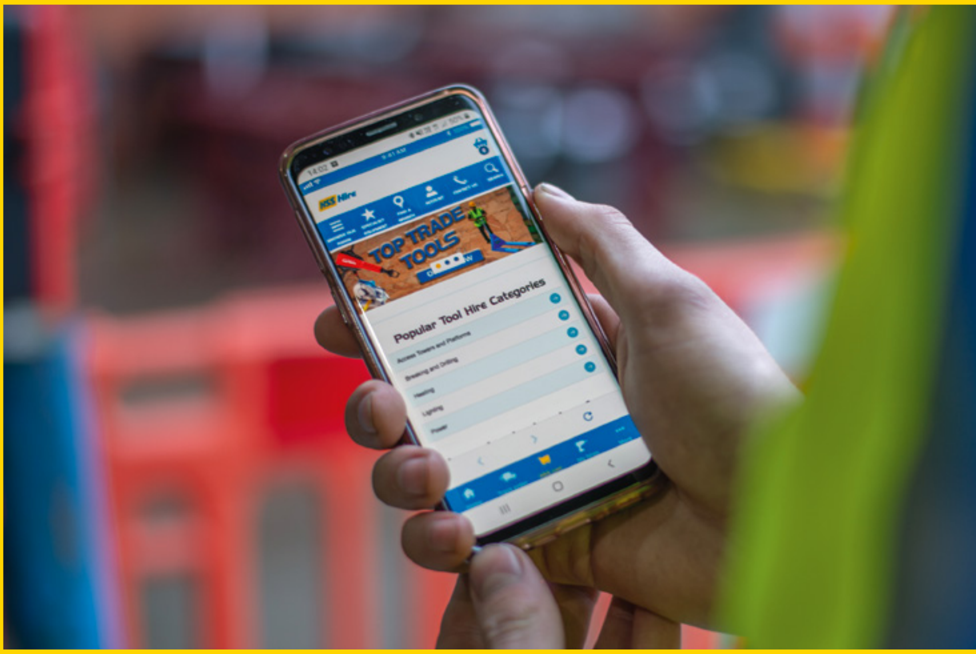
Accelerating our strategy

HSS Hire Group plc
Annual Report and Financial Statements 2020



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Accelerating our strategy

In 2020 the Group demonstrated its resilience in facing the challenges of the COVID-19 pandemic, while at the same time taking advantage of changing customer behaviours to accelerate its strategy.

We enter 2021 with a stronger balance sheet, lower fixed cost base and a newly transformed, digitally-led model.

Financial Highlights[1]

Revenue **£269.9m** FY19: £328.0m	**Operating Profit** **£1.5m** FY19: £16.8m
Adjusted EBITDA pre-IFRS16 **£47.0m** FY19: £63.9m	**Adjusted EBITDA** **£69.4m** FY19: £63.9m
Adjusted EBITA pre-IFRS16 **£16.7m** FY19: £26.5m	**Adjusted EBITA** **£19.8m** FY19: £26.5m
Leverage pre-IFRS16 – total[2] **2.6x** FY19: 2.8x	**Return on capital employed (ROCE)[3] pre-IFRS16** **15.2%** FY19: 20.8%
Reported EPS (basic and diluted) Loss of **(12.02)p** FY19: (3.66)p	**Adjusted EPS (diluted) pre-IFRS16 Loss of** **(1.67)p** FY19: 2.31p

1 Certain metrics are presented pre-IFRS16. See pages 27 and 39 for more detail.
2 Total is continuing and discontinued operations; all other measures are for continuing operations.
3 The ROCE calculation is defined on page 29.

The Group uses alternative performance measures:
Read more in the Financial Review, pages 36-39

Operational highlights

Operational performance was in line with our expectations for much of Q1 2020. Following the Government lockdown on 23 March in response to the COVID-19 pandemic, the Group took decisive actions to protect colleagues and other stakeholders, while offering continuity of supply to our customers, many of whom operate in critical areas of public infrastructure. The detail of our response is shown on pages 4 to 5.

The Group initially saw a significant reduction in revenues, but actions taken to reduce costs and maximise liquidity ensured that we continued to deliver positive Adjusted EBITDA each month and also meet all our financing covenant tests. Revenue recovered strongly in H2 returning to 94% of the prior year level in Q4.

Throughout this challenging year our colleagues have continued to demonstrate our values and drive our performance. Our engagement survey in Q4 received our highest ever response rates and strongest engagement levels despite the challenges we have all faced. We are also pleased to report a continuation of strong customer satisfaction levels, which are significantly higher than the industry benchmark, and a reduction in our RIDDOR accident frequency rate which is at an all-time low. Further details are provided in the ESG section on pages 40 to 43.

Strategic highlights

Net debt (pre-IFRS16) has reduced from £180m to £120m over the year, as a result of excellent working capital management, further cost reduction and a successful capital raise completed in December. Net leverage (pre-IFRS16) reduced from 2.8x (28 December 2019) to 2.6x (26 December 2020), an exceptional performance given the scale of the impact of COVID-19.

We continue to Transform our Tool Hire business and Strengthen the Group's commercial proposition. Investment in technology has continued in 2020, with our Brenda platform enabling a smooth transition to remote working in March and the roll-out of our Click-and-Collect offering in May. Our sector-leading technology has also enabled a significant change to our operating model in October involving the closure of 134 branches and a reduction in colleagues of c300. This has delivered annualised cost reductions of c£15m which will be recognised in full in 2021.

The further improvements to our technology platform and changes to our operating model put us in a strong position to achieve our vision of being the market-leading digitally-led brand for equipment services.

Market-leading app
+ **Read more**
at www.hss.com/uk

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Strategic Report

Our Business at a Glance

Equipping our customers

What makes us different?

Our differentiators

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

Our purpose

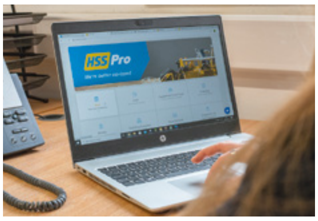
We exist to equip our customers with the tools, equipment, training and related services that enable the construction, maintenance and operation of the UK and Ireland's commercial, industrial and residential infrastructure.

We are a crucial element of project completion. Our products and services play a part in the creation and maintenance of housing projects, schools, hospitals, offices, industry, roads, utilities and other infrastructure. Without our products and services, construction firms, maintenance contractors, FM providers, engineers, tradesmen, retailers, factories, DIYers and many more would not be able to complete their projects.

Our values

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

Our sectors

	Overview	Market drivers	Highlights of the year
Rental 	We buy, maintain, inspect, deliver and collect equipment for our customers, so that they can focus on completing their projects. We operate from 125 locations and employ around 2,000 highly engaged colleagues.	The £1.9bn addressable market for our equipment is driven by general economic output, with less exposure to the more cyclical new-build activity and more focus towards maintenance, refurbishment and operation of existing infrastructure.	A key element of our strategy is to Transform our Tool Hire business, and the digitisation of our business is a key element of this. In 2020 we have made further progress with the move to digital channels, the creation of remote sales teams (working from home, not a branch) and the removal of c£15m of costs associated with our physical branch network (see more detail on page 24).
Services 	Our capital-light Services business comprises two key elements. Our OneCall rehire business provides customers with a one-stop shop for equipment beyond our owned range. Our Training business provides customers with the training required to use equipment, stay safe and ensure compliance.	The Services business allows us to address the entire £4bn market for equipment hire services in the UK, and is again driven by general economic output. Both elements of the Services business, OneCall and Training, are driven strongly by legislation and safety requirements.	We continue to invest in our new technology, including the roll-out of our new order-taking platform, HSS Pro POS (see more on page 22), to sales colleagues, allowing them to directly place orders for our full range of services using their mobile devices. Our rehire business was particularly resilient during the pandemic and our Training business demonstrated its agility by offering contact-free online learning.

Segmental revenue breakdown for FY20

£89.1m
Services

£180.8m
Rental

Our network

Who we serve

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

Where we operate

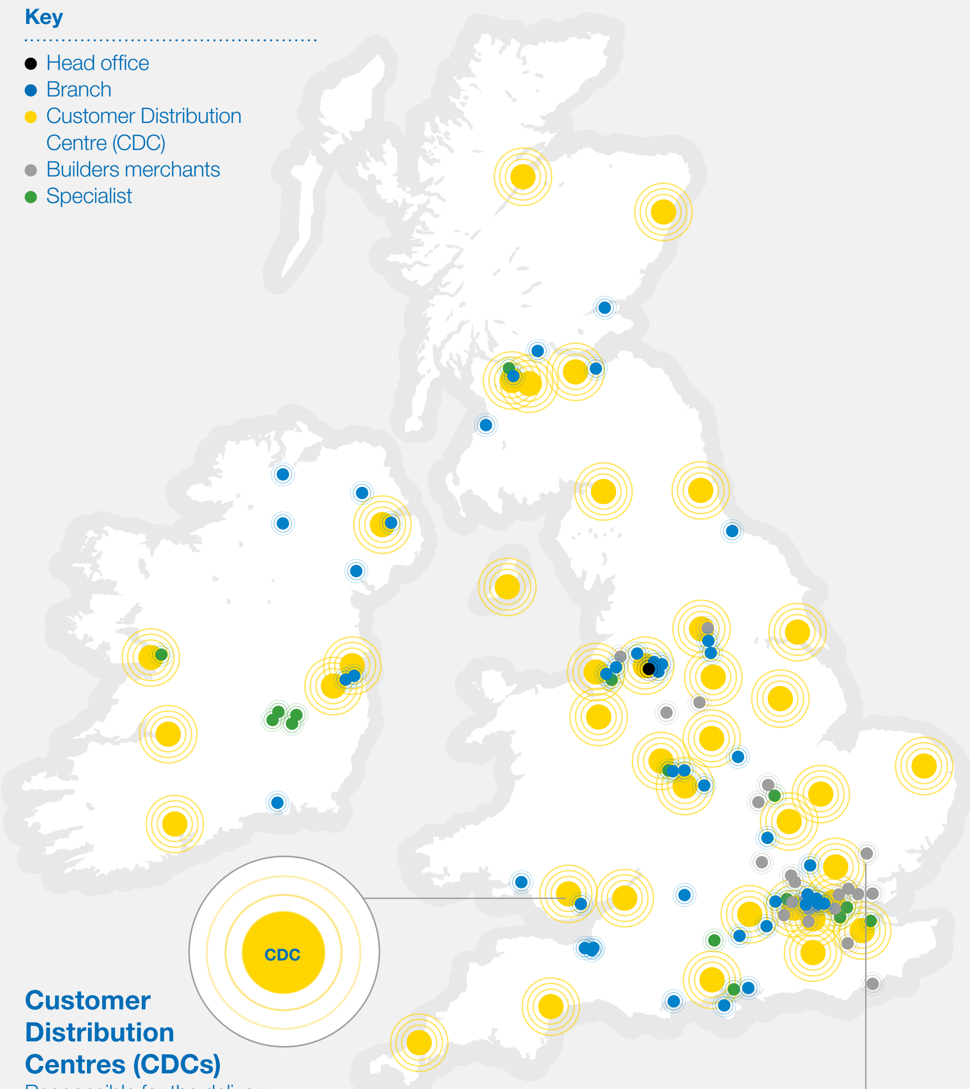
Our national network has over 125 locations supported by a hub-and-spoke distribution model. This is complemented by our industry-leading fully-transactional website, ensuring easy access and high availability, both key customer requirements.

125
Locations

39
Training centres

40
Customer Distribution Centres

2,000
Highly engaged colleagues



Customer Distribution Centres (CDCs)

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

Builders merchants

Our partnerships with regional builders merchants are a key part of our new operating model. Read more on page 24.

Enabled by technology for...

Customers

HSS.com
Fully transactional website
→ Live availability
→ Fully transactional
→ LiveChat, LiveVideo

Customer App
HSS.com on your mobile device
→ Live availability
→ Hire/Off Hire instantly
→ Live Order Tracking

Driving accessibility

PRISM
Proactive fleet distribution
→ Well established
→ Algorithms that drive availability
→ Demand forecasting

Vodafone
StormCall optimisation for remote teams
→ Call answer rates
→ Customer response times
→ Analytics to drive performance

Colleagues

HSS Pro POS
Sales platform for colleagues
→ Easy to use
→ One stop shop
→ Step-changed quote cycle

Driver App
Tech for drivers
→ Dynamic routing
→ Customer messaging
→ Paperless handovers

Suppliers

Brenda
Sales platform for OneCall rehire suppliers
→ Access to HSS customers
→ Enhanced visibility
→ Improved contract accuracy

Pricing and analytics
Management information for suppliers
→ Conversion statistics
→ Ability to promote through pricing
→ Utilisation management

Strategic Report

Adapting to COVID-19

Decisive action in challenging circumstances

The COVID-19 outbreak is one of the biggest challenges HSS has faced in its long history.

The combination of calm and clear stewardship from the Board, decisive actions taken by management and the extraordinary efforts of colleagues, who ensured continuity of supply for customers, has led the Group to deliver a resilient financial performance and an exceptional safety record.

Strong governance

We immediately initiated an enhanced governance framework to steer the business through the challenges and opportunities that COVID-19 presented.

Our COVID-19 governance framework

Governance and oversight	**1 PLC Board**	→ Increased frequency of meetings → Enhanced monitoring	**5 All stakeholders**
Strategic management	**2 Executive Team**	→ New daily team calls setting policy and controls → Enhanced daily reporting → Daily CEO blogs	
Tactical decision making and control	**3 Trading Board**	→ Tactical decision making → Pursuit of opportunities	
	4 Cash Team	→ Strengthened team → Enhanced dispute management process	

1. The Board oversees the Executive Team's response to COVID-19, ensuring strong governance and providing direction. The frequency of Board meetings was increased during the pandemic to ensure regular updates and ongoing consideration of shareholder impacts.
2. The Executive Team leads the Company's response to COVID-19, carefully considering its medium-term impact on the business and ensuring that all stakeholders are safeguarded and engaged. The Executive Team, which met daily during the early part of the pandemic, oversees the Trading Board and ensures that actions taken are consistent with our strategic objectives.
3. The Trading Board is responsible for ensuring continuity of service for customers, whilst protecting colleagues' health and wellbeing and customers' safety. The Trading Board also makes tactical decisions to maximise trading opportunities.
4. The Cash Team was strengthened at the start of COVID-19 and positioned to work much more closely with sales colleagues and customers to ensure the best possible cash collection.
5. Engagement with all stakeholders has been enhanced during the pandemic, including regular CEO blogs to colleagues, increased communication with shareholders, regular dialogue with lenders and proactive consultation with Government bodies.

Safety and wellbeing measures implemented across the Group

Our initial priority was the safety and wellbeing of our colleagues and customers.

We started early, identifying vulnerable colleagues and encouraging shielding measures at the start of March.

Social distancing measures began in branches with the implementation of barriers and new signage. Our IT team carried out a 'desktop to laptop' replacement programme in February to support flexible working and, in parallel, upgraded our remote working technology. Office-based teams began to trial home working in early March on a 50:50 basis, in anticipation of a move to 100% home working.

On 23 March we closed the majority of our branch network to safeguard colleagues and customers. All colleagues who were able to do so moved to home working, a transition that took place seamlessly following the trials earlier in March. As a key provider of essential equipment to critical customers, we kept operating our Customer Distribution Centres, putting in place enhanced social distancing measures, installing directional signage, increasing cleaning and providing personal protective equipment. We also switched immediately to contactless deliveries, a change that was enabled by the earlier introduction of the Driver App technology.

During May we rolled out our Click-and-Collect service for customers and were increasing the use of 'push-on' technologies, directing customers to use our website and Customer App instead of calling or visiting our locations in person. Our distribution centres also implemented temperature testing sensors later in the year.

Colleague wellbeing was a major priority. We introduced 'working from home' welfare calls and a range of support resources for colleagues, including health & wellbeing webinars, tips & hints communications, Mental Health week bulletins and e-learning modules. We also created the HSS COVID-19 Handbook which was made available to all colleagues.

We increased communications to colleagues to reinforce Government advice, including a daily CEO blog from March to October. Our colleague magazine, HIYA, moved to a digital format enabling increased frequency and relevance. Specific COVID-19 resources were made available on our colleague intranet, HSS World. Managers were given additional resources to help them remotely support colleagues, either furloughed or working from home. And finally, a new e-learning module was introduced to induct colleagues returning from furlough.

Continuity of service for customers

As a business with an important role supporting the construction industry we were deemed a key supplier. It was important that we offered continuity of service for customers in many important sectors including retail, local Government, defence, schools, hospitals, housing and others.

Whilst we closed our branch network on 23 March in response to the Government lockdown, and stopped serving cash customers, we kept our Customer Distribution Centres (CDCs) open for deliveries of equipment to site for critical customers. Our CDCs provide national fulfilment for customers and therefore ensure coverage can be provided, even with branches closed.

During May we launched our Click-and-Collect service, offering customers an alternative low-contact fulfilment channel.

Our OneCall business, which transitioned seamlessly to remote working thanks to our Brenda platform (see page 3 for more on this), was able to offer a consistent level of service throughout. The nature of the OneCall model, with its extensive supply chain, was particularly powerful during a period when customers needed assurance of supply.

As Government restrictions were lifted and demand returned we were able to expand capacity accordingly, bringing sales colleagues back from furlough and equipping them with the technology to take orders whilst working from home. Operations colleagues also returned to the business alongside enhanced operating procedures and safety systems.

Strengthened liquidity position

A key focus for the Board and management team during the pandemic was maximising liquidity. Immediate action was taken to manage capital expenditure, reduce costs, enhance cash collection and utilise Government support.

At the end of March the management team took decisive actions to preserve colleague roles which, combined with other discretionary cost savings, allowed the Group to deliver positive EBITDA every month. In April 60% of colleagues were furloughed and the Board and senior managers agreed to a tiered set of salary reductions for three months which ranged from 98% to 15% for the period.

We managed our capital expenditure to meet demand. Where we did invest we utilised our insight tools to maximise return.

By October, revenue had returned to 90% of prior year levels, despite the majority of our branch network still being closed. At that point we took the decision to permanently close 134 locations and reduce colleague numbers by c300, to increase focus on digital channels. This provided annual net cost savings of c£15m, and enabled us to deliver a year on year improvement in Q4 EBITDA.

We worked closely with landlords, initially agreeing rent holidays and more flexible payment terms. This was followed later in the year with negotiations to surrender leases related to closed branches.

The Group took advantage of tax relief in several areas. First we deferred our April PAYE payment which we then settled in June. Second, we agreed a deferral of our Q2 VAT payment until April 2021. Following the successful capital raise and strong end of year trading we repaid this. Finally, we secured a series of business rates tax reliefs for our branches.

Our lenders were also supportive, waiving the excess cash flow payment due in May 2020 and providing flexibility on interest and capital repayments, all of which were settled in full by June 2020.

The Group also made a business interruption claim to its insurers during the year, leading to an initial interim payment of £1.25m in November, and a further £1.25m in February 2021.

Stakeholders: actions taken to support and engage

Colleagues
- Additional safety measures and social distancing throughout
- Working from home for all colleagues where practical
- Enabled sales colleagues with new technology
- Enhanced communications
- Additional support, particularly with mental health and wellbeing

Customers
- Continuity of supply (CDCs, OneCall, Click-and-Collect)
- Safety measures (e.g. social distancing in all locations and removal of requirement to sign on-screen)
- Sourcing PPE, cleaning and safety equipment

Suppliers
- Enhanced communications
- Consistent payment record
- Brenda provides better visibility, conversion and volumes

Shareholders
- Regular market updates
- Follow-up meetings with major shareholders
- Acceleration of strategy
- Strong engagement evidenced by successful capital raise

Lenders
- Regular dialogue on financial performance, covenants and liquidity position
- Frequent meetings and updates
- Explored liquidity options

Government & regulators
- Proactive engagement
- New COVID-19 policies and audits
- Secured ISO 45001

Communities
- Recognised our role as a key service provider of essential equipment to critical customers
- Active dialogue with multiple branches of public services to support them

Strategic Report

Our Business Model

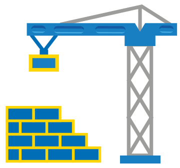
Equipping our customers

Customers

Customers focus on project management, people resources and construction materials

- Build
- Maintain
- Operate

...UK and Ireland Infrastructure



Build

Schools, Hospitals, Housing, Offices, Factories, Roads

HSS

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

- Sources
- Tests
- Distributes
- Repairs & maintains

...the equipment our customers use

Source equipment

Purchase & own, Rehire

Test

OneCall

Complete order management

How we generate revenue

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

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

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

Key enablers and barriers to entry

Customer relationships	National reach	Safety & quality	Colleagues
>90% B2B	125 Locations	ISO 45001 accreditation	2,000 Knowledgeable colleagues
>27,000 Live accounts	40 Customer Distribution Centres	System-driven equipment maintenance regime	75% Employee engagement score[3]

1 Rental and related revenues.
2 Services revenue.
3 Colleague engagement score 75% (Q4 2020), compared with UK national average score 61%. Source: Anthem Engagement.
4 NPS 44 (Q4 2020), versus the threshold for the top third in services, manufacturing and utilities of 21. Source: Kantar TNS.

Our business model is built on our customers' requirement to outsource the provision and management of tools and equipment whilst minimising their carbon footprint. Tools and equipment are essential to our customers' activities, but the management of equipment is not their core capability. They often don't want the capital cost of equipment and the risk of poorly utilised assets, nor the responsibility for testing, maintaining, distributing and managing equipment. We do all that for them, to ensure that they meet legislation, ensure sustainability, keep their colleagues safe and so deliver their projects in full and on time.

Tool Hire is sustainable

Read more about our sustainability approach in the ESG section on page 40

Maintain

Service, Repair, Renovate, Upgrade, Extend

Operate

Power, Heat, Cool, Light

Distribute & collect

Maintain, repair & hire again

Train their people

HSS Training

Transport charges[1]

Customers ask us to deliver and collect kit directly to and from their sites, for which we charge a transport fee.

Equipment cover and damage[1]

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

Training[2]

We charge customers delegate rates for our comprehensive range of training courses.

Range of equipment

>1,000
SKUs

>500
OneCall suppliers

Operational excellence

44
NPS[4]

>50%
Utilisation

Easy to work with

Full transactional website
Leading digital offer
One-stop shop

Training resource

39
Training centres

>50
Directly employed & certified trainers

Strategic Report

Chairman's Statement

2020 has demonstrated the resilience of our Group and the value of our digital transformation to customers and suppliers. We responded exceptionally well to COVID-19 whilst continuing the excellent execution of our strategic plan. The acceleration of our strategy has put the foundations in place for our transformation into a digitally-led, agile leader in the equipment services market.

Accelerating our strategy

Alan Peterson OBE
Chairman

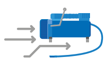
Dear shareholder,

We have made considerable progress in delivering our strategy during 2020 despite the challenging market conditions. The Group has delivered a resilient performance, both operationally and financially, taking fast, decisive action in response to COVID-19 thereby ensuring the safety of our colleagues, customers, suppliers and other stakeholders as well as protecting the Group's liquidity. A summary of these actions can be found on page 4 of this report.

The onset of the pandemic in March 2020 and the subsequent national lockdown significantly impacted performance as our business, customers and suppliers adapted to working in the new environment. By leveraging our rapidly evolving technology platform we were able to adapt our operating model, including the introduction of low-contact Click-and-Collect capability, and maintain customer service through our national Customer Distribution Centres and OneCall rehire business. Revenues recovered to 94% of FY19 levels by Q4 FY20. Combined with cost action, this has meant that Adjusted EBITDA has remained positive throughout 2020, improving throughout the year from the low point of April 2020.

Our strategic priorities

Delever the Group



Transform the Tool Hire business

Strengthen the Group's commercial proposition

Read more in our Strategy at a Glance section on page 18

During 2020 preserving liquidity has been a key focus. Multiple actions were taken across the business including deferring capital expenditure, working with landlords to agree rent holidays and taking advantage of Government job retention schemes. I am pleased that these actions have strengthened the Group's liquidity position.

We have also continued to execute against the strategic priorities we launched in December 2017 (refer to Strategy at a Glance on page 18 for a recap of these). During 2020 we invested further in our technology platform and restructured our network allowing us to continue providing national coverage with a significantly lower and more flexible cost base. I am pleased with the progress made implementing our strategy and believe that these changes will further optimise our network efficiency, improve customer service and ultimately enhance shareholder value.

The Board was delighted by the strong support of our shareholders for the Group's strategy during the capital raise which completed in December 2020. £52.6m of gross proceeds were raised enabling a reduction in net debt (a key element of our Delever the Group strategic priority) and further investment in our technology platforms and hire fleet to support the Tool Hire business.

Sector opportunity

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

Delivering our strategy

I am pleased to report that, despite the backdrop of COVID-19, material progress has been made against all our strategic priorities with significant changes implemented to create the foundations to transform our colleague, customer and supplier experiences.

Our digital transformation continued with the upgrade of HSS.com and the launch of HSS Pro POS, a single online platform that enables every colleague to offer the full range of the Group's services to customers. This platform represents the evolution of our existing OneCall integrated system. We will continue to invest in our technology in 2021 as we deliver what I believe to be a very exciting roadmap.

"We will continue to invest in our technology in 2021 as we deliver what I believe to be a very exciting roadmap

Since the start of the first national lockdown, the Group has successfully trialled alternative sales models, including sales colleagues working remotely and partnership concessions with regional builders merchant chains.

The success of these trials, combined with the acceleration of customer behaviour towards the use of our digital platforms in sales and fulfilment channels, has demonstrated that there is a lower cost, more agile business model for rental. This was evidenced by the Group returning to revenue of over 90% of FY19 levels at the end of September with just 20% of the branch network open.

Consequently, the Group permanently closed 134 of its 234 locations, saving c£15m per annum. Working with our property restructuring partners, we have now successfully surrendered or agreed to surrender 95% of these sites.

We now have market-leading technology platforms supported by a national agile distribution network and extensive rehire business, enabling us to transform to a digitally-led, agile equipment services provider which we believe will deliver superior returns.

Our results

FY20 performance has been heavily impacted by COVID-19. After a solid first quarter, the first national lockdown resulted in a weaker second quarter; however the business remained resilient and proactive measures enabled us to return to 94% of prior year revenue through Q4 FY20.

Total revenue for the year declined 17.7% with our Rental segment down 21.0% and Services showing more resilience down 3.3% like-for-like (after excluding the loss of Services revenue associated with a change to one managed services contract), having benefited from complementary revenue streams such as PPE sales. Through effective cost management segment margins were maintained.

Adjusted EBITDA (pre-IFRS 16) for the year at £47.0m, whilst a 26.4% decline year on year, benefited from the decisive management actions taken by the Group in response to the pandemic which have enabled margins to be maintained at 17.4% (2019: 19.5%). Adjusted EBITA (pre-IFRS 16) was £16.7m with margin at 6.2%.

Working capital management has been exceptional during FY20 with overdue debt reducing by £3.0m since last year. This, combined with the liquidity preservation actions in response to COVID-19 and gross proceeds from the recent capital raise (£52.6m) mean net debt (pre-IFRS16) has reduced to £120.4m (2019: £179.5m) and liquidity headroom (cash and undrawn revolving credit/overdraft facility) has increased to £103.6m as at 26 December 2020 from £45.9m in FY19. Group net debt leverage (pre-IFRS16 basis) was 2.6x, down from last year (2019: 2.8x), and the lowest level since the Group listed in 2015, an achievement all the more significant given the backdrop of COVID-19.

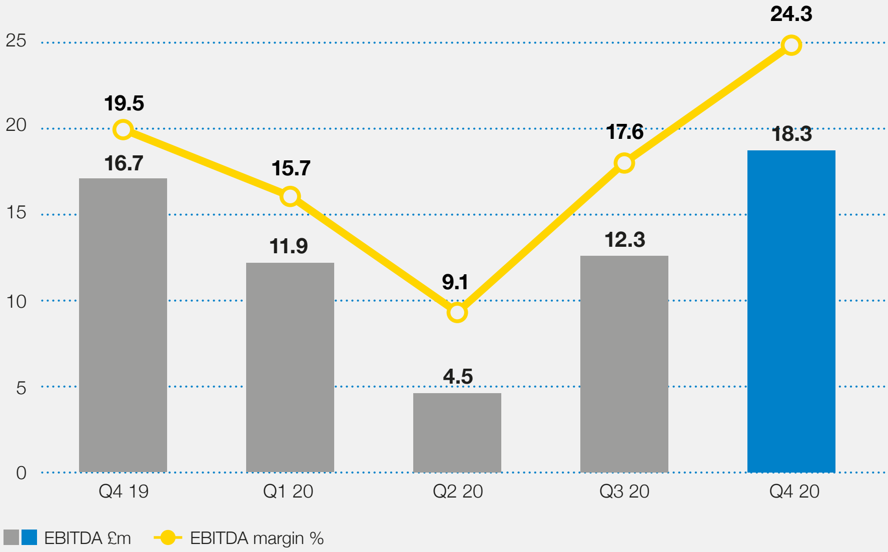
Capital expenditure was reduced in the financial year, and tightly managed to match the lower sales volume. We continue to use our insight tools, ensuring that investment is targeted on products with high demand and margins. Consequently ROCE (pre-IFRS16) remained healthy at 15.2% (2019: 20.8%).

Our results, including the impact of IFRS 16, are discussed in more detail in the Financial Review on pages 36 to 39.

Strategic Report

Chairman's Statement continued

Adjusted EBITDA pre-IFRS16



Our Board and management team

The Board aspires to lead by example and practice the HSS values: Make it: Safe, Happen, Better and Together.

I want to thank all Directors for their individual contributions, determination and increased governance which helped the Group calmly navigate through another year of change for our business against the backdrop of a global pandemic.

Governance

I reported last year that we were taking steps to implement the changes to corporate governance reflected in the 2018 Code and reinforce the work we were already doing. Since then, the Company has moved markets and, with its shares admitted to trading on AIM in January 2021, the Board has decided to adopt the QCA Corporate Governance Code, in line with many other AIM companies. We are reporting this year under the 2018 Code and from FY21 onwards will report under the QCA Corporate Governance Code. More detail on this, including our efforts to date around stakeholder engagement, can be found in the Corporate Governance section and throughout the Strategic Report.

Our people

The strength of our culture shone through this year and I am proud to be able to represent HSS. The way the Group responded in such a resilient manner to the challenges of the COVID-19 pandemic as well as accelerating many aspects of our strategy is a testament to the dedication, skills, can-do attitude and adaptability of our colleagues. This strong resonance with our culture, purpose and values has been evidenced by further improvement in our colleague engagement score in the 2020 survey. On behalf of the Board, I would like to take this opportunity to thank everyone for all of their extraordinary efforts during 2020.

Sustainability

Our primary responsibility is always to ensure the safety of HSS colleagues, customers, suppliers and other stakeholders, and never more so than in the current climate. To this end the Board remains fully committed to providing a safe and secure environment for all, monitoring and supporting senior management's plans including the implementation of COVID-19 safe practices. The processes and procedures in place have been appropriately recognised with the Group becoming ISO 45001 (Occupational Health and Safety) accredited during 2020.

Pleasingly, the progress has been translated well into results with another material reduction in the number of RIDDORs (incidents reported under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013) with only 2 reported in FY20 (FY19: 11). This remains an ongoing focus.

The Board is also active in ensuring that the business operates with transparency and integrity, delivering a sound economic performance, whilst paying close attention to reducing our impact on the environment, and that we are contributing in a positive way to the local communities in which we operate.

Dividend

The Board is committed to delivering our strategic priorities, and after careful consideration of the performance of the Group during the year, believes it is in the best interests of the shareholders of the Group to not pay a final dividend in respect of 2020. The Board will re-evaluate this position once the net debt leverage ratio falls below 2.5x.

Looking ahead

Our business has demonstrated significant resilience in 2020, maintaining high customer service levels despite challenging conditions.

Our strategic investment in technology is meeting changing customer needs and providing a high level of differentiation in a competitive marketplace. Combined with our more agile, lower cost national operating model and strengthened balance sheet, we believe the Group is well positioned to take advantage of recovering trading conditions as they occur and deliver enhanced returns for our shareholders.

I am delighted with the Group's performance at the start of 2021. Despite being in a national lockdown, revenue has continued to recover towards FY19 levels. Adjusted EBITDA (pre-IFRS16 basis) for Q1 FY21 is ahead of the comparable periods for FY19 and FY20.

We are well placed to benefit as restrictions are relaxed in the coming months.

Disposal of Laois Hire

To continue our strategic focus on the tool hire business we announced after the balance sheet date the sale of Laois, our Irish large plant hire business, to Briggs Equipment Ireland limited. The Laois business has made an excellent contribution to the Group over recent years and I wish our former colleagues every success for the future. As part of the disposal we have entered into a commercial agreement with Briggs to ensure we continue to provide our Irish customers with their large plant requirements.

Alan Peterson OBE
Chairman

Investment Case

A resilient proposition

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

Attractive market dynamics

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

Incentivised and engaged team

- Colleague engagement scores significantly above the UK benchmark.
- New technology is making colleagues' jobs easier and unleashing their potential.
- An incentivised management team that delivered record EBITDA two years running before the onset of COVID-19.

Fast-growing capital-light businesses

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

Long-term structural growth drivers

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

Well-recognised brand

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

Scalable business model

- Capital-light services businesses that can be scaled quickly without capital expenditure.
- New technology platform that provides access to additional product verticals beyond the £4bn equipment hire market (e.g. building supplies, recruitment).
- Low fixed cost base, following the shift from physical branches towards remote technology-enabled sales teams and alternative Click-and-Collect fulfilment channel.

Industry-leading technology platform

- Industry-leading fully integrated website and Customer App.
- Brenda technology ensuring a seamless rehire experience for customers, colleagues and suppliers alike.
- HSS Pro POS technology for all sales colleagues allowing them to quickly place orders for our full range of products and services remotely. Read more about Pro POS on page 22.

Strategic Report

Chief Executive Officer's Strategic Review

I am pleased to report a resilient performance and good strategic progress despite the challenging market conditions in 2020. We took decisive action throughout the year, immediately reacting to lockdown to protect colleagues and customers, whilst offering continuity of supply, before accelerating our strategy, transforming our operating model and removing significant fixed costs. We have continued to invest in our technology platforms to drive digital adoption, and this, together with our new agile operating model, sets us up very well to differentiate ourselves in the market.

Resilient business, accelerating strategy

Steve Ashmore
Chief Executive Officer

2020 was a year of both challenge and opportunity. I am pleased to report that the business responded quickly and decisively to the challenges presented by COVID-19 in the first half of the year (see detail on page 4), and then took advantage of the opportunities presented as the market recovered in the second half, accelerating the delivery of our strategy.

The excellent progress made can be attributed to four key factors:

1. **People.** Our colleagues really excelled this year, exemplifying our cultural values: Make it: Safe, Happen, Better and Together. I am very proud of the way they adapted to new working practices, stayed safe and continued to deliver exceptional customer service in challenging conditions.
2. **Technology.** Our technology platform put us in a great position, allowing customers to switch to digital channels in April and enabling our launch of Click-and-Collect in May. Technology also supported home working for all office-based colleagues in March.
3. **Resilient Business Model.** Our national network of Customer Distribution Centres allowed us to continue to offer high levels of customer service on critical projects during the initial lockdown. Our substantial Services division, in particular OneCall, provided a valuable source of equipment to customers who were facing supply chain challenges.
4. **Strong Governance.** It is testament to the governance we have in place that the Board, Executive Team and senior leadership teams have been able to calmly navigate the Group through the year, particularly during the rapidly changing environment we found ourselves in during Q2.

Our business exists to equip our customers with the tools, training and information required so they can safely and efficiently build, maintain and operate the UK and Ireland's infrastructure and services. Our customers are responsible for schools, hospitals, housing, offices, factories, roads, retail, hospitality and many other important elements of our infrastructure. It is therefore critical that we offer consistently good service, never more so than during the pandemic.

Benefits of technology

The role technology plays in our strategy

This year we have invested in:

- → Launching our new sales platform HSS Pro POS allowing colleagues to sell our full range of services
- → New voice technology allowing sales colleagues to work remotely
- → Improvements to our OneCall tech platform Brenda
- → Enhancements to our industry-leading fully transactional website

31%
Orders placed by colleagues online in March 2021 using HSS Pro POS platform

22%
Online orders placed directly by customers using HSS.com in Q4 2020

Our Services business, which has a vast supply chain, is a convenient source of equipment for customers wanting a one-stop shop for all their equipment needs. This year we sourced significant amounts of personal protective equipment, welfare units and cleaning equipment as our customers adapted to new working practices on site.

Overview of the year

During the first quarter of 2020 we traded in line with our expectations and made progress on several strategic initiatives. We continued to invest in our technology platforms and to drive customers to our digital channels. In our pursuit of leaner operating models, we set up several builders merchant concessions and removed some excess distribution capacity.

By February we were putting in place additional plans in response to the increasing threat of COVID-19. We equipped office-based colleagues with the technology to work from home, trialling this in early March. In our branches we introduced social distancing measures including new signage, barriers and screens. We also identified high-risk colleagues and encouraged shielding, and from a very early stage we increased colleague communications.

Trading was largely unaffected until the Government announcement of a national lockdown on 23 March. At this point we immediately closed all of our branches. We kept open our network of Customer Distribution Centres, so that we could continue servicing critical projects, but we stopped serving cash customers for safety reasons.

Highlights

- Excellent progress against our strategic priorities
- Strong financial performance, despite the backdrop of a challenging market
- Significant enhancement of our digital offering from investment in technology
- Investment in people, development of values and improvement in engagement levels
- Continual focus on customer service, reflected by industry-leading Net Promoter Score
- Ongoing transformation towards being the market-leading digital-led brand for equipment services
- Strong investment case and positive outlook

Read more in our case studies on pages 20 to 25

We relaxed this in May alongside the launch of our low-contact Click-and-Collect service.

Whilst some activity continued in April, many construction sites were initially closed and demand fell significantly. Revenues initially fell to 50% of prior year levels, with varying performance across divisions and geographies. Our rehire business was particularly resilient, as was our heating, ventilation and cooling business All Seasons Hire.

In response to the fall in revenue we focused on maximising liquidity. We preserved colleagues' roles using the Government's Job Retention Scheme, furloughing 60% of colleagues at peak and agreed a tapered series of salary reductions from Board level through to managers. Tax support was also utilised, deferring PAYE and VAT payments (all of which were settled before the financial year end), and obtaining business rates relief for our branch network. We worked with landlords, negotiating rent holidays and our lenders supported us with repayment deferrals. Discretionary spend was significantly reduced, as was capital expenditure to reflect weaker demand. In addition, our debt collection team was strengthened to ensure strong working capital management.

These actions allowed us to increase liquidity to over £68m by June and maintain a significant amount of headroom against our debt covenants during this critical period. Further details of all the actions we took in response to COVID-19 and their impact on our profitability and liquidity are described on page 4.

The role of technology

Our technology platform, which has seen significant investment over the last two years, served us really well during the pandemic. The home working we introduced in March was enabled in part by the Brenda technology introduced to the OneCall business in 2019. The Customer App launched in April 2019, and the enhancements made over the last two years to our website, helped address a surge in demand for online ordering, which in May exceeded 40% of all orders. Our technology also made possible the launch of Click-and-Collect, as well as contact-free deliveries and collections.

80%
Reduction in reportable accidents in 2020 (RIDDOR rate down from 0.20 to 0.04)

Strategic Report

Chief Executive Officer's Strategic Review continued

NPS 44

NPS 44, significantly above the threshold for the top third in the services, manufacturing and utilities benchmark (21)

> "Our colleagues made an incredible contribution to our success this year

“We finished the year well placed to achieve our vision of being the digitally-led leader in our industry

Colleagues living our values

I said it at the outset, but it is worth repeating; our colleagues made an incredible contribution to our success this year in the face of unprecedented challenges. I cannot thank them enough for the dedication and determination they demonstrated.

MAKE IT SAFE

They MADE IT SAFE, adapting to new working practices and using the additional protective equipment provided.

MAKE IT HAPPEN

They MADE IT HAPPEN, offering continuity of service for our customers working on critical projects during lockdown.

MAKE IT BETTER

They MADE IT BETTER, launching our Click-and-Collect service in May and continuing to enhance customers' online experience.

MAKE IT TOGETHER

And they MADE IT TOGETHER, supporting each other during difficult times and maximising cross-selling opportunities.

I am very proud of our colleagues and our culture, and was delighted to see the improvements in engagement scores in our recent colleague survey, which has been achieved despite a period of significant challenge and change. Colleague participation was at its highest since we began these surveys in 2016, with 84% of colleagues completing the survey. Our engagement score was also at its highest, at 75%, from 72% in 2019, and significantly above the industry average in the UK of 61%. I am also delighted to report a record reduction in RIDDORS and our highest ever levels of safety observations (more on these in the ESG section).

