POWERED BY
TECHNOLOGY

HSS Hire Group plc
Annual Report and
Financial Statements 2021

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ABOUT US

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

OUR PURPOSE

Our purpose is to provide our customers with the equipment, training and services they need, employing technology to do this quickly, efficiently and sustainably.

OUR VALUES

MAKE IT SAFE

MAKE IT HAPPEN

MAKE IT BETTER

MAKE IT TOGETHER

HIGHLIGHTS

FINANCIAL

Revenue
£303.3m
FY20: £250.1m

Operating Profit
£34.5m
FY20: loss of £(4.7)m

Adjusted EBITDA
£69.8m
FY20: £59.6m

Adjusted EBITA
£31.7m
FY20: £13.4m

Leverage[1]
1.5x
FY20: 2.8x

Return on capital employed (ROCE)[2]
22.1%
FY20: 10.7%

EPS
1.05p
FY20: (15.13)p

Adjusted EPS
1.52p
FY20: (4.64)p

MARKET-LEADING TECHNOLOGY PLATFORM IN TOOL HIRE

Our technology platform, which we call Brenda, was launched back in 2019. Initially focused on our Services business, the technology was built from the user's perspective, with tailored interfaces for different users. Our ambition was to create the most powerful, yet easy-to-use platform for hire and associated building service products in our industry.

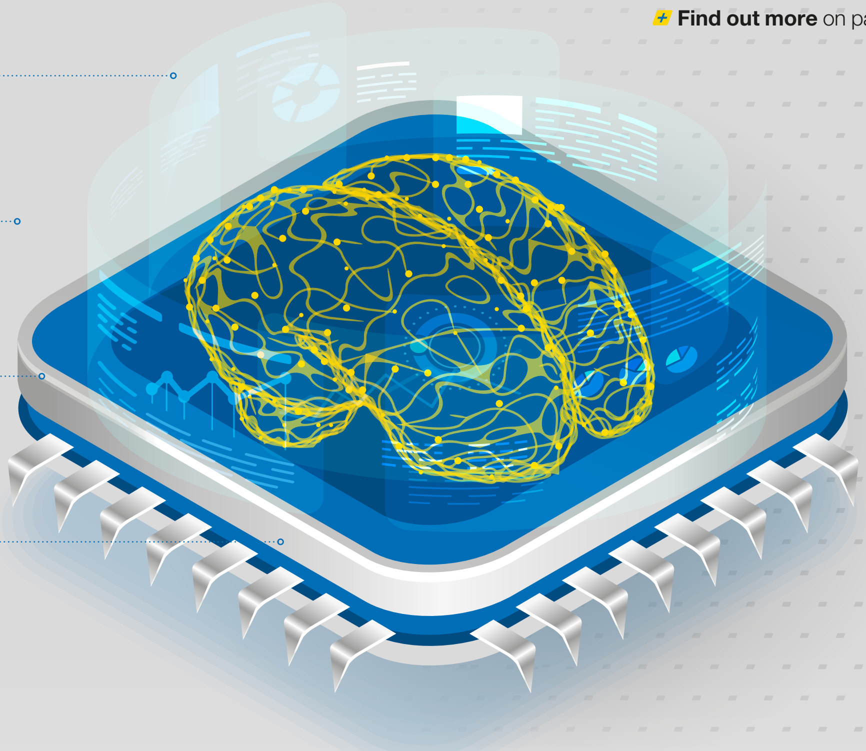
Find out more on page 3

Built from a user perspective

Quick, intuitive and easy-to-use

Modular design, scalable

Available on multiple devices



SUSTAINABILITY

RIDDORS

5

FY20: 2

Colleague engagement

76.1%

FY20: 75.0%

Reduction in Building Energy Carbon Emissions

91%

versus FY20

UN SUSTAINABLE DEVELOPMENT GOALS

The Group is focusing on these six sustainable development goals

1 Leverage for FY20 is continuing and discontinued operations; all other measures are for continuing operations.
2 ROCE is for Continuing Operations at each reporting date. The ROCE calculation is defined on page 29.

The Group uses alternative performance measures:

Read more in the Financial Review, pages 35 to 37

OPERATIONAL HIGHLIGHTS

- Completed the strategic plan we first outlined in 2017 and embarked on a new chapter of exciting growth

Read more on pages 8 to 13

- Continued to invest in technology, developing our digital capabilities to improve the customer experience

Read more on page 3

- Restructured our organisation around two divisions: HSS ProService and HSS Operations

Read more on pages 14 to 15

- Further delevered and refinanced the business, leaving us with a stronger balance sheet and lower interest costs

Read more on pages 35 to 37

- Conducted a comprehensive review of our sustainability strategy and developed a roadmap of related activities for 2022

Read more on pages 38 to 41

OUR BUSINESS AT A GLANCE

OUR VISION

To become the market-leading, digitally-led brand for equipment services.

