015: £nil).

Key management personnel

Related party transactions with key management personnel are disclosed in note 8.

On 30 March 2015 a loan was made by Hampshire Topco Limited to Steve Trowbridge to enable him to pay the income tax and employee national insurance contributions arising on any difference between the unrestricted market value of the B shares in Hampshire Topco Limited acquired by him in 2014 and the subscription price actually paid. The loan was written off by Hampshire Topco Limited following the admission of HSS Hire Group plc to the London Stock Exchange and the group has settled the tax and national insurance amounts arising. The benefit amounted to £78,645.

26. Dividends

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Interim dividend of 0.57p (2015: 0.57p) per ordinary share paid during the year	**882**	882
Final dividend of 0.57p (2015: nil) per ordinary share paid during the year	**882**	–
	1,764	882

The Board is focused on reducing net debt and, after careful consideration of the significant cash investments made during 2016 and the continuing optimisation of the network underway, believe it is in the best interests of the shareholders for the Group to not pay a final dividend in respect of 2016. As a result of this decision the total dividend paid and payable by the Group in respect of 2016 totals 0.57p per ordinary share, reflecting the interim dividend of 0.57p per share paid in October 2016.

During the year ended 31 December 2016, the shareholders approved a final dividend of 0.57p per ordinary share, totalling £0.9 million in respect of the year ended 26 December 2015 which was subsequently paid on 4 July 2016.

During the year ended 31 December 2016, the Directors paid an interim dividend of £0.9 million in October 2016.

During the year ended 26 December 2015, the Directors paid an interim dividend of £0.9 million.

27. Note supporting statement of cash flows

Significant non-cash transactions in the year in respect of financing activities comprised £8.6 million of assets acquired under new finance leases (2015: £29.9 million).

28. Capital reconstruction

As explained in note 1d, in February 2015 HSS Hire Group plc undertook an IPO resulting in £103 million of gross proceeds being raised. As part of the IPO process, the Company passed special resolutions giving effect to the capital reorganisation outlined in the consolidated statement of changes in equity.

On 9 February 2015 the Group, its ultimate parent company and its previous ultimate parent company executed a number of Board-approved loans which allowed the Group to discharge existing loans as well as to effect an early redemption of £64 million of its 6.75% senior secured notes as summarised in note 17.

29. Post balance sheet events

In the period subsequent to 31 December 2016, the Group has closed 37 branches resulting in an additional onerous lease provision of £1.6 million. The directors made the decision to close the affected branches in 2017, and therefore, the store branch closures are a non-adjusting post balance sheet event which will be recognised in the period subsequent to 31 December 2016.

30. Adjusted EBITDA and Adjusted EBITA

Adjusted EBITDA is calculated as follows:

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Operating (loss)/profit	**(2,731)**	6,842
Add: Depreciation of property, plant and equipment	**37,729**	39,379
Add: Accelerated depreciation relating to hire stock customer losses, hire stock write-offs and other asset disposals	**10,446**	11,323
Add: Amortisation	**6,237**	4,981
EBITDA	**51,681**	62,525
Add: Exceptional items (non-finance)	**16,957**	8,522
Adjusted EBITDA	**68,638**	71,047

Adjusted EBITA is calculated as follows:

	Year ended 31 December 2016 £000s	Year ended 26 December 2015 £000s
Operating (loss)/profit	**(2,731)**	6,842
Add: Amortisation	**6,237**	4,981
EBITA	**3,506**	11,823
Add: Exceptional items (non-finance)	**16,957**	8,522
Adjusted EBITA	**20,463**	20,345

Company Statement of Financial Position

At 31 December 2016

	Note	31 December 2016 £000s	26 December 2015 £000s
ASSETS			
Non-current assets			
Investments		**86,369**	86,368
Other receivables	3	**100,703**	91,085
		187,072	177,453
Current assets			
Other receivables	3	**18,784**	8,957
Cash		**12,786**	1
		31,570	8,958
Total assets		**218,642**	186,411
LIABILITIES			
Current liabilities			
Other payables	4	**(11,347)**	(55)
		(11,347)	(55)
Total liabilities		**(11,347)**	(55)
Net assets		**207,295**	186,356
EQUITY			
Share capital	5	**1,702**	1,548
Share premium		**–**	–
Merger reserve		**97,716**	85,312
Retained earnings/(deficit)	6	**107,877**	99,496
Total surplus attributable to owners of the Company		**207,295**	186,356

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 £10,042,000 (2015: £1,825,000).