Accelerating our strategy

In my Strategic Review in last year's Annual Report I highlighted our desire to drive e-channel adoption, to continue digitising our business and to optimise our go-to-market proposition, becoming more agile. COVID-19 accelerated a change in customer behaviour and allowed us to prove an alternative operating model with significantly fewer branches.

During April and May customers shifted to our digital channels, utilising our website and Customer App technology. They also shifted towards delivery rather than collection. These shifts in behaviour accelerated a long-term trend away from branch-based customer interactions.

As demand returned in May and June, we resisted the temptation to open up our branch network and instead began trialling remote sales teams. Sales colleagues returned from furlough, but worked from home, responding to customer enquiries and raising orders. This worked extremely well and by September we saw revenue return to 90% of prior year levels with the majority of our branches still closed.

During the summer we also accelerated the roll-out of HSS hire desk concessions inside regional builders merchants, something we had pioneered late in 2019. They provide additional Click-and-Collect venues at materially lower cost. These locations typically give us access to significantly higher footfall than we experience in traditional hire branches, and access to new customers. We are very pleased to finish the year with 24 builders merchants concessions, which together are typically raising 10% of daily Group contracts, and we are excited to be planning a further 26 in 2021.

The shift in customer behaviours, the successful trials of remote sales teams and builders merchant concessions, and the resultant return to 90% of pre-COVID revenues led us to announce the permanent closure of 134 branches in October 2020. Unfortunately, this was also accompanied by the loss of c300 colleagues who were made redundant as part of this restructure.

Together these changes have delivered a net fixed cost saving of c£15m per annum, and I am pleased to report that in the final quarter of the year we traded at 94% of 2019 levels with this new operating model. This is an incredible achievement and testament to the hard work of our colleagues.

Our technology development continued in the final quarter of the year, with the roll-out of HSS Pro POS, a web-based front end for our salesforce enabling them to place orders across our full range of products and services, quickly and easily on their mobile devices and laptops. This has been developed on the technology platform created to deliver the OneCall system, Brenda, in 2019.

With our restructure complete, revenues significantly recovered, a leaner, more agile operating model in place and advancing technology, we finished the year well placed to achieve our vision of being the digitally-led leader in our industry.

Capital raise

In the second half of the year, in pursuit of our strategic goal to reduce leverage below 2.5x, we approached our largest investors for additional capital. The successful outcome of this capital raise, £52.6m of gross proceeds, completed on 8 December, is testament to investors' belief in our compelling strategic plan. The capital raise has enabled us to significantly reduce net debt, and will allow us to continue investing in our technology platforms and hire fleet to support our strategy going forward.

2021 project focus

We enter 2021 with three strategic projects that will help deliver our vision:

1. Technology Development
2. Sales Acquisition
3. Standout Service

Technology Development. We continue to develop the Brenda technology, striving for quicker response times, higher conversion rates, better service and improved margins. In 2021 we plan to roll-out the technology to the procurement teams of our larger customers, providing them with direct online access to our services. We also intend to integrate the technology with our website, providing smaller customers with instant access to our entire offering.

Strategic Report

Chief Executive Officer's Strategic Review continued

Reflection on our strategic priorities

DELEVER continued reduction in net debt leverage

The strong working capital management demonstrated throughout 2020 and the decisive actions taken to increase liquidity, have allowed us to reduce debt and leverage despite the additional challenges presented by COVID-19.

The recent capital raise further reduced net debt, improved liquidity and strengthened the balance sheet, enabling future investments in line with our strategy. Combined, these actions reduced net debt leverage (pre-IFRS16 basis) to 2.6x, the lowest since the IPO in 2015. We have revised our medium target to be leverage below 2.0x.

TRANSFORM

Excellent progress transforming our Tool Hire business

A year ago I set out five opportunities to progress the transformation of our core Tool Hire business, and I am pleased to report that we have made excellent progress on all five:

1. **We set out to explore lower cost go-to-market models.** We did that and went further, restructuring our sales organisation, closing 134 branches and rolling out 24 builders merchant concessions.
2. **We aimed to continue digitising our business.** Throughout 2020 we continued to invest in technology. This has been key to our resilience this year in the face of COVID-19. It enabled us to adopt home working in OneCall, launch our Click-and-Collect service in May and roll out our HSS Pro POS platform to our remote salesforce in Q4.
3. **We set out to drive growth ahead of the market.** COVID-19 has prevented growth, particularly given the strong headwinds experienced in several of our key end markets (e.g. retail, fit-out). However management believe we have retained market share in our key markets and with our new operating model expect to gain share in 2021.
4. **We wanted to differentiate our service proposition.** We believe that our ongoing investment in technology and our shift to a technology-enabled salesforce makes us the leading digital player in our market.
5. **And finally, we talked about improving margins and enhancing returns on capital employed.** The changes we made in October have created a more agile operating model, removing a net c£15m of annual fixed costs. We have nearly returned to prior year revenue levels despite the reduced number of branches and branch-based colleagues, providing us with potential to further enhance returns in 2021. In Q1 of 2021 we have delivered EBITDA ahead of 2020.

We made significant progress transforming our Tool Hire business in 2020, and are now well placed to benefit from these changes in 2021.

STRENGTHEN

Commercial proposition foundations now in place

In my update last year I discussed three opportunities to strengthen our commercial proposition:

1. **E-channel adoption.** Following the launch of our apps and improvements to our website in 2019, we pushed e-channel adoption in Q1 of 2020. The onset of the COVID-19 pandemic accelerated the shift in customer behaviours in Q2. We're now raising over 20% of new contracts online, and Click-and-Collect now accounts for over 20% of orders fulfilled. In 2021, as we integrate our HSS Pro POS platform with our website, giving customers the ability to place online orders for our full range of products and services, we expect e-channel adoption to increase further.
2. **Unlocking the full potential of Brenda.** This was a key enabler to remote working in 2020 and one of the reasons that our rehire business, OneCall, proved so resilient. We continued to offer a one-stop shop of products and services from our extensive supply chain, despite the OneCall team transitioning to remote working. We still see potential to leverage the full benefits of our technology here and improve response times, conversion rates and margins, in addition to making it ever easier for customers.
3. **Capital-light Services growth.** Throughout 2020 we have continued to see our capital-light Services division grow its share of Group revenues. Following the roll-out of HSS Pro POS to all our sales colleagues, they are able to respond to customers more quickly, fulfilling contracts directly from our supply chain themselves. We believe this will lead to significant growth in our Services division in 2021.

Sales Acquisition. We are very pleased with the performance of our remote sales teams and builders merchant concessions, but both models are still in their infancy. We believe there is much more scope to optimise their performance, improve sales acquisition and ultimately take market share. This project will fully leverage our new operating model, allowing us to grow the business while minimising fixed cost.

Standout Service. There remains an opportunity in our sector to differentiate on service, by offering outstanding reliability, delivering and collecting at the agreed time. Our technology platform now allows us to introduce enhanced scheduling and route optimisation functionality which will be the focus of our operations teams in 2021.

Our market

The equipment hire market in the UK is large, c£4bn, and fragmented with approximately 1,000 small independent hire companies. It is attractive because it covers a wide range of equipment and a diverse set of end-markets. We believe there is still a lack of differentiation amongst the leading players, particularly when it comes to digital adoption. Our investment in technology, combined with our transition to a digitally-led and more agile business model, will set us apart going forward.

Whilst COVID-19 had a significant impact on trading in 2020, the current trading environment appears strong with limited impact from the Government's third national lockdown. The construction sector appears much more resilient this time with companies far better prepared with COVID-19 working practices, virus testing and personal protection now well established. With the Government's plans to relax restrictions in the coming months, we see further strengthening of demand, and whatever the short term brings us, our new operating model is well placed to adapt and take advantage.

To summarise, I believe the business is in great shape to deliver on our strategy and our performance framework. We are well positioned with a more agile cost base, a superior, digitally-led proposition and a strengthened balance sheet, allowing us to continue achieving our strategic goals and differentiating in this fragmented market. We retain our vision of being the market-leading digitally-led brand for equipment services.

On 6th April 2021 we sold Laois Hire, our Irish large plant rental business, to Briggs Equipment Ireland Limited for €11.2m. This disposal is consistent with our strategy to focus on the core Tool Hire business. As part of the transaction, HSS entered into a commercial agreement with Briggs to ensure we continue to provide our Irish customers with their large plant requirements. As the disposal occurred after 26th December 2020 it has been treated as a non-adjusting post balance sheet event.

Steve Ashmore
Chief Executive Officer

75%

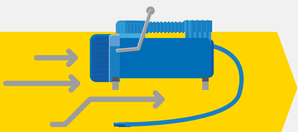
Colleague engagement score – another year of improvement and well ahead of UK national average of 61%

Strategic Report

Strategy at a Glance

Accelerating our strategy

Our strategy, involving a significant investment in technology in recent years, allowed us to adapt to the challenges presented by the COVID-19 pandemic. We have reduced leverage, progressed our transformation of the Tool Hire business and strengthened the Group's commercial proposition.

Strategy	What we achieved
 **Delever the Group**	In 2020 we reduced net debt from £180m to £120m on a pre-IFRS16 basis. Reported net debt is £195m after adding IFRS16 lease liabilities. This was achieved through strong working capital management, further cost reduction and a successful capital raise in December. We have also reduced leverage from 2.8x to 2.6x, an exceptional performance in light of the challenges presented by COVID-19.
 **Transform the Tool Hire business**	Despite a year of challenges caused by COVID-19 we have made significant progress. We have optimised our go-to-market model, with the shift from physical branches to remote sales teams and builders merchant concessions. The associated closure of 134 branches and the reduction of c300 colleagues means that we have reduced our fixed cost base by c£15m. Despite these changes, colleague engagement scores are up from 72.4 to 75.0 and our customer NPS has remained significantly above the industry benchmark at 44. Our safety scorecard has improved too, with just 2 RIDDORS, a significant reduction in our RIDDOR rate, and a step-change in the volumes of safety observations made by colleagues.
 **Strengthen the Group's commercial proposition**	We have enhanced our digital offering in 2020 with several upgrades to both our website and Customer App. We have also launched our Click-and-Collect fulfilment channel and our live-chat sales channel. The impact of these changes has led to an increase in digital orders which grew from 8% in Q1 to 22% in Q4. In 2020 we also launched our HSS Pro POS technology to our salesforce, allowing them to place customer orders across our full range of products and services using their mobile devices. This is a key enabler to our new remote sales teams and will increase levels of cross-selling across the Group.

Our strategic enablers

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

- **A strong commercial management framework**
- **Fully engaged, high-performing colleagues**
- **Superior technology that supports decision making and stakeholder experiences**

> "Now that I am not running a branch I am able to spend more time on supporting my customers and raising orders using our new technology platform. It's so much quicker and easier than it used to be to generate sales."

Amy Gorman,
Sales Manager

Our purpose

We exist to equip our customers with the tools, equipment, training and related services that enable the construction, maintenance and operation of the UK and Ireland's commercial, industrial and residential infrastructure.

Our vision

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

Our values

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

2021 priorities	Performance measures	Risks
We have now revised our medium-term target for leverage to 2.0x. Our priorities in 2021 will be a relentless focus on cost control, strong working capital management and the realisation of savings from our organisational restructure in October 2020. One such priority is to further strengthen the balance sheet by addressing lease liabilities related to closed stores.	→ Leverage → Adjusted EBITDA → Net debt	The primary risk here is the continuing impact of the COVID-19 pandemic on customer activity levels. Whilst revenue performance has been resilient during the most recent lockdown, there remains uncertainty about customer investment plans in the short term. However, with the vaccination programme well advanced, we are optimistic that the impact of COVID-19 on demand will reduce going forward.
We continue to prioritise colleague safety and engagement, and are confident that the exceptional progress made recently will be maintained in 2021. A key focus in 2021 is leveraging the full benefits of our agile new operating model, ensuring that it delivers growth ahead of the market. We will also drive more improvements in customer service with the introduction of new technology for our operations team to improve reliability. These priorities are captured in two strategic projects launched in January: '**Sales Acquisition**' and '**Standout Service**'.	→ Rental revenue growth → Adjusted EBITDA and margin → Adjusted EBITA and margin → RIDDOR rate → Colleague engagement score → Net Promoter Score	We minimise our risks in this area by operating a robust performance management framework with aligned colleague incentives. As we expand our builders merchant model we have rigorous selection processes in place to ensure that only appropriate locations are selected. Colleague engagement and retention remains a risk, particularly given the degree of change they experienced in 2020. As such we continue to harness and act upon colleague feedback, in addition to providing support in many areas. We believe that engagement is the key to unlocking performance and mitigating risks related to this strategic priority.
We continue to focus on **Technology Development** in pursuit of becoming the market-leading digitally-led brand for equipment services. Our technology platform is a critical enabler to the success of our new operating model. We believe that we are yet to unlock the full potential of our technology and that improvements can be made encouraging e-channel adoption that will increase customer loyalty. As we continue to invest in and benefit from technology we expect to deliver significant growth in our capital-light Services business and improve Group ROCE.	→ Services revenue growth → Return on capital employed	The performance of our technology is a key risk, which is mitigated by the approach we take to development. We believe our technology partners are best-in-class. They adopt a modular approach, minimising risk, and ensuring user adoption by evolving from a 'minimal viable product' collaborating with users in short development sprints. Our partners are both technically and culturally aligned with HSS and we have common objectives. We have been working together since 2018 and as such have strong working relationships. Cyber security is another risk, for which we have the necessary controls in place, regular penetration testing and annual third party audits.

Strategic Report

Strategy in Action

Making it easier for customers

Opportunity

We know that customers want the ordering process to be quick and easy, which is why we've invested in our website and Customer App in recent years. With the onset of COVID-19, customers needed a low-contact alternative to ordering over the counter in our branches.

What we did

We launched our low-contact Click-and-Collect solution in May. Customers were able to place their orders on our website or on our Customer App, and collect from one of our CDCs or from our expanding network of builders merchants. The technology development included improvements to both the App and our website, including reducing 'clicks-to-purchase', generating new automated transaction communications and the creation of a Click-and-Collect portal allowing customers to book their preferred collection slot.

The results

A Click-and-Collect order is quick to place and possible 24/7. The overall transaction is low-contact, with handovers typically undertaken outdoors and always at a safe distance. The launch of Click-and-Collect accelerated the transition to online ordering with 22% of orders being taken online during the final quarter of the year. Click-and-Collect fulfilment now represents 21% of all completed orders. The shift in fulfilment channel from in-branch to either Click-and-Collect or delivery-to-site means that customers spend less time ordering equipment and reduces physical contact.

Both our Customer App and our website are market-leading; the App has a 4.6 star App Store rating and our website has 65% more traffic than the nearest national competitor and clear domain authority. Our NPS remains well ahead of the industry average at 44, and we remain committed to making hire even easier for customers in the future.

“The App is so convenient and easy to use even when I’m out and about

Luke, Administrator
Stiltz Ltd

22%

Online ordering in Q4 2020

★★★★½

4.6 App Store rating Q4 2020

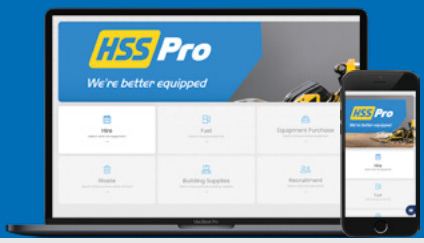
44

NPS Q4 2020

Strategic Report

Strategy in Action

Adapting to new norms, equipping our colleagues



Opportunity

During the COVID-19 pandemic we had many sales colleagues working from home. This created the opportunity to spend more time supporting customers and taking enquiries over the phone, via email or online, rather than being distracted by branch housekeeping. This was a chance to really have our sales people play to their strengths.

What we did

We organised our colleagues into remote-working teams supported by two new technologies: Vodafone Storm Call Management and HSS Pro POS. Storm allows our remote sales colleagues to operate as if they were in a call-centre team, allowing us to optimise call flows, reduce response times, increase response rates and understand performance. HSS Pro POS, which has been developed in 2020 from the backbone of our Brenda technology platform, was rolled out to our salesforce in Q4 2020, allowing them to quickly raise orders for our full range of products and services using their mobile devices. Alongside the investment in technology we provided additional support for all colleagues, increasing the frequency of communications and providing resources in areas such as mental health and wellbeing.

The results

The technology has been rolled out to our entire salesforce with excellent results. Sales colleagues can now provide quotes instantly across our full range, including our extended OneCall offering and that of our extensive supply chain. Sales productivity has improved by over 30% and feedback from colleagues has been very positive. This was reflected in the end of year engagement survey where 75% of colleagues agreed that they had the right equipment to do their job, up 10 points on the previous year.

"It is great to see HSS investing in technology that makes it easier for us to serve our customers

Lily Spratt,
Area Sales Manager

75%
Colleague engagement score

84%
Response rate

80%
Reduction in accident rate

Strategic Report

Strategy in Action

Creating a more agile business model

Opportunity

An important part of transforming our commercial proposition is our ambition to become a lower fixed-cost, more agile business. During the COVID-19 pandemic we tested a leaner go-to-market model. On 23 March 2020, in order to safeguard colleagues and customers, we decided to close all our branches, leaving only our spine of Customer Distribution Centres open. As demand returned and safe working practices were established, we resisted the temptation to simply re-open all our branches and instead we explored alternative ways to meet customers' requirements.

What we did

During the summer we set up remote sales teams and promoted our delivery and Click-and-Collect fulfilment channels. We also extended our partnerships with builders merchants, opening new, low-cost concessions across the country, ending the year with 24 locations with eight partners. Combined, these actions were very successful with revenues returning to 90% of prior year levels by the end of Q3 on a significantly reduced cost base. In October 2020 we decided to accelerate our strategy, and restructured our operating model, permanently closing 134 branches. We have retained national delivery capability and continue to open additional builders merchant concessions.

The results

The change to our operating model has led to a net reduction in fixed costs of c£15m per annum. Following the restructure, our sales continued to strengthen and in December 2020 they were close to prior year levels, testament to the hard work of our colleagues and proof of this new, more agile model. These changes have also made us much more adaptable to future fluctuations in demand, as we've reduced fixed costs and made distribution costs more flexible. We are very happy with the changes we have made and look forward to further leveraging our new model in 2021. This includes a plan to expand our builders merchant concessions to c50 locations by the end of the year.

"The opportunity to serve our builders merchant customers is huge

Lee Sexton,
Builders Merchant Branch Manager

£15m
Net reduction in fixed costs

10%
Orders raised in builders merchants

>20%
Orders fulfilled by Click-and-Collect in 2021

Strategic Report

Our Key Performance Indicators

Measuring our progress

Strategic Framework

Key performance indicator (KPI)	FY20 performance	Importance of KPI
Group revenue	**Continuing operations** **£269.9m** FY19: £328.0m	Simplest measure of the ongoing growth of the Group's sales from which profits can be generated and shareholder value created. **Link to Strategy:** → Delever the Group → Transform the Tool Hire business → Strengthen the Group's commercial proposition **See** Financial Review page 36
Rental and related revenues	**Continuing operations** **£180.8m** FY19: £229.0m	Simplest measure of the ongoing growth of the core hire business' sales from which profits can be generated and shareholder value created. **Link to Strategy:** → Delever the Group → Transform the Tool Hire business **See** Financial Review page 36
Adjusted EBITDA and margin	**Continuing operations** **£47.0m** 17.4% margin	Widely recognised measure of profitability. Metric also used in leverage and covenant calculations. **Link to Strategy:** → Delever the Group → Transform the Tool Hire business → Strengthen the Group's commercial proposition **See** Financial Review page 36
Adjusted EBITA and margin	**Continuing operations** **£16.7m** 6.2% margin	Measure of profitability before amortisation, impacts of capital structure (interest and tax) and exceptional costs. **Link to Strategy:** → Delever the Group → Transform the Tool Hire business → Strengthen the Group's commercial proposition **See** Financial Review page 36
Leverage	**Total operations** **2.6x** FY19: 2.8x	Measure of financial liquidity. **Link to Strategy:** → Delever the Group → Transform the Tool Hire business → Strengthen the Group's commercial proposition **See** Financial Review page 36

How IFRS16 impacts our metrics in FY20	Pre-IFRS16	Impact of IFRS16	As reported
Adjusted EBITDA £m	47.0	22.4	69.4
Adjusted EBITDA Margin	17.4%	8.3pp	25.7%
Adjusted EBITA £m	16.7	3.1	19.8
Adjusted EBITA Margin	6.2%	1.1pp	7.3%
Leverage	2.6x	0.2x	2.8x
ROCE	15.2%	(4.5pp)	10.7%
Adjusted loss per share (diluted) (EPS)	(1.67p)	(0.36p)	(2.03p)

IFRS16

As explained in note 3 to the Financial Statements, the Group has adopted a new accounting standard for leases, IFRS16, during FY20. The standard has a significant impact on several financial measures and, as a result, certain KPIs. To allow comparability with prior years certain KPIs for FY20 presented below are on a pre-IFRS16 basis with the reported figures presented for FY20 in the adjacent table. In the FY21 report the Group will report its KPIs based on the post-IFRS16 results (with effect from FY20).

Key

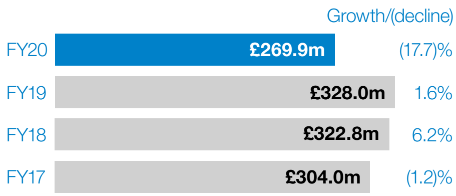
Metric is impacted by IFRS16

Definition | **Performance** | **Remuneration linkage** | **Track record**

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

Decline of 17.7%, heavily impacted by COVID-19.

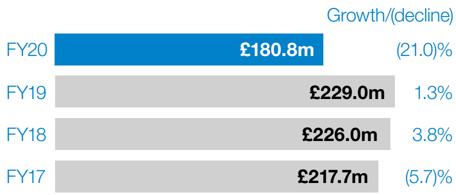
Driver of colleague incentive plans.



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

Decline of 21.0% driven by COVID-19 lockdowns and restrictions.

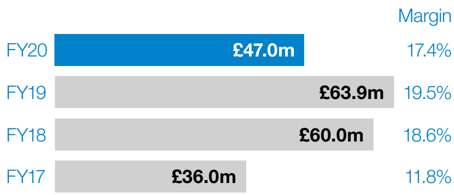
Driver of colleague incentive plans and component of leadership incentive plan.



Operating profit before depreciation, amortisation and exceptional items. The Group adopted IFRS16 in FY20 and so depreciation and interest related to right of use assets is deducted as well as the net book value of hire stock losses and write-offs, and the profit on disposal of other fixed assets.

A resilient performance in a very difficult year. Margin has been protected as a result of decisive cost action taken following the emergence of COVID-19.

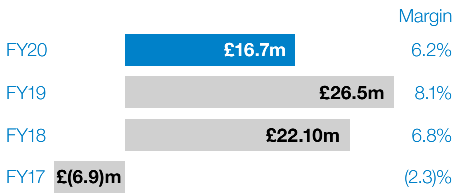
Driver of colleague incentive plans and component of leadership incentive plan (including as a threshold element).



Operating profit before amortisation and exceptional items.

37% decrease in EBITA and margin slightly reduced to 6.2%.

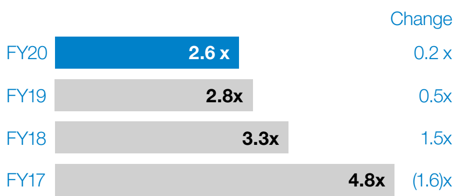
Indirectly, as numerator in ROCE calculation.



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

Significant reduction from FY19 with strong working capital management and the capital raise offsetting the impact of reduced profitability.

Component of leadership incentive plan.



Strategic Report

Our Key Performance Indicators continued

Long-Term Measures

KPI	FY20 performance	Importance of KPI
Return on capital employed	**Continuing operations** **15.2%** FY19: 20.8%	Measure of the return-generating ability of the business over the longer term and key measure for leadership incentives. **Link to Strategy:** → Delever the Group → Transform the Tool Hire business **See** Financial Review page 36
Adjusted earnings per share (diluted) (EPS)	**Loss of** **(1.67)p per share** FY19: Earnings of 2.31p per share	Measure of adjusted profitability per share. Widely recognised measure of shareholder value (profit) being generated by a business excluding non-recurring or exceptional items and amortisation and after charging the prevailing rate of corporation tax. **Link to Strategy:** → Delever the Group → Transform the Tool Hire business **See** Financial Review page 36

Stakeholders

KPI	FY20 performance	Importance of KPI
Health and safety (RIDDORs)	**Continuing operations** **0.04** FY19: 0.20	Widely recognised measure of safety in the workplace. Safety is at the heart of how HSS operates. **Link to Strategy:** → Transform the Tool Hire business **See** ESG page 40
Colleague engagement	**Continuing operations** **75.0%** FY19: 72.4%	A measure of the level of engagement across the entire population of colleagues. **Link to Strategy:** → Transform the Tool Hire business → Strengthen the Group's commercial proposition **See** ESG page 40
Net Promoter Score (NPS)	**Total operations** **44** FY19: 45	A measure of how likely our customers are to recommend HSS and used to benchmark against the industry generally. **Link to Strategy:** → Transform the Tool Hire business → Strengthen the Group's commercial proposition **See** CEO's Strategic Review page 12
Greenhouse gas emissions	**44.3** **TCO^2e/£m Rev** FY19: 49.1	A key measure of the impact we have on the environment relative to our scale and which allows progress to be tracked. **Link to Strategy:** → Transform the Tool Hire business → Strengthen the Group's commercial proposition **See** ESG page 40

Definition	Performance	Remuneration linkage	Track record
Adjusted EBITA divided by the average of capital employed at the beginning and end of the year. Capital employed is total assets except intangible assets, derivatives, and cash less current liabilities except current debt items.	Reduced, largely as a result of COVID-19. This compares to our 2020 framework target of 20%.	Component of 2019 LTIP.	Change FY20 15.2% (5.6)pp FY19 20.8% 4.1pp FY18 16.7% 21.8pp FY17 (5.1)% (14.8)pp
Earnings are defined as profit before tax after adding back exceptional items and amortisation and then charging the prevailing rate of tax. Earnings are then divided by the number of shares in issue assuming the conversion of any potentially dilutive equity derivatives outstanding.	Decrease of 3.98p driven by the decrease in EBITA and the dilutive impact of the capital raise completed in December 2020.	Adjusted EPS is a component of 2019 LTIP.	Change FY20 (1.67)p (3.98)p FY19 2.31p 0.95p FY18 1.36p 11.73p FY17 (10.37)p (13.31)p
Number of events that are reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 multiplied by 100,000 and divided by the hours worked.	80% reduction in rate and only 2 RIDDORs for the entire year; evidence of continued focus. Although COVID closures did impact the result, our main CDCs and transport locations operated for the majority of the year.	Component of leadership incentive plan.	Change FY20 0.04 80.0% FY19 0.20 41.2% FY18 0.34 12.8% FY17 0.39 2.5%
Proportion of responses from colleague engagement survey (carried out by Anthem Engagement) that either Strongly Agree or Agree to positively phrased questions.	Improved score and increased completion rate of 84% despite challenging working conditions and restructuring carried out prior to the survey.	N/A	Change FY20 75.0% 2.6pp FY19 72.4% 0.8pp FY18 71.6% 4.6pp FY17 Survey not carried out
The percentage of promoters less the percentage of detractors based on survey and as measured by Kantar.	Continues to be significantly ahead of the industry benchmark.	N/A	FY20 44 FY19 45 FY18 44 FY17 44
The total UK greenhouse gas emissions produced by the Group during the period in tonnes, divided by Group Revenue in £m.	COVID-19 was a major impact, with the majority of our branch network closed throughout lockdowns. The decision to permanently close branches will result in an ongoing reduction.	N/A	Change FY20 44.3 9.7% FY19 49.1 11.7% FY18 55.6 39.3% FY17 91.6

Strategic Report

Principal Risks and Uncertainties

Managing risk

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

"COVID-19 has had a material impact on the Group's risk profile in 2020. Collaborative working across the Group has enabled new policies and procedures to be developed and implemented at pace to respond to the pandemic."

Mark Shirley
Risk and Assurance Director

Ownership

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

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

Identification

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

Assessment

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

Monitoring

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

COVID-19

In 2020 the COVID-19 pandemic has had a material impact on the risks across the Group, principally Macroeconomic conditions and Financial. Immediate steps were taken to ensure the safety of our colleagues and customers, ranging from home working to the introduction of low-contact Click-and-Collect capability, all supported by clear, risk assessed procedures and policies. Decisive action was also taken to preserve cash as set out on pages 4 to 5. Combined with the capital raise completed in December 2020, these actions resulted in increased liquidity and materially strengthened the Group balance sheet. The EMT continues to regularly monitor the evolving COVID-19 situation with appropriate mitigating actions taken as required.

The Three Lines of Defence

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

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

Risk management framework

2020 risk management developments

The Group has continued to improve its approach to the management of risk and assurance throughout 2020, with significant emphasis on responding to the COVID-19 pandemic.

- Detailed COVID-19 risk assessments were conducted across every location, running alongside the implementation of new policies and procedures. New internal audit procedures were developed and implemented for operational management and assurance teams to ensure adherence.
- Risk assessments have been conducted and revised standards audits developed to support the Group's new operating model (see page 24), covering virtual branches and regional builder's merchants.
- The Group accelerated its transition to the ISO45001 Health and Safety standard, including a third party review of our pandemic response. Certification was achieved in May.
- A new Incident Reporting Portal (IRP) was developed to make it easier for colleagues to record accidents, near misses and safety observations. Combined with operational focus, this has been an enabler for a material increase in safety observations which in turn has supported the significant reduction in accidents across the business (see KPIs page 26).
- Data capture for accident investigation has been improved with the introduction of a new Incident Report Management System (IRMS). This has enabled new operational health and safety reports, alongside the IRP, to identify areas of focus that will reduce accidents.
- Capability of the HSEQ team was increased with the recruitment of two senior HSEQ advisers with subject matter expertise in accidents and investigations as well as audit and assurance.

Planned improvements to risk management process

Significant progress has been made in the last year, so the focus in 2021 is on enhancing and leveraging the reporting tools implemented as well as supporting the Group's strategic investment in new technology.

- Developments are planned to our reporting tools and management reports to capture more information relating to health and safety including safety observations, facilitating increased insight and best practice sharing across the Group.
- Work will continue to embed remote working in our new virtual operating model, including improving guidance, risk assessments and colleague support.
- Increased internal audit engagement in assessing and shaping controls for new processes and systems being implemented as part of the strategy execution.
- Assess and implement new assurance software for all branch-based auditing activities, targeting improved functionality.
- Increased engagement with specialist third party companies to gain expertise on risks such as cyber risk.
- Further development of the assurance team's capability to enable increased cross-discipline working.

Strategic Report

Principal Risks and Uncertainties continued

Principal risks and strategy

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

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

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

Key

- – Unchanged
- ↑ Increased
- ↓ Decreased

Key risks	Description and impact	Mitigation
Macroeconomic conditions Risk change –	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 ongoing COVID-19 pandemic and resultant restrictions have a material adverse impact on demand and therefore financial performance.	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. Significant activity has been undertaken in 2020 to mitigate the impact of COVID-19, including the deferral of capital expenditure and utilising the Government's Job Retention Scheme. This also included accelerating the Group's digital strategy and the optimisation of the operating network to a leaner, more agile cost model through the closure of 134 physical locations and transition to virtual branches. These strategic changes mitigate any downside in future demand. We continue to monitor and model economic performance, assessing whether the business needs to take further action from that of 2020. This is reviewed regularly by the EMT.
Competitor challenge Risk change –	The Group's industry is highly competitive, and competition may increase. The equipment rental industry is highly fragmented, with competitors ranging from national equipment rental companies to smaller multi-regional companies and small, independent businesses operating in a limited number of locations. Competition in the market could lead to excess capacity and resultant pricing pressure.	The Group's implementation of its digitally-led operating model has reduced annual fixed costs by £15m. This, combined with the economies of scale derived from being a national player, allows the Group to be highly competitive. The Group's national presence (through Customer Distribution Centres, branches and partnerships with regional builders merchants), effective distribution service model and well-maintained fleet provide high levels of customer availability. Through its Services business, the Group provides customers with access to a significantly wider range of products and complementary services such as training courses. A key strategic priority is to strengthen the Group's commercial proposition, differentiating in the market by developing the Digital and Services business offer. To date the technology roadmap to support this has included the upgrade of HSS.com, development of the fully integrated Customer App and enhancement of the OneCall automated platform. All these initiatives have been implemented in line with planned timescales and the Group's governance process. Increased technology investment is planned in 2021, utilising proceeds from the Group's recent capital raise. A central trading team is in place to monitor and manage changes in price, providing controls to ensure effective management. New technology roll-out in 2021 will provide further control.

Key risks	Description and impact	Mitigation
Strategy execution Risk change –	Failure to successfully implement the Group's strategic plans could lead to lower than forecast financial performance in terms of revenue growth and cost savings.	A clearly defined and communicated strategic plan has been established with appropriate performance metrics and key performance indicators. Prioritised projects have been identified to deliver the strategic plan and have been appropriately resourced. A clear governance structure has been established, with accountabilities designed to support delivery on time, to quality and within budget. Implementation of projects is monitored by the EMT with regular updates, including initiative specific deep dives, to the Board. Throughout the pandemic investment in the strategy has been maintained with projects reprioritised where appropriate, including the implementation of digital technology that supported the introduction of a safe, low-contact Click-and-Collect service, and the telephone system upgrade which has been critical in supporting home working and the establishment of virtual branches. The established governance approach has ensured these changes were implemented effectively.
Customer service Risk change –	The reliable supply of safe, good-quality and well-maintained equipment in a timely and cost-effective manner is critical for delivery of the Group's customer promise. The provision of the Group's expected service levels depends on its ability to efficiently transport hire fleet across the network to ensure that it is in the right place, at the right time and of the appropriate quality. The Group is dependent on its relationships with key suppliers to obtain equipment and other services on acceptable terms. Any disruption in supply, reduced availability or unreliable equipment can reduce potential revenue and drive additional operating costs into the business. In addition, a decline in the Group's customer service levels could result in a loss of customers and market share. COVID-19 leads to disruption in supply for our customers due to site closures or colleague absenteeism. The supply chain is adversely impacted with rehire suppliers unable to fulfil their obligations or by restricted access to spares leading to reduced product availability for our customers.	The Group has clear business continuity plans to ensure continuity of supply. COVID-19 risk assessments have been completed across all locations with policies and procedures implemented, including stricter hygiene protocols, to reduce the risk of a virus outbreak. These are reviewed frequently by both operational management and independent assurance teams to ensure compliance. Colleagues at our head office moved to home working in March 2020. This included our OneCall business, helping minimise any disruption to the Services business due to absenteeism. This way of working has continued into 2021. Whilst COVID-19 had minimal impact on rehire supply during 2020, the wide and diverse range of OneCall suppliers provides ongoing flexibility to ensure continuity of supply for customers and manage the risk should one fail to fulfil its obligations in the future. We have worked closely with our suppliers to ensure that appropriate spares have been available throughout the pandemic and post Brexit. Extensive colleague training is conducted to ensure that testing and repair quality standards continue to be maintained. The Group makes every effort to evaluate its counterparties prior to entering into significant procurement contracts and seeks to maintain a range of suppliers. A number of business accreditations are maintained, including ISO, which provides our customers with confidence in the quality of the services provided.

Strategic Report

Principal Risks and Uncertainties continued

Key

– Unchanged
↑ Increased
↓ Decreased

Key risks	Description and impact	Mitigation
Third party reliance Risk change –	A significant amount of the Group revenue is derived from the Services business (OneCall) which is dependent upon the performance of third party service providers. If any third parties become unable or refuse to fulfil their obligations, or violate laws or regulations, there could be a negative impact on the Group's operations leading to an adverse impact on profitability and publicity. An important element of the strategy is the expansion of the regional builders merchant model. At the balance sheet date there were 24 concessions with plans to expand to 50 over 2021. The Group is reliant on the relationship with the relevant builders merchant and the provision of service in line with HSS standards.	Third parties supporting OneCall are subject to stringent procurement and service criteria and all contracts are subject to demanding service level agreements. Performance and quality KPIs are monitored on an ongoing basis. The wide and diverse range of OneCall suppliers provides flexibility to select those who meet the required service levels. There is an extensive assessment process before entering into a relationship with a builders merchant which requires EMT approval. Legal contracts are in place with each partner. Any concession is subject to a financial business case before opening. Risk assessments are conducted at each location with follow up audits conducted by internal audit. Performance of each location is monitored and regularly reviewed with the builders merchant partner.
IT infrastructure Risk change –	The Group requires an agile IT system that supports the delivery of its strategic plan. Where this involves third party technology it is critical that this is effectively integrated into the Group's core systems. All Group systems need to be appropriately resourced to support the delivery of day-to-day business operations. Any IT system malfunction may affect the ability to manage its operations and distribute its hire equipment and services to customers, affecting revenue and reputation. An internal or external security attack, the risk of which has potentially increased with more home working, could lead to a loss of confidential information and disruption to the business' transactions with customers and suppliers.	The current IT system has been fully reviewed and, following extensive due diligence, the Group has engaged with third party technology providers to develop organisational agile capacity ensuring that current and future IT systems are optimised to deliver the strategic plan. Third party specialists continue to be engaged to assess the appropriateness of IT controls, including the risk of malicious or inadvertent security attacks. This includes penetration testing on a regular basis to detect weakness in our IT and cyber security. Any resultant actions are prioritised through the Group's governance process. A detailed review is scheduled for 2021. With more colleagues home working, improved antivirus software has been introduced, and endpoint detection and clean up tools have been implemented to remove malware and similar agents. Disaster recovery tests are carried out on a regular basis and appropriate back-up servers are in place to manage the risk of primary server failure. A cross-departmental Data Governance Team is in place to ensure that business process are, and continue to be, adequate.

Key risks	Description and impact	Mitigation
Financial Risk change ↓	To deliver its strategic goals the Group must have access to funding at a reasonable cost. The impact of COVID-19 could lead to a breach of financial covenants and requirement for additional liquidity due to significantly reduced demand and delays in customers settling their debt. In executing the Group strategy, 134 branches were closed in October 2020, some with unexpired term on the lease. Failure to surrender these leases will result in ongoing onerous liabilities reducing free cash flow. Some of the Group's customers may be unwilling or unable to fulfil the terms of their rental agreements with the Group. Bad debts and credit losses can also arise due to service issues or fraud. Unauthorised, incorrect or fraudulent payments could be made, leading to financial loss or delays in payment which could adversely affect the relationship with suppliers and lead to a disruption in supply.	The Group raised gross proceeds of £52.6m from the capital raise completed in December 2020. Working capital management remains a clear focus with cash collection targets (which roll up into our net debt KPI) cascaded throughout the business. These are reviewed by the EMT on a regular basis. Overdue debt reduced by £3.0m in FY20. The capital raise, strong working capital management and COVID-19 mitigating actions have enabled a material increase in liquidity headroom and ensured that financial covenant tests have been passed each quarter. Working with property restructuring specialists, to date 95% of leases related to the closed branches have been surrendered or agreed to be surrendered. The risk of fluctuating interest rates reducing profitability has been mitigated by entering into an interest rate cap arrangement. The Group runs extensive credit checking for its account customers and maintains strict credit control over its diversified customer base. Credit insurance is in place to minimise exposure to larger customer default risk. The Group's investigation team conducts proactive and reactive work in order to minimise the Group's exposure to fraud, and provides ongoing training in this area. Payments and amendments authority is defined by the Group's authorisation matrix with periodic IA risk-based audits to ensure that they are being adhered to.
Inability to attract and retain personnel Risk change –	The Group needs to ensure that the appropriate human resources are in place to support the existing and future growth of the business. Failure to attract and retain high-performing colleagues could adversely impact targeted financial performance. Failure of colleagues to adapt to the new digitally-led operating model could adversely impact targeted financial performance.	The Group regularly benchmarks market rates and seeks to ensure a competitive pay and benefits package. It also focuses on building the right working environment for its colleagues. Training for colleagues is provided at all levels to build capability and improve compliance. Training is job related and behaviour focused, all through blended learning. Colleague engagement surveys are conducted, with actions taken as a result of the feedback. Integral to enabling delivery of the Group's strategic goals are a series of people-related projects including the strategic projects referred to on page 17. These projects are aimed at colleague development, retention and engagement including embedding Group values, equipping individuals with the skills to succeed in the new operating model, targeted management development, expansion of apprenticeships and increased communications at all levels. These are managed and monitored through a clear governance structure.
Safety, legal and regulatory requirements Risk change ↓	Failure to comply with laws or regulation, such as the Companies Act 2006, accounting regulations, health and safety law, the Bribery Act 2010, Modern Slavery Act 2015, Criminal Finances Act 2017 or General Data Protection Regulation (GDPR), leading to material misstatement and potential legal, financial and reputational liabilities for non-compliance. The Group operates in industries where safety is paramount for colleagues, customers and the general public. Failure to maintain high safety standards could lead to the risk of serious injury or death. COVID-19 has an adverse impact on colleague health and safety. However, the Group's response to COVID-19, the achievement of ISO 45001 and a reduction in accidents mean that the level of risk faced is reducing.	Robust governance is maintained within the Group including: a strong financial structure; assurance provision from internal and external audit, and employment of internal specialist expertise supported by suitably qualified and experienced external practitioners. Since the introduction of GDPR, the Group's Data Governance Team has continued to meet regularly to review and monitor progress and developments. Training and awareness programmes are in place, focusing on anti-bribery, anti-modern slavery, anti-facilitation of tax evasion and data protection legislation. Colleagues are encouraged to raise concerns through the policy, either through their line manager, via any of our three whistleblowing officers (anonymously, should a colleague so wish) or via 'Protect', an independent charity specialising in whistleblowing advisory services. The Audit Committee reviews all whistleblowing cases, including gaining satisfaction of appropriate resolution. The Group operates a clear health and safety policy with ongoing risk management, monitoring of accidents and colleague engagement overseen by the EMT and a Health and Safety Forum comprising senior managers. Additional assurance and support is provided by a fully skilled HSEQ team and an internal Group investigation team. This has been complemented in the year with improved reporting tools to make it easier to log near misses and safety observations. The Group is ISO 45001 accredited. In light of the pandemic, actions have been taken to ensure colleague and customer safety ranging from stricter hygiene procedures to the introduction of the low-contact Click-and-Collect service. Support is in place for colleagues who need to self-isolate or shield and mental health programmes, including greater communication, have been increased, especially for those remote working.