HSS TODAY

Top 4
UK Rental provider

Leading
Technical Training provider

Largest
European Rehire provider

Unique
Builders Merchant network

National coverage
One-stop shop

£303m
Revenue

£70m
EBITDA

149
locations

2,000
colleagues

600+
supply chain partners

23%
digital penetration

TWO DIVISIONS

HSS ProService

HSS PROSERVICE

Sales acquisition business with low capital invested. Highly technology driven. Extremely scalable. Uniquely differentiated.

Read more on next page

c.750
Sales and training colleagues

600+
Supply chain partners

BRENDA
Our technology platform

HSS Training

Extensive training offering for customers

HSS OPERATIONS

Fulfilment business, focused on health and safety and quality, with circular economy credentials, comprehensive national footprint and high customer satisfaction.

Read more on next page

c.1,000
Operations colleagues

40
Customer Distribution Centres

550+
Delivery fleet

HSS Hire — Tools, site equipment and powered access

APEX Power Solutions / ABIRD Power Solutions — Specialist power generation providers

HOW WE DO IT

OUR VALUES

MAKE IT SAFE

Safety comes first. Always! It's at the heart of everything we do, which means that if we can't do it safely, we don't do it. We take our work seriously, and we never leave anything to chance. **We do things the right way – every time. Think safe, work safe, home safe.**

MAKE IT BETTER

We're not just ambitious and hard working; we're also excited about what's next. We love to win, we're change-ready and we want to make a difference. **We're focused on making things better, brighter and fit for the future.** We know that change can be hard, and we need to be resilient to keep making things better.

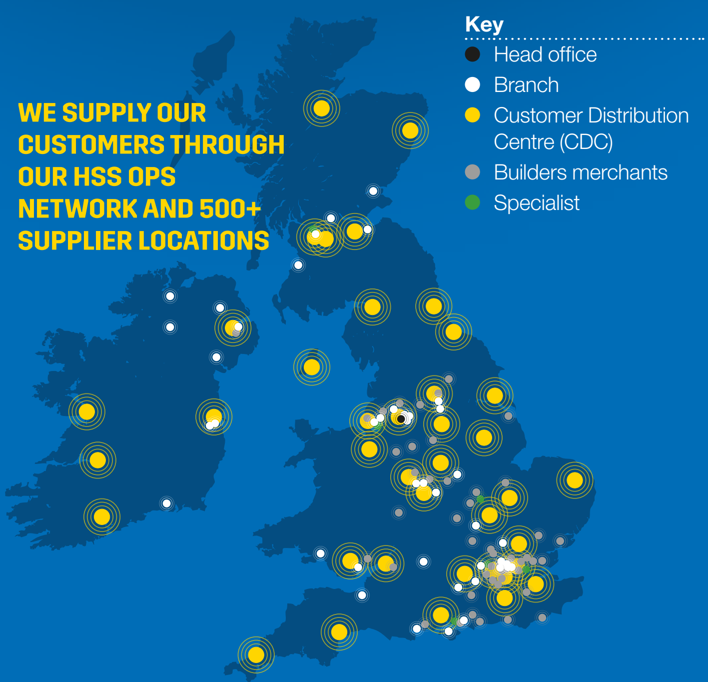
MAKE IT HAPPEN

We're passionate, can-do people who deliver great results, safely. We're relentless. We own it, we roll our sleeves up and get on with it. We always find a way. **No job is too big or too small, we always do what it takes to get things done.** We do our best for our customers and our business.

MAKE IT TOGETHER

We have blue and yellow blood running through our veins. We're like a family and we've all got each other's backs. **We pull together, trust and respect each other.** We celebrate success, work well as a team, and have fun along the way.