The notes on pages 114 to 116 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the board of directors on 5 April 2017 and were signed on its behalf by:

P Quested
Director

5 April 2017

Company Statement of Changes in Equity

For the year ended 31 December 2016

	Share capital £000s	Share premium £000s	Preference shares £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 27 December 2015	1,548	–	–	85,312	99,496	186,356
Shares issued in the period for cash	**154**	**–**	**–**	**12,800**	**–**	**12,954**
Share issue costs			**–**	**(396)**	**–**	**(396)**
Share based payment	**–**	**–**	**–**	**–**	**103**	**103**
Dividend	**–**	**–**	**–**	**–**	**(1,764)**	**(1,764)**
Profit for the period	**–**	**–**	**–**	**–**	**10,042**	**10,042**
At 31 December 2016	**1,702**	**–**	**–**	**97,716**	**107,877**	**207,295**

	Share capital £000s	Share premium £000s	Preference shares £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 7 January 2015	–	–	–	–	–	–
Issue of 50,000 redeemable preference shares of £1 each	–	–	50	–	–	50
Shares issued for acquisition of subsidiary by a share for share exchange	1,057	–	–	85,312	–	86,369
Shares issued in the period for cash	491	102,629	–	–	–	103,120
Share issue costs		(4,076)	–	–	–	(4,076)
Redemption of 50,000 redeemable preference shares of £1 each	–	–	(50)	–	–	(50)
Capital reduction	–	(98,553)	–	–	98,553	–
Dividend	–	–	–	–	(882)	(882)
Profit for the period	–	–	–	–	1,825	1,825
At 26 December 2015	1,548	–	–	85,312	99,496	186,356

The notes on pages 114 to 116 form part of these Financial Statements.

Company Notes to the Financial Statements

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 25 Willow Lane, Mitcham, Surrey, CR4 4TS.

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 27 December 2015 to 31 December 2016 (2015: 7 January 2015 to 26 December 2015).

As permitted by Section 408(2) of the Companies Act 2006, information about the Company's employee numbers and costs have not been presented.

The Company Financial Statements were previously prepared under IFRS as endorsed by the EU. No changes to previously recorded figures arose as a result of the change to FRS101.

The Company complies with the accounting policies defined in note 1 to the Group Consolidated Statements on pages 77 to 83 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 company and the Company value of the interest in subsidiary. 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 interest has been measured as the carrying amount of its share of the equity items shown in the separate Financial Statements of the original parent at the date of reorganisation.

2. Investments

At 31 December 2016 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	UK	Intermediate holding company	100%
Hampshire Midco Limited	Indirect	UK	Intermediate holding company	100%
Hampshire Bidco Limited	Indirect	UK	Intermediate holding company	100%
Hero Acquisitions Limited	Indirect	UK	Intermediate holding company	100%
HSS Hire Service Holdings Limited	Indirect	UK	Intermediate holding company	100%
HSS Hire Service Finance Limited	Indirect	UK	Intermediate holding company	100%
Bannagroe Limited	Indirect	Republic of Ireland	Intermediate holding company	100%
ABird Superior Limited	Indirect	UK	Intermediate holding company	100%
HSS Hire Service Group Limited	Indirect	UK	Hire and equipment services	100%
A1 Hire & Sales Limited	Indirect	UK	Hire and equipment services	100%
Laois Hire Services Limited	Indirect	Republic of Ireland	Hire and equipment services	100%
ABird Limited	Indirect	UK	Hire and equipment services	100%
Apex Generators Limited	Indirect	UK	Hire and equipment services	100%
UK Platforms Limited	Indirect	UK	Hire and equipment services	100%
HSS Financing plc	Indirect	UK	Hire and equipment services	100%
HSS Training Limited	Indirect	UK	Training services	100%
1st Collection Services Limited	Indirect	UK	Administration of group debtors	100%
TecServ Cleaning Equipment Services Limited	Indirect	UK	Cleaning equipment services	100%
All Seasons Hire Limited	Indirect	UK	Hire and equipment services	100%
Access Rentals (UK) Limited	Indirect	UK	Dormant	100%
Reintec Limited	Indirect	UK	Dormant	100%
Project Heath (Jersey) Limited	Direct	Jersey	Cash box company	100%

The registered office of the subsidiaries listed above is 25 Willow Lane, Mitcham, Surrey, CR4 4TS, except for the following:

- → Apex Generators Ltd,125 West Regent Street, Glasgow, G2 2SA
- → Laois Hire Services Limited, Abbeyleix Road, Portlaoise, Co. Laois, Eire
- → Bannagroe Limited, Clonminam Industrial Estate, Portlaoise, Co. Laois, Eire
- → Project Heath (Jersey) Limited at 44 Esplanade, St Helier, Jersey, JE4 9WG

Company Notes to the Financial Statements Continued

3. Other receivables

	31 December 2016 £000s	26 December 2015 £000s
Non-current		
Amounts due from group undertakings	**100,703**	91,085
	100,703	91,085

	31 December 2016 £000s	26 December 2015 £000s
Current		
Amounts due from group undertakings	**18,763**	8,946
Pre-payments	**21**	11
	18,784	8,957

Non-current amounts due from Group undertakings fall due in 2022 and carry a fixed interest rate of 10%.