Strategic Report

Financial Review

Decisive action, balance sheet strengthened

Financial highlights

Revenue

£269.9m

FY19: £328.0m

Adjusted EBITDA pre-IFRS16

£47.0m

FY19: £63.9m

Adjusted EBITA pre-IFRS16

£16.7m

FY19: £26.5m

Operating profit

£1.5m

FY19: £16.8m

Leverage pre-IFRS16

2.6x

FY19: 2.8x
(total Group – continued and discontinued operations)

ROCE pre-IFRS16

15.2%

FY19: 20.8%

"2020 has been a challenging year, heavily impacted by the COVID-19 pandemic. Decisive actions to preserve cash, strengthen the balance sheet and accelerate our strategy have ensured that the Group has exited FY20 in good shape."

Paul Quested
Chief Financial Officer

Financial highlights – pre and post IFRS16[1,2]

	£m	2020 reported	2020 pre-IFRS16	2019	2020 pre-IFRS16 v. 2019
Revenue	Rental	**180.8**	**180.8**	229.0	(21.0)%
	Services	**89.1**	**89.1**	99.0	(10.0)%
	Group	**269.9**	**269.9**	328.0	(17.7)%
Contribution[3]	Rental	**122.9**	**122.0**	155.5	(21.5)%
	Services	**12.6**	**12.6**	15.5	(18.7)%
	Group	**135.5**	**134.6**	171.0	(21.3)%
Adjusted EBITDA[4]		**69.4**	**47.0**	63.9	(26.4)%
Adjusted EBITA[4]		**19.8**	**16.7**	26.5	(37.0)%
Operating Profit/(Loss)[4]		**1.5**	**(3.5)**	16.8	(20.3)

1 The Group adopted IFRS16 Leases in 2020 and chose the modified retrospective approach under which prior year figures are not restated. The reported results for FY20 are therefore not comparable directly to the prior year. Commentary within this review considers pre- and post-IFRS16 results where relevant to aid comparability. An explanation of the adoption and impact of IFRS16 on results is provided in note 3 to the Financial Statements.
2 2019 results are for continuing operations.
3 Contribution is defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs (for each segment).
4 These measures are not reported on a segmental basis because branch and selling costs, central costs and exceptional items (non-finance) are allocated centrally rather than to each reportable segment.

Overview

FY20 was an extraordinarily demanding year for the business as we responded to COVID-19. Unsurprisingly the financial results have been heavily impacted by the pandemic, however the resilience demonstrated by each and every colleague to respond to the challenge, maintain customer service and accelerate strategy delivery has been truly exceptional.

Following the announcement of the first national lockdown in March 2020, demand fell significantly with revenue, at its lowest point, 50% of prior year levels. Decisive action was taken to preserve cash including reducing fleet capital expenditure, temporary reductions in Board and Management salaries, utilising the Government job retention scheme, securing rates relief and grants, agreeing rent holidays with a number of our landlords, a significant reduction in discretionary spend and the deferral of PAYE and VAT payments (although all tax deferrals were settled prior to the financial year end). Additional focus and resource was placed on working capital management; I am pleased to say this resulted in a 20% reduction in overdue debt taking it to the lowest level in my tenure with HSS.

During the year we accelerated our strategy execution, continuing to invest in the technology roadmap and progressing to a lower fixed-cost, more agile operating model, resulting in circa £15m of annualised cost savings. This involved the permanent closure of 134 branches. As at the date of this report we have surrendered or reached agreement to surrender 95% of related leases, limiting onerous lease liabilities going forward.

In December, shareholders demonstrated their support for the business and our strategy by investing £52.6m via the placing of new shares in the market. After fees, net proceeds were £50.8m (see note 23 to the Financial Statements). This positive endorsement materially reduced the Group's net debt and strengthened the balance sheet.

The combination of the actions noted above ensured that the Group delivered positive adjusted EBITDA throughout the year with an improving trend as revenue recovered to close to 100% of FY19 levels, improved liquidity headroom to £103.6m (FY19: £45.9m), reduced net debt leverage pre-IFRS16 to 2.6x (FY19: 2.8x) and ensured that financial covenant tests were passed every quarter.

While we continue to monitor the COVID-19 situation and respond appropriately, I remain confident that the strategic changes made for our customers and to our operating model put the Group in a strong position to face the challenges and create future shareholder value. This is evident in our strong start to FY21 where adjusted EBITDA pre-IFRS 16 for Q1 is above both FY20 and FY19.

Revenue

Group revenue declined by 17.7% to £269.9m (FY19: £328.0m). Q1 was in line with management expectations until the first national lockdown in late March 2020 after which trading was heavily impacted by COVID-19. Revenue dropped as low as 50% of prior year in Q2 before recovering to 94% by Q4.

Group revenue growth is one of our KPIs as, combined with estimates of market size and growth rates, it provides us with a measure of our market share.

Segmental performance

Rental and related revenues

Our Rental revenues were significantly impacted by COVID-19, declining by 21.0% to £180.8m (FY19: £229.0m) and accounted for 67.0% of Revenue (FY19: 69.8%).

While we scaled back capital investment we continued to invest where customer demand was strong. Following the decision to accelerate our strategy, which included rolling out HSS Pro POS and other technology to sales colleagues and streamlining the operating model with the permanent closure of 134 branches, we have been pleased to see Rental and related revenue recover as the year progressed. Rental and related revenues is one of our KPIs.

Contribution, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs, of £122.0m excluding a £0.9m benefit on the adoption of IFRS16 (FY19: £155.5m) was down 21.5% broadly in line with revenue, but benefiting from £2.7m of COVID-19 support (see other operating income below).

Services

Services revenues decreased on a like-for-like basis by 3.3% to £89.1m (FY19: £99.0m), accounting for 33.0% (FY19: 30.2%) of Group revenues. This was principally due to the resilience demonstrated in our HSS OneCall business which reacted quickly to support customer demand on critical projects following the first national lockdown, with the entire team able to move immediately to remote working, a benefit of our investments in technology (see page 3). Meanwhile our HSS Training business also reacted quickly, switching to online delivery of classes. The business has since recovered very well.

Contribution from Services fell by 18.7% to £12.6m (FY19: £15.5m), including £0.7m of COVID-19 grant income but higher than the reported revenue growth rate, reflecting the impact of fixed costs and mix on an unprecedented drop in overall demand due to COVID-19.

Costs

Our cost analysis set out below is on a reported basis and therefore includes exceptional costs, the most significant of which are associated with our strategy acceleration (see note 7 to the Financial Statements).

Our cost of sales reduced by 12.9% to £130.4m from £149.7m, mainly reflecting reduced sales volume and lower depreciation following scaled back capital expenditure.

Distribution costs reduced to £28.1m (2019: £33.2m) reflecting reduced operations during the lockdown but also the full year benefit of cost actions taken in prior years.

Administrative expenses were reduced by £7.1m, of which £4.9m was due to IFRS16 adoption with the balance being driven by cost action including the reduction in the branch network in Q4. Included within administrative expenses is £12.9m of exceptional items (2019: £3.8m) – refer to the exceptional items section of this review for more detail.

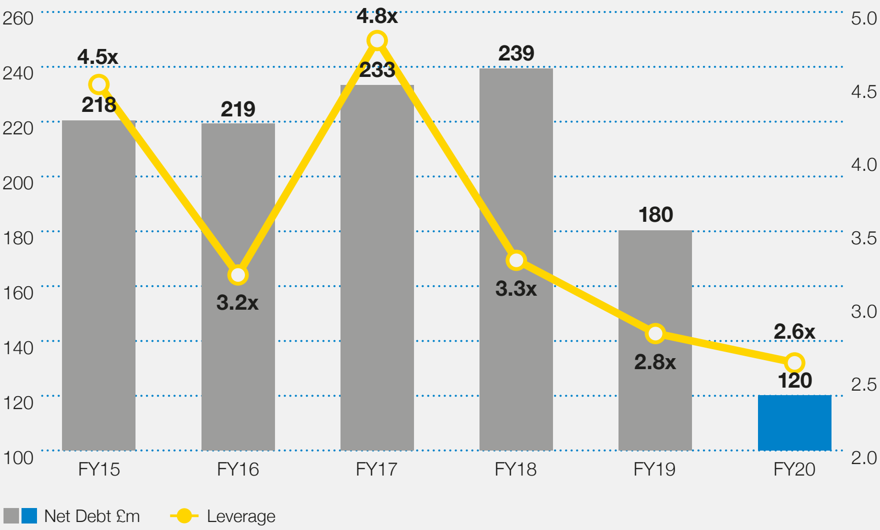
Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA pre-IFRS16 for 2020 was 26.4% lower at £47.0m (2019: £63.9m) driven by the impact of COVID-19 on revenues, offset partially by grant income and cost savings noted above. IFRS16 resulted in

Strategic Report

Financial Review continued

Net debt and leverage materially reduced[1]



1 pre-IFRS16

£22.4m of additional EBITDA due to lease costs previously reflected in EBITDA now reported as depreciation and interest. As a result, the Group's Adjusted EBITDA margin pre-IFRS16 for FY20 was 17.4% (FY19: 19.5%). Adjusted EBITDA and margin pre-IFRS16 are included in our KPIs.

Our Adjusted EBITA pre IFRS16 was £16.7m (FY19: £26.5m), a 37.0% decline with reduced depreciation following careful management of fleet to match demand. Adjusted EBITA margin pre-IFRS16 decreased by 1.9pp to 6.2% (FY19: 8.1%).

Adjusted EBITA pre-IFRS16 and EBITA margin pre-IFRS16 are included in our KPIs.

Other operating income

The Group benefited from Government grant income of £9.8m as a result of participating in the UK and Irish governments' furlough programmes. £0.6m of grants for UK rates were also received. Support has not been taken in 2021 and so it is expected that this income will not recur. We also received £1.2m of insurance proceeds following a successful claim under our business interruption policy, with a further £1.2m received following the year-end. The remaining £0.2m (2019: £0.5m) reflects income received from the sub-letting of unutilised space across our network.

Operating profit

Our operating profit decreased from £16.8m in 2019 to £1.5m in 2020, driven by the impacts described above but also including a £5.0m benefit from adoption of IFRS16.

Exceptional items

We have incurred exceptional expenditure in FY20, with the majority of this being the result of our strategy acceleration, part of which meant the permanent closure of 134 branches and, unfortunately, the redundancy of around 300 colleagues.

The property related costs totalled £7.4m with £9.5m of this being impairment of right of use assets associated with closed branches. Additional non-lease onerous provisions associated with the properties (e.g. rates and utilities) were established totalling £2.1m. A gain of £4.0m was recognised on disposal of leases in the year. A net credit of £0.3m was generated from the impairment, reassessment or disposal of dilapidations liabilities. Following the emergence of the pandemic the Group sought to agree rent concessions from landlords – £0.3m of these were recognised as exceptional because they were related to branches that were non-trading.

£4.6m of non-property cost associated with the network restructure was also recorded. Of this, £3.0m related to the impairment or disposal of property, plant and equipment and surplus resale stock arising from the branch closures. £1.6m was expensed on redundancy and associated costs.

£0.9m of costs were incurred related to the Capital Raise and preparation for the transfer of the Group's listing to AIM, and a downward revision of the rate used to discount the onerous contract provision related to NDEC liability resulted in a £0.6m charge.

Profit on disposal of UK Platforms (2019 only)

The disposal of UK Platforms resulted in a profit on disposal of £14.8m in 2019. Proceeds were used to partially repay the senior finance facility resulting in the accelerated amortisation of related debt issue costs of £1.9m in 2019.

Finance costs

Net finance expense increased to £25.1m (FY19: £22.6m). The increase is mainly driven by the adoption of IFRS16 which resulted in £4.3m of additional interest, but offset by the £1.9m accelerated amortisation of debt costs in the prior year.

Taxation

The Group has an immaterial net tax charge compared with a charge of £0.4m in FY19. The Group made an overall loss for tax purposes in the UK, and the key components of the current year charge are Irish tax payable of £0.1m and a release of deferred tax liabilities held in respect of fixed assets.

Reported and adjusted earnings per share

Our basic and diluted reported loss per share increased to a loss of 12.02p (FY19: loss of 3.66p) due to COVID-19's impact on trading, partially offset by the increase in average shares following the capital raise in December.

Our basic adjusted earnings per share, being profit from continuing operations before amortisation and exceptional costs less tax at the prevailing rate of corporation tax divided by the weighted average number of shares, moved from earnings of 2.76p in FY19 to a loss of 2.03p in FY20. Our diluted adjusted earnings per share, calculated in the same manner as basic adjusted earnings per share but with the weighted average number of shares increased to reflect Long-Term Incentive Plan (LTIP) and Sharesave options, was a loss of 2.03p (FY19: earnings of 2.31p). These reflect the decline in Adjusted profit before tax in FY20 compared with FY19. Adjusted EPS (diluted) is one of our KPIs.

Capital expenditure

Additions to intangible assets and property, plant and equipment in the year were £24.8m (2019: £33.7m) on a pre-IFRS16 basis. The majority was invested to support our Rental business with £19.0m (2019: £27.1m) spent on hire fleet, albeit scaled back following the emergence of COVID-19. £3.3m was spent on developing software assets as the Group continues its investment in technology (FY19: £2.3m). The remaining £2.5m was spent on property, plant and equipment (2019: £4.3m).

IFRS16 saw the introduction of right of use assets with £9.2m of additions in the year, of which £4.1m relate to leases that would previously have been categorised as operating leases.

Return on capital employed

Our ROCE pre-IFRS16 for FY20 was 15.2% compared with 20.8% for FY19. ROCE is calculated as Adjusted EBITA from continuing operations divided by the total of average total assets (excluding intangible assets and cash) less average current liabilities (excluding current debt items). Adjusted EBITA declined by £9.8m (2019: £4.4m increase) whilst the average capital employed by the Group decreased by 14.5% from the level calculated at the end of 2019, reflecting depreciation and asset disposals being higher than capital expenditure and the significant reduction in trade receivables.

On a reported basis for FY20 ROCE is 10.7%. ROCE is one of our KPIs.

Trade and other receivables

There has been a reduction in Gross contract assets of 7.0%. This is the result of reduced trading through the year and a very strong focus on collections which has meant overdue debt has reduced by £3.0m and to the lowest level in several years.

Despite the focus on collections the economic outlook is far from certain given the ongoing pandemic and we have increased the level at which we provide versus the historic loss rate. This reflects our expectation that insolvencies will increase following the removal of government furlough support. The situation will be kept under review moving forward.

Provisions

The onerous contract related to exiting arrangements with Unipart, which was established in 2017, saw £3.3m utilisation in the year and additions of £0.6m after revising the discount rate. This leaves £17.0m as the closing provision to be utilised over the remaining five years of the contract.

Following IFRS16, onerous lease provisions have been eliminated and now form part of Lease liability (see Leverage and net debt). However, the Group has onerous property cost provisions for non lease costs (discussed earlier in the Financial review).

Adjustments made to the Group's dilapidations provision, which has decreased from £16.2m in 2019 to £12.7m in FY20, are also largely related to the reduction in the property footprint described earlier.

Cash generated from operations

Net cash generated from operating activities was £34.1m for FY20, an increase of £11.9m. IFRS16 accounts for an increase of £16.7m with operating lease payments now recorded as finance lease liability. Excluding this, a reduction of £4.8m was driven by trading offset by liquidity preservation actions described earlier.

Leverage and net debt

Net debt pre-IFRS16 (stated gross of issue costs) decreased by £59.1m to £120.4m (FY19: £179.5m). This reflects the steps taken to preserve liquidity following the emergence of COVID-19 including the completion of a Capital Raise in December, which generated net proceeds of £50.8m. As at 26 December 2020 the Group had access to £118.3m (2019: £59.3m) of combined liquidity from available cash and undrawn committed borrowing facilities. Our leverage (pre-IFRS16), calculated as net debt divided by Adjusted EBITDA, decreased from 2.8x in FY19 to 2.6x at the end of FY20. This was primarily due to the efforts made to preserve liquidity already outlined offset by the decline in adjusted EBITA. Leverage or Net Debt Ratio is one of our KPIs.

Net debt as reported is £194.6m with £74.3m of additional lease liabilities arising from IFRS16 reported at the year-end date.

Use of alternative performance measures to assess and monitor performance

In addition to the statutory figures reported in accordance with IFRS, we use alternative performance measures (APMs) to assess the Group's ongoing performance. The main APMs we use are adjusted EBITDA, adjusted EBITA, adjusted profit before tax, adjusted earnings per share, leverage (or Net Debt Ratio) and ROCE, which, with the exception of adjusted profit before tax, are included in our KPIs as set out on pages 26 to 29.

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, finance costs, tax charges and non-cash accounting elements such as depreciation and amortisation. This metric is used to calculate any annual bonuses payable to Executive Directors.

Additionally, analysts and investors assess our operating profitability using the adjusted EBITA metric, which treats depreciation charges as an operating cost to reflect the capital-intensive nature of the sector in which we operate.

Analysts and investors also assess our earnings per share using an adjusted earnings per share measure, calculated by dividing an adjusted profit after tax by the weighted average number of shares in issue over the period. This approach aims to show the implied underlying earnings of the Group. The adjusted profit before tax figure comprises the reported loss before tax of the business with amortisation and exceptional costs added back. This amount is then reduced by an illustrative tax charge at the prevailing rate of corporation tax (currently 19%) to give an adjusted profit after tax. Adjusted earnings per share is used as a performance metric for the vesting of 2017 market value options and 2019 LTIP awards.

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

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

We use ROCE to assess the return (the Adjusted EBITA) that we generate on the average tangible fixed assets and average working capital employed in each year. We exclude all elements of net debt from this calculation. This metric is also used as a performance metric for the vesting of 2019 LTIP awards.

IFRS16 and APMs

In this, the year of IFRS16 adoption, the Group has made use of additional APMs, being measures reported excluding the impact of IFRS16. These are clearly identified as such in the measure description and performance commentary. The Group believes that such additional measures are helpful to readers of the Annual Report and Accounts, particularly because under the method of adoption chosen by the Group comparators are not restated. This makes like-for-like performance analysis difficult without the use of these measures. The Group does not expect to use the additional measures in future years since from the FY21 report results will be directly comparable.

Post-balance sheet event – sale of Laois Hire

As noted in the Chairman's introduction and CEO statement, we announced on the 7th April the sale of Laois, our Irish large plant hire business, to Briggs Equipment Ireland limited for €11.2m of which €0.5m is deferred until completion accounts are finalised in Q2 2021. The sale is in continuation of our strategy to focus on the core Tool Hire business.

Paul Quested
Chief Financial Officer

“The combination of strong working capital management and our successful Capital Raise in December have led to a material reduction in Net debt.”

Strategic Report

Environmental, Social and Governance

Ensuring we have a positive impact

2020 was a year of challenges undoubtedly, but also one of opportunities. Like the majority of businesses we had to adapt fast, implementing changes in our operations to prioritise the health, safety and wellbeing of our colleagues, whilst striving to keep our customers working. Our colleagues supported this process every step of the way, and have proven extremely resilient and ready to embrace the changes. We made every effort to continue our progress on key environmental, social and governance (ESG) issues, and as a result of the acceleration of our digital strategy, I am pleased that we have continued to move forward across our Group.

Our colleagues are at the heart of our business, and this year amidst rapidly changing priorities and targets, engaging, developing and protecting them has remained a key focus. From March, when we started to see restrictions come into force, we had a split of colleagues; some were on furlough, some working remotely, and some working on site and in our distribution centres. Our priority was to keep everyone safe, to ensure all colleagues were kept updated as our business adapted, and to keep everyone engaged and supported. We implemented a range of activities which this report will outline in more detail, but I am incredibly proud of our colleagues and what they achieved during a challenging year.

One of the key operational benefits we have seen this year has been the acceleration of our digital agenda. The lockdown period gave us more opportunity to present our digital tools to our customers, and encourage them to order this way. We designed and implemented a new Click-and-Collect model, which not only prioritised safety for customers and colleagues, but also meant we could reduce the number of deliveries and drivers on the road. Accelerating these plans brought forward some planned changes to our branch network, and whilst we regret this had an impact on some colleagues, it will help our business as we strive to become a digitally-led and more sustainable hire provider.

2020 has been an unprecedented year which forced us all to adapt; however, I believe we have made some key progress. As we further embed some of the changes we have made throughout 2020, we expect to continue driving this agenda forward over the coming years.

Steve Ashmore
Chief Executive Officer

Learning and development

8,446
e-learning modules completed

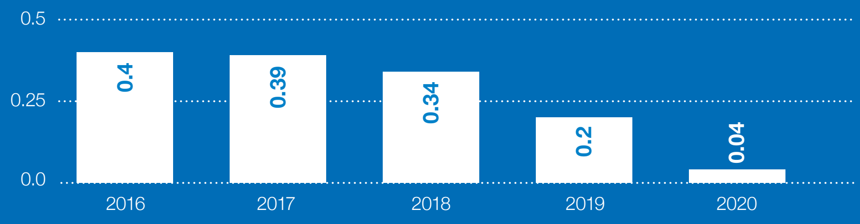
Health and safety performance

RIDDOR events per 100,000 hours worked

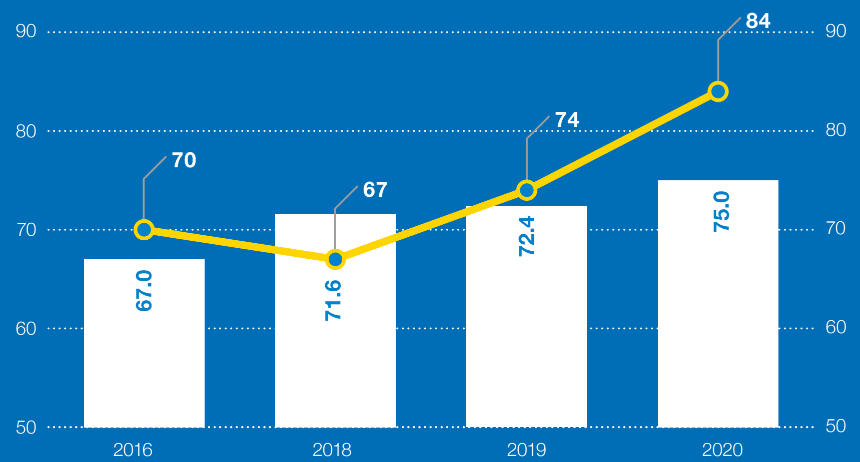
0.20
2019

0.04
2020

RIDDORs

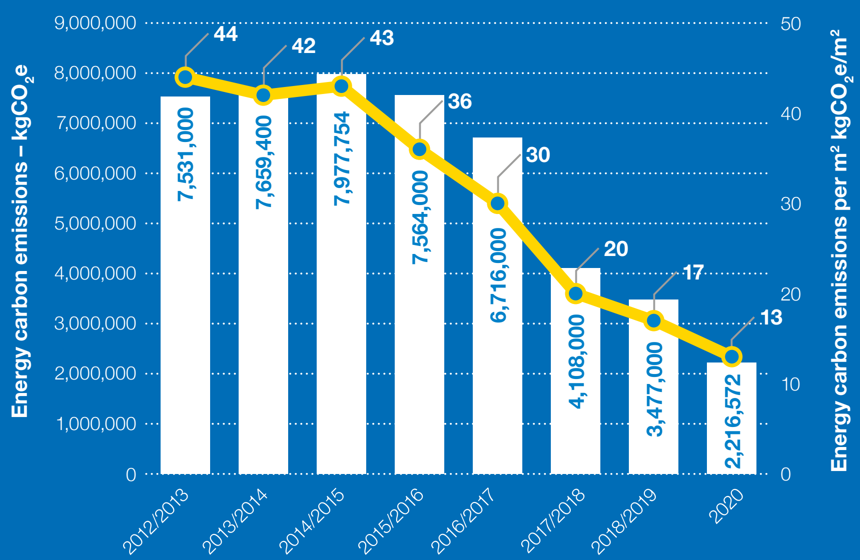


Colleague engagement (%)



Response rate Engagement rate Survey not conducted in 2017

Year on year energy carbon emissions comparison



Energy carbon emissions ($kgCO_2e$) Energy carbon emissions per m² ($kgCO_2e/m^2$)

*Emissions reduction chart from Maloney data ($kgCO_2e/m^2$)

Product lifecycle

The sustainable nature of hire

- → Procurement processes select robust kit, built to last.
- → High maintenance standards extend useable life.
- → Responsible disposal ensures nothing is wasted.

Floor sander

539
In our fleet

13,256
Customers hire one per year on average

23
Hires for each sander per year

Harvested for spare parts and recycling

Auctioned to second hand market

Strategic Report

Environmental, Social and Governance continued

Living our values

MAKE IT SAFE

Safety comes first, always!

Think safe, work safe, home safe.

MAKE IT BETTER

We're excited about what's next.

We're focused on making things better, brighter and fit for our future.

MAKE IT HAPPEN

No job is too big or too small, we do what it takes to get things done.

We do our best for our customers and our business.

MAKE IT TOGETHER

We're like a family and we've all got each other's backs.

We celebrate success, work well as a team, and have fun along the way.

Our colleagues

As our priorities shifted throughout 2020, one thing which remained core to our approach was our commitment to supporting, engaging and protecting our colleagues. They are at the heart of everything we do, and are responsible for delivering our market-leading service to our customers.

From March onwards it was clear we needed to adapt our approach to communication and support to fit the current climate and challenges. We focused on two areas:

- → Business updates – led by the CEO, and designed to ensure all colleague groups were kept updated and informed.
- → Wellbeing support – split into three core pillars: physical, mental and financial wellbeing.

We accelerated our communication and engagement strategy, delivering daily updates to colleagues both working and furloughed. With support from our benefits providers, external knowledge experts, and our internal HR team, we delivered wellbeing calls, webinars, newsletters, blogs, and much more.

Another key area where we continued to make good progress, despite the challenges of COVID-19, was in our health and safety agenda. Feedback from our colleagues told us that our incident reporting process was too complex, so our HSEQ and IT teams developed and implemented a new, easy to use, web-based portal to simplify this process. This portal has been a key driver in the improving health and safety performance across our Group business in 2020, and demonstrates our colleagues' commitment to live our values and 'Make it Safe'.

As we adapted our approach to communication and incident reporting, our Learning and Development team utilised new digital ways of working to continue delivering training courses throughout lockdowns and local restrictions. A number of courses previously delivered in person were adapted to e-learning modules, and we rolled out a number of video modules for the first time ever, allowing us to reach colleagues in new ways and still deliver over 8,400 training sessions.

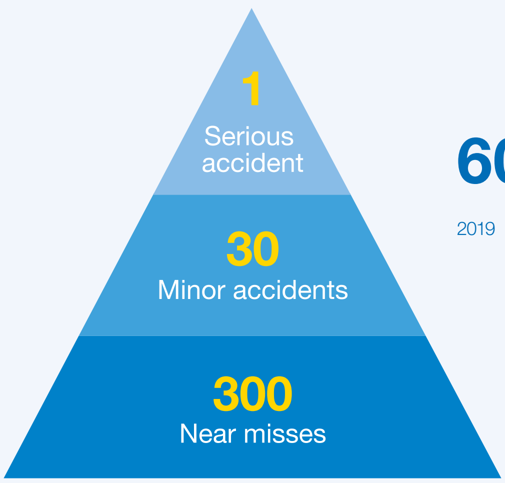
Throughout 2020 we retained our commitment to supporting our colleagues in everything they do. When we rolled out our annual colleague engagement survey in November, we were really pleased to see an increase in the completion rate and our engagement score. Despite challenging working conditions and some key changes implemented in our network, the overwhelming majority of our colleagues are strongly engaged with our business, and see a long-term future with HSS. One of the key requests was for us to continue expanding our health and wellbeing support, and this will be a key workstream for all business areas throughout 2021.

Reward

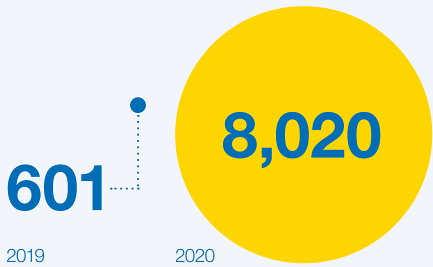
At HSS we are committed to ensuring that we reward our colleagues in a way which is fair and representative of their performance, regardless of gender. The hire industry is typically male dominated. Whilst this is reflected in our current workforce makeup (with 85% male colleagues, and 15% females), we believe that ongoing changes we are making to our working practices, such as more flexible, remote working opportunities, will help us to attract more women to our business and industry moving forward.

We make every effort to reduce any potential for bias through our recruitment processes, ensuring that job descriptions and interview questions are worded in a neutral manner, and

Heinrich pyramid



HSS safety observations



Why are more safety observations good news?

The Heinrich pyramid is a theory of industrial accident prevention which demonstrates the relationship between near misses and accidents.

It tells us that increasing the number of near misses and safety observations we record and action will reduce the number of accidents and injuries that occur.

During the year we have introduced a new portal for safety observations and as a result we have captured more than ten times as many in FY20 than FY19.

Energy and emissions

Activity	Fuel use	Annual energy (kWh)	Annual carbon emissions (tCO_2e)
Building energy – gas (kWh)	448,050	448,050	82
Building energy – electricity (kWh)	8,429,201	8,429,201	2,134
Transport – commercial vehicles & Leeds bunkered fuel tank (litres)	3,339,108	35,327,762	8,501
Transport – company cars (miles)	4,183,279	4,448,374	1,134
Transport – grey fleet (expensed mileage)	174,307	193,926	48
Process – forklift gas (propane – litres)	45,072	320,459	70
Total	**16,619,017**	**49,167,771**	**11,970**

Figures stated are for the UK. Year on year comparison figures are demonstrated on page 41.

ensuring that artwork and photography depicts the broad range of roles and colleagues across our Group.

In 2020, our median gender pay gap remained largely the same as 2019, at -1.01%. We are committed to ensuring that colleagues are rewarded fairly based on role and contribution. For 2021, we have put a number of initiatives in place such as establishing our first HSS Women's Networking Group, to explore issues facing women in the workplace, and how we can better support female colleagues at HSS.

Sustainability in products and services

Hire is intrinsically a sustainable business model, ensuring equipment is reused multiple times, by multiple customers, and maintained to a high standard to extend its useable life. Our vigorous procurement selection process ensures we only invest in equipment which is robust enough to last. For example, our popular floor sander model is selected for its robust body, which means parts inside can easily be repaired or replaced as wear and tear dictates, whilst reusing the main component of the product itself. This allows us to extend the useable life of the product to just over six years on average, during which time it will go out on hire around 23 times per year.

When our products do reach the end of their useable life, we endeavour to dispose of them in a responsible manner. This year we entered into a new recycling scheme to responsibly recycle our plastic barriers. Working in partnership with BCS Group, we joined its closed loop recycling programme which has so far helped us to divert 150 barriers, or 1.55 tonnes of plastic, from landfill.

The impact of COVID-19 has allowed us to explore and implement more sustainable service offerings within our HSS Training business. Working with CITB, we were able to create eight virtual courses which are traditionally held face to face, to ensure we removed unnecessary travel, whilst helping our customers remain compliant. Working with the course accreditation bodies we will continue to expand our e-learning offering.

Responsible waste management

Through our ongoing partnership with Biffa we have continued to make good progress in disposing of our waste in a responsible manner. This year Biffa disposed of 937.5 tonnes of waste on our behalf, diverting 90% from landfill, an increase on the 85% diverted in 2019. We also partner with Slicker for disposal of our hazardous waste, ensuring materials such as waste oils are recycled, reused or converted to energy.

Energy and emissions

Across the HSS Group network we have a robust approach to monitoring and analysing our energy and emissions usage, to identify where we can make improvements. Working in partnership with Maloney Associates, we have implemented more thorough monitoring standards, and despite having to delay some of the planned audits of our sites due to the COVID-19 pandemic, we are starting to identify some areas to make improvements thanks to this enhanced performance data. Step change improvements such as moving our electricity to a 100% green and renewable provider, and changing our lighting to LED alternatives, are allowing us to gradually reduce the environmental impacts of our physical locations.

As part of the Streamlined Energy and Carbon Reporting (SECR) framework the total UK energy use for HSS totals **49,167,771 kWh** for the period 1 January to 31 December 2020. This includes our built environment, transport, and process fuel energy. Total emissions expressed as percentage of Revenue is a Group KPI (page 28).

The COVID-19 pandemic has had a significant impact on these figures, as the majority of our branch network, excluding our larger depots, was closed throughout the lockdown periods. We did go on to permanently close 134 of these smaller locations, expanding instead our builders merchant partnerships, which see us sharing physical locations and their associated energy usage with these businesses.

We utilise the Greenhouse Gas Protocol Corporate Accounting and Reporting Standard to fulfil the reporting requirements around energy and emissions. This includes DEFRA conversion factors to calculate Greenhouse Gas (GHG) emission disclosures. The extent of the GHG reporting boundary comprises of all building, transport and process emissions within the three reporting scopes.

This year we rolled out a number of trials to attempt to find ways to improve emissions across our transport fleet. We have changed our company car policy to encourage colleagues to take more hybrid and electric cars, and we have introduced a number of diesel hybrid trucks to our commercial fleet. We will continue to monitor the performance of these vehicles and explore the feasibility of introducing more environmentally friendly vehicles to our fleet.

Giving back

In line with our values we are committed to giving back to the communities we work in, ensuring we have a positive impact and add value where we can. Throughout 2020 we have been able to raise a significant amount of money for good causes. Through our procurement partnership with Commercial, we were able to contribute £756,079 in social value through their Commercial Foundation, which helps disadvantaged young people learn new skills and boost their employment opportunities.

A large percentage of our colleagues are enrolled in our Pennies from Heaven scheme, which donates the loose change from salaries to Cancer Research, The British Heart Foundation, and UCL Dementia Research Institute. This year we have raised £7,131.33 throughout the year. Our colleagues also organise and take part in a large number of localised fund raising projects alongside our customers, and have helped to raise funds for the likes of Andy's Man Club and the Bobby Moore Fund.

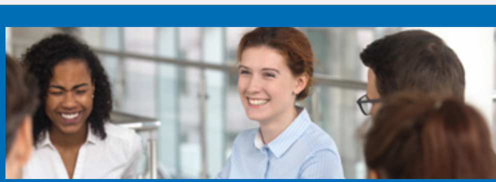
Strategic Report

Engaging with our Stakeholders and Section 172

Summary of key engagement activities during FY20:

Shareholders and investors

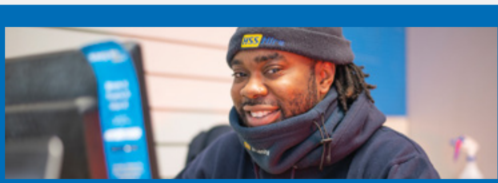
Our shareholders monitor and safeguard the governance of HSS and regular dialogue is crucial to ensure they have a good understanding of our strategy and our objectives.



	Nature of engagement	Conclusions drawn from engagement
Investor meetings and shareholder interactions	Liaising with investors and maintaining stakeholder confidence has been key during FY20 and the challenges presented by the COVID-19 pandemic. The Executive Directors have been in regular dialogue with our major shareholders, culminating in our capital raise and move to AIM, announced on 26 October 2020 and completed on 14 January 2021. This project required a shareholder meeting in addition to our AGM held in June 2020, which was held virtually, with an audio link for investors and the ability to submit questions to the Board. Our capital raise also provided the opportunity for the Executive Directors to meet new, prospective investors, talk to them about HSS and gather their feedback, resulting in an excellent take-up under the Placing and Open Offer.	Strong support for the Group's progress and strategy, particularly around digital, evidenced by certain existing shareholders increasing their investment in HSS and some new investors coming on board. The Board is keen to maintain this momentum in FY21 and onwards.
Remuneration	The Remuneration Committee Chairman consulted with major shareholders on amendments to the Remuneration Policy and related LTIP Rules in order to grant restricted stock awards during FY20.	Continued support for the proposals (strong support of resolutions at the AGM) and the direction of the business, acknowledging the difficult circumstances presented by the COVID-19 pandemic.
Ad-hoc shareholder interactions	The Chairman and Executive Directors have each attended meetings and calls with major shareholders to provide general updates and maintain regular communication. The level of interactions with both existing and new shareholders increased during the capital raise.	Very positive comments around business management, strategy and performance. Existing and new shareholders evidenced their support by investing in the capital raise.
AGM	All shareholders, along with other stakeholders, including the Company's auditors, sponsor/broker and lawyers are usually invited to attend the AGM in person. In FY20 this was not permitted under Government Guidelines. Whilst many companies held their AGMs entirely behind closed doors, the Board considered it important to involve stakeholders in the meeting to the extent possible by permitting stakeholders to listen to the business of the meeting via a conference call facility and submit any questions to the Board.	All resolutions put to shareholders were passed with a very high percentage of votes for, showing strong support for the Company and the Board.
Trading updates	We keep our shareholders fully informed of the performance of the business on a regular basis, through the publication of trading updates and voice-over presentations which are available on the HSS corporate website. As part of our interim results announced 8 October 2020 we presented our new digitally-led operating model including the restructuring of the Group's branch network with the permanent closure of 134 locations and reduction in colleagues.	The outputs largely mirror those in Ad-hoc shareholder interactions.
Corporate website	Presentations, information and financial data are available. As part of the capital raise a specific micro-site was created providing a repository for all of the relevant documents for shareholders and investors. The site has also been refreshed to comply with AIM Rule 26.	

Colleagues

Our colleagues are our primary asset and it is their hard work and commitment that ensures our success as a business. Regular engagement ensures HSS's culture and values are understood throughout the Company as we work together to achieve our purpose.