WE SUPPLY OUR CUSTOMERS THROUGH OUR HSS OPS NETWORK AND 500+ SUPPLIER LOCATIONS



OUR TECHNOLOGY

BRENDA IS OUR UNDERLYING TECHNOLOGY

- The 'brain' behind all other user interfaces and the platform on which all transactions in the ProService business are raised and managed
- Built from a user perspective
- Allows us to create tailored interfaces to suit users' individual needs

ONLINE CUSTOMER INTERFACE:

hss.com (also available on HSS customer app)

- Provides customers with access to the whole supply market
- Easy-to-use, providing speed and efficiency
- Pricing and order transparency
- Live availability
- LiveChat, LiveVideo

CUSTOMER PROCUREMENT PLATFORM:

ProService

- All of the above, but presented as a procurement platform
- Built to address the needs of large customers with dedicated buying team
- Additional management tools, such as authorisation processes and reporting functionality
- Single invoice

COLLEAGUE INTERFACE:

HSS PRO

- Easy and quick to use
- Access to full range of services, enabling them to say 'yes' to the customer

Vodafone storm

- Call optimisation for remote HSS colleagues
- Enhances call answer rates and customer response times
- Provides analytics to drive performance

SUPPLIER INTERFACE:

- Provides suppliers with access to our customers, benefiting from our brand, digital channels and marketing
- Easy-to-use, offers speed and efficiency. Reduced administration
- Pricing and order transparency, contract accuracy
- Ability to self-serve with functionality including surge pricing, territory selection and utilisation managements
- Customer assurance
- Single invoice

SUSTAINABILITY

Read more on pages 38 to 41

ENVIRONMENTAL

Ongoing reduction in building energy carbon emissions

91% reduction v FY20

SOCIAL

Accident frequency rate remains low despite return to post-COVID-19 activity

0.11 RIDDOR rate

GOVERNANCE

Colleague engagement score continuously improving

76% engagement

In 2021 we continued to make progress across all areas of sustainability as outlined later in our Sustainability section on page 38 to 41. In the final quarter of 2021 we engaged specialist sustainability advisers Sustainable Advantage to review our progress and help us accelerate our ESG strategy. They carried out an independent review of our ESG position assessing us as 'Excellent' and giving us a roadmap for further improvements. We have carried out a materiality assessment, seeking our stakeholders' views on all matters ESG which has informed the development of our ESG strategy. Sustainable Advantage has also calculated our carbon footprint, including scope 3 elements, allowing us to make a net zero commitment of 2040. This, alongside many other ambitious targets, will be published in our first ESG Impact Report during Q2 2022.

SUSTAINABLE ADVANTAGE ESG EXCELLENT 2022

Net Zero Carbon Target

2040

CHAIRMAN'S STATEMENT

CLOSING OUT OUR 2017 STRATEGY

ALAN PETERSON OBE
CHAIRMAN

The Group is unrecognisable from the HSS of five years ago and we have established ourselves as a digital leader in the hire market."

Dear shareholder,

2021 was a significant year for HSS, marking the completion of the strategy we first set out in 2017: to Delever the Group, Transform the Tool Hire business and Strengthen our commercial proposition.

Today, the Group is unrecognisable from the HSS of five years ago and we have established ourselves as a digital leader in the hire market. The progress is testament to the resilience of our colleagues who have provided customers with exceptional service during an immensely challenging period for both the business and society at large. We begin 2022 with the technology, organisational structure and resources that will support us as we begin a new chapter of exciting growth for HSS, focused on delivering our vision: **to be the market-leading, digitally-led brand for equipment services.**

Summary

Following the significant acceleration of our digital strategy in 2020, we entered 2021 with strong momentum and performance quickly returned to pre-COVID-19 levels, delivered through our lower cost operating model.

We continued to invest in technology, rolling out HSS Pro and on-boarding colleagues to improve the customer journey while expanding our builders merchant network to enhance our reach with little capital investment.

The strategic divestitures of Laois Hire Services and All Seasons Hire represented good value for shareholders while our ongoing commercial relationships with both companies, entered into as part of these transactions, ensure we continue to offer a one-stop shop for our customers.

We used the cash generated to further reduce the Group's debt. With a strengthened balance sheet and net debt leverage at approximately 0.8x (non-IFRS 16, 2020 2.6x), our refinancing was successfully completed leading to a significant reduction in ongoing interest cost and increase in earnings per share.

In 'Delevering the business', we completed the last stage of the strategy set out in 2017 and now occupy a differentiated position within the market as a digitally-enabled, capital-light business, supported by a strong balance sheet. We are now well-positioned for the future as we begin a new chapter of exciting growth built around our unique business model.

Our vision

As we embark on our next stage of growth, we have a clear vision underpinning our strategy: to become the market-leading, digitally-led brand for equipment services. Through the investments and digital developments we have made over the last four years, combined with our new organisational structure, we have the foundations in place on which to realise this vision.

Our Board and management team

Our Board members act as custodians of the HSS brand and we benefit from a stable and experienced Board with no Director having served for fewer than four years. This stability has been a crucial asset, both during the uncertainty of the pandemic and also in steering the business through a significant transformation. The Board has provided essential support to senior management at key moments where important strategic decisions have been made as well as helping shape the Company's approach to risk during this period of change.