Current amounts due from Group undertakings carry an interest rate of 3.75% above LIBOR.

4. Other payables: amounts falling due within one year

	31 December 2016 £000s	26 December 2015 £000s
Amounts owed to group undertakings	**11,084**	-
Accruals and deferred income	**71**	35
Other creditors	**192**	20
	11,347	55

5. Share capital
The details of the Company's share capital are set out in note 20 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 6 to the Consolidated Financial Statements.

7. Related party transactions
The Company's related party transactions are set out in note 25 to the Consolidated Financial Statements.

8. Financial instruments
Details of the Group's financial instruments policies are set out in note 22 to the Consolidated Financial Statements.

Shareholder Information

Annual General Meeting

The Company's Annual General Meeting will be held at 11.00am on 14 June 2017 at Hilton Garden Inn, Hatton Cross, TW6 2SQ. Details of the Resolutions proposed and being voted on are provided in the Notice of AGM provided to shareholders and available for download at the Group website, www.hsshiregroup.com

Share Fraud and Boiler room scams

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares.

These operations are commonly known as 'boiler room fraud'. The 'brokers' (callers) can be very persistent and extremely persuasive. They often have websites to support their activities, their advice and the companies they purport to represent. A 2006 survey by the Financial Services Authority (FSA) reported that the average amount lost by an investor is around £20,000. It is not just novice investors that have been duped in this way; many of the victims have been successfully investing for several years.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or offers of free company reports.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- record the name of the person and organisation contacting you;
- check the Financial Conduct Authority (FCA)Register at www.fca.org.uk/register to ensure they are properly authorised;
- use the details on the FCA Register to contact the firm;
- call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date;
- if you receive telephone calls, emails, letters purporting to be from HSS Hire Group plc or from companies endorsed by HSS Hire Group plc and you are unsure if they are legitimate, please contact our shareholder helpline for clarification (0371 384 2030 or +44 (0)121 415 7047 (overseas)); and
- if the caller persists, hang up.

Please note that should you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

If you are approached about a share scam you should tell the FCA using the online share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm where you can find out about the latest investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040 or online at: www.actionfraud.police.uk/

Further information on this or similar activity can be found at www.cityoflondon.police.uk/citypolice within the Economic Crime section.

Forward-looking statements

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets within which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest, and to a lesser extent, exchange rates; the impact of competitor pricing behaviour; the occurrence of major operational problems; the loss of major customers; contingent liabilities; and the impact of legal or other proceedings against, or which otherwise affect, the Group.

No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.

Financial Calendar	
Annual General Meeting	11.00am, 14 June 2017

Company Information

Registered Office
HSS Hire Group plc
25 Willow Lane
Mitcham
Surrey, CR4 4TS

Email: investors@hss.com
Website: www.hsshiregroup.com
Registered number: England and Wales, No. 9378067

Company Secretary
Daniel Joll

Financial Advisers and Stockbrokers
J.P. Morgan Cazenove
25 Bank Street
Canary Wharf
London, E14 5JP

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
Barclays Bank plc
One Churchill Place
London, E14 5HP

HSBC Bank plc
8 Canada Square
London, E14 5HQ

Financial Public Relations
Citigate Dewe Rogerson Ltd
3 London Wall Buildings
London Wall
London, EC2M 5SY

Trade Public Relations
Founded Partners Limited
185 Park Street
London, SE1 9DY

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

Definitions and Glossary

The following definitions apply throughout this document unless the context requires otherwise:

'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
'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
'B2B'	business-to-business
'Carbon emissions in our built environment'	calculated as the total CO_2 emissions from fuel combustion (a scope 1 emission) and purchased electricity (scope 2 emissions) of the Group in kg CO_2 divided by the total m^2 of the Group's freehold and leasehold portfolio. Calculated for the period 1 April to 31 March in each year period in accordance with the reporting timeframe required for annual CRC submissions
'Code'	see 'Governance Code'
'Company'	HSS Hire Group plc
'CRC Energy Efficiency Scheme' or 'CRC'	a mandatory carbon emissions reduction scheme in the UK that applies to large non-energy-intensive organisations in the public and private sectors
'Customer Distribution Centres' or 'CDCs'	Locations across the UK from which we deliver items of our core hire equipment direct to customer sites, manage the collection of equipment from customer sites at the end of the hire period and undertake testing and repair of larger non-specialist equipment
'EBITA'	earnings before interest, tax and amortisation
'EBITDA'	earnings before interest, tax, depreciation and amortisation
'ERP system'	enterprise resource planning software used to manage the business and automate certain day to day processes.
'EU'	European Union
'Exponent'	the investment funds managed by Exponent Private Equity LLP or, when otherwise indicated or where the context otherwise requires, Exponent Private Equity LLP in its own right
'Exponent Shareholders'	Exponent Private Equity Partners GP II, LP, Exponent Havana Co-Investment Partners GP Limited and Exponent Private Equity Founder Partner GP II Limited
'Governance Code'	the UK Corporate Governance Code issued by the Financial Reporting Council, as amended from time to time
'Group'	together, HSS Hire Group plc and its direct or indirect subsidiaries
'Hampshire Topco Limited'	our parent company as at 27 December 2014 and up until 21 January 2015 when HSS Hire Group plc became the new holding company of Hampshire Topco Limited and its subsidiaries through a share-for-share exchange. Havana Topco Limited was renamed Hampshire Topco Limited on 23 May 2014
'HSS Hire Group plc'	HSS Hire Group plc (company number 9378067) whose registered office is at 25 Willow Lane, Mitcham, Surrey, UK, CR4 4TS
'HSS'	used to refer to the group of companies within the HSS Hire Group
'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

Definitions and Glossary Continued

'LTIP'	long-term incentive plan. A reward system designed to reward employees' long-term performance by reference to defined performance conditions, which include Adjusted EPS and ROCE.
'live account'	a customer that has transacted with the Group in the prior 12 months
'LTM utilisation'	for our Core businesses utilisation is calculated as average units hired divided by average units owned in a reporting month, then averaged over the relevant 52-week period (referred to as the last 12 months or 'LTM'); for our specialist businesses utilisation represents the average utilisation rate of the specialist businesses included in the reporting period, calculated using the same method as for core utilisation at each business level. This calculation does not include data for All Seasons Hire as full LTM utilisation data is not yet available
'm'	a million or millions when used with a number and a currency unit e.g. £70m denotes £70 million pounds sterling
'MEWP'	Mobile Elevating Work Platform
'MTS'	Mobile Traffic Solutions
'National Distribution and Engineering Centre' or 'NDEC'	New 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
'Net debt'	the total indebtedness of the Group including senior secured notes (excluding debt issue costs), investor loan notes (2014 only), finance leases, drawings on the Revolving Credit Facility, any accrued interest on these items and any overdraft net of any cash in the Group
'Notes'	the £200m 6.75% senior secured notes due 2019 issued by HSS Financing plc in February 2014, which after a partial redemption in February 2015 were reduced to a balance of £136m
'NPS'	Net Promoter Score, a measure of willingness of customers to recommend a Company's products or services to others
'Official List'	the Official List of the FCA
'return on assets' or 'ROA'	calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets) subtracted by average current liabilities
'Return on Capital Employed' or 'ROCE'	calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets and cash) less average current liabilities (excluding current debt items)
'Revolving Credit Facility' or 'RCF'	the £80.0m super senior revolving credit facility made available pursuant to the Revolving Credit Facility Agreement
'Revolving Credit Facility Agreement'	the revolving credit facility agreement governing the £80.0m super senior revolving credit facility dated 30 January 2014
'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
'TecServ'	TecServ Cleaning Equipment Services Limited (formerly Premiere FCM Limited)
'RMI'	used to refer to services provided in the repair, maintain and improve markets, typically to the built environment
'SHEQ'	safety, health, environment and quality
'Trading Account'	a customer account which has been active in the last 12 months
'Training days per colleague'	calculated as the total training days completed by Group employees within the year, divided by the average number of colleagues in the Group
'UK'	the United Kingdom of Great Britain and Northern Ireland
'UK Platforms'	UK Platforms Limited and its subsidiary, Access Rentals (UK) Limited
'Unipart Group'	Unipart Group Limited

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Designed and produced by Friend. www.friendstudio.com
Feature photography George Brooks.

You're better equipped

Registered office
25 Willow Lane
Mitcham
Surrey
CR4 4TS