	Nature of engagement	Conclusions drawn from engagement
Health, safety and wellbeing	The health and safety of colleagues, as well as that of customers and visitors to our sites and offices, is a fundamental priority. The following activities have been taking place across the Group to engage with colleagues on health and safety matters: → Various discussion groups at a sales and operational level → The continuation of our Health and Safety Forum involving members of the senior leadership, operations, sales, and health and safety teams → Our colleague engagement survey included questions on health and safety, including COVID-19 safety in the workplace for colleagues and customers → Trialling new pieces of kit to assist branch colleagues with moving heavier kit safely and seeking their feedback on such kit	Awareness and ownership of health and safety at all levels of the business has improved. Colleagues appreciate involvement in health and safety initiatives. Significant reduction in RIDDORs and colleague safety observations hugely increased. The Board considers this as good evidence that colleagues are engaged with the importance of their own health and safety, as well as that of their colleagues and the wider public, and this is in the forefront of their minds as they undertake their daily tasks.
Workforce forum	A forum is to be introduced which will be chaired by the Group HR Director and involve colleagues at varying levels who will be encouraged to share views on the Company, its business and culture, and agree what should form the priorities.	The Group HR Director shall share those priorities with the Board who shall consider as appropriate. This initiative was postponed in FY20 due to COVID-19, but will be revisited when appropriate.
Internal communications	We continue to ensure that colleagues are kept informed of developments, important issues and Company performance in order to drive engagement and ownership. These are cascaded throughout the business through a variety of channels, including the Group's intranet, emails and newsletters. This has been more important than ever in FY20 with many colleagues working from home rather than being together in physical locations; communication and checking on wellbeing have been key and will continue to be. Our CEO shared a daily blog with colleagues during the early stages of the COVID-19 pandemic, reduced to weekly as new ways of working and changes to the business became embedded. We also invite a broad cross-section of colleagues to listen in on web-based results presentations from the Executive Directors around the time of our usual market releases. FY20 was the third year of our 'Colleague Roadshows' which involved the Executive Directors presenting via a webcast to all colleagues across the respective regions. We followed a specific in-depth communication programme to engage colleagues around the new digitally-led operating model and the impact this had their roles. This included a formal consultation process for the colleagues directly impacted by the permanent closure of 134 branches. We engaged with colleagues to explain the capital raise announced on 26 October 2020, including providing support for those who were existing shareholders to ensure clarity as to the Open Offer process.	Strong communication around the business by the senior management team and being approachable to colleagues has again improved engagement. Insight and feedback on the impact of the branch closures and redundancies; whilst unfortunate, colleagues understand the strategy and those impacted at least appreciated that the process was well communicated and undertaken in a professional and respectful manner.
Colleague engagement survey	During FY20 we undertook our annual colleague engagement survey. A response rate of 84% showed an improvement on FY19 (74%), with some notable improvements on scores within particular categories of the survey.	The Board and senior management have discussed the findings and noted good improvements on scores in three key areas: emotional engagement, motivational engagement and rational engagement. The Board considered levels of positivity in the light of new COVID-19-related working practices, noting a generally very positive response to home-working flexibility, but noting equally as importantly that it did not suit all colleagues. Lower levels of positivity from colleagues who had been subject to furlough were, understandably, reported. Colleagues were asked to comment on how comfortable they felt raising health and safety concerns in the workplace; the response was positive, but nevertheless the Board noted this as an action to improve further.
Systems improvements	We continue to invest in, develop and roll out new digital tools and systems, as more particularly detailed in the Strategic Report.	Engaging via these digital channels has made HSS easier to work for, making for a better hire experience for customers. It also helps our sales and driver colleagues to work more efficiently, meaning a more contented workforce.

Strategic Report

Engaging with our Stakeholders and Section 172 continued

Summary of key engagement activities during FY20: continued

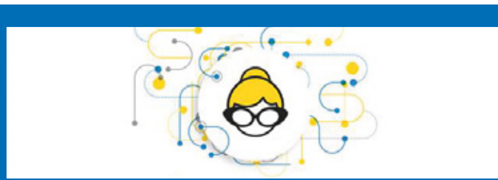
Customers

Without our customers, there is no business. We engage with them to ensure we deliver the best possible service and their insights and feedback are a crucial element in identifying future opportunities.

	Nature of engagement	Conclusions drawn from engagement
Customer satisfaction	Details of our NPS, which is significantly ahead of the industry benchmark, are included on page 14. In addition, our branch sales colleagues and sales colleagues out in the field are engaging with customers on a daily basis and obtaining feedback. We ensured that appropriate communication materials were available and utilised to explain to customers the changes in our operating model announced in October 2020.	The key message we keep hearing from customers is that we must remain easy to work with. Our digital projects, including the app, are greatly assisting with this. Since introducing the new digitally-led operating model, the Group's performance has continued to improve with over 20% now transacted through digital channels. Combined with a strong NPS score from the customer survey conducted after these changes, this reinforces that customers are willing to operate in the new model.

Suppliers

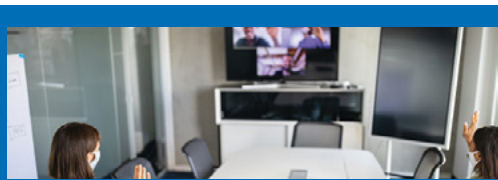
Without suppliers, we cannot serve our customers. We engage with them to build strong working relationships, identify risks in our supply chain, and ensure HSS's values are shared.



	Nature of engagement	Conclusions drawn from engagement
Systems improvements	→ Embedding of the 'Brenda' system (see page 22) → Clearer onboarding processes for suppliers → Launch of HSS Pro POS making Brenda inventory directly available to our branch and remote sales teams	All of these steps have allowed us to engage with our suppliers more simply and clearly, meaning fewer issues to resolve and quicker transactions (including payment). Suppliers are also clear on the terms on which they contract with HSS and that HSS expects high business and ethical standards, including around anti-modern slavery, anti-facilitation of tax evasion, anti-bribery etc.

Lenders, analysts and broker

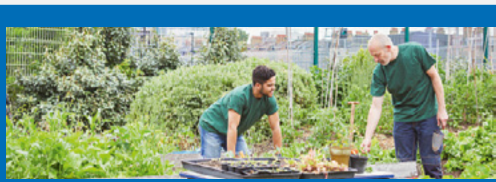
Our lenders provide part of the funding we need to deliver the Group's strategy. Analysts are a source of information for existing and potential investors while our sponsor and broker plays a key role in our engagement and compliance with financial markets.



	Nature of engagement	Conclusions drawn from engagement
Lenders	Our Executive Directors continue to meet with the Group's key lenders at least quarterly to update on business performance and strategic progress. We pro-actively briefed the Group's lenders on the operating model restructuring, capital raise and move to AIM during the year.	The Group's lenders continue to be very supportive of the business, particularly evidenced throughout the COVID-19 pandemic.
Analysts	Our Chief Financial Officer has regular telephone conferences and meetings with the analyst community including covering the strategic projects announced during the year, namely the capital raise and new digitally-led operating model.	Good levels of engagement with the analyst community continue to be observed.
Sponsor & broker	The Company's sponsor and broker was regularly involved with day-to-day business and strategic activity during FY20, including via the Executive Directors, investor relations team and legal team. Our sponsor was heavily involved in both the capital raise and move to AIM. They were also pro-actively engaged in advance of the new operating model changes, providing input to the investor communication material.	Good levels of engagement and dialogue have been maintained, particularly throughout the capital raise project. Going forward, the Board hopes that the Company's broker will be able to assist with greater engagement with potential investors. The Capital Raise successfully raised net proceeds of £50.8m.

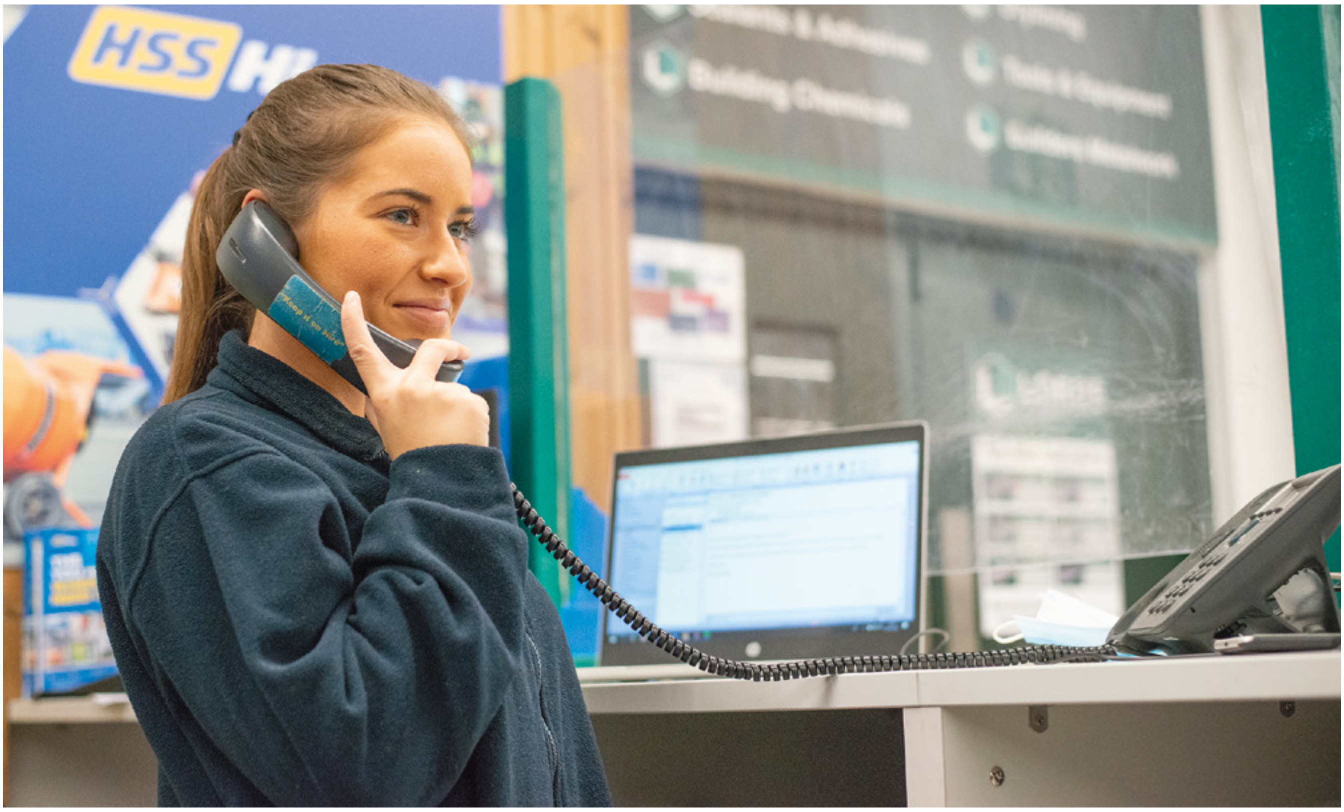
Local communities and the environment

HSS strives to be a good corporate citizen and strong local relationships support this aim.



Communities	Whilst some activities have taken place during FY20 in this area (summarised on page 43), many activities have simply not been possible during FY20 due to lockdowns and restrictions around physical meetings.
Environment	A summary of the Company's activities on environmental and corporate social responsibility is included on page 40. The Board regularly discusses environmental issues relating to the business divisions of the Group, including diesel engine emissions (Stage V emissions standards).

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



Section 172(1) Companies Act 2006

The 2018 Corporate Governance Code and the Companies (Miscellaneous Reporting) Regulations 2018 reinforce the importance of S.172 of the Act, which requires Directors to act in a way that promotes the success of the Company for the benefit of shareholders as a whole. The 2018 Code has been applied to the Company for FY20, noting that the Company has moved to AIM and will apply the QCA Corporate Governance Code going forwards.

The Strategic Report on pages 1 to 47 was approved by the Board of Directors on 28 April 2021 and is signed on its behalf by:

Steve Ashmore
Director

Corporate Governance

Chairman's Introduction

Governance more important than ever

"On behalf of the Board, I am pleased to present the corporate governance report for 2020. The strength and depth of our existing governance helped us respond to the unprecedented challenges of COVID-19."

Alan Peterson OBE
Chairman

Overview of the year

Governance, controls and careful stewardship of the business have been vital in a year of widespread disruption caused by the COVID-19 pandemic. I have been delighted with the response of the Board, committees, senior managers and colleagues across the business who have risen to the challenges, developing new ways of working and accelerating the delivery of our strategy. All of this while remaining focused on the safety of each other and our customers. Responding quickly and decisively to preserve cash, optimise financial performance and ensure continuity of supply to our customers was fundamental, with the Board involved at all times.

It has also been a year of significant progress for the business, delivering key projects to change our operating model, accelerate our digital strategy and closing the year by strengthening our balance sheet through a placing and open offer; these projects, and the governance around them, have been areas of focus for the Board, requiring additional Board meetings as we analysed the impact on all stakeholders. Such a seamless transition would not have been achieved without the dedication of colleagues right across the business.

Last year I wrote about direct interactions between Board members and colleagues at all levels, for example through our Health and Safety Forums, which took place in our Customer Distribution Centres. Having that line of sight from Board to distribution centre has been more important than ever this year as we rolled out COVID-19 compliant working practices and our Click-and-Collect offering for our customers.

In FY19 our CEO, CFO and CCO travelled throughout the UK and Ireland on six roadshows to present to office and branch/ sales colleagues of all levels and take part in Q&A sessions to discuss how the year had gone, including presenting awards to colleagues who had made outstanding contributions over the year and to share the exciting plans we had going forward; this had to become 'virtual' this year, allowing us to reach and involve the same breadth of colleagues, with feedback and questions welcomed.

50%

50% of INEDs are female

1 in 7

Of the Board is female

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

Board evaluation and colleague engagement

I am pleased to report that the findings of our 2020 internal Board and committee evaluation show that our Board continues to be impressed with the management and direction of the business. Board members consider that they are well informed on the activities of the business and able to contribute their considerable skills and experience through the Board and committee meeting setting. In previous years, the Board has enjoyed more direct engagement with colleagues from across the business at Board meetings, on site visits and through informal meetings. The Board very much hopes to be able to return to this more normal pattern during FY21. The Board considers this an important aspect for engagement and also for colleague development and succession planning.

Further details are provided in the report on page 45.

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

As a Board, we look carefully at the findings of our annual colleague engagement survey; as well as monitoring morale and wellbeing in the business, this helps us to monitor the development of our culture and also how colleagues feel about development opportunities within HSS. We had record numbers of colleagues completing the survey in FY20 with some encouraging results and some areas to focus on; more details on this are on page 42.

Senior management

We have had good continuity amongst senior management during 2020, with the team showing excellent resilience and fresh thinking and innovation to counter the difficult environment. In previous years we have been able to welcome senior managers at our Board and committee meetings over the course of the year when their presentations and contributions have been valuable; our meetings have been almost entirely virtual in FY20, but the input and efforts from senior managers have not diminished.

Legislative/regulatory matters and related training for colleagues

The Directors and senior management are informed of notable legal and regulatory changes via a combination of internal legal and audit professionals and also via external advisers. In FY20, this included a briefing from our legal advisers and nominated adviser as the Company was admitted to trading on AIM, which included Director responsibilities and key differences between a Main Market listing and an AIM listing. The Board was also briefed on its responsibilities for our placing and open offer and the publication of our prospectus.

The Group's Data Governance Team continues to monitor day-to-day data protection issues as the UK continues to apply the principles of the GDPR by amendment of the Data Protection Act 2018.

The Group continues to promote, to both customers and suppliers, the importance of doing business in an ethical way. An anti-slavery and human trafficking statement for FY19 was published during 2020, with the FY20 statement to follow in 2021.

Our gender pay gap statistics are included on page 43 and I am pleased to note the appropriate balance there. We continue to be committed to paying all our colleagues fairly.

The Company's Code of Ethics (available at www.hsshiregroup.com) outlines our commitment to operating in an ethical and responsible manner, with honesty, integrity, openness and with respect for human rights. Our support for these fundamental principles is reflected in our policies and actions towards our colleagues, customers, suppliers and the communities we operate in. The Code specifically sets out the Company's position on modern slavery and anti-bribery, areas on which we continue to train our colleagues and reinforce important messages. The Code and the policies underpinning it are regularly reviewed by senior management in light of changing business and regulatory requirements.

As noted above, we moved quickly to develop COVID-19 working practices and trained our colleagues to ensure ownership and adherence to such practices. We welcomed inspections by the UK Health and Safety Executive (HSE) of policies and procedures around COVID security, which were highly regarded. This, along with achieving ISO 45001 status during the year, demonstrates the importance of health and safety in our business.

Governance Code

As indicated in our FY19 Report, 2020 is our first year of reporting under the Corporate Governance Code 2018. However, I should also note that, with effect from 14 January 2021, the Company's listing moved from the Main Market to AIM and, in line with many other AIM companies, we shall adopt the QCA Corporate Governance Code. Therefore, from our FY21 Report onwards, we shall be reporting under the QCA Corporate Governance Code.

Equality and diversity policy

As reported last year, at HSS we promote equal opportunities and diversity with a view to securing sustainable success. Our gender diversity on the Board is unchanged from 2019.

AGM

It is our intention, once again, to hold our AGM at the Hilton Garden Inn, Hatton Cross, at 11.00am on 30 June 2021. We continue to monitor Government advice on what security and other precautions we should take due to the COVID-19 virus and will include these in our Notice of Meeting. Any further special arrangements will be advised via our corporate website (www.hsshiregroup.com). We recommend shareholders consider not attending in person and instead make use of electronic proxy voting.

Alan Peterson OBE
Chairman

28 April 2021

Corporate Governance

Board of Directors

Our Board

Committee membership

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

Alan Peterson OBE
Chairman

Tenure on Board
6 years and 3 months

Independent
No

Committee memberships
N

External roles
- Chairman, BBI Diagnostics Group
- Honorary Colonel Army Cadets, Wales

Past roles (include)
- Non-Executive Chair Veezu Group
- Executive Chairman, Enterprise Group Holdings
- Chairman, NSPCC Wales Appeal Board
- Non-Executive Chairman, Pattonair Holdings Limited
- Non-Executive Chairman, Azelis Holdings SA
- Chairman Supervisory Board, Refresco BV
- Managing Director, Rockware Group
- Chief Executive Officer, Meyer International plc
- 3i's first Industrialist in Residence, 2001 to 2005

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

Steve Ashmore
Chief Executive Officer

Tenure on Board
3 years and 9 months

Independent
No

Committee memberships
M

External roles
- None

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

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

Paul Quested
Chief Financial Officer

Tenure on Board
4 years and 7 months

Independent
No

Committee memberships

External roles
- None

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

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

Amanda Burton
Senior Non-Executive Director

Tenure on Board
6 years and 3 months

Independent
Yes, since appointment in January 2015

Committee memberships
R M A N

External roles
- Non-Executive Director and Chair of Remuneration Committee, Countryside Properties plc and Connells Ltd
- Non-Executive Director, Skipton Building Society

Past roles
- Chief Operating Officer, Clifford Chance LLP
- Director, Meyer International plc
- Senior Independent Non-Executive Director, Galliford Try plc and Monitise plc
- Non-Executive Director, Fresca Group Limited
- Chair, Battersea Dogs and Cats Home

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

Doug Robertson
Non-Executive Director

Tenure on Board
6 years and 3 months

Independent
Yes, since appointment in January 2015

Committee memberships
A R N

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

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

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

Thomas Sweet-Escott
Non-Executive Director

Tenure on Board
6 years and 3 months

Independent
No

Committee memberships

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

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

Skills and experience
- M&A
- Digital
- Strategy
- International

Daniel Joll
Group General Counsel & Company Secretary

Tenure on Board
4 years and 3 months

Independent
No

Committee memberships
Secretary for all Committees

External roles
- None

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

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

Strategic Report
Corporate Governance
Financial Statements
Additional Information

Corporate Governance

Compliance with the Corporate Governance Code

FY20 is the Company's first year of reporting under the 2018 Code. The 2018 Code can be found here:

- www.frc.org.uk/getattachment/88bd8c45-50ea-4841-95b0-d2f4f48069a2/2018-UK-Corporate-Governance-Code-FINAL.PDF

The Board is committed to high standards of corporate governance and as such has complied with the 2018 Code during the FY20 reporting year, except as set out below:

The Code recommends that at least half the board, excluding the chair, should be non-executive directors whom the Board considers to be independent. 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.

There are six Directors on the Board. Excluding the Chair and the two Executive Directors, there are three Non-Executive directors. 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 33.8% of the Company's issued shares. Amanda Burton and Douglas Robertson are both considered independent. On that basis, the Company does not comply with the Code provision. This was reviewed during FY20 by the Board and it was determined that independent views are properly represented on the Board and any further non-executive director appointments were not warranted given the Company's stage of development and plans for FY20, including the Company's move from the Main Market to AIM, announced in late 2020 and completed in January 2021.

On 14 January 2021, the Company, Exponent and the Exponent Shareholders entered into a new 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 FY20 activities around engagement with colleagues and wider stakeholders are set out on page 44. The Board considers this multi-channel approach to engagement to be more suited to the culture of the Company and more likely to encourage interaction and feedback from colleagues than having a director appointed from the workforce or similar approaches. This will be kept under review.

Leadership

Key roles and responsibilities	
Chairman **Alan Peterson OBE**	Responsible for: → ensuring that the conduct of the Group is in accordance with high standards of integrity and probity; → the leadership and overall effectiveness in directing the Company, including demonstrating objective judgement and promoting a culture of openness and debate; → ensuring a clear structure for the operation of the Board and its committees; → setting the Board agenda in conjunction with the Company Secretary, Chief Executive Officer and Chief Financial Officer; → ensuring that the Board receives accurate, relevant and timely information about the Group's affairs; and → ensuring regular engagement with major shareholders.
Chief Executive Officer **Steve Ashmore**	Responsible for: → developing the Group's strategy for consideration and approval by the Board; → implementing the agreed strategy; → day-to-day management of the Group's operations; and → being accountable to, and reporting to, the Board on the performance of the business.
Senior Independent Non-Executive Director **Amanda Burton**	Responsible for: → being an alternative contact for shareholders at Board level other than the Chairman; → acting as a sounding board for the Chairman; → if required, being an intermediary for Non-Executive Directors' concerns; and → reviewing the Chairman's performance. The Senior Independent Non-Executive Director carries out the duties of a Senior Independent Director for the purposes of compliance with the 2018 Code.
Board and committee structure	The Board focuses on: → leadership; → risk assessment and management; → strategy; → performance; and → monitoring safety, values and standards. In addition, there is a formal schedule of matters reserved for the Board. The committees each have full terms of reference which can be found on the Company's website at www.hsshiregroup.com/investor-relations/corporate-governance. **Non-Executive Directors** The number of Non-Executive Directors and their range of skills and experience is kept under review and was formally reviewed as part of the Board evaluation (see page 57).

Governance framework

Alan Peterson OBE
Chairman

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

The Board

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

Role:
- Lead the Group.
- Promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.
- Oversee risk management and internal controls.
- Oversee strategy.
- Oversee the executive management.
- Monitor performance.
- Set values and standards aligned with culture and encourage engagement.

Executive management

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

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

Company Secretary

Daniel Joll

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

Audit & Risk Committee

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

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

Find out more in the Audit Committee Report on page 58

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.
- Review workforce remuneration and related policies, and the alignment of incentives and rewards with culture.

Find out more in the Directors' Remuneration Report on page 61

Nomination Committee

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

Role:
- Advise the Board on composition, membership and succession planning.
- Advise the Board on Board and senior appointments (taking into account skills, knowledge, experience, independence and diversity).
- Oversee Board evaluation, including determining and monitoring actions.
- Promote the right culture and engagement, colleague development and wellbeing.

Find out more in the Nomination Committee Report on page 57

Market Disclosure Committee

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

Role:
- Ensure compliance with the disclosure requirements of the Financial Conduct Authority's Disclosure Rules and Transparency Rules.
- Review any announcement proposed to be made by the Company other than any announcement of a routine nature or to be considered by the Board.
- Ensure that procedures are in place for employees with access to inside information.

Corporate Governance continued

Attendance at Board and committee meetings of which each Director is a member held during FY20

Director	Board (of 16)	Audit Committee (of 6)	Remuneration Committee (of 4)	Nomination Committee (of 2)
Executive Directors				
Steve Ashmore	16	–	–	–
Paul Quested	16	–	–	–
Non-Executive Directors				
Alan Peterson OBE	16	–	–	2
Amanda Burton	15	6	4	1
Doug Robertson	16	6	4	2
Thomas Sweet-Escott	16	–	–	–

All the individuals who were Directors as at 26 December 2020 offer themselves for re-election at the next AGM of HSS Hire Group plc to be held at 11.00am on 30 June 2021.

The biographical details of each of the Directors, including details of their other directorships and relevant skills and experience, are on pages 50 and 51 of this Annual Report and are also set out in the Notice of AGM.

The Board recommends that shareholders approve the resolutions to be proposed at the AGM relating to the re-election of all of the Directors.

Terms and conditions and time commitments

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

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

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

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

Conflicts of interest

Exponent and the Exponent Shareholders currently control 33.8% of the Company's issued shares.

Thomas Sweet-Escott is a partner at Exponent and Alan Peterson OBE has a long-standing business relationship with Exponent and is Chairman and/or a director of BBI Group HoldCo Limited, an Exponent portfolio company. The Group trades on an arm's length basis and in the ordinary course of business with certain Exponent portfolio companies.

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

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

Effectiveness

Board composition

The Board and committees are considered to have an appropriate range of experience, skills and knowledge to fulfil their duties. Profiles of each of the members of the Board are provided on pages 50 and 51.

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

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

Appointments to the Board

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

Overview of Board's work during 2020

The Board met 16 times during 2020, the majority being via video conference in light of COVID-19.

Regular agenda items for the Board included, and will include in 2021:

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

The Board delegates authority to the following Committees and receives updates on their activities at each Board meeting:

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

Board evaluation
Internal evaluation of the Board and of our sub-committees was carried out as detailed on page 57.

Board training
As part of induction, any new Directors receive training from the Company's sponsors/brokers in relation to their responsibilities as a Director of a listed company. The Board also receives regular updates on legal and regulatory developments through the course of a financial year as reflected in the Chairman's Introduction on page 49.

Access to information and support
The Board is provided with an agenda and supporting papers and documentation ahead of each Board and/or Committee meeting to allow them time to read, review and consider the information and analysis presented. The Board also receives ad-hoc updates on matters if required outside of the formal Board meeting timetable. The Board has access to the Company Secretary and can request independent advice at the Company's expense where it believes it is appropriate and valuable to do so. Senior management is frequently invited to present at Board meetings as deemed appropriate, and the Board can access such colleagues at any time.

Accountability
Financial and business reporting
The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations and, as set out in the Directors' Responsibility Statement (see page 73), 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' 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 35.

The Group's risk management and internal control system is designed to manage the risks facing the Group and safeguard its assets. No system of internal control can provide absolute assurance against material misstatement or loss. The Group's system is designed to provide the Directors with reasonable assurance that issues are identified on a timely basis and are dealt with appropriately.

The Audit Committee (whose composition, remit and report are set out on page 53 and pages 58 to 60) assists the Board in reviewing the effectiveness of the Group's risk management and internal controls, including financial, operational and compliance controls and risk management systems. This is carried out with the assistance of the Chief Financial Officer and the Risk and Assurance Director and supported by the findings of specific projects/investigations completed by the internal audit team, which are presented to the Audit Committee during the financial year.

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

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

Modern Slavery Act 2015
The Group published its Modern Slavery Act statement for the financial year ended 26 December 2020 on its website during the first six months of 2020, in accordance with guidelines.

Going concern and long-term viability statement
At 26 December 2020, the Group's financing arrangements consisted of fully drawn senior finance facility and RCF of £199.2m, an undrawn overdraft facility of £6.0m and finance lines to fund hire fleet capital expenditure, of which £14.7m had not been utilised. Both the senior finance and revolving credit facilities are subject to a net debt leverage covenant test each quarter. At the financial year end the Group had 36% headroom against this covenant. Subsequent to year end the Group repaid £15m of the senior finance facility and the £17.2m RCF. Cash at 26 December 2020 was £97.6m (28 December 2019 £22.7m).

The Directors have prepared a going concern assessment covering the 12 month period from the date of approval of the Annual Report, which confirms that the Group is capable of continuing to operate within its existing facilities and can meet its covenant tests during that period. The key assumptions on which the projections are based include an assessment of the impact of future market conditions on projected revenues and the capital investment required to support that level of revenue. The Group has considered the impact of continued economic uncertainty resulting from COVID-19 as part of its assessment.

The Group's base case, which was used for both the going concern and long-term viability assessment that follows was the Board approved budget and three-year model. The budget assumes a continued recovery of revenue during 2021 albeit a conservative one in that it will not reach pre-COVID levels. In the base case, the Group remains comfortably within covenant tests and maintains sufficient liquidity throughout the period modelled. In addition, the Board has considered various downside scenarios including a 'reverse stress test' case to assess the level of revenue (and ultimately EBITDA) loss the Group could sustain without breaching covenants or requiring additional liquidity should there be further COVID-19 lockdowns later in 2021.

The principal effects assessed in this downside scenario were:

- The model was updated to reflect trading for the 14 weeks to 3 April 2021.
- Reductions in revenue during the six month period from October 2021 to March 2022, which mirror the revenue decline experienced by the Group during the first COVID-19 lockdown from April to September 2020. Revenue, expressed as a percentage of 2019 levels, is 72% in Q4 2021 and 85% in Q1 2022 in the reverse stress test scenario.
- Mitigating action is limited to a c£3m reduction in capital expenditure between November 2021 and January 2022.

In this largely unmitigated reverse stress test scenario the Group maintains significant liquidity and meets its covenant requirements.

Whilst the Directors consider that there is a degree of subjectivity involved in their assumptions, taking into account the adequacy of the Group's debt facilities, current and future developments and the principal risks and uncertainties (see pages 32 to 35) and, after making appropriate enquiries, they 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 31 of the 2018 Corporate Governance Code, the Directors have assessed the long-term viability of the Group, doing so over a three-year period, taking into account the Group's current position, its strategic plans and the potential impact of the principal risks and uncertainties detailed on pages 32 to 35. 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

Corporate Governance continued

expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to December 2023.

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

- it reflects a period over which 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 rolling three-year strategic model that includes planned strategic actions and other specific assumptions regarding revenue growth, cost trends and capital expenditure across the Group. The Group has made conservative assumptions regarding growth and the level of strategic change in light of COVID-19 and will reconsider this as part of 2021 planning activity.

Where appropriate, sensitivity analysis is undertaken to test the resilience of the Group to various scenarios. Whilst all of the principal risks and uncertainties were considered, the impact of COVID-19 on macroeconomic, customer service and financial risks were considered in greater detail as noted in the description of the reverse stress test above.

For the purpose of assessing long-term viability these risks were modelled without the impact of any mitigation and, in addition to the mitigating factors identified on pages 32 to 35, the Board noted that the Group has:

- a diversified customer base;
- a history of winning new customers;
- low customer concentration with only one customer currently accounting for more than 10% of revenues and the top 20 customers accounting for less than 30% of revenues;
- accelerated its strategy by completing a significant restructuring exercise during FY20 resulting in the closure of 134 sites. Through negotiation with landlords the Group has reduced its liability considerably; and
- the ability to match capital investment to customer demand acts to support cash generation.

With regard to sources of finance, and based on recent constructive dialogue with lenders, the Board has no reason to believe the Group will not be able to refinance the Group's remaining £167m senior finance facility and the RCF before they become current liabilities in July 2022 and January 2022 respectively and to provide the Group with a capital structure suitable to support its growth ambitions.

Statement on disclosure of information to the auditor

The Directors who held office as at 28 April 2021 each confirm that:

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

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

Remuneration

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

The Remuneration Committee (whose composition, remit and report are set out on page 53 and pages 61 to 69) sets the policy for and terms of executive remuneration.

Relations with shareholders and other capital providers

Shareholder engagement

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

The Company's engagement activities during FY20 are detailed on pages 44 to 47.

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

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

Annual General Meeting

The Company's AGM is planned to be held at 11.00am on 30 June 2021. Details of the resolutions proposed and being voted on are provided in the Notice of AGM provided to shareholders and are also available on the Group's website, www.hsshiregroup.com. Shareholders should refer to the Notice of Meeting and any further updates provided in the 'News & Resources' section at www.hsshiregroup.com regarding the 2021 AGM in light of the COVID-19 pandemic. We recommend shareholders consider not attending in person and instead make use of electronic proxy voting.

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 28 April 2021 are as follows:

Name	Number of ordinary shares of 1p	% holding
Exponent[1]	235,681,708	33.84
Toscafund Asset Management LLP[2]	156,018,724	22.40
Ravenscroft (CI) Limited[3]	151,990,000	21.82
CIP Merchant Capital Limited[4]	25,000,000	3.59

1 Comprises shareholdings held by Exponent Private Equity Partners GP II, LP (UK) and Exponent Havana Co-Investment GP Limited Partners (UK).
2 Comprises shareholdings held by the Tosca Mid-Cap fund, the Tosca Opportunity fund and the Micro-Cap Units fund.
3 Ravenscroft (CI) Limited is an investment services provider regulated by the Guernsey Financial Services Commission and Jersey Financial Services Commission, which holds certain shares on behalf of Ravensworth International Limited.
4 CIP Merchant Capital is an AIM listed closed-ended investment company incorporated in Guernsey.

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

Nomination Committee Report

Alan Peterson OBE
Committee Chairman

Dear shareholder

On behalf of the Nomination Committee (the Committee), I am pleased to present our report for the 2020 financial year.

Roles and responsibilities

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

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

Our approach

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

Policy on diversity

In performing its activities through the year, the Committee has applied the Group's equality and diversity policy, which it believes is appropriate for application at all levels of the business, including Board and senior management appointments and succession planning. Further detail on the Group's equality and diversity policy is provided on page 70.

Activities

The Committee had two scheduled meetings in 2020.

At the meeting held in January 2020, the findings of the internal Board evaluation in respect of FY19 were considered and the resulting actions, as reported in the 2019 Annual Report, were agreed. Talent development and succession planning were also discussed, as well as the calendar of proposed engagement activities for the year ahead.

At the meeting held in September 2020, people and workforce engagement were discussed, with a particular focus on how colleagues had performed through COVID-19; both on colleagues who had shone in their efforts to face challenges and shown leadership/management qualities, as well as colleagues and groups of colleagues who might have struggled and may need additional support.

The actions for 2020 agreed by the Committee have been reviewed by the Committee and also by the Board, noting in particular as follows:

- **Specialist expertise** – the Committee was satisfied that there is a good blend of specialist skills across the business, but this should be kept under review, particularly as the Company's strategy continues to develop apace.
- **Succession planning** – the Committee agreed that there is a good balance and a strong team across the levels of management in the business, but not necessarily clear options to step up into the most senior roles. On that basis, this action should remain an area of focus for the Committee for FY21; various activities were planned, including more direct involvement of managers at Board meetings, which should also be beneficial from an engagement perspective.
- **Colleague engagement** – the Committee acknowledged that some of the activities planned for FY20 had not been possible due to the COVID-19 restrictions, but were nevertheless impressed that management had ensured that colleagues remained engaged and supported through the pandemic. The Committee reviewed closely the colleague engagement survey results, details of which are set out on page 45.

Board evaluation

The FY20 Board evaluation comprised an internal evaluation of the Board using feedback collated from Board members' responses to an evaluation questionnaire. The questionnaire addressed the key requirements of the 2018 Code in relation to the Board and its sub-committees, including each committee's terms of reference, composition and frequency of meetings. Additional questions focused on leadership, diversity, the relationship between the Executive and Non-Executive Directors, the role of the Chairman, workforce engagement, issues of material importance concerning the Group and information on the Group's risk management systems. The responses to the questionnaire were summarised and shared with the Board and discussed as appropriate.

Looking ahead

In 2021, the Committee has scheduled meetings in February and September, and any additional meetings will be arranged as required.

Having considered feedback from the Board and colleagues, and progress made against previous objectives, the Committee considered it appropriate to focus on the following action areas during 2021:

- **Specialist expertise** – keep under review the balance of expertise across the Group, particularly as the digital strategy continues to evolve, focusing on the blend of internal and external expertise in terms of platform development and security/integrity of systems.
- **Succession planning** – monitor and continue to develop colleagues identified as high achievers as well as discovering additional high-potential colleagues.
- **Colleague and stakeholder engagement** – progress all the engagement activities and methods identified, focusing in particular on colleague support and wellbeing.

Alan Peterson OBE
Committee Chairman

Corporate Governance

Audit Committee Report

Doug Robertson
Committee Chairman

> "During FY20, in addition to performing its core duties, the Audit Committee spent considerable time focused on the impact of COVID-19."

Dear shareholder

On behalf of the Audit Committee (the Committee), I am pleased to present our report for the 2020 financial year.

The Committee has reviewed the contents of the 2020 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.

Much of the Committee's work this year has been focused on the impact of COVID-19 on the business, however, the Committee continued to deliver on its core areas of responsibility.

Roles and responsibilities

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

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

- receiving and reviewing the Annual Report and Accounts and half-year Financial Statements and all related public financial announcements, and advising the Board on whether the Annual Report and Accounts are fair, balanced and understandable;
- receiving and reviewing reports from the external auditor;
- monitoring the external auditor's effectiveness and independence and approving its appointment and its terms of engagement;
- monitoring the effectiveness of the Group's risk management system;
- reviewing the effectiveness of the Group's system of internal financial controls and internal control and compliance systems, in relation to the financial reporting process (see page 60) and advising the Board as appropriate; and
- overseeing the Group's procedures for detecting fraud and whistleblowing arrangements.

Core activities

The Committee met six times in 2020. All meetings were conducted via conference call as a result of COVID-19. All members attended these meetings.

The Committee's core activities during 2020 included, and will include in 2021:

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

Ad-hoc activities

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

- COVID-19 – reviewing the accounting and disclosures as well as changes to risk assessments resulting from the impact of the pandemic;
- detailed review and challenge to ensure robustness of going concern modelling throughout the year (see next page);
- monitoring the implementation of IFRS16 Leases which the Group has adopted in the 2020 Annual Report and Accounts;
- reviewing the accounting treatment of the capital raise and costs related to the Group's move to AIM;
- an assessment of the internal audit function (see page 60); and
- reviewing the Group's accounting treatment related to the significant property restructuring announced in October 2020.

External financial reporting

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

The Committee reviewed the annual and interim Financial Statements along with trading and market updates released during the year. This year there was an additional spotlight on the impact of COVID-19 on the appropriateness of estimates and judgements as well as 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;
- debtor recoverability, particularly in light of COVID-19;
- onerous contract and dilapidations provisions;
- consideration of COVID-19 specific matters such as Job Retention Scheme, rent holidays and insurance income;
- management assessment of going concern and long-term viability;
- exceptional items; and
- adoption of IFRS16 Leases.

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

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

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

Carrying value of goodwill and other intangible and tangible assets
The carrying value of goodwill, intangible and tangible assets was reviewed twice, initially at the interim reporting date and then again at the year end. The review at the interim reporting date was driven by the COVID-19 pandemic and the Group's decision to temporarily close a significant number of locations. In October the Group decided to permanently close 134 locations as part of the strategy acceleration (covered in more detail in the CEO review and case studies). The year-end impairment review is after a significant reduction in the value of right of use assets following this decision. This is elaborated on in note 14 to the Consolidated Financial Statements.

In both reviews a consistent methodology was applied to 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 further impairments are required to goodwill or intangibles and that the impairment provisions made related to tangible assets are appropriate.

Revenue recognition – cut-off, sales rebates and credit note provisions
The Committee examined the procedures and controls in place to ensure that the reporting and recognition of revenue, especially for open hires over the year end, and also the recognition of any revenue-related rebate accruals or credit note provisions, is appropriate and complete. The Committee also considered the requirements of IFRS 15 Revenue from Contracts with Customers as part of its review of revenue recognition and the approach to provisioning as part of its assessment of the FY20 results. Following these reviews, the Committee has concluded that the procedures and controls are adequate.

Property accounting including onerous contract and dilapidation provisions
2020 has seen significant changes to the Group's property portfolio, in particular following the decision to permanently close 134 branches announced in October. Combined with the adoption of IFRS16 during the year this has led to increased complexity in property accounting. The Committee reviewed with management the accounting for property included within the FY20 Financial Statements. Following the adoption of IFRS16 onerous lease provisions cease to exist having been replaced by lease liability under IFRS16. The remaining onerous contract (non-lease) and dilapidations provisions were reviewed, including the estimates and judgements applied by management in assessing the existence and level of provision. The Committee assesses that the approach adopted is reasonable.

Going concern
The Committee has spent a significant amount of time in FY20 reviewing and challenging the Group's forecasts and advising the Board on going concern throughout the year, particularly when approving the interim Financial Statements and entity statutory accounts. The continuation of the COVID-19 pandemic and Governments' response to it has meant that forecasts have been kept under constant review.

The completion of a capital raise in December has significantly improved the Group's liquidity and net debt. As at 26 December 2020, the Group's financing arrangements include a fully drawn senior finance facility of £182.0m, a fully drawn revolving credit facility of £17.2m and undrawn overdraft facilities of £6.0m. Cash at the balance sheet date was £97.6m providing liquidity headroom of £103.6m (FY19: £45.9m). Both the senior finance facility and revolving credit facility are subject to a net debt financial covenant test every quarter. At the financial year end the Group had 36% headroom against this covenant.

With regard to the assessment of going concern, the Committee has reviewed the Group's cash flow forecasts, taking into account strategic initiatives and sensitivity analysis based on reasonably possible changes in trading performance. Consideration has also been given to a 'reverse stress test' scenario which assesses the reduction in revenue (and ultimately EBITDA) the Group could sustain without breaching covenants or requiring additional liquidity should there be further COVID-19 lockdowns later in 2021. This scenario assumes that there are reductions in revenue from October 2021 to March 2022, mirroring the revenue decline experienced by the Group during the first COVID-19 lockdown from April to September 2020, mitigated by a circa £3m reduction in capital expenditure during the same period (see page 55).