The Board continues to engage with all stakeholders to ensure HSS operates with transparency, integrity and in the interests of our colleagues and partners while leading the Company into the next phase of growth as we deliver on our vision.

OUR
VISION

To become the market-leading, digitally-led brand for equipment services.

CHAIRMAN'S STATEMENT continued

At HSS, we strive to operate in a responsible and sustainable way."

Our people

At the heart of HSS are our colleagues and, against the backdrop of the COVID-19 pandemic, they have worked tirelessly to support our stakeholders. Our success as a business is wholly a product of this hard work and, on behalf of the Board, I would like to express my sincere thanks to all our colleagues for their unfaltering commitment.

Thankfully the pandemic appears to be receding, however it has had a significant impact on society and ways of working. Given this, it is more important than ever to maintain regular communication with colleagues to ensure we are aware of their views and concerns and provide them with a fulfilling and engaging place to work. This communication was vital in our decision-making process as we adapted our working policies, moving to a new head office designed for hybrid working and rolling out our HSS Pro technology to support their day-to-day work. Our colleagues are now able to adapt their working patterns with greater flexibility while continuing to provide a seamless service for our customers.

2021 also saw us implement significant strategic and structural change across the business and it was vital that colleagues were kept abreast of these developments, had their questions answered, and their views addressed. Accordingly, during the year, we provided regular updates through company-wide emails, FAQs and our annual management roadshow, supplemented by more informal company updates through our CEO's blog.

'Make It Together' is one of our four core values as a business but we can only live up to this value if we maintain our position as a diverse and inclusive employer. Engaging with our colleagues is central to this and feedback from the Women's Networking Group provided management with new methods of attracting women into a historically male-dominated industry while our employee engagement surveys helped us establish the topics for our monthly wellbeing events. We are incredibly pleased with the progress that has been made over the year and have now laid the groundwork for a large-scale refresh of our diversity training and outreach programmes.

Environment, Social and Governance

At HSS, we strive to operate in a responsible and sustainable way. We are cognisant, however, that we can always do better and, accordingly, in 2021 we began a comprehensive review of our ESG strategy.

Throughout 2021 health and safety has remained paramount to our business including an increased focus on mental health and wellbeing. To support our colleagues, we have implemented a variety of measures, see pages 39 to 40 for more information, while continuing to support our customers, our communities and the environment in which we operate.

In Q4 we appointed an external consultant, Sustainable Advantage, to conduct a comprehensive analysis of our ESG credentials and identify improvement opportunities. They benchmarked us as "excellent" during their review of 62 ESG-related categories. They have also supported us with a materiality assessment and net zero analysis, which has led us to accelerate our ESG strategy with a new set of objectives and commitments which are outlined in our Sustainability section on page 41.

SUSTAINABLE ADVANTAGE
ESG EXCELLENT 2022

Benchmarked as 'excellent' across 62 ESG-related categories by Sustainable Advantage in 2021

IN NUMBERS

Revenue
£303m

Adjusted EBITA
£31.7m
FY20: £13.4m

Leverage (non-IFRS 16)
0.8x
FY20: 2.6x

During 2021 we moved to a hybrid working model supported by the technology in our new Head Office at Think Park, Manchester

Our investors

Over the year, the Group has benefited from continued support from our long-term shareholders while engagement with new and potential investors has ensured our vision and operating model are well-understood.

Having made excellent progress in delivering our 2017 strategy, we now want to build on this success and accelerate growth through further investment in our digital capabilities to create longer-term shareholder value. Accordingly, the Board believes that the interests of shareholders are best served by not declaring a dividend for 2021, a position that will be kept under review as we progress through 2022.

Looking ahead

Following the changes made last year, I am pleased to say that we are entering 2022 with the technology, structure, resources and – most importantly – the colleagues, to deliver on our next phase of accelerated growth. I would like to thank my fellow Board members for their continual support and, reiterating my earlier sentiment, express my immense gratitude to our colleagues for all that they have done over the last year in driving our transformation and continued success as a business. We are confident that 2022 will see HSS continue to grow by leveraging our differentiated position within the tool hire market.

Alan Peterson OBE
Chairman

CHIEF EXECUTIVE OFFICER'S STRATEGIC REVIEW

LEVERAGING OUR DIGITAL OFFERING TO ACCELERATE GROWTH

STEVE ASHMORE
CHIEF EXECUTIVE OFFICER

> We enter 2022 with a new organisational structure, a strong balance sheet, and a differentiated business model that we believe positions us as the most agile and technologically advanced operator in the equipment hire industry."