The Committee has also considered that, despite a third national lockdown commencing in early January, trading has been above baseline forecasts throughout the first quarter, and the drop in revenue experienced during the first lockdown in 2019 has not been repeated. The Committee has noted the commitment to the business expressed by the Group's shareholders and lenders, as well as continuing Government measures that are in place to support industry during the pandemic. These reinforce that it is appropriate to adopt the going concern assumption in the preparation of the accounts.

The Committee has noted the commitment to the business expressed by the Group's shareholders and lenders, as well as continuing Government measures that are in place to support industry during the pandemic. These reinforce that it is appropriate to adopt the Going Concern assumption in the preparation of the accounts.

Exceptional items
The Committee reviewed with management the expenses classified as exceptional during the year. Exceptional items included costs related to the strategic restructure carried out in October including redundancy, the impairment of right of use assets for closed locations, and subsequent reductions in liabilities and disposal of fixed assets when properties were vacated. In addition costs were incurred associated with the capital raise and preparation for the move to AIM. The Committee concluded that the approach adopted in respect of exceptional items is appropriate.

New accounting standards
IFRS 16 Leases is mandatory for periods beginning on or after 1 January 2019 and has been adopted by the Group this year. During the year, the Committee reviewed the Group's adoption in the interim and full-year accounts for 2020.

IFRS 16 has had a significant impact on reported results with HSS adopting the modified retrospective approach which means the initial asset being reported at the start of the 2020 financial year being restated to equal the liability calculated under the standard. Disclosure of the impact on transition and on the consolidated income statement is given in note 3 to the Financial Statements.

FRC review of BDO audit files
Audit files for the year ended 28 December 2019 were reviewed by the Financial Reporting Council's Audit Quality Review team. The Committee received the final report in March 2021 and was pleased with the assessment and that no key findings were noted. The report also highlighted elements of good practice. The external auditor (BDO) has taken steps to address other findings for the FY20 audit, and the Committee looks forward to further discussions with BDO in respect of these.

Corporate Governance

Audit Committee Report continued

External auditor

The Committee oversees the Group's relationship with BDO and formally reviews the relationship, policies and procedures to ensure its independence. BDO also reports to the Committee on the steps it has taken through the year to safeguard its independence and to comply with the relevant professional and regulatory requirements. The BDO partner in charge of the audit is Sophia Michael. She has held the role for one year. The maximum term for which a partner in charge can perform the role is five years.

BDO has been auditor to certain companies within the Group for 16 years since its appointment in respect of the 2004 year end, with the lead audit partner being rotated on a regular basis, most recently in 2019 as noted above. The last tender for the audit of HSS Hire Service Group Limited and its subsidiaries occurred in 2005.

BDO has been auditor to the Public Interest Entity, HSS Hire Group plc, for five years, following its incorporation in January 2015. It is the Group's intention to put the audit of the Public Interest Entity out to tender at least once every ten years. The Company has therefore complied with the relevant provisions of the Competition and Markets Authority Final Order on the statutory audit market and the Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) and the transitional arrangements therein for the year ended 26 December 2020.

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 FY20 audit. The fees for both audit and non-audit services paid to BDO are set out in note 9 to the Financial Statements.

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

Non-audit work and independence

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

During 2020, BDO provided non-audit-related services to the Group; these totalled £194,000 representing 27% of the total fees payable to BDO. The non-audit fees mainly relate to reporting work on the capital raise and move to AIM. This level of non-audit service is not expected to recur in FY21. Notwithstanding this, the Committee concluded that the independence of the external auditor has not been compromised in any way.

Risk management and internal controls

An overview of the Company's approach to risk, risk management and internal controls through 2020, together with a summary of the principal risks facing the Group and its response to COVID-19, is provided on pages 30 to 35.

During 2020, the Committee reviewed the overall risk management and internal control framework, the work and role of the internal audit team and the underlying process for capturing and reporting risk and control data. This assessment was assisted through the provision of various documents through the year by the Chief Financial Officer, Risk and Assurance Director and other senior personnel in the head office functions. These documents include but were not limited to: quarterly risk management summary documents, which assess any changes in risk profiles, descriptions and ratings through the year; and quarterly summaries of work completed and work planned by the internal audit team, assessing both areas of risk and the existing controls in place. In addition, as it does periodically, the Committee has completed a review of the internal audit function to ensure that it continues to operate effectively as the HSS business and wider environment continues to develop. The findings of the review were deemed satisfactory.

Inevitably, much of the Committee's focus in the year was on the risks presented by COVID-19, which, as explained in the Principal Risks and Uncertainties section of the Annual Report, have had a material impact on the risks faced by the Group, mainly on Macroeconomic conditions and Financial risks. The Committee scrutinised forecasts, considered how audit and risk procedures should adapt to the new challenges and latterly considered the accounting and reporting implications of the capital raise, itself a key component of the Group's plan to mitigate liquidity risk.

As a result of this review, and the work streams undertaken through the year, the Committee has satisfied itself that the Group has an appropriate risk management and internal control framework in place. This work will continue in 2021.

Financial reporting and preparation of accounts

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

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

Whistleblowing

The Committee believes that appropriate arrangements and policies are in place to facilitate the proportionate and independent investigation of, and implementation of, appropriate follow-up action in relation to confidential concerns raised by staff via the whistleblowing process (see page 55. The Committee confirmed the steps taken to heighten awareness of the policy and process across the business remained in place and conducted a review of the Group's whistleblowing register.

Meeting schedule

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

Doug Robertson
Committee Chairman

Directors' Remuneration Report

Amanda Burton
Chair of the Remuneration Committee

"We responded quickly to the impact of COVID-19 and by reconsidering reward, including agreeing a three-month, 98% reduction in Board salaries and fees."

Dear shareholder

I am pleased to present, on behalf of the Board, our Directors' Remuneration Report in respect of the year ended 26 December 2020.

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

The Annual Report on Remuneration, which provides details of the remuneration earned by Directors in FY20, is available on page 63. At the 2021 AGM, to be held on 30 June 2021, 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.

Business context

As noted throughout this Annual Report, the business has remained resilient despite the considerable challenges presented by COVID-19.

The pandemic significantly impacted the Group's revenue in FY20. As a result, a number of measures were put in place to reduce costs, conserve cash and strengthen the balance sheet. This included a temporary reduction in salaries and fees for the Board and senior management. The Board agreed to a 98% reduction in salaries and fees for the period 1 April to 30 June 2020. No bonus was paid to Executive Directors for 2020 and the payment of FY19 annual bonuses was also delayed from April to December 2020.

The Group raised gross proceeds of £52.6m via a capital raise in December 2020 to ensure a strong cash position over the longer term and reduce net leverage, enabling the Group to continue with its strong progress and successfully execute its strategy.

How we link executive remuneration to our strategy in 2020

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

- **Aligned** to the Company's purpose, values and culture, and clearly linked to the Company's long-term strategy.
- **Simple and transparent** for key stakeholders and take into account remuneration and related policies for the wider workforce.
- **Predictability** on the potential values that may be earned through the remuneration arrangements in the Policy.
- **Stewardship** to encourage long-term shareholding by Executive Directors that promotes sustainable success. Executive Directors are subject to within-employment and post-employment shareholding requirements.
- **Risk management** to promote long-term sustainable performance through sufficiently stretching performance targets, while ensuring that the incentive framework does not encourage Executive Directors to operate outside of the Company's risk appetite. Malus and clawback provisions apply to annual bonus and LTIP awards and the Committee has the means to apply discretion and judgement to vesting outcomes.
- **Proportionality and fairness** of total remuneration delivered should fairly reflect Company and individual performance.

On 14 January 2021, the Company delisted from the premium listing segment of the London Stock Exchange's Main Market and was admitted to trading on the Alternative Investment Market (AIM). The Board believes that AIM is a market and environment which is more suited to the Group's current size and shareholder base.

FY20 performance and variable pay outcome

The FY20 annual bonus was subject to Adjusted EBITDA (50% of the overall opportunity), core hire rental revenue growth (20% of the overall opportunity), Net Leverage Ratio (net debt/Adjusted EBITDA) performance (20% of the overall opportunity), and a reduction in RIDDORs (10% of the overall opportunity). Furthermore, payment of any bonus was subject to the achievement of a threshold Adjusted EBITDA target.

The threshold Adjusted EBITDA target was not achieved and therefore no bonus was payable in respect of FY20. Further details are set out on page 64.

Long-term incentive awards were granted to the Executive Directors on 31 August 2017. The awards were structured as market value share options, which would vest subject to the achievement of challenging EPS performance targets over a four-year period through to the end of FY20. The EPS targets were not achieved and therefore the awards have lapsed in full. Further details are set out on page 64.

Corporate Governance

Directors' Remuneration Report continued

Given the impact of COVID-19, no salary increases were awarded to Executive Directors or colleagues across the Group during FY20, with the exception of complying with National Minimum Wage requirements.

Restricted share awards granted during FY20

As noted in the FY19 Directors' Remuneration Report, to remove the challenge of setting long-term targets in an uncertain and volatile market the Committee decided to award restricted shares to Executive Directors and the wider leadership team in FY20 instead of performance-based LTIP awards. An amendment to the LTIP rules and Policy was approved by shareholders at the 2020 AGM (over 99% support in favour).

In line with investor guidelines, the maximum award was set at half the LTIP quantum that would otherwise have been granted. The awards vest on the third anniversary of the grant date and vested awards are subject to a two-year holding period.

Details of the restricted share awards granted on 2 July 2020 are set out on page 64.

Reward for FY21

Executive Director salaries

In line with the salary review timetable for all other employees, the Executive Directors' salaries will be reviewed during June 2021, with any changes taking effect from 1 July 2021. Any increase is expected to be modest and will be in line with the range of salary increases awarded to other colleagues in the Group.

Incentive arrangements

In light of the Company's admission to AIM and its subsequent adoption of the QCA Corporate Governance Code, the Committee has undertaken a review of incentive arrangements for the Executive Directors and has consulted with the three major shareholders. We announced on 25 February 2021 that we have granted the Executive Directors awards under a new Value Creation Plan (VCP) further information in relation to which will be included in the FY21 Directors' Remuneration Report. The executives will not participate in future Company share incentive schemes.

Colleague engagement

With our colleagues at the heart of our business, we believe that colleague engagement is key to our success and we have continued to build on our colleague voice and feedback channels to ensure wider workforce remuneration is considered when determining executive pay. Our colleague engagement framework is outlined on page 45. Through the pandemic, as our ways of working have evolved, we have adapted our approach and increased the level of communication with colleagues. In addition, more focus has been placed on supporting colleague wellbeing and further developing our feedback channels. Such feedback has continued to inform improvements in our overall support for colleagues and our benefits offering, with the aim of further underpinning our colleagues' physical, mental and financial wellbeing. All such developments are captured in a colleague dashboard that provides key information on workforce demographics and wider workforce pay and reward, and is reviewed by the Committee at least twice yearly.

Shareholder engagement

The Committee engages directly with major shareholders where it considers there to be material changes to the Policy or executive remuneration framework.

Conclusion

We believe that the Policy operated as intended and consider that the remuneration received by the Executive Directors in respect of 2020 was appropriate. I trust that you will support the resolution to be proposed at the FY21 AGM in relation to the Directors' Remuneration Report.

Amanda Burton
Chair of the Remuneration Committee

28 April 2021

Annual Report on Remuneration

The following section provides detail in respect of remuneration paid to Directors during FY20 in line with the Policy approved by shareholders at the FY19 AGM.

Single figure table

The following table sets out total remuneration for each Director in respect of FY20 and FY19.

	Total fixed								Total variable							
	Salary and fees £000[1]		Benefits £000		Pension £000		Subtotal £000		Annual bonus £000		LTIP £000		Subtotal £000		Total remuneration £000	
	FY20	FY19	**FY20**	FY19	**FY20**	FY19	**FY20**	FY19	**FY20**	FY19	**FY20**	FY19	**FY20**	FY19	**FY20**	FY19
Executive Directors																
Steve Ashmore	**280**	368	**17**	20	**31**	31	**328**	419	**–**	132[3]	**–**	–	**–**	132	**328**	551
Paul Quested	**203**	265	**17**	17	**24**	24	**244**	306	**–**	95[3]	**–**	–	**–**	95	**244**	401
Non-Executive Directors																
Alan Peterson	**113**	150	**–**	–	**–**	–	**113**	150	**–**	–	**–**	–	**–**	–	**113**	150
Amanda Burton	**38**	50	**–**	–	**–**	–	**38**	50	**–**	–	**–**	–	**–**	–	**38**	50
Douglas Robertson	**38**	50	**–**	–	**–**	–	**38**	50	**–**	–	**–**	–	**–**	–	**38**	50
Thomas Sweet-Escott[2]	**30**	40	**–**	–	**–**	–	**30**	40	**–**	–	**–**	–	**–**	–	**30**	40

1 The Board agreed to a 98% reduction in salary and fees for the period 1 April to 30 June 2020 in response to COVID-19. The salaries and fees disclosed in the FY20 column are after the 98% reduction.
2 Thomas Sweet-Escott's fee is paid directly to Exponent.
3 Payment of the FY19 bonus was deferred from March to December 2020.

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

Salary and fees	The amount of salary/fees received in the year.
Benefits	The taxable value of benefits received in the year. These are principally medical insurance, company car or car allowance.
Annual bonus	The annual bonus is the cash value of bonus earned in respect of the year and includes amounts deferred into shares.
LTIP	The LTIP values represent amounts earned in respect of the year and includes amounts deferred into shares.
Pension	The pension figure represents the Company's contributions to the defined contribution scheme and any cash payment in lieu of pension contributions made in the year.

Additional disclosures in respect of the single figure table

Base salary

Details of annual base salaries for Executive Directors for FY20 and FY19 are set out below.

	Base salary at 26 December 2020 £000	Base salary at 28 December 2019 £000
Executive Directors		
Steve Ashmore	**368**	368
Paul Quested	**265**	265

Corporate Governance

Directors' Remuneration Report continued

FY20 annual bonus

The maximum annual bonus opportunity for FY20 was maintained at 100% of salary. The bonus was set subject to stretching performance measures based on Adjusted EBITDA performance (50% of the overall opportunity), core hire rental revenue growth (20% of the overall opportunity), Net Leverage Ratio (net debt/Adjusted EBITDA) (20% of the overall opportunity), and a reduction in RIDDORs (10% of the overall opportunity). These bonus measures reflect the KPIs of the business and support the strategy of growth, profit improvement and balance sheet strength.

Furthermore, payment of any bonus was subject to the achievement of a threshold Adjusted EBITDA target.

The following table sets out the bonuses earned by the Executive Directors for FY20 and how this reflects performance for the year.

Performance measure	Proportion of bonus determined by measure	Threshold performance	Target performance	Maximum performance	Actual performance	Actual performance (% of salary)[1]
Adjusted EBITDA[2]	50%	£66.5m	£67.5m	£69m	£47.0m	0%
Core hire rental revenue growth	20%	£169.0m	£169.8m	£170.6m	£137.1m	0%
Net Leverage Ratio (net debt/Adjusted EBITDA)[2]	20%	2.80x	2.72x	2.60x	2.56x	0%
Reduction in RIDDORs	10%	11	10	10	2	0%
Total	100%					0%

1 Subject to achieving the Adjusted EBITDA (excluding annual bonus costs) threshold of £66.5m.
2 Pre-IFRS16 basis.

The threshold Adjusted EBITDA target was not achieved and therefore no bonus was payable in respect of FY20.

LTIP awards vesting in respect of FY20

The Company received shareholder approval via an EGM on 10 August 2017 to grant an exceptional LTIP award to the Executive Directors and the wider leadership team outside of the approved Policy. The awards were granted on 31 August 2017. The awards were structured as market value share options, which would vest subject to the achievement of challenging EPS performance targets over a four year period through to the end of FY20. The EPS targets were not achieved and therefore the awards have lapsed in full.

EPS performance targets and vesting outcome

	FY20 Adjusted EPS	Vesting percentage
Maximum	16p	100%
Target	13p	50%
Threshold	11.5p	25%
Actual (pre-IFRS16)	**(1.67p)**	**0%**

	Number of shares granted	Number of shares vesting
Steve Ashmore	2,849,708	0
Paul Quested	1,404,094	0

Restricted share awards granted during FY20

As noted in the FY19 Directors' Remuneration Report, to remove the challenge of setting long-term targets in an uncertain and volatile market the Committee decided to award restricted shares to Executive Directors and the wider leadership team in FY20 instead of performance-based LTIP awards. An amendment to the LTIP rules and Policy was approved by shareholders at the 2020 AGM (over 99% support in favour).

In line with investor guidelines, the maximum award was set at half the LTIP quantum that would otherwise have been granted. The awards vest on the third anniversary of the grant date and vested awards are subject to a two-year holding period.

Details of the restricted share awards granted on 2 July 2020 are set out below.

	Number of shares	Face value at grant[1]	Vesting period	Holding period
Steve Ashmore	841,348	£229,688 62.5% of salary	2 July 2020 to 2 July 2023	2 July 2023 to 2 July 2025
Paul Quested	606,685	£165,625 62.5% of salary	2 July 2020 to 2 July 2023	2 July 2023 to 2 July 2025

1 The face value of the award is calculated by multiplying the number of shares over which the award was granted by 27.3p, the average closing share price for each of the five dealing days prior to the grant date.

The Committee has discretion to amend the vesting level if it considers that such level does not reflect the Committee's assessment of overall business performance over the vesting period.

Payments made to former Directors and payments for loss of office during FY20

There were no payments made to former Directors and no payments made for loss of office during FY20.

Directors' share interests

The Committee has adopted a shareholding guideline for Executive Directors in accordance with which the Chief Executive is expected to build up and maintain a shareholding in the Company equivalent in value to at least 200% of annual salary, and other Executive Directors are expected to build up and maintain a shareholding in the Company equivalent in value to at least 125% of annual salary. Since joining the Group, Steve Ashmore has built his shareholding in the Company from 0% to 53% of annual salary and Paul Quested has built his shareholding in the Company from 0% to 11% of annual salary.

The interests of the Directors and their connected persons in the Company's ordinary shares as at 26 December 2020 were as follows:

	Type	Owned outright	Unvested and subject to performance conditions	Unvested and not subject to performance conditions	Total as at 26 December 2020
Executive Directors					
Steve Ashmore	Shares	966,560[4]	–	–	966,560
	FY17 LTIP (market value share options)[1]	–	2,849,708	–	2,849,708
	FY18 LTIP (market value share options)[2]	–	5,415,255	–	5,415,255
	FY18 CSOP options[3]	–	84,745	–	84,745
	FY19 DBP (nil-cost share options)	–	–	203,708	203,708
	FY19 LTIP (nil-cost share options)	–	1,020,833	–	1,020,833
	FY20 restricted shares (nil-cost share options)	–	–	841,348	841,348
Paul Quested	Shares	144,916[5]	–	–	144,916
	FY17 LTIP (market value share options)[1]	–	1,404,094	–	1,404,094
	FY18 LTIP (market value share options)[2]	–	3,165,255	–	3,165,255
	FY18 CSOP options[3]	–	84,745	–	84,745
	FY19 DBP (nil-cost share options)	–	–	147,007	147,007
	FY19 LTIP (nil-cost share options)	–	736,111	–	736,111
	FY20 restricted shares (nil-cost share options)	–	–	606,685	606,685
Non-Executive Directors					
Alan Peterson	Shares	2,726,875	–	–	2,726,875
Amanda Burton	Shares	110,118	–	–	110,118
Douglas Robertson	Shares	29,362	–	–	29,362

1 As noted on page 64, FY17 LTIP awards lapsed in full following FY20 as the EPS performance measure was not achieved.
2 FY18 LTIP awards granted at an exercise price of 30p.
3 FY18 CSOP options granted at an exercise price of 35.4p.
4 Includes 653,081 shares subscribed for under the capital raise in December 2020.
5 Includes 97,916 shares subscribed for under the capital raise in December 2020.

As at 28 April 2021, the Company has not been advised of any changes to the interests of the Directors and their connected persons as set out in the table above.

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.

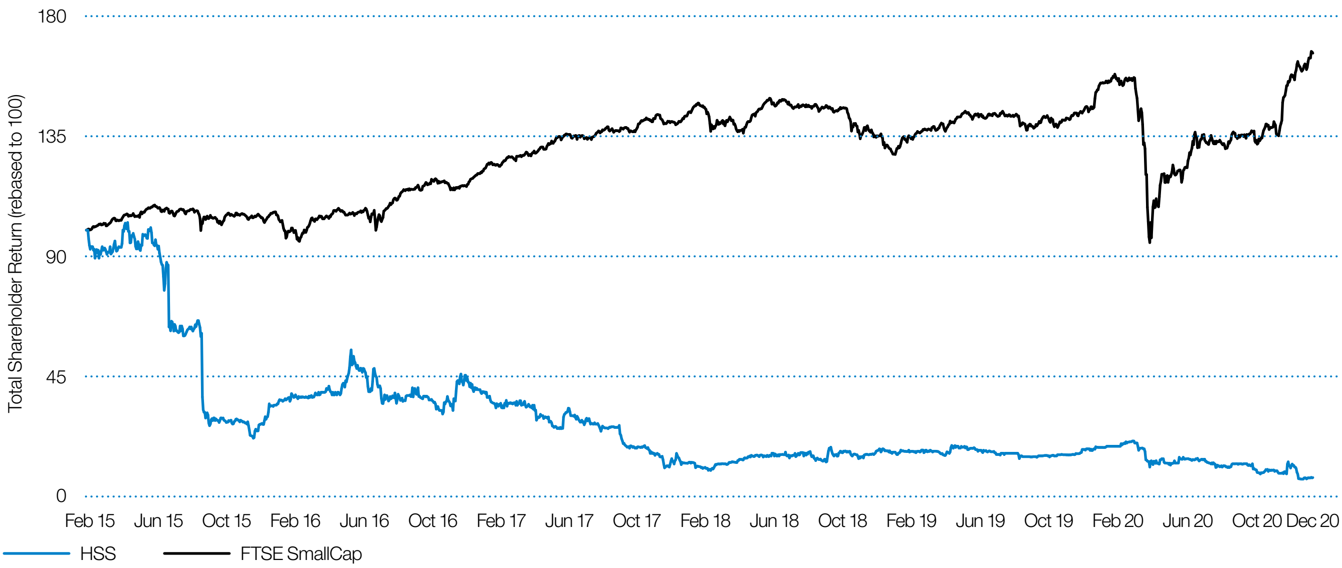
The disclosures on Directors' remuneration set out on pages 61 to 65 have been audited as required by the Companies Act 2006.

Corporate Governance

Directors' Remuneration Report continued

Performance graph and historical Chief Executive remuneration outcomes

The graph below sets out the total shareholder return (TSR) performance for the Company's shares in comparison with the FTSE SmallCap Index for the period from 9 February 2015 to 26 December 2020. The Company has historically been a constituent of this Index and as such it has been selected as an appropriate comparator group. For the purposes of the graph, TSR has been calculated as the percentage change during the period in the market price of the shares, assuming that dividends are reinvested. The graph shows the value, by 26 December 2020, of £100 invested in the Group over the period compared with £100 invested in the FTSE Small Cap Index.



The table below sets out details of the total remuneration, annual bonus and LTIP vesting (as a percentage of the maximum opportunity) for the Chief Executive for FY15 to FY20.

Chief Executive	Total remuneration £000	Annual bonus as a % of maximum opportunity	LTIP as a % of maximum opportunity[1]
FY15/Chris Davies[2]	297	–	N/A
FY15/John Gill[(3)]	90	7.1%	N/A
FY16/John Gill[(3)]	381	–	N/A
FY17/John Gill[(3)]	148	–	N/A
FY17/Steve Ashmore[4]	240	–	N/A
FY18/Steve Ashmore[4]	678	71.9%	0%
FY19/Steve Ashmore[4]	551	36%	N/A
FY20/Steve Ashmore[4]	328	–	0%

1 There were no LTIPs capable of vesting in respect of performance periods ended in FY15, FY16, FY17 and FY19.
2 The table shows the remuneration for Chris Davies in the period from the start of FY15 until he resigned as a Director with effect from 25 September 2015.
3 The table shows the remuneration for John Gill in the period from the date of his appointment as Chief Executive with effect from 25 September 2015 until he resigned as a Director with effect from 23 May 2017.
4 The table shows the remuneration for Steve Ashmore in the period from the date of his appointment as Chief Executive with effect from 1 June 2017 until the end of FY20.

Annual percentage change in Directors' remuneration compared to all employees

The table below sets out the annual percentage change in each of the Directors' remuneration compared to the average employee remuneration.

	% change between FY19 and FY20		
	Salary and fees	Benefits	Annual bonus
Executive Directors			
Steve Ashmore	-24%	-15%	-100%
Paul Quested	-23%	0%	-100%
Non-Executive Directors			
Alan Peterson	-25%	–	–
Amanda Burton	-25%	–	–
Douglas Robertson	-25%	–	–
Thomas Sweet-Escott	-25%	–	–
Average employee	-6%	N/A	N/A

1 The Board agreed to a 98% reduction in salary and fees for the period 1 April to 30 June 2020 in response to COVID-19. There has therefore been a reduction in salaries and fees received by Directors during FY20 compared to FY19.
2 The Average employee data includes salary changes relating to National Minimum Wage compliance, role changes and promotions, furlough and management salary reductions.

Chief Executive pay in relation to all employees

The table below sets out, for FY20 and FY19, the Chief Executive's total remuneration as a ratio against the full-time equivalent remuneration of the 25th, 50th and 75th percentile UK employees.

Year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
FY20	Option B	16:1	14:1	11:1
FY19	Option B	28:1	27:1	20:1

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

The pay ratios for FY20 have reduced compared to FY19 primarily as a result of the Chief Executive Officer not receiving a bonus payment in respect of FY20 and the Chief Executive Officer agreeing to a 98% reduction in salary for the period 1 April 2020 to 30 June 2020 in response to COVID-19. There has been no significant change to the UK employee pay quartile figures.

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

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

Total pay and benefits used to calculate the ratios

The table below sets out the UK employee percentile pay and benefits used to determine the above pay ratios and the salary component for each figure. The Chief Executive remuneration is the total single figure remuneration for FY20 and FY19 as disclosed on page 63.

£000	Chief Executive	25th percentile	50th percentile	75th percentile
FY20				
Total pay and benefits	328	20.3	23.5	28.8
Salary components	280	19.7	22.8	28
FY19				
Total pay and benefits	551	19.7	20.4	28
Salary components	368	19.3	20	28

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

Corporate Governance

Directors' Remuneration Report continued

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 buy backs in respect of FY20 and FY19.

£000	Year ended 26 December 2020	Year ended 28 December 2019	Percentage change
Dividends and share buy backs	nil	nil	N/A
Overall total expenditure on pay	78,591	88,101	-10.8%

Implementation of the Policy for FY21

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 2021, with any changes taking effect from 1 July 2021. Any increase is expected to be modest and will be in line with the range of salary increases awarded to other employees in the Group.

Incentive arrangements

In light of the Company's admission to AIM and its subsequent adoption of the QCA Corporate Governance Code, the Committee has undertaken a review of incentive arrangements for the Executive Directors and has consulted with the three major shareholders. We announced on 25 February 2021 that we have granted the Executive Directors awards under a new Value Creation Plan ("VCP") further information in relation to which will be included in the FY21 Directors' Remuneration Report. The Executives will not participate in future Company share incentive schemes.

Statement of voting at last AGM and General Meeting

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

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Policy (FY19 AGM)	132,930,615	99.98	21,900	0.02	3,498
Annual Report on Remuneration (FY20 AGM)	146,804,325	99.99	12,539	0.01	2,714
Amendments to the Policy and LTIP (FY20 AGM)	146,802,910	99.99	11,185	0.01	5,483

Service contracts

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

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

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

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

1 Executive Directors' service contracts are on a rolling basis and have no defined expiry date.
2 Initial letter of appointment expired on 9 January 2018. Letters of appointment were executed on 28 March 2018 and in April 2021 respectively for further three year terms, subject to re-election at the AGM.
3 Under the Relationship Agreement, Exponent is able to appoint a Non-Executive Director to the Board for so long as the Exponent shareholders are entitled to exercise or to control the exercise of 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Thomas Sweet-Escott is Exponent's current appointee. His contract commenced on 9 January 2015 and expired on 9 January 2018, with a reappointment from such date to 9 January 2021. A new three year letter of appointment was executed in April 2021 to have effect from 9 January 2021 on a continuing basis subject to re-election at the AGM, or, if earlier, termination, if the Exponent shareholders are entitled to exercise or to control the exercise of less than 10% of the votes able to be cast.
4 Calculated from 26 December 2020 to the expiry date of each letter of appointment, being 9 January 2024.

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

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

How we linked FY20 executive remuneration to our strategy

For FY20 our executive remuneration arrangements were designed to support the Company's strategic priorities and developed based on the following key principles:

- **Aligned** to the Company's purpose, values and culture, and clearly linked to the Company's long term strategy.
- **Simple and transparent** for key stakeholders and takes into account remuneration and related policies for the wider workforce.
- **Predictability** on the potential values that may be earned through the remuneration arrangements in the Policy.
- **Stewardship** to encourage long-term shareholding by Executive Directors that promote sustainable success. Executive Directors are subject to within-employment and post-employment shareholding requirements.
- **Risk management** to promote long-term sustainable performance through sufficiently stretching performance targets, while ensuring that the incentive framework does not encourage Executive Directors to operate outside of the Company's risk appetite. Malus and clawback provisions apply to annual bonus and LTIP awards and the Committee has the means to apply discretion and judgement to vesting outcomes.
- **Proportionality and fairness** of total remuneration delivered should fairly reflect Company and individual performance.

Advisers to the Remuneration Committee

During FY20, the Committee received independent advice from Deloitte LLP in relation to the Committee's consideration of matters relating to Directors' remuneration. Deloitte's fees, including VAT, for this advice during the year were £31,380 (FY19: £23,040), 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 28 April 2021 and signed on its behalf by:

Amanda Burton
Chair of the Remuneration Committee

Corporate Governance

Directors' Report and Other Statutory Disclosures

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

Directors' powers

At the AGM to be held on 30 June 2021, shareholders will be asked to renew the Directors' power to allot shares, grant rights to subscribe for or convert any security into shares or buy back shares in the Company and to renew the disapplication of pre-emption rights.

Directors' indemnities

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

Political donations and expenditure

At the AGM held on 25 June 2020, 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 FY20 year (FY19: £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 26 of the Financial Statements on pages 120 and 121.

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 17 in the Strategic Report.

Acquisition of own shares

At the AGM held on 25 June 2020, the Company was authorised to make market purchases of up to 17,020,714 of its ordinary shares. The Company has made no purchases of its own ordinary shares pursuant to this authority. This authority expires at the close of the 2021 AGM. A special resolution will be proposed at this year's AGM to authorise the Company to make market purchases of up to 69,647,764 ordinary shares.

Equality and diversity

The Group is committed to attracting, engaging and developing a diverse workforce with a view to reflecting the communities it serves. Promoting an understanding and awareness of diversity and having respect for all is a foundation in its training and development material.

We encourage colleagues to reach their full potential through open dialogue to calibrate performance and agree development needs. Training is based on colleagues' individual development needs and the requirements of the role.

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

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

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

Employee engagement

The Company is committed to communicating and engaging with colleagues and uses a variety of channels to do so.

Full details of our colleague and stakeholder engagement activities are included in the Strategic Report, on pages 44 to 47.

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 finance facility	Following a change of control the Group would be required to offer to repay the outstanding sums including an amount to cover accrued and unpaid interest and a make whole premium which would be dependent on the remaining term.
Revolving credit facility	Following a change of control all outstanding amounts, together with accrued interest, would become immediately due and payable.
Finance leases (from various finance providers)	Certain of the Group's (pre-IFRS16) finance leases have conditions where a change of control could lead to early repayment.

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

Restrictions on share transfers

Certificated shares

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

Uncertificated shares

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

Shares related to employee share schemes

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

Voting rights and restrictions

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

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

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

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

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

As a result, by virtue of Exponent's 33.84% 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

Ravensworth and Exponent have entered into an agreement providing that Ravensworth may require Exponent to exercise the voting rights attaching to certain of its shares in such a way that Ravensworth is able to vote 25.1% of the Company's total issued share capital, notwithstanding that Ravensworth holds less than 25.1% of the Company's total issued share capital. This arrangement will terminate in the event that Ravensworth (or its parent entity or certain other associated entities): (a) holds 25.1% or more of the Company's issued share capital; (b) disposes of any shares in the Company; or (c) has its shareholding as at 8 December 2020 diluted by four percentage points or more as a result of future issues of shares by the Company. These arrangements do not affect the economic (or any other) rights attaching to Exponent's shareholding in the Company.

The Company is not aware of any other 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

Corporate Governance

Directors' Report and Other Statutory Disclosures continued

Agreement, Exponent has appointed an observer to attend Board meetings. Following completion of the capital raise in December 2020, Ravensworth International Limited has the right to appoint an observer to the Board, who can attend but not vote. This right will continue for so long as Ravensworth owns or controls 20% or more of the issued share capital of the Company.

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

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

A person ceases to be a Director as soon as:

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

Amendments to the Company's Articles of Association

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

Disclosures required by Listing Rule 9.8

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

Listing Rule	Information	Location
LR 9.8.4(R)(4)	Long-term incentive schemes	Directors' Remuneration Report (pages 61 to 70)
LR 9.8.4(R)(14)	Agreement with controlling shareholders	Page 72 (see below)

No further LR 9.8.4 disclosures are required.

As required by LR 9.2.2ADR the Company has entered into a Relationship Agreement with Exponent (see page 52 for further details on this agreement). The Board of Directors confirms that:

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

This Statement in respect of LR 9.8.4R(14) was approved by the Board of Directors on 28 April 2021.

Approval of the Directors' Report

The Directors' Report on pages 70 to 72 was approved by the Board of Directors on 28 April 2021 and is signed on its behalf by:

Steve Ashmore
Director

28 April 2021

Directors' Responsibility Statement

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

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

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

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

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

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

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

Each of the Directors, whose names and functions are detailed on pages 50 and 51, confirms that to the best of his or her knowledge:

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

This Responsibility Statement was approved by the Board of Directors on 28 April 2021 and is signed on its behalf by:

Steve Ashmore
Director

28 April 2021

Financial Statements

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

Opinion on the financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 December 2020 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of HSS Hire Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 26 December 2020 which comprise the Consolidated income statement, the Consolidated statement of comprehensive income, the Consolidated and Company statement of financial position, the Consolidated and Company statement of changes in equity, the Consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and international accounting standards in conformity with the requirements of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Review of the internal forecasting process to confirm the projections are prepared by appropriate personnel that are aware of the detailed figures in the forecast but also have a high level understanding of the entity's market, strategy and profile in the customer base.
- Review of the forecasts prepared by management and challenge of the key assumptions against prior year and our knowledge of the business.
- Challenge of management's assessment of reasonably possible scenarios.
- Review of management's reverse stress test, including challenge of assumptions used, to analyse the levels of revenue reduction that could be sustained without breaching banking covenants.
- Consideration of the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the forecasts and stress test scenario.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

Overview

Coverage[1]	94% (2019: 95%) of Group profit before tax 94% (2019: 95%) of Group revenue 96% (2019: 91%) of Group total assets		
Key audit matters		2020	2019
	Hire stock and renovation costs	✓	✓
	Carrying value of goodwill and other intangible assets	✓	✓
	Leases – IFRS 16	✓	
	Onerous lease provisions		✓
	Revenue recognition	✓	✓
	Onerous lease provisions are no longer considered to be a separate Key Audit Matter as this is now included within accounting for leases under IFRS 16.		
Materiality	Group financial statements as a whole £0.9m (2019: £1m) based on approximately 4% (2019: 4%) of adjusted EBITA.		

1 These are areas which have been subject to a full scope audit by the group engagement team.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We identified six reporting units which, in our view required an audit of their complete financial information due to their size or risk characteristics and were therefore considered to be significant components.

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

Key audit matters

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

Key audit matter		How the scope of our audit addressed the key audit matter
Hire stock and renovation work Refer to page 59 (Audit Committee Report), pages 92-93 (accounting policy) and pages 110-111 (financial disclosures).	Hire stock represents over 1 million items which have a high frequency of movement in individual assets through asset purchases, hires, disposals and transfers around the branch network. Judgement is required in ensuring that depreciation charges are accurately calculated, having regard to economic useful lives and residual values, together with the impact of renovation work undertaken on specific classes of assets. Therefore we consider accounting for hire stock, including renovation costs, to be a key audit matter.	We sample tested the operating effectiveness of key controls in respect of the existence and value of hire stock, including the authorisation of additions and the use of unique asset identification numbers for certain assets. We carried out data testing of the reconciliation of the fixed asset registers to the accounting records. We attended a sample of the hire stock asset counts to test the effectiveness of controls and performed test counts ourselves in order to ensure the accuracy of the counting performed, and therefore the existence of assets. We also tested that the records from the counts had been used to update both the fixed asset register and the accounting ledgers. We further agreed the existence of a sample of assets with reference to their continuing hire. We selected a sample of assets acquired in the year and agreed the amounts recorded on the fixed asset registers to invoices. For a sample of items we recalculated the depreciation, additions and disposals in the fixed asset registers for the current year, and reconciled this to the charge included in the accounting ledgers. We reviewed for the principal asset classes the useful economic lives and residual values applied by management by reference to historic data, historic disposal values and the group's industry peers. We agreed, on a sample basis, the capitalisation of the renovation work undertaken to supporting documentation and tested on sample basis that the capitalisation was appropriate with reference to the underlying asset. **Key observations** We noted no material exceptions relating to the accounting for hire stock thorough performing these procedures.
Carrying value of goodwill and other intangible assets Refer to page 59 (Audit Committee Report), pages 92-93 (accounting policy) and pages 108-109 (financial disclosures).	Management performs an annual impairment review of goodwill, which also covers the carrying value of other intangible assets. The annual impairment review relies on significant estimation and judgement in selection of the key inputs which can have a significant impact on the calculated net present value for each Cash Generating Unit (CGU). No impairment charge has been recognised. 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.	For each of the key inputs to the impairment model we reviewed management's assumptions by reference to Board approved budgets, historical trends (including impact of, and recovery from, the first lockdown of theCovid-19 pandemic), and reviewed the sensitivity analysis performed. We obtained explanations and, where appropriate, support from management on their forecasts for revenue, costs and EBITDA in the impairment model. We utilised our own valuation specialists, particularly around the mechanics of the modelling and appropriateness of the discount rates used by the directors, comparing this against the cost of capital for the Group and other comparable companies in the industry. We evaluated the adequacy of the Group's disclosures in respect of the impairment testing, the inputs used and the sensitivity of the outcomes of the assessment to changes in key assumptions to validate that these adequately reflected the inherent risks in the valuations. **Key observations** Based on the evidence obtained we did not identify any indications that the estimates and judgements made by management in the calculation of value in use were inappropriate.

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

Key audit matter		How the scope of our audit addressed the key audit matter
Leases – IFRS 16 Refer to page 59 (Audit Committee Report), pages 96 (accounting policies) and pages 87-90, 111 & 114-115 (financial disclosures).	IFRS 16 was adopted by the Group from 29 December 2019. Given the complexities of both the new standard, and the Group's portfolio of leases, there is a risk that Right of Use assets and lease liabilities calculated by management are incorrect. There is also a risk that, due to the complexities of the portfolio, with c.1,800 leases being held, that the impact of movements within the year (including remeasurements, additions, disposals, impairments, depreciation, interest and payments) are calculated incorrectly. Therefore we consider accounting for leases under IFRS 16 to be a key audit matter.	We utilised our own modelling specialists to recalculate the right of use assets and lease liabilities recognised on transition for all leases held within the leases database. We carried out sample testing of the lease data used by the modelling specialist by testing a sample of each type of lease back to signed lease documents. We assessed completeness of the lease data through viewing leased assets during inventory counts and ensuring they were included in the data appropriately. We utilised our valuations specialists to assess the incremental borrowing rates used by management. On transition we reviewed the onerous lease provision for rents brought forward and ensured this had been appropriately and accurately offset against the right of use assets. For a sample of each of the categories of movements recognised in the year since the transition date, we discussed the movement with management and recalculated the movement for each sample based on updated lease documentation and by taking account of modifications to IFRS 16 as a result of the Covid-19 pandemic. We ensured that right of use assets for properties that were included within the strategic restructuring programme have been fully impaired during the year. We assessed and evaluated the adequacy of the Group's disclosures of the impact of the transition to IFRS 16 as well of the positions held as at the balance sheet date. Our review of the disclosures included recalculating management's reconciliation from the prior year lease commitment note to the lease liability on transition and investigated material reconciling items to ensure they were appropriate. **Key observations** Through performing these procedures, we did not note any material exceptions related to accounting for leases under IFRS 16.
Revenue recognition Refer to page 59 (Audit Committee Report), page 91 (accounting policies) and pages 98-100 (financial disclosures).	There is a risk that revenue is incorrectly calculated or recorded in the wrong period. Revenue is accrued in the financial statements for hire equipment out on hire over the year end. There is a risk that accrued revenue may be incorrectly calculated. There is also a risk that rebates payable to customers may be omitted or incorrectly calculated, and that credit note provisions may be incorrectly calculated. In view of the potential for error or for management override of controls we consider this to be an area in which there is a significant risk of material misstatement in the financial statements. Therefore we consider revenue recognition to be a key audit matter.	Our audit work in respect of this area included the identification and testing of the operating effectiveness of key controls over revenue recognition. In respect of the front of house systems, we performed a reconciliation of revenue, including accrued revenue and rebates, between that system and the accounting records. We obtained the calculations of accrued revenue at the year end and the underlying data, and we recalculated a sample included in accrued revenue. For a sample of items we checked that there was a subsequent invoice to a third party and that the revenue recognition criteria used are in accordance with the stated accounting policy. We tested the calculation of rebates payable for a sample of customers by reference to sales data and the underlying agreements, compared rebates by customer against those payable in previous years and investigated the reasons for significant variances. We tested the calculation of the credit note provision and associated assumptions. A review of post year end credit notes was also performed in order to assess the adequacy of the provision. **Key observations** We noted no material revenue recognition exceptions through performing these procedures.

Our application of materiality

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

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole and performance materiality as follows:

	Group financial statements		Parent company financial statements	
	2020 £m	2019 £m	2020 £m	2019 £m
Materiality	0.9	1.0	0.8	0.9
Basis for determining materiality	Approximately 4% of adjusted EBITA		90% of Group materiality	
Rationale for the benchmark applied	We considered adjusted EBITA to be the most appropriate measure for the basis of materiality given it is a key performance indicator for the group. Adjustments are included on the Consolidated Income Statement and detailed in notes 7 and 14 to the financial statements. Adjusted measures have been used as we believe this more appropriately reflects the Group's underlying performance.		We used our judgement to allocate materiality, including taking account of aggregation risk.	
Performance materiality	60% of materiality.			
Basis for determining performance materiality	We considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.			

Component materiality

We set materiality for each component of the Group based on a percentage of between 15% and 90% of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £0.1m to £0.8m. In the audit of each component, we further applied performance materiality levels of 60% of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £27k (2019:£40k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other Companies Act 2006 reporting

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: → the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and → the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: → adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or → the Parent Company financial statements are not in agreement with the accounting records and returns; or → certain disclosures of Directors' remuneration specified by law are not made; or → we have not received all the information and explanations we require for our audit.

Financial Statements

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

Responsibilities of Directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group that were contrary to applicable laws and regulations, including fraud.

We considered the processes and controls that the Group has established to address risks identified, or that otherwise prevent, deter and detect fraud and potential breaches of applicable laws and regulations; and how management monitors those processes and controls. Our audit planning identified fraud risks in relation to management override, revenue recognition, hire stock and exceptional items. (Revenue recognition and hire stock have been assessed as Key Audit Matters above). Fraud risks were communicated to all members of the audit team during both the planning and execution of the audit.

We designed our audit procedures to detect irregularities, including fraud. Our procedures included journal entry testing, with a focus on large or unusual transactions based on our knowledge and understanding of the business; enquiries with Group management; and focussed testing on specifically identified audit risks, including those referred to in the Key Audit Matters section above. We focused on laws and regulations that could give rise to a material misstatement in the financial statements, including, but not limited to, the Companies Act 2006, International Financial Reporting Standards and tax legislation.

Our audit procedures were designed to respond to risks of material misstatement in the financial statements, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery, misrepresentations or through collusion. There are inherent limitations in the audit procedures performed and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we are to become aware of it.

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

Use of our report

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

Sophia Michael (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
UK

28 April 2021

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

Consolidated Income Statement

For the year ended 26 December 2020

	Note	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Revenue	5	**269,933**	328,005
Cost of sales		**(130,434)**	(149,706)
Gross profit		**139,499**	178,299
Distribution costs		**(28,072)**	(33,190)
Administrative expenses		**(121,743)**	(128,830)
Other operating income	6	**11,815**	542
Adjusted EBITDA	5, 32	**69,362**	63,929
Less: Depreciation	9	**(49,590)**	(37,396)
Adjusted EBITA	32	**19,772**	26,533
Less: Exceptional items (non-finance)	7	**(13,076)**	(4,094)
Less: Amortisation	9	**(5,197)**	(5,618)
Operating profit		**1,499**	16,821
Finance expense	8	**(25,065)**	(22,609)
Adjusted (loss)/profit before tax		**(4,920)**	5,806
Less: Exceptional items (non-finance)	7	**(13,076)**	(4,094)
Less: Exceptional items (finance)	7	**(373)**	(1,882)
Less: Amortisation	9	**(5,197)**	(5,618)
Loss before tax		**(23,566)**	(5,788)
Income tax charge	12	**(15)**	(436)
Loss from continuing operations		**(23,581)**	(6,224)
Profit on disposal of discontinued operations	7, 28	**–**	14,770
Profit from discontinued operations, net of tax	28	**–**	162
(Loss)/profit for the financial period		**(23,581)**	8,708
(Loss)/profit per share (pence)			
Continuing operations			
Basic and diluted loss per share	13	**(12.02)**	(3.66)
Adjusted basic (loss)/earnings per share[1]	13	**(2.03)**	2.76
Adjusted diluted (loss)/earnings per share[1]	13	**(2.03)**	2.31
Continuing and discontinued operations			
Basic and diluted (loss)/earnings per share	13	**(12.02)**	5.12
Adjusted basic (loss)/earnings per share[1]	13	**(2.03)**	2.84
Adjusted diluted (loss)/earnings per share[1]	13	**(2.03)**	2.38

1 Adjusted (loss)/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 84 to 125 form part of these Financial Statements.

Financial Statements

Consolidated Statement of Comprehensive Income

For the year ended 26 December 2020

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
(Loss)/profit for the financial period	**(23,581)**	8,708
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**617**	(782)
Gains/(losses) arising on cash flow hedges	**306**	(144)
Other comprehensive gain/(loss) for the period, net of tax	**923**	(926)
Total comprehensive (loss)/profit for the period	**(22,658)**	7,782
Attributable to owners of the Company	**(22,658)**	7,782

The notes on pages 84 to 125 form part of these Financial Statements.

Consolidated Statement of Financial Position

For the year ended 26 December 2020

	Note	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
ASSETS			
Non-current assets			
Intangible assets	14	**158,498**	160,378
Property, plant and equipment	15	**62,024**	101,851
Right of use assets	16	**89,839**	–
Derivative financial instruments	26	**–**	14
		310,361	262,243
Current assets			
Inventories	17	**3,183**	3,735
Trade and other receivables	18	**75,880**	88,396
Cash		**97,573**	22,658
		176,636	114,789
Total assets		**486,997**	377,032
LIABILITIES			
Current liabilities			
Trade and other payables	19	**(61,821)**	(66,031)
Borrowings and finance lease liabilities	20	**(38,395)**	(5,355)
Provisions	21	**(7,448)**	(8,145)
Current tax liabilities		**(1)**	–
		(107,665)	(79,531)
Non-current liabilities			
Borrowings and finance lease liabilities	20	**(245,276)**	(185,729)
Provisions	21	**(26,206)**	(32,470)
Deferred tax liabilities	22	**(260)**	(341)
		(271,742)	(218,540)
Total liabilities		**(379,407)**	(298,071)
Net assets		**107,590**	78,961
EQUITY			
Share capital	23	**6,965**	1,702
Share premium	23	**45,580**	–
Warrant reserves	24	**2,694**	2,694
Merger reserve		**97,780**	97,780
Foreign exchange translation reserve		**15**	(602)
Cash flow hedging reserve		**–**	(306)
Retained deficit		**(45,444)**	(22,307)
Total equity		**107,590**	78,961

The notes on pages 84 to 125 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 28 April 2021 and were signed on its behalf by:

P Quested
Director

28 April 2021

Financial Statements

Consolidated Statement of Changes in Equity

For the year ended 26 December 2020

	Share capital £000s	Share premium £000s	Warrant reserve £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained earnings/ (deficit) £000s	Total equity £000s
At 29 December 2019 – as previously presented	**1,702**	**–**	**2,694**	**97,780**	**(602)**	**(306)**	**(22,307)**	**78,961**
Implementation of IFRS 16 (note 3)	**–**	**–**	**–**	**–**	**–**	**–**	**(9)**	**(9)**
At 29 December 2019 – as restated	**1,702**	**–**	**2,694**	**97,780**	**(602)**	**(306)**	**(22,316)**	**78,952**
Loss for the period	**–**	**–**	**–**	**–**	**–**	**–**	**(23,581)**	**(23,581)**
Foreign currency translation differences arising on consolidation of foreign operations	**–**	**–**	**–**	**–**	**617**	**–**	**–**	**617**
Hedging of financial instruments	**–**	**–**	**–**	**–**	**–**	**306**	**–**	**306**
Total comprehensive loss for the period	**–**	**–**	**–**	**–**	**617**	**306**	**(23,581)**	**(22,658)**
Transactions with owners recorded directly in equity								
Share issue	**5,263**	**45,580**	**–**	**–**	**–**	**–**	**–**	**50,843**
Share-based payment charge	**–**	**–**	**–**	**–**	**–**	**–**	**453**	**453**
At 26 December 2020	**6,965**	**45,580**	**2,694**	**97,780**	**15**	**–**	**(45,444)**	**107,590**

	Share capital £000s	Share premium £000s	Warrant reserve £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Cash flow hedging reserve £000s	Retained earnings £000s	Total equity £000s
At 30 December 2018	1,702	–	2,694	97,780	180	(162)	(31,728)	70,466
Loss for the period	–	–	–	–	–	–	8,708	8,708
Foreign currency translation differences arising on consolidation of foreign operations	–	–	–	–	(782)	–	–	(782)
Hedging of financial instruments	–	–	–	–	–	(144)	–	(144)
Total comprehensive loss for the period	–	–	–	–	(782)	(144)	8,708	7,782
Transactions with owners recorded directly in equity								
Share-based payment charge	–	–	–	–	–	–	713	713
At 28 December 2019	1,702	–	2,694	97,780	(602)	(306)	(22,307)	78,961

The notes on pages 84 to 125 form part of these Financial Statements.

Consolidated Statement of Cash Flows

For the year ended 26 December 2020

	Note	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
(Loss)/profit after income tax		**(23,581)**	8,708
Adjustments for:			
– Tax		**15**	436
– Profit on disposal of discontinued operations		**–**	(14,770)
– Amortisation	9	**5,197**	5,525
– Depreciation	9	**44,709**	28,750
– Accelerated depreciation relating to hire stock customer losses and hire stock write-offs	9	**4,727**	8,257
– Impairment of property, plant and equipment and right of use assets	9	**11,557**	363
– Disposal of sub-lease		**59**	–
– Disposal of intangible assets	9	**–**	96
– Loss on disposal of property, plant and equipment and right of use assets	9	**2,110**	576
– Lease disposals		**(4,012)**	–
– Rent concessions		**(996)**	–
– Share-based payment charge	25	**453**	714
– Foreign exchange loss/(gains) on operating activities		**535**	(474)
– Finance expense	8	**25,065**	22,609
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		**552**	589
– Trade and other receivables		**9,845**	5,863
– Trade and other payables		**(1,780)**	(4,362)
– Provisions		**(5,181)**	(3,718)
Net cash flows from operating activities before changes in hire equipment		**69,274**	59,162
Purchase of hire equipment	15	**(13,673)**	(18,972)
Cash generated from operating activities		**55,601**	40,190
Net interest paid		**(22,052)**	(18,498)
Income tax repaid		**552**	490
Net cash generated from operating activities		**34,101**	22,182
Cash flows from investing activities			
Proceeds on disposal of business, net of cash disposed of		**–**	45,618
Purchases of non-hire property, plant, equipment and software	14, 15	**(5,814)**	(6,670)
Net cash (used in)/generated from investing activities		**(5,814)**	38,948
Cash flows from financing activities			
Proceeds from capital raise (net of share issue costs paid)	23	**52,335**	–
Proceeds from borrowings (third parties)	20	**17,200**	–
Repayment of borrowings		**–**	(51,018)
Capital element of lease liability payments		**(23,263)**	–
Capital element of net investment in sublease receipts		**356**	–
Capital element of finance lease payments		**–**	(7,361)
Net cash received/(paid) from financing activities		**46,628**	(58,379)
Net increase in cash		**74,915**	2,751
Cash at the start of the year		**22,658**	19,907
Cash at the end of the year		**97,573**	22,658

The notes on pages 84 to 125 form part of these Financial Statements.

Financial Statements

Notes to the Consolidated Financial Statements

For the year ended 26 December 2020

1. Basis of preparation

a) Reporting entity

The Company is a public limited company which was listed on the London Stock Exchange during the year and is incorporated under the Companies Act and domiciled in the United Kingdom. On 14 January 2021 the Group's ordinary shares of 1 pence each were admitted to trading on AIM. Simultaneously, the admission of the ordinary shares to trading on the Main Market of London Stock Exchange plc and to the premium listing segment of the Official List were cancelled. The address of the Company's registered office is Oakland House 76 Talbot Road, Manchester M16 0PQ. These Consolidated Financial Statements comprise the Company and its subsidiaries (the Group).

b) Statement of compliance

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

The Directors have taken advantage of the option within Section 390 of the Companies Act 2006 to prepare their Financial Statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts cover the 52-week period from 29 December 2019 to 26 December 2020 (2019: 30 December 2018 to 28 December 2019).

c) Functional and presentational currency

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

d) Basis of preparation

These Financial Statements have been prepared on a historical cost basis with the exception of derivative financial instruments, which are measured at fair value on each reporting date. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

e) Going concern

At 26 December 2020, the Group's financing arrangements consisted of fully drawn senior finance and revolving credit facilities of £199.2m, an undrawn overdraft facility of £6.0m and finance lines to fund hire fleet capital expenditure, of which £14.7m had not been utilised. Both the senior finance and revolving credit facilities are subject to a net debt leverage covenant test each quarter. At the financial year end the Group had 36% headroom against this covenant. Subsequent to year end the Group repaid £15m of the senior finance facility and the £17.2m RCF. Cash at 26 December 2020 was £97.6m (28 December 2019: £22.7m).

The Directors have prepared a going concern assessment covering the 12 month period from the date of signing of the Financial Statements, which confirms that the Group is capable of continuing to operate within its existing facilities and can meet its covenant tests during that period. The key assumptions on which the projections are based include an assessment of the impact of future market conditions on projected revenues and the capital investment required to support that level of revenue. The Group has considered the impact of continued economic uncertainty resulting from COVID-19 as part of its assessment.

The Group's base case used for the going concern assessment was the Board approved budget and three year model. The budget assumes a continued recovery of revenue during 2021 albeit a conservative one in that it will not reach pre-COVID levels. The Group remains comfortably within covenant tests and maintains sufficient liquidity throughout the period modelled. In addition, the Board has considered various downside scenarios including a 'reverse stress test' case to assess the level of revenue (and ultimately EBITDA) loss the Group could sustain without breaching covenants or requiring additional liquidity should there be further COVID-19 lockdowns later in 2021. The reverse stress test scenario updates the base case for actual performance for the 14 weeks to 3 April 2021 and assumes revenue is reduced so that, expressed as a percentage of 2019 levels, it is 72% in Q4 2021 and 85% in Q1 2022, mirroring the revenue decline experienced by the Group during the first COVID-19 lockdown from April to September 2020. The only mitigation applied is a c£3m reduction in capital expenditure during the same period.

In this largely unmitigated 'reverse stress test' scenario the Group maintains significant liquidity and meets its covenant requirements. The Directors consider this scenario extremely unlikely to occur given that it is worse than the industry's current worst case expectation and the revenue profile seen in the second and third national lockdowns was more than 90% of 2019 levels. The Group has introduced new operating procedures, launched Click-and-Collect and changed its operating model, all of which have reduced physical contact with customers and allowed trading to continue. Similarly, customers now have established operating procedures that allow their operations to continue and Government has shown support for continuity in the construction sector.

Whilst the Directors consider that there is a degree of subjectivity involved in their assumptions, taking into account the adequacy of the Group's debt facilities, current and future developments and the principal risks and uncertainties (see pages 32 to 35) and, after making appropriate enquiries, they 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 its Consolidated Financial Statements.

f) Basis of consolidation

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

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

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

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

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

2. Critical accounting estimates and judgements

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

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

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

Estimates

Useful economic life and residual value of assets

No sensitivity analysis has been given in relation to the useful economic life and residual value of assets held for hire due to the volume of the items involved and that mutliple systems are used by the Group to record property, plant and equipment. Instead, the Directors regularly review useful economic lives and residual values to ensure that the depreciation charge is appropriate. Improvements have been made with the implementation of a new asset management system which is in use for the 2020 financial year by the core UK hire business. The Directors expect to make further improvements to the recording and management of property, plant and equipment across the Group.

Useful economic life of intangible assets

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

The Directors have assessed the brands of ABird and Apex and estimated that they have useful economic lives of 20 years. The Directors have estimated the customer relationship intangible assets recognised on the acquisition of Hero Acquisitions Limited and Apex Generators Limited as having useful economic lives of ten years.

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

To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary from such estimates of discounted future cash flows. Such calculations require assumptions related to the appropriate discount rate, the long term growth rate and also short term performance and cash flows. The Directors consider historic performance as well as referencing to external information to arrive at these assumptions. Further details of the impairment reviews undertaken, assumptions and sensitivities are given in note 14.

Onerous property costs

Provisions have been made for onerous property costs on loss-making and non-trading stores, distribution centres and unused office space within the Group's property portfolio. The assessment of whether a site is onerous is based on forecast trading performance and sub-let income over the length of the lease. Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other unavoidable costs. Future operating losses are not provided for. Until the implementation of IFRS 16 on 29 December 2019 (note 3), the provision also included amounts for future rent payments, net of future sub-let income. The carrying amount of the onerous property costs will be affected by changes in the discount rate, property disposals, and changes in trading performance. Further details of the assumptions and sensitivities are given in note 21.

Dilapidations provisions

An amount equivalent to the provision for dilapidation is recognised as part of the cost of the related property. The timing and amounts of future cash flows related to lease dilapidations are subject to uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and third party surveyors' reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change. The amount recognised is the estimated cost of dilapidations, discounted to its net present value, and since the cash outflow can take place many years in the future, the carrying amount of the provision is reviewed regularly and adjusted to take account of changing facts and circumstances, including the age and condition of the property, experience of actual spend on similar properties, third party surveyors' reports, specific lease obligations, market practice generally and agreements reached with landlords in respect of a given property. Changes in the estimated timing of dilapidations or dilapidations cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dilapidations provision is included as a finance expense. Further details of the assumptions and sensitivities are given in note 21.

Recoverability of trade receivables

Estimates are required in assessing the recoverability of overdue trade receivables and determining whether a provision against those receivables is required. The Group monitors the risk profile of debtors and makes provisions for amounts that may not be recoverable based on past default experience and on the Directors' assessment of the economic environment. The recoverability of overdue receivables is considered together with the sales credit note provision. The Group makes provision for credit notes raised and expected to be raised after the end of the reporting period that relate to customer income recognised before the end of the period. The Group's bad debt and credit note provisions are disclosed in note 18.

Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

2. Critical accounting estimates and judgements continued

Judgements

Determining whether an arrangement constitutes a lease

Any arrangement that is dependent on the use of a specific asset or assets should be accounted for as a lease. The Directors have concluded that none of the Group's contracts with customers are dependent on the use of a specific asset or group of specific assets as the Group can swap hire stock as required to provide tool and equipment hire services to them, and therefore are not leases.

Lease term

The lease term under IFRS 16 will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual termination or extension options.

For property, the Group's policy is to use the full lease term (as opposed to first exercisable break date) for trading branches, distribution centres and offices unless there is an intention to exit the property at the reporting date. Had lease liabilities been calculated to the first break rather than lease end date the transition liability would have reduced by £24m. For properties which are occupied beyond lease end date, liabilities are calculated based on specific extension clauses if they exist. Where they do not, the Group reviews leases at least twice annually and extends for a maximum of six months provided notice has not been served by the Group or relevant landlord. The increase in liabilities as a result of this judgement was less than £1m on transition.

Given the tenures and values involved, any similar judgements applied to vehicle and equipment leases are immaterial.

Discount rates

The Group has assessed that the interest rate implicit in the lease is not readily determinable for leases other than hire fleet financed via the lines agreed for that purpose with the Group's lenders. The Group therefore uses an incremental borrowing rate for all other leases, taking advantage of the expedient available to apply a single rate to leases of similar characteristics.

The incremental borrowing rate in use at transition and for new leases in the period is 3.5% for vehicles and equipment and between 5.1% and 6.0% for property leases. The discount rate selected for non-property leases is the rate at which the Group expects to finance assets of a similar class. For property, rates are those at which the Group might expect to borrow if acquiring an interest in property, over five- and ten-year tenures. These rates are adjusted upwards for properties considered to be higher risk because of geographic region or age.

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. Exceptional items for the year ended 26 December 2020 are listed and explained in note 7.

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

Implementation of IFRS 16 Leases

IFRS 16 Leases is mandatory for periods beginning on or after 1 January 2019 and accordingly the Group has adopted the standard from 29 December 2019 (the date of initial adoption or DIA). The Group worked with third party specialists to develop IFRS 16 policies along with processes and systems to manage their successful implementation.

Adoption of IFRS 16 has had a significant impact on the consolidated income statement and consolidated statement of financial position as set out in the tables below. There is no impact on the Group's underlying cash flows.

Impact of IFRS 16 on the consolidated income statement for the year ended 26 December 2020

	Year ended 26 December 2020		
	Pre adoption of IFRS 16 £000s	IFRS 16 impact £000s	As reported £000s
Revenue	269,933	–	269,933
Cost of sales	(130,851)	417	(130,434)
Gross profit	139,082	417	139,499
Distribution costs	(28,637)	565	(28,072)
Administrative expenses	(126,683)	4,940	(121,743)
Other operating income	12,726	(911)	11,815
Adjusted EBITDA	46,977	22,385	69,362
Less: Depreciation	(30,311)	(19,279)	(49,590)
Adjusted EBITA	16,666	3,106	19,772
Less: Exceptional items	(14,981)	1,905	(13,076)
Less: Amortisation	(5,197)	–	(5,197)
Operating (loss)/profit	(3,512)	5,011	1,499
Net finance expense	(20,798)	(4,267)	(25,065)
Adjusted loss before tax	(4,035)	(885)	(4,920)
Less: Exceptional items (non-finance)	(14,981)	1,905	(13,076)
Less: Exceptional items (finance)	(97)	(276)	(373)
Less: Amortisation	(5,197)	–	(5,197)
(Loss)/profit before tax	(24,310)	744	(23,566)

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

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

The adoption has resulted in additional operating profit of £5.0m compared to the loss before tax that would have been reported under IAS 17. Administrative expenses reduced by £4.9m, the result of discounting lease liabilities with the discount unwind being reflected in net finance expense. Cost of sales and distribution costs reduced for the same reason (largely on vehicle leases). Other operating income decreases following adoption, with sub-let income reduced to only discount unwind on the net investment on sub-leases deemed to be finance leases.

The increase in net finance expense is driven by discounting as noted above, with the front-end loading of the discount resulting in an additional £4.3m of interest versus the equivalent operating lease cost that would have been recognised under IAS 17.

Adjusted EBITDA, which the Group reports as an additional performance measure, is significantly increased (by £22.4m) under IFRS 16 as a result of operating lease costs being replaced by depreciation and interest.

Under the adoption method chosen by the Group (see below) comparators are not restated.

Impact of IFRS 16 on the consolidated statement of financial position at DIA

	29 December 2019		
	Pre adoption of IFRS 16 £000s	IFRS 16 impact £000s	As reported £000s
Intangible assets	160,378	–	160,378
Property, plant and equipment	101,851	(29,312)	72,539
Right of use assets	–	109,531	109,531
Derivative financial instruments	14	–	14
Current assets	114,789	(1,476)	113,313
Lease liabilities	–	(99,309)	(99,309)
Finance leases	(16,583)	16,583	–
Other liabilities	(240,532)	1,752	(238,780)
Provisions	(40,615)	2,222	(38,393)
Deferred tax liabilities	(341)	–	(341)
Net assets	78,961	(9)	78,952

Right of use (ROU) assets totalling £109.5m were created on transition with £29.3m of the total being a reclassification of hire stock assets held under finance lease from property, plant and equipment. Lease liabilities of £99.3m were created with £16.6m being related to the transfer of finance lease liabilities. The difference between lease liability and asset is the impact of adjusting the ROU asset for prepayments, accruals and onerous lease provisions. A net investment in sub-leases, representing where the Group has sub-let excess space or properties under a finance lease, was created totalling £1.9m.

Reconciliation of transition date commitments under non-cancellable operating leases to opening lease liability
The table below shows a reconciliation from the total operating lease commitment as disclosed at 29 December 2019 to the total lease liabilities recognised in the accounts immediately after transition:

	29 December 2019 £000s
Operating lease commitments at 29 December 2019 (restated – note 27)	76,569
Finance leases for property, plant and equipment transferred from finance lease liability	16,583
Impact of discounting at the incremental borrowing rates as at 29 December 2019	(17,969)
Payments due for periods beyond break clauses where the Group expects not to exercise the break	24,126
Total lease liabilities recognised on 29 December 2019	99,309

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

Capitalisation of lease contracts
Under IFRS 16, the Group capitalises the ROU of all its qualifying property leases, vehicle leases, hire and other equipment leases previously held under operating leases.

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

Operating lease expenses are replaced by a depreciation of ROU assets expense and an interest expense as the discount applied to the Group's lease liabilities unwinds.

Lease term
The lease term will correspond to the duration of the contracts signed except in cases where the Group is reasonably certain that it will exercise contractual termination or extension options.

For property, the Group's policy is to use the full lease term (as opposed to first exercisable break date) for trading branches, distribution centres and offices unless there is an intention to exit the property early as at the reporting date. Had lease liabilities been calculated to the first break rather than lease end date the transition liability would have reduced by around £24m. For properties which are occupied beyond lease end date, liabilities are calculated based on specific extension clauses if they exist. Where they do not, the Group reviews leases at least twice annually and extends for a maximum of six months provided notice has not been served by the Group or relevant landlord. The increase in liabilities as a result of this judgement was less than £1m on transition.

Given the tenures and values involved, any similar judgements applied to vehicle and equipment leases are immaterial.

Discount rates
The Group has assessed that the interest rate implicit in the lease is not readily determinable for leases other than hire fleet financed via the lines agreed for that purpose with the Group's lenders. The Group therefore uses an incremental borrowing rate for all other leases, taking advantage of the expedient available to apply a single rate to leases of similar characteristics.

The incremental borrowing rate in use at transition and for new leases in the period is 3.5% for vehicles and equipment and between 5.1% and 6.0% for property leases. The discount rate selected for non-property leases is the rate at which the Group expects to finance assets of a similar class. For property, rates are those at which the Group might expect to borrow if acquiring an interest in property, over five- and ten-year tenures. These rates are adjusted upwards for properties considered to be higher risk because of geographic region or age.

Lessor accounting
The Group acts as intermediate lessor on vacant properties it sub-lets to assist in covering costs until the lease term ends or a break clause can be triggered. The Group has assessed whether the sub-lease is a finance or operating lease by reference to the ROU asset arising from the head lease. A sublease whose term covers substantially all of the remaining economic life of the head lease is accounted for as a finance lease; otherwise it is accounted for as an operating lease. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Amounts due from lessees under finance leases are recognised as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

IFRS 16 and COVID-19 concessions
The Group has taken advantage of the practical expedient available under the amendment to IFRS 16. As such the Group assessed if rent concessions that occurred as a direct consequence of the COVID-19 pandemic meet the following conditions:

- the change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- any reduction in lease payments affects only payments originally due on or before 30 June 2021; and
- there is no substantive change to other terms and conditions of the lease.

Where these conditions were met the change in the lease payments were not accounted for as a lease modification. The amount of qualifying rent concessions recorded in the income statement amounted to £1.3m.

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Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

New accounting standards, accounting standards not yet effective and changes in accounting policy continued

Holiday pay accrual

As a result of the COVID-19 pandemic an exception to HR policy has been made, permitting colleagues to carry over an amount of unused annual leave into 2021. The Directors consider that the likelihood of any holidays not being utilised or paid out is low. The Group has accrued for the related salaries, employer's national insurance and pension costs.

Government grants

The Group received grant income as a result of Government support in response to the COVID-19 pandemic. Government grant income is reported within other operating income. The income is recognised when there is a reasonable assurance that the relevant entity or the wider Group will comply with the conditions attached to the grant and that the grants will be received. The grant income is recognised in the same period as any related costs for which the grants are intended to compensate.

Other standards effective for the first time in the year

IFRIC 23 Uncertainty over Income Tax Treatments: The standard is effective for annual reporting periods beginning on or after 1 January 2019. The Company has considered the application of IFRIC 23 and concluded that its income tax filings do not contain any uncertain positions requiring disclosure.

Standards effective in future periods

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

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material);
- IAS 1 Presentation of Financial Statements (Amendment – Classification of Liabilities as Current or Non-Current);
- IFRS 3 Business Combinations (Amendment – Definition of Business);
- Conceptual Framework for Financial Reporting (Amendments to IFRS 3);
- Revised Conceptual Framework for Financial Reporting;
- IBOR Reform and its Effects on Financial Reporting – Phase 1 & 2;
- Annual Improvements to IFRS: 2018-2020 Cycle;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract);
- IAS 16 Property, Plant and Equipment (Amendment – Proceeds before Intended Use); and
- IFRS 17 Insurance Contracts.

4. Accounting policies

a) Revenue recognition

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

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

Type of product or service	Nature and timing of satisfaction of performance obligations, including significant payment terms	Approach to revenue recognition
Hire and rehire activities	Equipment on hire to customers is available for use by the customer from the point of collection or delivery until its return or notification that it is available for collection. Cash customers pay a deposit to secure the hire for which the charges are settled on return of the equipment. Account customers pay 30 days from the end of the month of invoice or to such terms as have been specifically negotiated up to a maximum of 90 days from the end of the month of invoice.	Revenue is recognised over time as the hire period progresses. The stand-alone selling price is determined based on the contracted prices at which the Group hires out the equipment under the specific contract with the customer and commences when the equipment is collected or has been delivered to a customer's premises and has been accepted by the customer. Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, contract corrections and any negotiated rebate, which are estimated based on historical data. For expected returns and contract corrections an estimate of the impact is treated as a correction to the asset's carrying value by deducting this from the amount recognised as a trade receivable. Rebates are recognised as a separate liability and included as a component of other creditors (see note 19). The Group reviews its estimate of all these items at each reporting date and updates the amounts of the reduction in the asset or the liability accordingly.
Resale and ancillary revenue to hire including fuel and consumables	Customers obtain control of the goods at the point of collection or delivery and settle as above.	Revenue is recognised when the goods are collected or have been delivered to a customer's premises and have been accepted by customers. Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, contract corrections and any negotiated rebate, which are estimated based on historical data. For expected returns and contract corrections an estimate of the impact is treated as a correction to the asset's carrying value and deducted from the amount recognised as a trade receivable. Rebates are recognised as a separate liability and included as a component of other creditors (see note 19). The Group reviews its estimate of all these items at each reporting date and updates the amounts of the reduction in the asset or the liability accordingly.
Damaged/lost hire stock compensation	In circumstances where a customer loses or damages the equipment they have on hire, the Group is entitled to reclaim the costs of repair or the replacement cost in case of loss. Settlement is at the point the cost is finalised for cash customers and under normal settlement terms for account customers.	When the loss or damage is identified and quantified.
Ex-hire fleet asset sales	Customers obtain control of the goods at the point of collection or delivery and settle as above.	Revenue is recognised when the goods are collected; or have been delivered to a customer's premises and have been accepted by the customer; or have otherwise been accepted by the customer. Payment is on or before collection.
Training course income	Customers obtain the benefit of the service at the point of delivery. Training courses are paid for in advance or for account customers, in arrears in accordance with their normal settlement terms.	Revenue is recognised when the training course or support service is provided to the customer.

b) Contract costs

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

c) Cost of sales, distribution costs and administrative expenses

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

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Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

4. Accounting policies continued

d) Segment reporting

IFRS 8 Operating Segments requires operating segments to be reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the management team, including the Chief Executive Officer, Chief Financial Officer and Chief Commercial Officer. Details of the Group's segments are given in note 5.

e) Foreign currency translation

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

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

The revenues and expenses of foreign operations are translated at an average rate for the year, which approximates the foreign currency exchange rates ruling at the dates of the transactions. Exchange differences arising from the translation of foreign operations are reported in other comprehensive income.

f) Property, plant and equipment

Useful economic life and residual value of assets

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

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

Material and equipment held for hire:

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

Non-hire assets:

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

The Group reviews its depreciation policy annually and has made no changes in 2020 to the depreciation rates applied.

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

Profit or loss on disposal

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

Depreciation

For the purpose of calculating Adjusted EBITDA and Adjusted EBITA, depreciation, as disclosed on the face of the income statement, includes: the depreciation charge for the year on property, plant and equipment and on right of use assets; the net book value of hire stock losses and write-offs; the net book value of other fixed asset disposals less the proceeds on those disposals; impairments of right of use assets; the net book value of right of use asset disposals, net of the associated lease liability disposed of; and the loss on disposal of sub-leases.

g) Intangible assets

Goodwill

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

Intangible assets acquired in a business combination

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

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

4. Accounting policies continued

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

Software development costs

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

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

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

Other intangible assets

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

h) Impairment of intangible, property, plant and equipment and right of use assets

These assets are reviewed annually or more frequently if there is an indication of impairment to ensure that they are not carried above their estimated recoverable amounts. Impairment reviews are undertaken whenever events or changes in circumstances indicate the carrying value of these assets may not be recoverable. Other than for goodwill, where an impairment loss subsequently reverses, the carrying amount is increased to the revised estimate, but restricted so that the increased amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised in prior years. Any impairment losses or reversals are recognised immediately in the income statement.

Testing for impairment

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

The carrying value of a CGU is compared to its recoverable amount, which is the higher of its value in use and the fair value less costs of disposal.

i) Derivative financial instruments

The Group uses derivative financial instruments to manage its exposure to interest rate risk. Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date. Where hedge accounting is not applied, the resulting gain or loss is recognised in profit or loss immediately. Derivatives are carried as financial assets when their fair value is positive and as financial liabilities when their fair value is negative.

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

Cash flow hedges

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

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

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

j) Inventories

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

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Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

4. Accounting policies continued

k) Trade receivables

Recoverability of trade receivables

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

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

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

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

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

l) Cash

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

m) Trade and other payables

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

n) Borrowings

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

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

o) Provisions

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.

Onerous property costs

Provisions have been made for onerous property costs on loss-making and non-trading stores, distribution centres and unused office space within the Group's property portfolio. The assessment of whether a site is onerous is based on forecast trading performance and sub-let income over the length of the lease. Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other unavoidable costs. Until the implementation of IFRS 16 on 29 December 2019 (note 3), the provision also included amounts for future rent payments, net of future sub-let income. These provisions are recognised on a property-by-property basis. The carrying amount of the onerous property costs will be affected by changes in the discount rate, property disposals, and changes in trading performance. 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. Further details of the assumptions and sensitivities are given in note 21.

Dilapidations provisions

An amount equivalent to the provision for dilapidation is recognised as part of the cost of the related property. The timing and amounts of future cash flows related to lease dilapidations are subject to uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and third party surveyors' reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change. The amount recognised is the estimated cost of dilapidations, discounted to its net present value, and since the cash outflow can take place many years in the future, the carrying amount of the provision is reviewed regularly and adjusted to take account of changing facts and circumstances, including the age and condition of the property, experience of actual spend on similar properties, third party surveyors' reports, specific lease obligations, market practice generally and agreements reached with landlords in respect of a given property. Changes in the estimated timing of dilapidations or dilapidations cost estimates are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dilapidations provision is included as a finance expense. Further details of the assumptions and sensitivities are given in note 21.

4. Accounting policies continued

Restructuring provisions

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

Onerous contract provisions

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

p) Share capital and reserves

Ordinary shares

The Group's ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Retained earnings/accumulated deficit

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

Foreign exchange reserve

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

Merger reserve

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

Warrant reserve

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

Cash flow hedging reserve

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

q) Finance income and expense

Finance income comprises interest receivable on cash balances.

Finance expense comprises interest payable on borrowings, interest payable on lease liabilities and 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 finance element of lease payments is charged to the income statement over the lease period.

r) Current and deferred income tax

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

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

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

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

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

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

Financial Statements

Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

4. Accounting policies continued

s) Employee benefits

Short-term employee benefits

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

Pension obligations

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

Termination benefits

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

Share-based payments

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

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

t) Leases

Accounting for leases after the transition to IFRS 16

From 29 December 2019, a right of use (ROU) asset representing the Group's right to use the underlying asset and a corresponding lease liability representing its obligation to make lease payments, is recognised. The ROU asset is depreciated over the lease term on a straight-line basis, except where the Group has the right, and expects to exercise that right, to take ownership of the assets after the end of the lease; in such cases the assets are depreciated over their useful life. The finance element of lease payments is charged to the income statement over the lease term.

Lease liabilities are initially measured at the present value of future rent payments, and discounted at the interest rate implicit in the lease, or, where this cannot readily be determined, the Group's incremental borrowing rate. The Group's incremental borrowing rate is the rate the Group would have to pay to borrow the funds necessary to obtain an asset of similar value over a similar term and with similar security to the ROU asset in a similar economic environment.

ROU assets are measured at cost comprising; the initial measurement of lease liability, initial direct costs, restoration costs and lease payments made on or before transition date.

Accounting for leases prior to the transition to IFRS 16

Until 28 December 2019, leases of property, plant and equipment were classified as either operating leases or finance 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 were capitalised in the balance sheet and depreciated over the shorter of useful life and lease term with any impairment being recognised in accumulated depreciation. Leased assets were recorded at an amount equal to the lower of their fair value and the present value of the minimum lease payments at the inception of the related finance leases. The capital elements of future obligations under leases and hire purchase contracts were included in liabilities in the statement of financial position and analysed between current and non-current amounts. The interest elements of the obligations were 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 were classified as operating leases. Operating lease rentals were charged to the income statement on a straight-line basis over the lease term.

Lease incentives were 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.

4. Accounting policies continued

u) Fair value measurement

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

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

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

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

Derivative instruments (level 2)

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

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

v) Exceptional items

Items of income or expense have been shown as exceptional either because of their size or nature or because they are outside the normal course of business.

w) Dividends

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

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5. Segment reporting

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

- Rental and related revenue; and
- Services.

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

Services comprise the Group's HSS OneCall rehire business and HSS Training. HSS OneCall provides customers with a single point of contact for the hire of products that are not typically held within HSS's fleet and are obtained from approved third party partners; HSS Training provides customers with specialist safety training across a wide range of products and sectors.

Contribution is defined as segment operating profit before branch and selling costs, central costs, depreciation, amortisation and exceptional items. During the year the Group received £9.8m in grant income (2019: £nil) as a result of participation in the UK COVID-19 Job Retention Scheme and a similar scheme operated in the Republic of Ireland. Income has been allocated to segments based on where the underlying costs were incurred. This resulted in £2.7m being allocated to Rental and related contribution, £0.7m to Services contribution, £5.9m to branch and selling costs, £0.3m to central costs, and £0.2m to exceptional items. £0.6m of grant income related to property rates was allocated to branch and selling costs.

All segment revenue, operating profit, assets and liabilities are attributable to the principal activity of the Group being the provision of tool and equipment hire and related services in, and to customers in, the United Kingdom and the Republic of Ireland. Revenue from one customer was 10% or more of the Group revenue in the year (2019: one).

	Year ended 26 December 2020			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	180,843	89,090	–	269,933
Contribution	122,914	12,629	–	135,543
Branch and selling costs			(44,394)	(44,394)
Central costs			(21,787)	(21,787)
Adjusted EBITDA				69,362
Less: Exceptional items			(13,076)	(13,076)
Less: Depreciation and amortisation	(27,910)	(600)	(26,277)	(54,787)
Operating profit				1,499
Net finance expenses				(25,065)
Loss before tax				(23,566)
Income tax				(15)
Loss after tax				(23,581)

5. Segment reporting continued

	Year ended 26 December 2020			
	Rental (and related revenue) £000s	**Services £000s**	**Central £000s**	**Total £000s**
Additions to non-current assets				
Property, plant and equipment	**14,099**	**59**	**2,286**	**16,444**
Right of use assets	**4,880**	**–**	**4,357**	**9,237**
Intangibles	**979**	**861**	**1,477**	**3,317**
Non-current assets net book value				
Property, plant and equipment	**44,078**	**203**	**17,743**	**62,024**
Right of use assets	**26,976**	**212**	**62,651**	**89,839**
Intangibles	**153,804**	**1,246**	**3,448**	**158,498**
Current assets			**176,636**	**176,636**
Current liabilities			**(107,665)**	**(107,665)**
Non-current liabilities			**(271,742)**	**(271,742)**
				107,590

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

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For the year ended 26 December 2020

5. Segment reporting continued

	Year ended 28 December 2019			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	27,097	29	4,277	31,403
Intangibles	–	878	1,461	2,339
Non-current assets net book value				
Property, plant and equipment	76,794	187	24,870	101,851
Intangibles	155,624	785	3,969	160,378
Unallocated corporate assets				
Financial instruments			14	14
Current assets			114,789	114,789
Current liabilities			(79,531)	(79,531)
Non-current liabilities			(218,540)	(218,540)
				78,961

6. Other operating income

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
COVID-19 Government grant income: job retention schemes	**9,783**	–
COVID-19 Government grant income: rates grants	**595**	–
Insurance proceeds (net of fees)	**1,216**	–
Sub-lease rental and service charge income	**221**	542
	11,815	542

During the year the Group received £9.8m (2019: nil) as a result of participation in the UK COVID-19 Job Retention Scheme and a similar scheme in the Republic of Ireland; COVID-19 rates grants of £0.6m (2019: nil); and £1.2m from a COVID-19 business interruption insurance claim.

Sub-let rental income of £0.2m (£0.5m) was received on vacant properties which are not onerous.

7. Exceptional items

Items of income or expense have been shown as exceptional either because of their size or nature or because they are outside the normal course of business. As a result, during the year ended 26 December 2020 the Group has recognised exceptional items as follows:

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Year ended 26 December 2020 £000s
Onerous property costs	–	–	7,058	(21)	373	7,410
Network restructure	305	27	4,434	(152)	–	4,614
Capital Raise and AIM listing	–	–	868	–	–	868
Onerous contract	–	–	557	–	–	557
	305	27	12,917	(173)	373	13,449

During the year ended 28 December 2019, the Group recognised exceptional costs analysed as follows:

	Included in cost of sales £000s	Included in distribution costs £000s	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Included in discontinued operations £000s	Year ended 28 December 2019 £000s
Onerous leases	–	9	2,924	(46)	–		2,887
Accelerated amortisation of debt issue costs	–	–	–	–	1,882	–	1,882
Cost reduction programme	17	308	519	–	–	–	844
Impairment of property, plant and equipment	–	–	363	–	–	–	363
Exceptional items – continuing operations	17	317	3,806	(46)	1,882	–	5,976
Business divestiture – discontinued operations	–	–	–	–	–	(14,770)	(14,770)
Total	17	317	3,806	(46)	1,882	(14,770)	(8,794)

Exceptional items incurred in 2020 and 2019

Costs related to onerous properties: branch and office closures

In October the Group announced a decision to permanently close 134 stores as part of an acceleration of strategy. Since that date the Group has been working hard to agree exits from these and pre-existing dark stores. Right of use assets valuing £9.5m were fully impaired following the decision to close stores in October. Associated onerous property costs of £2.1m have been recognised, including £0.4m in advisory fees. Around 60 of these leases were also disposed during the year resulting in a net gain of £4.0m. Interest (discount unwind) of £0.4m on dark store liability has also been recognised through exceptional finance costs.

Dilapidations assets totalling £1.2m (note 9) were written off as a result of the decision to close branches, following which settlements were agreed for certain properties resulting in a release of liability of £1.2m. Reassessment of remaining non-trading store liabilities resulted in a further release of £0.3m. COVID-19 rent concessions have been negotiated with landlords. £0.3m of the rent concession recognised has been treated as exceptional because it related to stores that were already non-trading and previously been considered onerous.

During 2019 a distribution centre was closed with operations transferred to nearby centres resulting in an onerous lease provision of £2.1m. No other branches were closed; however, the decision to cease using one of the floors at the Manchester registered office resulted in an additional onerous lease provision of £1.0m. The remaining reduction of £0.2m related to the reassessment of existing dark store and onerous lease provisions.

Network restructure (excluding onerous property items)

As a result of the decision to close branches and operate a more flexible structure the Group incurred significant other, non-property costs. 300 colleagues were placed at risk of redundancy with the majority of these leaving the business on completion of consultation. £1.6m has been recognised in this regard. Property, plant and equipment £2.0m was impaired and a further £0.8m (note 9) disposed of. Excess resale stock valued at £0.3m was written off.

Capital raise and AIM listing

Fees totalling £0.9m were recognised related to the Group's successful capital raise and preparation for its subsequent move to AIM (which completed on 14 January 2021). These costs have been classified as exceptional due to both their size and the infrequent nature of the activity. Costs that related specifically to the capital raise were deducted from the net proceeds and included in the share premium account (note 23).

Onerous contract

The discount rate applied to the Group's provision for an onerous contract related to the (closed) National Distribution and Engineering Centre (NDEC) (note 21) was reviewed in line with market conditions resulting in an addition of £0.6m to the onerous contract provision.

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For the year ended 26 December 2020

7. Exceptional items continued

Exceptional items incurred in 2019 only

Accelerated amortisation of debt issue costs

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

Cost reduction programme

In light of headwinds that emerged in the market during 2019, the Group undertook initiatives to reduce costs. These include the closure of a centre used to refurbish hire stock and costs to exit contracts related to the operation of a cross-dock facility used to redistribute assets across the network. Internal restructuring was also carried out, resulting in £0.8m of total costs which include £0.6m redundancy costs.

Impairment of closed branch property, plant and equipment

During the year ended 28 December 2019, an impairment of £0.4m to property, plant and equipment was recognised related to the closed distribution centre and Manchester registered office referenced above.

Business divestiture

On 19 July 2018 the Group announced the agreement to sell UK Platforms Limited, HSS's powered access business, to Loxam (see note 28 for further details). The transaction completed in 2019 and was treated as a discontinued operation.

8. Finance expense

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Senior finance facility	16,334	16,552
Debt issue costs	2,398	2,468
Lease liabilities	5,042	–
Finance leases	–	721
Interest unwind on discounted provisions	429	414
Revolving credit facility	382	37
Interest on financial instruments	320	247
Bank loans and overdrafts	160	288
Exceptional accelerated amortisation of debt issue costs	–	1,882
	25,065	22,609

9. Operating profit

Operating profit is stated after charging/(crediting):

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Impairment of property, plant and equipment	2,016	363
Impairment of right of use assets	9,541	–
Depreciation	51,605	37,434
Amortisation	5,197	5,618
Operating lease rentals:		
– land and buildings	–	17,117
– motor vehicles	373	10,272
– hire stock	–	919
Sub-lease rental income	(221)	(542)
Foreign currency translation losses/(gains)	41	(14)
COVID-19 Government grant income (note 6)	(10,378)	–
Business interruption insurance proceeds (note 6)	(1,216)	–

Auditors' remuneration	£000s	£000s
– audit of Group and Company Financial Statements	105	248
– audit of subsidiary Financial Statements	420	218
– other non-audit assurance services	194	28
– taxation compliance services	–	3
	719	497

The adoption of IFRS 16 has resulted in most operating lease expenses being replaced by a depreciation of right of use assets expense and an interest expense (note 3). Operating lease rentals of land and buildings includes £nil (2019: £2.8m) of exceptional costs relating to onerous leases.

	Year ended 26 December 2020 £000s				Year ended 28 December 2019 £000s
Amounts charged in respect of depreciation	Property, plant and equipment £000s	Right of use assets £000s	Net investment in subleases £000s	Total £000s	Total £000s
Depreciation (note 15,16)	20,173	24,536	–	44,709	28,601
Accelerated depreciation relating to hire stock customer losses and hire stock write-offs (note 15)	4,324	403	–	4,727	8,257
Loss on disposals of other assets (note 15)	2,028	82	59	2,169	576
	26,525	25,021	59	51,605	37,434
Less exceptional loss on disposals (note 7)	(1,988)	(27)	–	(2,015)	(38)
Total non-exceptional depreciation	24,537	24,994	59	49,590	37,396

Amounts charged in respect of amortisation	£000s	£000s
Intangible assets		
Amortisation (note 14)	5,197	5,522
Loss on disposal of intangible assets (note 14)	–	96
	5,197	5,618

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Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

10. Employees

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

	Year ended 26 December 2020 Number	Year ended 28 December 2019 Number
Distribution	**460**	518
Hire stock and inventory maintenance	**268**	294
Sales and administration	**1,602**	1,803
	2,330	2,615
Discontinued operations	**–**	(10)
	2,330	2,605

The aggregate remuneration costs of these employees were as follows:

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 Restated[1] £000s
Wages and salaries	**69,324**	77,955
Social security costs	**6,733**	7,754
Pension costs	**2,081**	1,843
Share-based payment expense	**453**	714
	78,591	88,266
Discontinued operations	**–**	(165)
	78,591	88,101

1 The wages and salaries for the year ended 28 December 2019 disclosed in the note above have been restated to remove an amount that was incorrectly included twice in this note, resulting in a reduction of the wages and salaries of £0.7m.

During the year remuneration costs of £1.3m (2019: £1.1m) were capitalised as software costs. These amounts are excluded from the disclosures above.

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

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

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

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Wages and salaries	**2,562**	3,706
Employer's national insurance contributions and similar taxes	**375**	444
Other pension costs	**125**	146
Share-based payment expense	**473**	413
	3,535	4,709

At 26 December 2020 £0.3m was payable to key management personnel (2019: £0.7m). Share-based payments relating to key management personnel of £473k are higher than the total group cost of £453k due to write-backs relating to colleagues other than key management personnel.

11. Directors' remuneration

The remuneration costs of the Group's Directors were:

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Aggregate emoluments	**736**	960
Bonus	**–**	227
Pension costs	**55**	55
Directors' emoluments	**791**	1,242
Share-based payment expense	**217**	185
Total emoluments	**1,008**	1,427

There is no compensation for loss of office payable as at 26 December 2020 (28 December 2019: £nil). Included above is the fee of £30,000 (2019: £40,000) for one Director (2019: one) that is paid to Exponent Private Equity LLP (note 29).

The remuneration of the highest paid Director was:

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Aggregate emoluments	**297**	388
Bonus	**–**	132
Pension costs	**31**	31
Directors' emoluments	**328**	551
Share-based payment expense	**132**	114
Total emoluments	**460**	665

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12. Income tax charge

(a) Analysis of tax charge in the year

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Current tax charge/(credit)		
UK corporation tax on the result for the year	79	58
Adjustments in respect of prior years	17	(1,295)
Total current tax charge/(credit)	96	(1,237)
Deferred tax (credit)/charge for the year		
Deferred tax (credit)/charge for the year	(646)	1,643
Deferred tax charge impact of change in tax rate	40	175
Adjustments in respect of prior years	525	(145)
Total deferred tax (credit)/charge (note 22)	(81)	1,673
Income tax charge	15	436

In 2019 the Group received refunds of tax in Ireland related to prior years totalling £1.3m.

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

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

	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s
Loss before tax	(23,566)	(5,788)
Loss before tax multiplied by the effective standard rate of corporation tax of 19% (2019: 19%)	(4,478)	(1,100)
Effects of:		
Utilisation of tax losses brought forward	–	(3)
Unprovided deferred tax movements on short-term temporary differences and capital allowance timing differences	2,972	(609)
Adjustments in respect of prior years	542	(1,513)
Expenses not deductible for tax purposes	860	677
Losses carried forward	–	452
Foreign tax suffered	79	58
Deferred tax write-back	–	2,237
Impact of change in tax rate	40	237
Income tax charge	15	436

(c) Factors that may affect future tax charge

In the March 2021 Budget the Government announced that the 2021 Finance Bill will contain provisions for the standard rate of UK corporation tax to increase to 25% from 1 April 2023. The existing rate of 19% has been used to calculate the above deferred tax disclosures above as the 2021 Finance Bill is not yet substantively enacted.

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £12.8m (2019: £9.6m) and relating to losses of £13.3m (2019: £10.4m).

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

13. Earnings per share

	Loss after tax from continuing operations £000s	Weighted average number of shares 000s	Loss after tax from continuing operations per share pence
Year ended 26 December 2020	**(23,581)**	**196,232**	**(12.02)**
Year ended 28 December 2019	(6,224)	170,207	(3.66)

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

Diluted loss per share is calculated using the loss for the year divided by the weighted average number of shares outstanding assuming the conversion of potentially dilutive equity derivatives outstanding, being market value options, nil-cost share options (LTIP shares), restricted stock grants, deferred bonus shares, Sharesave Scheme share options and warrants, as disclosed in notes 24 and 25.

All of the Group's potentially dilutive equity derivative securities were anti-dilutive for the purpose of diluted basic loss per share for the years ended 26 December 2020 and 28 December 2019. This also applies to the adjusted diluted loss per share for the year ended 26 December 2020, while the potentially dilutive equity derivative securities were dilutive for the purpose of diluted adjusted earnings per share for the year ended 28 December 2019, with the exception of the 2017 options which were anti-dilutive due to the 2018 options lapsing if the 2017 options vest (note 25).

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

	Year ended 26 December 2020 pence	Year ended 28 December 2019 pence
Basic loss per share	**(12.02)**	(3.66)
Add back:		
Exceptional items per share[1]	**6.85**	3.51
Amortisation per share[2]	**2.65**	3.30
Tax per share	**0.01**	0.26
Charge:		
Tax credit/(charge) at prevailing rate	**0.48**	(0.65)
Adjusted basic (loss)/earnings per share	**(2.03)**	2.76

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

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

	Year ended 26 December 2020 pence	Year ended 28 December 2019 pence
Basic and diluted loss per share	**(12.02)**	(3.66)
Add back:		
Adjustment to basic loss per share for the impact of dilutive securities[1]	**–**	0.59
Exceptional items per share[2]	**6.85**	2.94
Amortisation per share[3]	**2.65**	2.77
Tax per share	**0.01**	0.21
Charge:		
Tax credit/(charge) at prevailing rate	**0.48**	(0.54)
Adjusted diluted (loss)/earnings per share	**(2.03)**	2.31

1 All the Group's potentially dilutive equity derivative securities were anti-dilutive for the purpose of adjusted diluted loss per share for the year ended 26 December 2020. The warrants, LTIP options, market value options, CSOP options, Sharesave scheme options and Directors' deferred bonus shares were dilutive in the year ended 28 December 2019, with the exception of the 2017 options which were anti-dilutive.
2 Exceptional items per share is calculated as total finance and non-finance exceptional items divided by the diluted weighted average number of shares in issue through the year.
3 Amortisation per share is calculated as the amortisation charge divided by the diluted weighted average number of shares in issue through the year.

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13. Earnings per share continued

The weighted average number of shares (excluding the 2017 anti-dilutive options) for the purposes of calculating the adjusted diluted earnings per share are as follows:

	Year ended 26 December 2020 Weighted average number of shares 000s	Year ended 28 December 2019 Weighted average number of shares 000s
Basic	**196,232**	170,207
Market value options (note 25)	**–**	14,915
Warrants (note 24)	**–**	8,510
LTIP share options (note 25)	**–**	7,576
CSOP options (note 25)	**–**	585
Sharesave Scheme options (note 25)	**–**	972
Directors' deferred bonus shares (note 25)	**–**	247
Diluted	**196,232**	203,012

14. Intangible assets

	Goodwill £000s	**Customer relationships £000s**	**Brands £000s**	**Software £000s**	**Total £000s**
Cost					
At 29 December 2019	**124,877**	**26,744**	**23,222**	**24,409**	**199,252**
Additions	**–**	**–**	**–**	**3,317**	**3,317**
Disposals	**–**	**–**	**–**	**(146)**	**(146)**
At 26 December 2020	**124,877**	**26,744**	**23,222**	**27,580**	**202,423**
Amortisation					
At 29 December 2019	**–**	**18,694**	**525**	**19,655**	**38,874**
Charge for the period	**–**	**2,654**	**97**	**2,446**	**5,197**
Disposals	**–**	**–**	**–**	**(146)**	**(146)**
At 26 December 2020	**–**	**21,348**	**622**	**21,955**	**43,925**
Net book value					
At 26 December 2020	**124,877**	**5,396**	**22,600**	**5,625**	**158,498**

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 30 December 2018	124,877	26,744	23,222	22,228	197,071
Additions	–	–	–	2,339	2,339
Disposals	–	–	–	(158)	(158)
At 28 December 2019	124,877	26,744	23,222	24,409	199,252
Amortisation					
At 30 December 2018	–	15,996	427	16,991	33,414
Charge for the year	–	2,698	98	2,726	5,522
Disposals	–	–	–	(62)	(62)
At 28 December 2019	–	18,694	525	19,655	38,874
Net book value					
At 28 December 2019	124,877	8,050	22,697	4,754	160,378

14. Intangible assets continued

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

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core	**111,497**	**21,900**	**236**	**4,397**	**138,030**
Climate control	**7,327**	**–**	**273**	**708**	**8,308**
Power generation	**6,053**	**–**	**191**	**291**	**6,535**
At 26 December 2020	**124,877**	**21,900**	**700**	**5,396**	**152,873**

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core	111,497	21,900	256	6,849	140,502
Climate control	7,327	–	336	820	8,483
Power generation	6,053	–	205	381	6,639
At 28 December 2019	124,877	21,900	797	8,050	155,624

The remaining life of intangible assets other than goodwill and indefinite life brands is between nil and fourteen years (2019: one and fifteen years). For the purpose of calculating Adjusted EBITDA and Adjusted EBITA, amortisation, as disclosed on the face of the income statement, is calculated as the total of the amortisation charge for the year and the loss on disposal of intangible assets.

The Group tests property, plant and equipment, right of use assets, goodwill and indefinite life brands for impairment annually and considers at each reporting date whether there are indicators that impairment may have occurred. The Group has three cash generating units (CGUs): HSS Core, HSS Power and Climate Control. The recoverable amounts of the goodwill and indefinite life brands, which are allocated to CGUs, are estimated from value in use (VIU) calculations which model pre-tax cash flows for the next five years (2019: 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 including cash flows required to maintain the Group's right of use assets.

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

- Cash flows were derived based on the budget for 2021 and model of the business for the following two years (to the end of 2023).
- Operational activity then had a long-term growth rate applied to it while capital expenditure was specifically adjusted to reflect expectations of spend in the following years giving a model of five years in total after which a terminal value was calculated. The long-term growth factor used was 1.8% for each of the CGUs (2019: 1.4%).
- A pre-tax discount rate of 9.16% (2019: 9.15%), calculated by reference to a weighted average cost of capital (WACC) based on an industry peer group of quoted companies.

An impairment may be identified if changes to any of the factors mentioned above become significant, including underperformance of the Group against forecast, negative changes in the UK tool hire market or a deterioration in the UK economy, which would cause the Directors to reconsider their assumptions and revise their cash flow projections.

Based on the VIU modelling and impairment testing, the Directors do not consider an impairment charge to be required in respect of any of the property, plant and equipment, goodwill or indefinite life brands assets carried in the balance sheet at 26 December 2020 for any of the CGUs.

The Directors carried out sensitivity analysis on various inputs to the models, including growth rates, discount rates and percentage reductions to ongoing cash flows which did not result in an impairment charge for any CGU. As part of the sensitivity analysis the Directors assessed combined outcomes utilised as part of the going concern and long-term viability assessments (refer to note 1e), particularly in light of the potential impact of economic uncertainty arising from COVID-19. Given the level of headroom in VIU these calculations show, the Directors did not envisage reasonably possible changes, either individually or in combination, to the key assumptions that would be sufficient to cause an impairment charge at the balance sheet date.

In respect of HSS Core, at 26 December 2020, the headroom between VIU and carrying value of the related assets was £75.1m (2019: £192.7m). The Directors' sensitivity analysis with regard to the most sensitive CGU, HSS Core, shows that an increase in the discount rate to 11.5% (2019: 26.7%) or a reduction in the long-term growth rate to a decline of 0.7% (2019: decline of 4.2%) would eliminate the headroom shown. In addition, the Directors have assessed the combined impact of the long-term growth rate falling to zero (2019: zero) and an increase in the discount rate of 1% to 10.16% (2019: 10.15%). This shows that the headroom drops to £53.9m (2019: £131.3m) for HSS Core but that impairment is not required for any CGU.

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15. Property, plant and equipment

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 29 December 2019	**73,505**	**61,925**	**179,788**	**315,218**
Transferred to right of use assets	**–**	**–**	**(46,888)**	**(46,888)**
Transferred from right of use assets	**–**	**–**	**3,144**	**3,144**
Additions	**1,284**	**1,061**	**14,099**	**16,444**
Disposals	**(16,408)**	**(7,748)**	**(17,328)**	**(41,484)**
Foreign exchange differences	**38**	**77**	**465**	**580**
At 26 December 2020	**58,419**	**55,315**	**133,280**	**247,014**
Accumulated depreciation				
At 29 December 2019	**54,437**	**55,936**	**102,994**	**213,367**
Transferred to right of use assets	**–**	**–**	**(17,576)**	**(17,576)**
Transferred from right of use assets	**–**	**–**	**1,652**	**1,652**
Charge for the year	**3,516**	**2,139**	**14,518**	**20,173**
Impairment	**1,789**	**227**	**–**	**2,016**
Disposals	**(14,536)**	**(7,592)**	**(13,004)**	**(35,132)**
Foreign exchange differences	**2**	**40**	**448**	**490**
Transfers	**–**	**(170)**	**170**	**–**
At 26 December 2020	**45,208**	**50,580**	**89,202**	**184,990**
Net book value				
At 26 December 2020	**13,211**	**4,735**	**44,078**	**62,024**

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 30 December 2018[1]	73,293	62,685	190,373	326,351
Foreign exchange differences	–	(95)	(840)	(935)
Additions	2,415	1,891	27,097	31,403
Disposals	(2,131)	(1,482)	(37,988)	(41,601)
Transfers	(72)	(1,074)	1,146	–
At 28 December 2019	73,505	61,925	179,788	315,218
Accumulated depreciation				
At 30 December 2018[1]	51,431	55,125	110,666	217,222
Foreign exchange differences	–	(79)	(546)	(625)
Charge for the year	4,316	2,521	21,764	28,601
Impairment	209	154	–	363
Disposals	(1,568)	(1,469)	(29,157)	(32,194)
Transfers	49	(316)	267	–
At 28 December 2019	54,437	55,936	102,994	213,367
Net book value				
At 28 December 2019	19,068	5,989	76,794	101,851

1 As part of the ongoing improvements to hire stock processes some historic consolidation entries have been corrected which resulted in a reduction to cost and accumulated depreciation of £5.0m. The adjustment had no impact on net book value.

15. Property, plant and equipment continued

Transferred to right of use assets category represents the transfer of assets previously recognised under finance leases, while transferred from right of use assets category represents assets no longer under lease acquired at the end of the lease term. The right of use asset is depreciated over the lease term on a straight line basis, except where the Group has the right, and expects to exercise that right, to take ownership of the assets after the end of the lease; in such cases the assets are depreciated over the useful life.

Materials and equipment held for hire with a net book value of £29.3m at 28 December 2019 (restated) were held under finance leases and transferred to right of use assets on the adoption of IFRS 16 Leases (note 3). The depreciation charge for assets held under finance leases in the year ended 28 December 2019 was £5.5m (restated). The amounts disclosed relating to assets held under finance lease have been restated due to a review carried out as part of IFRS 16 adoption. This had no impact on the total net book value or depreciation charge in the 2019 financial statements.

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

16. Right of use assets

	Property £000s	Vehicles £000s	Equipment for hire and internal use £000s	Total £000s
Cost				
Recognised on transition date	58,014	21,416	30,101	109,531
Foreign exchange differences	155	22	–	177
Additions	1,317	3,040	4,880	9,237
Re-measurements	6,931	17	–	6,948
Transfers to property, plant and equipment	–	–	(3,144)	(3,144)
Disposals	(5,164)	(814)	(1,776)	(7,754)
At 28 December 2020	61,253	23,681	30,061	114,995
Accumulated depreciation				
Transfers to property, plant and equipment	–	–	(1,652)	(1,652)
Charge for the period	10,999	7,613	5,924	24,536
Impairments	9,541	–	–	9,541
Disposals	(5,137)	(759)	(1,373)	(7,269)
At 28 December 2020	15,403	6,854	2,899	25,156
Net book value				
At 28 December 2020	45,850	16,827	27,162	89,839

On adoption of IFRS 16 on 29 December 2019, the Group recognised right of use assets representing the Group's right to use leased assets. Right of use assets are depreciated over the lease term on a straight line basis, except where the Group has the right, and expects to exercise that right, to take ownership of the assets at the end of the lease; in such cases the assets are depreciated over the useful life and transferred to property, plant and equipment at the end of the lease.

Right of use assets are measured at cost comprising the initial measurement of lease liability, initial direct costs and restoration costs. Right of use assets arising on transition to IFRS16 are adjusted for any prepaid or accrued lease payments relating to that lease that were recognised in the statement of financial position immediately before the DIA. During the year the Group recorded re-measurements of £6.9m on its property leases due to changes in property footprint, including lease extensions and disposals following the decision to close 134 branches and subsequent negotiations with landlords to surrender leases. Under HSS accounting policy, locations that have not been permanently closed are deemed to be part of a wider cash generating unit (CGU) when being tested for impairment. The act of permanently closing a location has the effect of separating it from the CGU and is also a trigger for impairment. The value of ROU assets impaired as a result of decision to permanently close locations is £9.5m.

Disclosures relating to lease liabilities are included in note 20.

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17. Inventories

	26 December 2020 £000s	28 December 2019 £000s
Inventories	**2,038**	2,503
Inventory spares	**1,245**	1,576
Total inventories	**3,283**	4,079
Provision for impairment	**(100)**	(344)
Inventories	**3,183**	3,735

Provision for impairment of inventories	26 December 2020 £000s	28 December 2019 £000s
Balance at the beginning of the year	**344**	270
Additions	**250**	274
Utilisation	**(494)**	(200)
Balance at the end of the year	**100**	344

The cost of inventories recognised as an expense and included in cost of sales is £21.4m (2019: £27.1m).

18. Trade and other receivables

	Year ended 26 December 2020			Year ended 28 December 2019		
	Gross £000s	Provision for impairment £000s	Net of provision £000s	Gross £000s	Provision for impairment £000s	Net of provision £000s
Trade receivables	**66,434**	**(5,374)**	**61,060**	72,056	(3,745)	68,311
Accrued income	**6,965**	**(107)**	**6,858**	6,824	–	6,824
Contract assets	**73,399**	**(5,481)**	**67,918**	78,880	(3,745)	75,135
Net investment in sub-lease	**1,497**	**–**	**1,497**	–		–
Other debtors	**3,502**	**–**	**3,502**	2,762	–	2,762
Prepayments	**2,963**	**–**	**2,963**	10,499	–	10,499
Total trade and other receivables	**81,361**	**(5,481)**	**75,880**	92,141	(3,745)	88,396

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

	26 December 2020 £000s	28 December 2019 £000s
Balance at the beginning of the year	**(3,745)**	(3,819)
Increase in provision	**(5,962)**	(4,590)
Utilisation	**4,226**	4,664
Balance at the end of the period	**(5,481)**	(3,745)

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

	26 December 2020 £000s	28 December 2019 £000s
Bad debt provision	**(3,023)**	(1,568)
Credit note provision	**(2,458)**	(2,177)
	(5,481)	(3,745)

18. Trade and other receivables continued

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

26 December 2020	Current	0 to 60 days past due	61 to 365 days past due	1 to 2 years past due	Total
Contract assets	**61,197**	**5,902**	**4,962**	**1,338**	**73,399**
Expected loss rate	**1.4%**	**4.6%**	**25.7%**	**47.5%**	**4.1%**
Provision for impairment charge	**839**	**272**	**1,276**	**636**	**3,023**

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

Contract assets consist of trade receivables and accrued income.

The bad debt provision is estimated using the simplified approach to expected credit loss methodology and is based upon past default experience and the Directors' assessment of the current economic environment for each of the Group's ageing categories.

The Directors have given specific consideration to the impact of COVID-19 on the general economy, particularly given expected tapering of Government support. At the balance sheet date the Group has not seen a marked increase in debt write-offs; in fact, reduced sales combined with an intense focus on collections have resulted in debt that is significantly lower than 2019. However, as has been widely reported, there is an expectation that the situation will deteriorate as Government support is reduced and that the rate of insolvencies will increase. Given these facts, the Group considers that historical losses are not a good predictor of future failures and has exercised judgement in increasing the expected loss rates across all categories of debt. In so doing the provision has been increased by around £1.2m from that which would have been required based on loss experience over the past two years. As in the prior year, historical loss rates have been increased where debtors have been identified as high risk with a reduction applied to customer debt covered by credit insurance. The total amount expensed was £4.1m (2019: £3.6m). Unless the counterparty is in liquidation, these amounts are still subject to enforcement action.

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

The overall provisions for bad debt and credit notes amount to 7.5% of contract assets at 26 December 2020 (2019: 4.7%). A 0.5% increase in the rate of provision required would give rise to an increased provision of £0.4m (2019: £0.4m).

19. Trade and other payables

	26 December 2020 £000s	28 December 2019 Restated[1] £000s
Current		
Trade payables	**23,957**	31,420
Other taxes and social security costs	**5,109**	6,856
Other creditors	**2,300**	1,565
Accrued interest on borrowings	**3,442**	3,608
Accruals	**26,907**	22,479
Deferred income	**106**	103
	61,821	66,031

1 £2.4m of rehire accruals as at 28 December 2019 have been reallocated from trade payables to accruals to correctly reflect the nature of the item. This restatement has no impact on total trade and other payables.

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20. Borrowings

	26 December 2020 £000s	28 December 2019 £000s
Current		
Senior finance facility	**15,000**	–
Lease liabilities	**23,395**	–
Obligations under finance leases	**–**	5,355
	38,395	5,355

	26 December 2020 £000s	28 December 2019 £000s
Non-current		
Senior finance facility	**161,899**	174,501
Revolving credit facility	**17,200**	–
Lease liabilities	**66,177**	–
Obligations under finance leases	**–**	11,228
	245,276	185,729

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

	26 December 2020 £000s	28 December 2019 £000s
Senior finance facility	**181,982**	181,982
Revolving credit facility	**17,200**	–
	199,182	181,982

The Group's Senior finance facility and Revolving credit facility (RCF) expire on 10 July 2023 and 10 January 2023 respectively. The £15.0m current element of the Senior finance facility was repaid in January 2021 and the £17.2m RCF was repaid in April 2021.

The senior finance facility and RCF are secured over the assets of a Group company, Hero Acquisitions Limited, and all of its subsidiaries. These subsidiaries comprise all of the trading activities of the Group. The lenders under the RCF rank above those under the senior finance facility. The overall £25.0m RCF includes a £6.0m overdraft facility and a £1.8m guarantee arrangement to secure the Group's card-acquiring services provided by a third party (see note 27).

The Group had undrawn committed borrowing facilities of £20.7m at 26 December 2020 (2019: £36.6m), including £14.7m of finance lines to fund hire fleet capital expenditure not yet utilised. Including net cash balances, the Group had access to £118.3m of combined liquidity from available cash and undrawn committed borrowing facilities at 26 December 2020 (2019: £59.3m).

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

			26 December 2020	28 December 2019
Senior finance facility	Floating	%age above LIBOR	**8.0%**	8.0%
Revolving credit facility	Floating	%age above LIBOR	**2.5 to 3.0%**	2.5%
Lease liabilities	Floating	%age above LIBOR	**2.4 to 2.9%**	–
Finance leases	Floating	%age above LIBOR	**–**	3.1%

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

	26 December 2020	28 December 2019
Borrowings	**9.8%**	10.4%
Lease liabilities	**4.8%**	–
Finance leases	**–**	4.8%

Amounts under the RCF are typically drawn for a one- to three-month borrowing period, with the interest set for each borrowing period based upon LIBOR and a fixed margin.

20. Borrowings continued

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

	26 December 2020		28 December 2019	
	Lease liabilities £000s	**Borrowings £000s**	Finance leases £000s	Borrowings £000s
Less than one year	**27,452**	**30,581**	6,306	16,423
Two to five years	**55,544**	**208,725**	11,615	220,805
More than five years	**23,483**	**–**	–	–
	106,479	**239,306**	17,921	237,228
Less interest cash flows:				
Senior finance facility	**–**	**(38,822)**	–	(55,246)
Revolving credit facility	**–**	**(1,302)**	–	–
Lease liabilities	**(16,907)**	**–**	–	–
Finance leases	**–**	**–**	(1,338)	–
Total principal cash flows	**89,572**	**199,182**	16,583	181,982

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

	26 December 2020 Lease liabilities £000s	28 December 2019 Finance leases £000s
Less than one year	**23,395**	5,355
Two to five years	**47,030**	11,228
More than five years	**19,147**	–
	89,572	16,583

Finance leases held at 28 December 2019 principally related to hire fleet assets.

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21. Provisions

	Onerous property costs £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 29 December 2019	**4,833**	**16,209**	**19,573**	**40,615**
Adoption of IFRS 16 (note 3)	**(2,222)**	**–**	**–**	**(2,222)**
Additions	**5,326**	**1,452**	**–**	**6,778**
Utilised during the period	**(601)**	**(2,726)**	**(3,330)**	**(6,657)**
Unwind of provision	**7**	**204**	**218**	**429**
Impact of change in discount rate	**88**	**747**	**557**	**1,392**
Releases	**(3,472)**	**(3,226)**	**–**	**(6,698)**
Foreign exchange	**–**	**17**	**–**	**17**
At 26 December 2020	**3,959**	**12,677**	**17,018**	**33,654**
Of which:				
Current	**1,328**	**2,823**	**3,297**	**7,448**
Non-current	**2,631**	**9,854**	**13,721**	**26,206**
	3,959	**12,677**	**17,018**	**33,654**

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

Onerous property costs

Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other unavoidable costs on leasehold properties the Group no longer uses or where a site is partially in use and as a whole, loss-making. Until the implementation of IFRS 16 on 29 December 2019, the provision also included amounts for future rent payments. The Company has taken the practical expedient available under IFRS 16 to rely on its assessment of whether a lease is onerous by applying IAS 37 Provisions, Contingent Liabilities and Contingent Assets immediately before the date of initial application, reducing the carrying value of its right of use asset on implementation. This resulted in the elimination of onerous property costs of £2.2m and a corresponding impairment of the right of use asset on transition date.

The liabilities, assessed on a property-by-property basis, are expected to arise over a period of up to 9 years (2019: 8 years) with the weighted average of the onerous property costs post IFRS 16 being 3.76 years (2019: pre IFRS 16 3.9 years). Prior to implementation of IFRS 16, they were stated net of expected sub-let income based on existing sub-let agreements (2019: £0.7m). Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other unavoidable costs. These costs are treated as exceptional. The onerous property cost provision has been inflated at a rate of 0.1% (2019: discounted at 0.9%). A 1% increase in the discount rate at 26 December 2020 would reduce the provision post the implementation of IFRS 16 by £0.09m (2019: pre IFRS 16 £0.1m).

Since the implementation of IFRS 16, right of use assets are subject to impairment testing (note 14). Prior to the implementation of IFRS 16, the assessment of whether a site was onerous was based on the current year profit or loss being projected forward to the end of the lease. In considering profitability, expected sub-let income for unused space was considered. The amount of expected sub-let income leases included in the onerous lease provision amounted to £0.9m at 28 December 2019.

21. Provisions continued

Dilapidations

An amount equivalent to the provision for dilapidation is recognised as part of the asset 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 estimates used by management in the calculation of the provision take into consideration the location, size and age of the properties. The weighted average dilapidations provision at 26 December 2020 was £6.65 per square foot (psf) (2019: £8.68 psf). The reduction is due to an increase in surveys and landlord negotiations in the Group's effort to exit all its dark store liabilities. Estimates for future dilapidations costs are regularly reviewed as and when new information is available. A £0.50 psf increase in the dilapidations provision would lead to an increase in the provision at 26 December 2020 of £0.7m (2019: £0.9m).

The dilapidations provision has been discounted at a rate of 0.25% (2019: 1.26%) at 26 December 2020 based on ten-year UK gilt yields. A 1% increase in the discount rate at 26 December 2020 would decrease the dilapidations provision by £0.7m (2019: £0.8m). The inflation rate applied in the calculation of the dilapidations provision was 1.8% (2019: 1.8%).

Onerous contract

The onerous contract represents amounts payable in respect of the agreement reached between the Group and Unipart to terminate the contract to operate the NDEC. Under the terms of the agreement at 26 December 2020 £17.0m is payable over the period to 2026 (2019: £20.3m) and £3.3m has been paid during the year (2019: £3.6m). The provision has been restated to present value by applying an inflation rate of 0.1% (2019: discount rate of 1.2%). A 1% reduction in the inflation rate at 26 December 2020 would decrease the provision by £0.5m (2019: a 1% increase in the discount rate would decrease the provision by £0.6m).

22. Deferred tax

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

	Property, plant and equipment and other items £000s	Acquired intangible assets £000s	Total £000s
At 29 December 2019	**–**	**(341)**	**(341)**
Credit to the income statement	**66**	**15**	**81**
At 26 December 2020	**66**	**(326)**	**(260)**
At 26 December 2020			
Deferred tax asset/(liabilities)	**66**	**(326)**	**(260)**

	Tax losses £000s	Property, plant and equipment and other items £000s	Acquired intangible assets £000s	Total £000s
At 28 December 2018 – continuing operations	2,500	(841)	(327)	1,332
(Charge)/credit to the income statement	(2,500)	841	(14)	(1,673)
At 28 December 2019	–	–	(341)	(341)
At 28 December 2019				
Deferred tax liabilities	–	–	(341)	(341)

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

At 26 December 2020 £0.3m (2019: £0.3m) of the deferred tax liability is expected to crystallise after more than one year.

At 26 December 2020 the Group had an unrecognised deferred tax asset relating to trading losses of £13.3m (2019: £10.4m). The gross balance at 26 December 2020 was £69.8m (2019: £61.2m).

The Group also has an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £12.8m (2019: £9.6m). The gross balance at 26 December 2020 was £67.4m (2019: £56.5m).

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

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23. Share Capital and Capital raise

On 8 December 2020 the Group completed a capital raise from existing and new shareholders resulting in gross proceeds of £52.6m. 526,270,512 ordinary shares of 1p each were issued for 10p each.

	Year ended 26 December 2020 £000
Gross proceeds	**52,627**
Cost of share issue [1]	**(1,784)**
Net proceeds	**50,843**
Accounted for as:	
Share capital	**5,263**
Share premium	**45,580**
	50,843

1 £1,492,000 of the £1,784,000 costs had not been paid as at 26 December 2020.

The number of shares in issue and the related share capital and share premium are as follows.

	Ordinary shares Number	Ordinary shares £000s	Share premium £000s
At 29 December 2019	170,207,142	1,702	–
Shares issued	526,270,512	5,263	45,580
At 26 December 2020	**696,477,654**	**6,965**	**45,580**

24. Warrant reserve

In 2018, the Group issued 8,510,300 warrants to the holders of its debt under the senior finance facility leading to an amount of £2.7m being recognised. The warrants are exercisable at a subscription price of 1p on repayment of the senior finance facility, a change in control or the end of the facility term.

	Number	Nominal value £000
At 26 December 2020 and 29 December 2019	8,510,300	2,694

25. Share-based payments

The Group operates a number of share-based payment schemes as part of its reward and retention strategies. The key points of each of the Group's share schemes for grants up to 26 December 2020 are summarised below. All schemes are equity-settled. All disclosure relates to both the Group and the Company.

Restricted stock grant

On 7 July 2020 restricted stock grants were awarded to eligible colleagues. The options will vest subject to the colleagues satisfying a two-year service condition. To the extent it vests, each award will, ordinarily, be released to the participant at the end of a further two-year holding period. The awards were valued as the grant-date share price, adjusted for anticipated dividends payable.

Long-Term Incentive Plan

On 4 June 2019 share awards under the Long-Term Incentive Plan (LTIP) were issued to eligible colleagues in the form of nil-cost options over ordinary shares. The LTIP options will vest subject to performance conditions based on earnings per share and return on capital employed measured over the three-year period ending with the Group's 2021 financial year. To the extent it vests, each award will, ordinarily, be released to the participant at the end of a further two-year holding period. The awards were valued at the grant-date share price, adjusted for anticipated dividends payable.

During 2018, share awards under the LTIP were issued to eligible colleagues in the form of nil-cost options over ordinary shares. The LTIP options will vest subject to share price performance measured over the three-month period ending with the Company's 2021 financial year.

On the same dates as the LTIP awards, tax-qualifying share options were granted as part of the LTIP awards (CSOP options) via a Company Share Option Plan approved by HMRC. Each CSOP is subject to the same performance targets as apply to the nil-cost options part of the LTIP and will vest and be released at the same time as the nil-cost options. If a CSOP option is exercised as a gain, the number of shares that may be delivered under the associated LTIP award will be reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award delivered to the participant is not increased by the grant of the CSOP option.

As such, the LTIP comprises a bundled HMRC-approved option in respect of the first £30,000 worth of an award, and an unapproved LTIP award for amounts in excess of this HMRC limit. Therefore, the fair value of the award in aggregate is determined by reference to the market value of the original LTIP share awards at the date of grant.

25. Share-based payments continued

Market value options

During 2018, share awards (the 2018 Awards) were granted to eligible colleagues in the form of market value options over ordinary shares. The market value options will vest subject to performance conditions based on HSS's share price measured over the three-month period ending with 31 December 2021. To the extent it vests, the 2018 Awards will, ordinarily, be released to the participant at the end of a further one-year holding period.

During 2017, share awards (the 2017 Awards) were granted to eligible colleagues in the form of market value options over ordinary shares. The vesting of the market value options was subject to performance conditions based on earnings per share and return on capital employed measured over the period ending with the Company's 2020 financial year. The 2017 awards lapsed on 31 December 2020 with no options vesting. If the 2017 Awards had vested, the 2018 Awards would have lapsed.

On the same dates for the 2018 and 2017 Awards, tax-qualifying share options were granted as part of the market value option awards (CSOP options) via a Company Share Option Plan approved by HM Revenue & Customs (HMRC). Each CSOP is subject to the same performance targets as are applied to the market value options and they will vest and be released at the same time as them.

As such the total award to each individual comprises a bundled HMRC-approved option in respect of the first £30,000 worth of an award, and an unapproved market value option award for amounts in excess of this HMRC limit.

Deferred Bonus Plan

On 16 April 2019 shares were issued to Directors under the Group's Deferred Bonus Plan (DBP). The awards are not subject to any performance conditions and will ordinarily vest after a two-year holding period. The awards were valued as the grant-date share price, adjusted for anticipated dividends payable.

2016 Three-year Sharesave Scheme (SAYE Plan)

During 2016, the Group offered all colleagues the opportunity to participate in the 2016 Sharesave Scheme, a SAYE plan. The Sharesave Scheme enabled participating employees to save anything from £5 to £250 per month over three years. At the end of the three years, the employee could use the amount saved to purchase HSS Hire Group plc shares at a discounted price (compared with the price on the date of issue) of 57.7p per share. Alternatively, the employee could, at their request, withdraw their savings and leave the SAYE Plan at any time. Participants were eligible to exercise their awards during the six month period from 1 January 2020. No options were exercised and the options lapsed at the end of that period.

No awards have been made under the SAYE Plan since 2016.

The table below reconciles the options outstanding during the year ended 26 December 2020:

	MVO Number	**LTIP Number**	**RSG Number**	**CSOP Number**	**DBP Number**	**SAYE Number**
Outstanding at 29 December 2019	**21,892,935**	**10,093,227**	**–**	**2,209,833**	**350,715**	**841,894**
Granted	**–**	**–**	**5,704,351**	**–**	**–**	**–**
Lapsed or cancelled	**(923,858)**	**(1,417,805)**	**(261,538)**	**(245,632)**	**–**	**(841,894)**
Outstanding at 26 December 2020	**20,969,077**	**8,675,422**	**5,442,813**	**1,964,201**	**350,715**	**–**
Exercisable at end of period, number	**–**	**–**	**–**	**–**	**–**	**–**
Weighted average exercise price, pence	**39.0**	**–**	**27.3**	**26.0**	**–**	**–**
Weighted average remaining contractual life, years	**7.3**	**8.2**	**9.5**	**7.5**	**0.3**	**–**
Weighted average fair value of options granted, pence	**7.6**	**26.0**	**26.6**	**5.6**	**37.3**	**–**

The table below reconciles the options outstanding during the year ended 28 December 2019:

	MVO Number	LTIP Number	CSOP Number	DBP Number	SAYE Number
Outstanding at 30 December 2018	21,477,547	4,762,622	1,967,025	–	1,102,474
Granted	415,388	6,570,227	242,808	350,715	–
Lapsed or cancelled	–	(1,239,622)	–	–	(260,580)
Outstanding at 28 December 2019	21,892,935	10,093,227	2,209,833	350,715	841,894
Exercisable at end of period, number	–	–	–	–	–
Weighted average exercise price, pence	38.4	–	24.3	–	57.7
Weighted average remaining contractual life, years	8.3	9.2	8.5	1.3	0.5
Weighted average fair value of options granted, pence	7.5	25.6	5.1	37.3	23.0

The total charge for the year relating to employee share-based payment plans during the year ended 26 December 2020 was £453,000 (2019: £713,000), all of which related to equity-settled share-based payment transactions.

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Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

26. Financial instruments

Financial risk management

The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using share capital, revenue and borrowings.

The Group's activities expose it to a variety of financial risks. Risk management is carried out under policies approved by the Board of Directors. Financial risk management is carried out by the Chief Financial Officer under a policy approved by the Board. The Board approves written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and liquidity risk, and receives regular reports on such matters. The Group does not engage in trading or speculative activities using derivative financial instruments.

Market risk

Market risk is the risk of a change in market prices, such as foreign exchange rates and interest rates. They will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk of a change in the Group's cash flows due to a change in interest rates.

The Group enters into leases in respect of hire stock assets and these carry a fixed rate of interest set at lease inception. The Group is only exposed to interest rate risk on its variable interest borrowings, such as the senior finance facility, RCF and other short-term borrowings. To mitigate the risks associated with this, the Group has entered into an interest rate cap that limits the interest that the Group will pay on £150m of its borrowings under the senior finance facility. The Directors continue to monitor developments in market interest rates on a regular basis. The effect of a 1% increase in interest rates on the Group's variable loans would lead to an increase in the interest charge of £1.9m (2019: £1.8m).

Interest rate sensitivity

The table below demonstrates the sensitivity to reasonably possible changes in interest rates, taking into account the Group's hedging arrangements, on income and equity for the year when this movement is applied to the carrying value of financial assets and liabilities:

	Profit before tax		Equity	
Effect of:	**26 December 2020 £m**	28 December 2019 £m	**26 December 2020 £m**	28 December 2019 £m
100 basis points increase	**1.9**	1.8	**1.9**	1.8
200 basis points increase	**3.9**	3.7	**3.9**	3.7

Refinancing risk

The Group manages its refinancing risk by not letting its borrowings run to their maturity. There is a risk that market conditions might preclude a refinancing if this is not done. The Group repaid £15.0m of the senior finance facility by its due date of 10 January 2021. The remainder of the Group's senior finance facility and RCF expire on 10 July 2023 and 10 January 2023 respectively and the Group expects to refinance before they become current.

Foreign exchange risk

Foreign exchange risk is the risk of a change in the Group's cash flows due to a change in foreign currency exchange rate. The Group is exposed to foreign currency exchange rate risk on the cash flows and carrying values of its Republic of Ireland subsidiaries. Given the relatively small size of the Republic of Ireland operations compared to the Group, the Directors do not consider this to be a significant risk to the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or 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 carrying amount of each financial asset represents the maximum exposure to credit loss.

The Group has policies in place to manage potential credit risk from trade receivables. Customer credit terms are determined using independent ratings agency data and regularly updated to reflect any changes in customer circumstances or trading conditions. If no independent rating is available an internal assessment is made of the credit quality of the customer, taking into account their financial position and past trading history with the Group. The Directors do not expect any significant losses of receivables that have not been provided for as shown in note 18.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group Finance department regularly monitors forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 20) at all times so that borrowing limits or covenants on borrowing facilities are not breached.

The financial covenant in place on the Group's senior finance and revolving credit facilities at 26 December 2020 is to maintain leverage (calculated as net debt divided by Adjusted EBITDA as calculated each month on a cumulative last 12-month basis) at less than 3.9 times (2019: 4.0 times).

Asset risk

Asset risk is the risk of loss or damage to an asset adding to financial loss to the Group. Customers may damage hire equipment if they do not have the appropriate skills to use the equipment or lack a duty of care while using it. The cost of repairing or replacing the equipment can be substantial depending on the type of asset and in turn can lead to a loss of revenue until the asset is again available to be hired.

26. 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.

The Group defines capital as equity, as shown in the statement of financial position, plus net debt (total borrowings less cash) and seeks to achieve an acceptable return on gross capital.

The Group manages its capital structure using a number of measures and taking into account its future strategic plans. Such measures include ensuring the Group maintains sufficient liquidity and compliance with a bank covenant. In addition to the cash that the Group has generated from its operations, over recent years it has renegotiated its debt structure including the issue of a fixed interest rate bond, fixed-term loan notes, a senior finance facility and secured shorter-term bank borrowing through a revolving credit facility. In December 2020 the Group completed a Capital Raise (see note 23).

Fair value

Financial assets at the balance sheet date are comprised of derivative financial assets, trade and other receivables, cash and cash equivalents. The derivative financial assets are classified as fair value through other comprehensive income as the interest rate swap is in a designated hedge relationship. All other financial assets are classified as financial assets at amortised cost.

All financial liabilities which comprise trade and other payables, lease liabilities (2019: obligations under finance leases) and borrowings are classified as financial liabilities at amortised cost.

The following table shows the fair value of financial assets and financial liabilities within the Group, including their level in the fair value hierarchy. It does not include fair value information for financial assets or financial liabilities not measured at fair value if the carrying amount is a reasonable approximation of fair value.

	Position in fair value hierarchy	26 December 2020 £000s	28 December 2019 £000s
Financial assets			
Derivative financial instruments – fair value hedge	Level 2	–	14

27. Commitments and contingencies

All operating leases held at 28 December 2019 are accounted for under IFRS 16 Leases, in the year ended 26 December 2020; as such no commitment figures are shown for 2020. The Group's commitments under non-cancellable operating leases in 2019 are set out below:

	28 December 2019 Restated[1] £000s
Land and buildings	
Within one year	11,222
Between two and five years	30,622
After five years	10,979
	52,823
Other	
Within one year	8,361
Between two and five years	15,385
	23,746
Total commitments	76,569

1 The commitments disclosed above have been restated to include a further £2.0m of land and buildings commitments and reduce other commitments by £0.2m to correct errors identified during the IFRS16 transition work.

All operating leases held at 28 December 2019 are accounted for under IFRS 16 Leases in the year ended 26 December 2020; as such no commitment figures are shown for 2020. A reconciliation of the commitments under non-cancellable operating leases at 28 December 2019 to the opening lease liability under IFRS 16 is shown in note 3.

Other operating leases held at 28 December 2019 predominantly comprise hire stock assets and motor vehicles.

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Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

27. 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:

Sub-lease rental income	26 December 2020 £000s	28 December 2019 £000s
Within one year	**25**	551
Between two and five years	**–**	1,134
After five years	**–**	595
	25	2,280

The Group has issued a guarantee for £1.8m (2019: £1.8m) under the RCF (see note 20) to secure its card-acquiring arrangements.

The Group has contracted to purchase items of property, plant and equipment that it has not received at the reporting date to the value of £4.1m (2019: £3.4m).

28. Business disposal – Year ended 28 December 2019 only

Disposal of UK Platforms Limited – discontinued operation

On 11 January 2019, the Group completed the disposal of UK Platforms Limited to Nationwide Platforms Limited, a wholly-owned subsidiary of the Loxam Group, in order to pay down debt and generate cash flow for the expansion of the Group's other businesses. After completion of the sale, £38.0m of the net proceeds was used to pay down Group debt. The table below shows the assets and liabilities disposed of:

	£000s
Description of assets and liabilities	
Intangible assets (including goodwill)	4,749
Property, plant and equipment	30,725
Current assets, excluding cash	6,454
Cash	2,373
Debt – finance leases	(5,253)
Current liabilities, excluding debt	(2,943)
Deferred tax liabilities	(1,375)
Net assets disposed of	34,730
Proceeds of disposal less transaction costs	47,420
Total profit from disposal of UK Platforms Limited	12,690
Costs incurred on disposal of discontinued operations in 2018	(2,080)
Profit on disposal of discontinued operations in 2019	14,770
Total profit from disposal of UK Platforms Limited	12,690

The table below shows the result of discontinued operations:

	£000s
Result of discontinued operations	
Revenue	1,115
Expenses other than finance costs, amortisation and depreciation	(801)
Amortisation	(3)
Depreciation	(149)
Profit from discontinued operations, net of tax	162
Profit on disposal of discontinued operations	14,770
Profit for the period	14,932

28. Business disposal continued

The following table shows a summary of the cash flows for UK Platforms Limited:

	28 December 2019 £000s
Operating cash inflow	607
Cash outflow from investing activities	(262)
Cash outflow from financing activities	(47)

At 28 December 2019, the balance sheet of this business was:

	£000s
Intangible assets	4,752
Property, plant and equipment	30,612
Deferred tax assets	27
Inventories	358
Trade and other receivables	8,892
Cash	2,075
Assets associated with assets classified as held for sale	46,716
Debt – finance leases	(5,300)
Trade and other payables	(6,281)
Provisions	(561)
Deferred tax liabilities	(1,402)
Liabilities associated with assets classified as held for sale	(13,544)
Net assets of disposal group	33,172

29. Related party transactions

Ultimate parent entity

Until December 2020, by virtue of its majority shareholding, the Group's immediate and ultimate parent entity was Exponent Private Equity LLP. Following the capital raise in December 2020, whilst continuing to be a significant shareholder, Exponent Private Equity LLP ceased to have a majority shareholding. During the year entities managed by Exponent Private Equity LLP charged the Group fees of £31,187 (2019: £44,292) and £nil was outstanding at 26 December 2020 (2019: £nil). Additionally Exponent Private Equity invests in businesses that the Group trades with. All transactions are carried out on an arm's length basis and are immaterial to both parties.

Key management personnel

Related party transactions with key management personnel are disclosed in note 10.

30. Dividends

The Directors do not recommend the payment of dividends for the year ended 26 December 2020 (2019: nil).

No interim dividends were paid or proposed during the year (2019: nil).

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Notes to the Consolidated Financial Statements continued

For the year ended 26 December 2020

31. Note supporting the statement of cash flows

	At 29 December 2019 £000s	Implementation of IFRS 16 £000s	Cash flows £000s	Other non-cash movements £000s	At 26 December 2020 £000s
Cash	22,658	–	74,915	–	97,573
Current borrowings	–	–	–	(15,000)	(15,000)
Non-current borrowings[1]	(174,501)	–	(17,200)	12,602	(179,099)
Finance lease liabilities	(16,583)	16,583	–	–	–
Lease liabilities, including interest[3]	–	(99,309)	28,395	(18,658)	(89,572)
Total	(168,426)	(82,726)	86,110	(21,056)	(186,098)
Accrued interest on borrowings	(3,608)	–	17,020	(16,854)	(3,442)
Debt issue costs[1]	(7,481)	–	–	2,398	(5,083)
Net debt[2]	(179,515)	(82,726)	103,130	(35,512)	(194,623)

	At 30 December 2018 £000s	Cash flows £000s	Discontinued operations £000s	Other non-cash movements £000s	At 28 December 2019 £000s
Cash	17,832	4,826	–	–	22,658
Current borrowings	(13,000)	13,000	–	–	–
Non-current borrowings[1]	(208,162)	38,018	–	(4,357)	(174,501)
Finance lease liabilities	(15,772)	7,361	(47)	(8,126)	(16,583)
Total	(219,102)	63,205	(47)	(12,483)	(168,426)
Accrued interest on borrowings	(4,557)	18,498	–	(17,549)	(3,608)
Debt issue costs[1]	(11,838)	–	–	4,357	(7,481)
Net debt[2]	(235,497)	81,703	(47)	(25,675)	(179,515)

1 Non-current borrowings are stated net of debt issue costs.
2 HSS calculation of net debt includes accrued interest on borrowings and excludes deduction for debt issue costs.
3 Cash flows include interest payments of £5.1m.

32. Adjusted EBITDA and Adjusted EBITA

Non-IFRS financial measures

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

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

- EBITDA is defined as operating profit before depreciation and amortisation. For this purpose depreciation includes: depreciation charge for the year on property, plant and equipment and on right of use assets; the net book value of hire stock losses and write-offs; the net book value of other fixed asset disposals less the proceeds on those disposals; impairments of right of use assets; the net book value of right of use asset disposals, net of the associated lease liability disposed of; and the loss on disposal of sub-leases. Amortisation is calculated as the total of the amortisation charge for the year and the loss on disposal of intangible assets. Exceptional items are excluded from EBITDA to calculate Adjusted EBITDA.
- EBITA is defined by the Group as operating profit before amortisation. Exceptional items are excluded from EBITA to calculate Adjusted EBITA.

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

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

32. Adjusted EBITDA and Adjusted EBITA continued

Adjusted EBITDA is calculated as follows:

	Year ended 26 December 2020	Year ended 28 December 2019	
	£000s	Continuing operations £000s	Total £000s
Operating profit	**1,499**	16,821	16,982
Add: Depreciation of property, plant and equipment	**20,173**	28,601	28,750
Add: Depreciation of right of use assets	**24,536**	–	–
Add: Accelerated depreciation relating to hire stock customer losses, hire stock write-offs and other asset and right of use asset disposals	**4,822**	8,795	8,795
Add: Loss on disposal of sub-leases	**59**	–	–
Add: Amortisation of intangible assets	**5,197**	5,522	5,525
Add: Loss on disposal of intangible assets	**–**	96	96
EBITDA	**56,286**	59,835	60,148
Add: Exceptional items	**13,076**	4,094	4,095
Adjusted EBITDA	**69,362**	63,929	64,243

Adjusted EBITA is calculated as follows:

	Year ended 26 December 2020	Year ended 28 December 2019	
	£000s	Continuing operations £000s	Total £000s
Operating profit	**1,499**	16,821	16,982
Add: Amortisation of intangible assets	**5,197**	5,522	5,525
Add: Loss on disposal of intangible assets	**–**	96	96
EBITA	**6,696**	22,439	22,603
Add: Exceptional items	**13,076**	4,094	4,095
Adjusted EBITA	**19,772**	26,533	26,698

33. Post balance sheet events

On 14 January 2021 the Group's ordinary shares of 1 pence each were admitted to trading on AIM. Simultaneously, the admission of the ordinary shares to trading on the Main Market of London Stock Exchange plc and to the premium listing segment of the Official List were cancelled. This follows the Group's announcement on 16 November 2020 and the General Meeting held on 4 December 2020.

During the year the Group recognised £1.2m of insurance proceeds claimed under the business interruption policy due to the impact of the COVID-19 pandemic (note 6). Since the year end the Group has received a further £1.2m.

Since the year end a series of national lockdowns have come into force across the UK nations and the Republic of Ireland. These have not had a material impact on the Group's trading performance.

Since the year end the Group has continued to negotiate with landlords and has surrendered or agreed to surrender 95% of leases associated with dark stores.

On 7 April 2021 the Group announced that it has entered into an unconditional agreement to sell Laois Hire Services Limited, the Group's Irish large plant hire business, to Brigg's Equipment Ireland Limited ("Briggs"), for a cash consideration of €11.2m. Of this, €10.7m was received on completion with a further €0.5m payable on finalisation of completion accounts later in 2021. The proceeds will be used to invest in the core Tool Hire business in line with the Group's strategy. As part of this transaction, the Group has entered into a commercial agreement with Briggs for the cross hire of equipment to ensure we continue to provide our Irish customers with their large plant requirements. The sale has been treated as a non-adjusting post balance sheet event.

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Company Statement of Financial Position

As at 26 December 2020

	Note	26 December 2020 £000s	28 December 2019 £000s
ASSETS			
Non-current assets			
Investments	2	**90,359**	89,906
Other receivables	3	**203,536**	166,839
		293,895	256,745
Current assets			
Other receivables	3	**309**	–
Cash		**17,294**	17
		17,603	17
Total assets		**311,498**	256,762
LIABILITIES			
Current liabilities			
Other payables	4	**(13,956)**	(11,489)
		(13,956)	(11,489)
Total liabilities		**(13,956)**	(11,489)
Net assets		**297,542**	245,273
EQUITY			
Share capital	5	**6,965**	1,702
Share premium	5	**45,580**	–
Warrant reserve	5	**2,694**	2,694
Merger reserve		**97,716**	97,716
Retained surplus	6	**144,587**	143,161
Total surplus attributable to owners of the Company		**297,542**	245,273

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 £973,000 (2019: £14,179,000).

The notes on pages 128 to 130 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 28 April 2021 and were signed on its behalf by:

P Quested
Director

28 April 2021

Company Statement of Changes in Equity

For the year ended 26 December 2020

	Share capital £000s	Share premium £000s	Warrant reserve £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 29 December 2019	**1,702**	**–**	**2,694**	**97,716**	**143,161**	**245,273**
Profit for the year	**–**	**–**	**–**	**–**	**973**	**973**
Share issue	**5,263**	**45,580**	**–**	**–**	**–**	**50,843**
Share-based payments	**–**	**–**	**–**	**–**	**453**	**453**
At 26 December 2020	**6,965**	**45,580**	**2,694**	**97,716**	**144,587**	**297,542**

	Share capital £000s	premium £000s	Warrant reserve £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 30 December 2018	1,702	–	2,694	97,716	128,269	230,381
Profit for the year	–	–	–	–	14,179	14,179
Share-based payments	–	–	–	–	713	713
At 28 December 2019	1,702	–	2,694	97,716	143,161	245,273

The notes on pages 128 to 130 form part of these Financial Statements.

Notes to the Company Financial Statements

For the year ended 26 December 2020

1. Accounting policies

HSS Hire Group plc (the Company) is a company incorporated and domiciled in the United Kingdom. The Company's registered office is Oakland House, 76 Talbot Road, Old Trafford, Manchester, M16 0PQ.

a) Reporting entity

HSS Hire Group Limited was incorporated on 7 January 2015 as a private company limited by shares in the United Kingdom and re-registered as a public limited company on 19 January 2015. The Company listed its shares on the London Stock Exchange on 9 February 2015. On 14 January 2021, HSS moved its share trading from the Main Market on the London Stock Exchange to AIM.

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; or
- 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 Group'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 29 December 2019 to 26 December 2020 (2019: 30 December 2018 to 28 December 2019).

The Company complies with the accounting policies defined in notes 1 to 4 to the Group Consolidated Financial Statements on pages 84 to 97 except as noted below.

c) Merger reserve

The merger reserve is the amount arising on the difference between the nominal value of the shares issued on acquisition of the subsidiary companies and the Company value of the interest in subsidiaries. The merger reserve arises where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, and therefore the Company adopts merger relief under the Companies Act 2006.

d) Investments

Investments in subsidiaries that arose from a reorganisation of the Group structure that satisfies the criteria set out in IAS 27 Separate Financial Statements have 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. Subsequent additions are included in the statement of financial position at cost. Impairments are recognised if events or changes in circumstances indicate that the carrying value may not be recoverable.

e) Recoverability of intercompany receivables

Judgements are required in assessing the recoverability and timing of intercompany receivables and determining whether impairments of those receivables are required. Judgements are based on the historical performance as well as forecasts. The Company monitors the recoverability of such receivables and recognises impairments for amounts that may not be recoverable.

2. Investments

	£000s
At 29 December 2019	89,906
Additions	453
At 26 December 2020	**90,359**

Additions comprise equity-settled share-based payment awards offered to employees in subsidiary companies.

At 26 December 2020 the Company's subsidiaries, including those held indirectly through direct subsidiaries, are:

Company	Holding	Country of incorporation	Principal activity	Ordinary shares held
Hampshire Topco Limited	Direct	United Kingdom	Intermediate holding company	100%
Hampshire Midco Limited	Indirect	United Kingdom	Intermediate holding company	100%
Hampshire Bidco Limited	Indirect	United Kingdom	Intermediate holding company	100%
Hero Acquisitions Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Holdings Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Finance Limited	Indirect	United Kingdom	Intermediate holding company	100%
Bannagroe Limited	Indirect	Republic of Ireland	Intermediate holding company	100%
ABird Superior Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Group Limited	Indirect	United Kingdom	Hire and equipment services	100%
A1 Hire & Sales Limited	Indirect	United Kingdom	Hire and equipment services	100%
Laois Hire Services Limited	Indirect	Republic of Ireland	Hire and equipment services	100%
ABird Limited	Indirect	United Kingdom	Hire and equipment services	100%
Apex Generators Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Financing plc	Indirect	United Kingdom	Financing	100%
HSS Training Limited	Indirect	United Kingdom	Training services	100%
1st Collection Services Limited	Indirect	United Kingdom	Administration of Group debtors	100%
All Seasons Hire Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Hire Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Trading Limited	Indirect	United Kingdom	Dormant	100%

The registered office of the subsidiaries listed above is Oakland House, 76 Talbot Road, Old Trafford, Manchester, M16 0PQ, except for the following:

- Apex Generators Limited, 125 West Regent Street, Glasgow, G2 2SA
- Laois Hire Services Limited, Abbeyleix Road, Portlaoise, Co. Laois, Eire
- Bannagroe Limited, Clonminam Industrial Estate, Portlaoise, Co. Laois, Eire

Financial Statements

Notes to the Company Financial Statements continued

For the year ended 26 December 2020

3. Other receivables

Non-current	26 December 2020 £000s	28 December 2019 £000s
Amounts due from Group undertakings	**203,536**	166,839

Current		
Prepayments	**32**	–
Other tax	**277**	–
	309	–

Amounts due from Group undertakings are due on demand, but are not expected to be repaid within one year, and are interest-free (2019: fixed interest rate of 10%). Since 8 February 2020 interest rates on existing and new loans have been reduced to £nil.

4. Other payables: amounts falling due within one year

	26 December 2020 £000s	28 December 2019 £000s
Amounts owed to Group undertakings	**11,120**	11,120
Accruals and deferred income	**1,505**	369
Other creditors	**1,331**	–
	13,956	11,489

5. Share capital

The details of the Company's share capital are set out in note 23 to the Consolidated Financial Statements.

6. Profit and loss account

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The auditors' remuneration for audit and other services is disclosed in note 9 to the Consolidated Financial Statements.

7. Related party transactions

The Company's related party transactions are set out in note 29 to the Consolidated Financial Statements.

8. Financial instruments

Details of the Group's financial instruments policies are set out in note 26 to the Consolidated Financial Statements.

9. Employee and Director costs

The Directors are the only employees of the Company. Their costs are borne by a subsidiary company, HSS Hire Service Group Limited. Details of the Directors' remuneration are set out in note 11 to the Consolidated Financial Statements.

Five Year Summary
For the year ended 26 December 2020

Continuing operations	Year ended 26 December 2020 £000s	Year ended 28 December 2019 £000s	Year ended 29 December 2018 £000s	Year ended 30 December 2017 £000s	Year ended 31 December 2016 £000s
Income statement					
Revenue	**269,933**	328,005	322,767	303,935	307,580
Operating profit/(loss)	**1,499**	16,821	11,218	(79,936)	(10,257)
Net finance costs	**(25,065)**	(22,609)	(20,374)	(13,152)	(13,678)
Loss before tax	**(23,566)**	(5,788)	(9,156)	(93,088)	(23,935)
Tax	**(15)**	(436)	2,749	6,692	1,183
Loss after tax	**(23,581)**	(6,224)	(6,407)	(86,396)	(22,752)
Adjusted EBITDA	**69,362**	63,929	59,967	35,943	56,042
Adjusted depreciation	**(49,590)**	(37,396)	(37,883)	(42,827)	(43,267)
Adjusted EBITA	**19,772**	26,533	22,084	(6,884)	12,775
Amortisation	**(5,197)**	(5,618)	(5,901)	(6,592)	(6,190)
Operating profit/(loss) excluding exceptional items	**14,575**	20,915	16,183	(13,476)	6,585
Exceptional items	**(13,076)**	(4,094)	(4,965)	(66,460)	(16,842)
Operating profit/(loss)	**1,499**	16,821	11,218	(79,936)	(10,257)
Continuing and discontinued operations					
Assets employed					
Non-current assets	**310,361**	262,243	275,691	323,782	358,008
Assets held for resale (net)	**–**	–	33,172	1,500	–
Inventories	**3,183**	3,735	4,333	5,519	7,898
Trade and other receivables	**75,880**	88,396	93,981	96,503	103,744
Cash	**97,573**	22,658	17,832	2,151	15,211
	486,997	377,032	425,009	429,455	484,861
Current borrowings	**(38,395)**	(5,355)	(19,304)	(80,892)	(77,448)
Other current liabilities	**(69,270)**	(74,176)	(82,393)	(88,331)	(85,546)
	379,332	297,501	323,312	260,232	321,867
Non-current borrowings	**(245,276)**	(185,729)	(217,630)	(148,347)	(150,478)
Other non-current liabilities	**(26,466)**	(32,811)	(35,216)	(39,310)	(18,915)
Net assets	**107,590**	78,961	70,466	72,575	152,474
Continuing operations					
Net debt	**(194,623)**	(179,515)	(187,975)	(223,383)	(207,616)
Net Leverage Ratio (net debt/Adjusted EBITDA)	**2.8x**	2.8x	3.1x	6.2x	3.7x
Capital expenditure	**16,444**	31,403	27,274	32,605	38,185
Average number of employees	**2,330**	2,605	2,670	2,947	3,123
Weighted average number of ordinary shares	**196,232**	170,207	170,207	170,207	154,887
Continuing operations					
Per ordinary 1p share					
Basic loss, pence	**(12.02)**	(3.66)	(3.76)	(50.76)	(14.69)
Adjusted (loss)/earnings, pence	**(2.03)**	2.76	1.51	(10.42)	(0.48)

Additional Information

Shareholder Information

Annual General Meeting

The Company's Annual General Meeting will be held at 11.00am on 30 June 2021 at Hilton Garden Inn, Hatton Cross, TW6 2SQ. Details of the Resolutions proposed and being voted on are provided in the Notice of AGM provided to shareholders and available for download at the Group website, www.hsshiregroup.com. Attendance in person at the 2021 AGM by shareholders and directors shall be subject to any restrictions around COVID-19, details of which shall be included in the Notice of Meeting with any further updates to be provided via the 'News & Resources' section at www.hsshiregroup.com. We recommend shareholders consider not attending in person and instead make use of electronic proxy voting.

Share fraud and boiler room scams

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares.

These operations are commonly known as 'boiler room fraud'. The 'brokers' (callers) can be very persistent and extremely persuasive. They often have websites to support their activities, their advice and the companies they purport to represent. It is not just novice investors that have been duped in this way; many of the victims have been successfully investing for several years.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or offers of free company reports.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- → Record the name of the person and organisation contacting you.
- → Check the Financial Conduct Authority (FCA) Register at www.fca.org.uk/register to ensure they are properly authorised.
- → Use the details on the FCA Register to contact the firm.
- → Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
- → If you receive telephone calls, emails, letters purporting to be from HSS Hire Group plc or from companies endorsed by HSS Hire Group plc and you are unsure if they are legitimate, please contact our shareholder helpline for clarification (0371 384 2030 or +44 (0)121 415 7047 (overseas)).
- → If the caller persists, hang up.

Please note that should you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

If you are approached about a share scam you should tell the FCA using the online share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm where you can find out about the latest investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040 or online at: www.actionfraud.police.uk

Further information on this or similar activity can be found at www.cityoflondon.police.uk/citypolice within the Economic Crime section.

Forward-looking statements

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets within which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and, to a lesser extent, exchange rates; the impact of competitor pricing behaviour; the occurrence of major operational problems; the loss of major customers; contingent liabilities; and the impact of legal or other proceedings against, or which otherwise affect, the Group.

No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.

Financial Calendar

Annual General Meeting
30 June 2021

Company Information

Registered Office
HSS Hire Group plc
Oakland House
76 Talbot Road
Manchester M16 0PQ

Email: investors@hss.com
Website: www.hsshiregroup.com
Registered number: England and Wales, No. 9378067

Company Secretary
Daniel Joll

Nominated Adviser & Broker
Numis Securities Limited
The London Stock Exchange Building
10 Paternoster Square
London EC4M 7LT

Legal Advisers
Freshfields Bruckhaus Deringer LLP
65 Fleet Street
London EC4Y 1HS

Independent Auditors
BDO LLP
55 Baker St
London W1U 7EU

Bankers
HSBC Bank plc
8 Canada Square
London E14 5HQ

National Westminster Bank plc
250 Bishopsgate
London EC2M 4AA

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Marsh Limited
1 Tower Place West
Tower Place
London EC3R 5BU

Additional Information

Definitions and Glossary

The following is a list of commonly used terms in the industry or the Annual Report and Accounts.

'2016 Code'	the Corporate Governance Code 2016
'2018 Code'	the Corporate Governance Code 2018
'ABird' or 'ABird Power Solutions'	ABird Superior Limited and its wholly owned subsidiary, ABird Limited
'Act'	the Companies Act 2006, as amended
'Adjusted EBITA'	EBITA adjusted to add back exceptional items
'Adjusted EBITDA'	EBITDA adjusted to add back exceptional items
'Adjusted EPS'	EPS adjusted to exclude exceptional items and amortisation and after charging the prevailing rate of corporation tax
'Admission'	the admission of shares to the premium listing segment of the Official List and to trading on the London Stock Exchange
'All Seasons Hire'	All Seasons Hire Limited
'Apex'	Apex Generators Limited
'Articles'	the Articles of Association of the Company
'Average revenue per account customer'	calculated by dividing the total revenue from account customers only in a year by the simple average of the opening and closing number of trading accounts
'B2B'	business-to-business
'bps'	basis points are a unit of measure used to describe the percentage change in the value or rate of a financial instrument
'BSI'	British Standards Institute is the national standards body of the United Kingdom. BSI produces technical standards on a wide range of products and services, and also supplies certification and standards-related services to businesses
'Carbon emissions in our built environment'	calculated as the total CO^2 emissions from fuel combustion (a scope 1 emission) and purchased electricity (scope 2 emissions) of the Group in kg CO^2 divided by the total m^2 of the Group's freehold and leasehold portfolio. Calculated for the period 1 April to 31 March in each period in accordance with the reporting timeframe required for annual CRC submissions
'CITB'	the Construction Industry Training Board works with industry and Government in the UK to promote the development and training of construction industry employees. CITB accredited training courses are the recognised standard in UK safety training
'colleague'	Directors and employees of HSS
'Company'	HSS Hire Group plc
'Core Hire Rental Revenue'	revenue associated only with the rental of owned assets in the core HSS business. This excludes revenues from specialist hire businesses (ABird, Apex, All Seasons and Laois), and sales ancillary to the rental such as transport, resale etc.
'COSHH'	Control of Substances Hazardous to Health
'CRC Energy Efficiency Scheme' or 'CRC'	a mandatory carbon emissions reduction scheme in the UK that applies to large non-energy-intensive organisations in the public and private sectors
'CSOP'	Company Share Option Plan
'Customer Distribution Centres' or 'CDCs'	locations across the UK from which we deliver items of our core hire equipment direct to customer sites, manage the collection of equipment from customer sites at the end of the hire period and undertake testing and repair of larger non-specialist equipment
'EBITA'	earnings before interest, tax and amortisation
'EBITDA'	earnings before interest, tax, depreciation and amortisation
'EMT'	Executive Management Team
'ERP system'	enterprise resource planning software used to manage the business and automate certain day-to-day processes
'EU'	European Union

'Exponent'	the investment funds managed by Exponent Private Equity LLP or, when otherwise indicated or where the context otherwise requires, Exponent Private Equity LLP in its own right
'Exponent Shareholders'	Exponent Private Equity Partners GP II LP, Exponent Havana Co-Investment Partners GP Limited and Exponent Private Equity Founder Partner GP II Limited
'Group'	together, HSS Hire Group plc and its direct and indirect subsidiaries
'HSS'	the group of companies within the HSS Hire Group
'HSS Hire Group plc'	HSS Hire Group plc (company number 9378067) whose registered office is at Oakland House, Talbot Road, Manchester M16 0PQ
'IFRS'	International Financial Reporting Standards, as adopted by the European Union
'initial public offering' or 'IPO'	the initial public offering and admission of the ordinary share capital of HSS Hire Group plc to the premium listing segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange's Main Market for listed securities under the ticker 'HSS' on 9 February 2015
'IPAF'	International Powered Access Federation. Promotes the safe and effective use of powered access worldwide. IPAF-accredited training courses are the recognised standard in powered mobile access
'Ireland'	the Republic of Ireland
'LED'	light emitting diode, in this context referring to a type of lighting product which uses less energy than traditional lighting options on the market
'live account'	a customer that has transacted with the Group in the prior 12 months
'LTIP'	long-term incentive plan. A reward system designed to reward colleagues' long-term performance either by the grant of awards which are subject to defined performance conditions, which include Adjusted EPS and ROCE, or by the grant of Restricted Stock
'LTM utilisation – core'	core businesses utilisation is calculated as average value of the fleet on hire divided by the total fleet value in a reporting month, averaged over the relevant 52-week period (referred to as the last 12 months or 'LTM') for HSS Hire Service Group Ltd
'LTM utilisation – specialist'	specialist businesses utilisation is calculated as average value of the fleet on hire divided by the total fleet value in a reporting month, averaged over the relevant 52-week period (referred to as the last 12 months or 'LTM') for ABird and Apex. This calculation does not currently include data for All Seasons Hire as full LTM utilisation data is not available
'MEWP'	Mobile Elevating Work Platform
'MTS'	Mobile Traffic Solutions
'National Distribution and Engineering Centre' or 'NDEC'	operation opened in Cowley, Oxfordshire in March 2016 to centralise and industrialise the testing, maintenance and repair of our fast-moving core hire fleet upon return from customer use. Once deemed fit-for-hire, equipment is moved back into the local branch and CDC network. Activity terminated in April 2018 with the move back to branch-led processes
'Net debt'	the total indebtedness of the Group including senior finance facility, Revolving Credit Facility, senior secured notes (excluding debt issue costs), finance leases, drawings on the Revolving Credit Facility, any accrued interest on these items and any overdraft net of any cash in the Group
'Notes'	6.75% senior secured notes due 2019 issued by HSS Financing plc in February 2014, fully redeemed in 2018
'NPS'	Net Promoter Score, a measure of willingness of customers to recommend a Company's products or services to others
'Official List'	the Official List of the FCA
'PASMA'	Prefabricated Access Suppliers' and Manufacturers' Association Ltd. The international not-for-profit organisation for the mobile access industry which oversees the industry standard training scheme. PASMA-accredited training courses are the recognised standard in non-powered mobile access
'QCA'	Quoted Companies Alliance
'Restricted Stock'	conditional awards of shares under the LTIP which vest subject to continued employment and the Remuneration Committee's assessment of overall business performance over the vesting period

Additional Information

Definitions and Glossary continued

'return on assets' or 'ROA'	calculated as Adjusted EBITA divided by the total of average total assets (excluding intangible assets) subtracted by average current liabilities
'return on capital employed' or 'ROCE'	calculated as Adjusted EBITA divided by average capital employed. Capital employed is total assets except intangible assets, derivatives, and cash less current liabilities except current debt items
'revolving credit facility' or 'RCF'	revolving credit facilities made available pursuant to either the Revolving Credit Facility Agreement (£25.0m) dated 20 June 2018 that was concluded on 11 July 2018 and which expires in 2023 or the Revolving Credit Facility Agreement (£80.0m) dated January 2014 that was repaid on 11 July 2018
'RIDDOR(s)'	the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995. Within our KPIs we report our RIDDOR rate, which is calculated as: the number of RIDDOR incidents x 100,000, divided by the number of hours worked
'RMI'	services provided in the repair, maintain and improve markets, typically to the built environment
'ROTL'	Release on Temporary Licence, a scheme that allows those serving prison sentences and near release to leave prison during the day to go to work
'SHEQ'	safety, health, environment and quality
'TecServ'	TecServ Cleaning Equipment Services Limited (formerly Premiere FCM Limited)
'Term facility'	Senior finance facilities made available pursuant to the Senior Finance Facility Agreement entered into on 20 June 2018 that expires in 2023
'Trading account'	a customer account which has been active in the last 12 months
'Training days per colleague'	calculated as the total training days completed by Group colleagues within the year, divided by the average number of colleagues in the Group
'UK'	the United Kingdom of Great Britain and Northern Ireland

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