I am very pleased with our performance in 2021 and would like to thank all my colleagues for their exceptional efforts and performance over the last year.

Despite the ongoing headwinds of the pandemic, our agile, digitally-enabled, lower-carbon network ensured we were able to support our customers and deliver a strong set of results during a challenging period for the global economy. We ended 2021 with underlying (adjusted to account for an extra week in 2021) revenue up 20% against prior year and back in line with pre-pandemic 2019 levels. EBITDA and EBITA both stepped forward against 2020 by £10.2m and £18.3m respectively with the improved revenue performance fulfilled through our lower-cost operating model.

2021 also marked the successful completion of the strategy we set out in 2017: to Delever the Group, Transform the Tool Hire business, and Strengthen our commercial proposition.

We enter 2022 with a new organisational structure, a strong balance sheet and a differentiated business model that we believe positions us as the most agile and technologically advanced operator in the equipment hire industry. Our market-leading digital capabilities continue to develop at pace and allow us to provide a comprehensive and efficient service to our customers. With these foundations firmly in place, we are entering a new stage of growth, ready to capitalise on the market opportunities present in the sector.

Our year in summary

Following the significant acceleration of our strategy in 2020, we started 2021 well and EBITDA and EBITA margins in the first quarter were comfortably ahead of both 2019 and 2020 levels. This was despite the impact of a third COVID-19 lockdown across all territories starting in January, with our click-and-collect service and digital capabilities ensuring trading remained strong.

Early in the year, we moved our shares from the Main Market to AIM to benefit from its greater flexibility following the significant strategy acceleration we made in 2020. This was widely supported by existing shareholders and we have since seen increased interest from potential new investors.

By April, HSS Pro had been rolled out across our entire salesforce, improving our efficiency and decision-making processes. As a result, OneCall enquiries grew, conversion rates increased, and we saw a material improvement in like-for-like Services revenue.

In April, we announced the decision to sell Laois Hire Services Limited to Briggs Equipment Ireland Limited for €11.2 million. With Laois contributing 4% of the Group's revenue in 2019, €11.2m was an attractive valuation and, with our new operating model performing well, we determined that the capital could be more effectively used in other parts of the business. The proceeds of the sale were used to increase investment in our core Tool Hire business and reduce debt, supporting two of our 2017 objectives: to Delever the Group and Transform the Tool Hire business. As part of the transaction, we entered into a commercial agreement with Briggs for the cross-hire of equipment, ensuring that we continue to provide our Irish customers with their large plant requirements.

By the half-year, revenue was back in line with 2019 levels. Profitability had stepped forward with EBITDA up 3ppts and EBITA up 6ppts versus FY19 and ROCE at a record 24%.

IN NUMBERS

Adjusted EBITA margin

10.4%

FY20: 5.4%

ROCE

22.1%

FY20: 10.7%

Proforma interest costs[1]

£3.0m

FY20: £16.3

1 On new £70m senior finance facility and based on current SONIA rate.

CHIEF EXECUTIVE OFFICER'S STRATEGIC REVIEW continued

HSS ProService and HSS Operations work in unison to provide our customers with what we believe is the most comprehensive offering in the sector."

In September we announced the sale of our heating, ventilation and air conditioning hire provider – All Seasons Hire (ASH) – to Cross Rental Services for £55m. As with Laois, this was an attractive valuation and, by striking a commercial agreement with the company, we continue to provide our customers with access to ASH's equipment and services. This transaction reduced our leverage to around 0.8x – a significant decrease from the 2.6x leverage (both measures on a non-IFRS 16 basis) we started the year with, and the proceeds were used to repay debt, marking the completion of the strategy we began in 2017.

With our 2017 strategy delivered, in the latter half of 2021 we launched a new business model in preparation for our next stage of growth, creating a more focused, more efficient organisation consisting of two distinct divisions – HSS ProService and HSS Operations – which work together to provide our customers with what we believe is the most comprehensive offering in the sector.

Capitalising on our new structure, materially stronger balance sheet, and growth potential, in November we engaged with our lenders whose confidence in our operating model and financial position enabled us to successfully refinance the business, significantly reducing our annual interest costs (on our senior finance facility) from £16.3m in 2020 to approximately £3.0m per annum (based on our £70m facility), improving earnings per share and free cash flow.

Towards the end of what was already a year of significant change, we also started to review our sustainability approach, appointing an external agency, Sustainable Advantage, to conduct a comprehensive review of our current ESG credentials, identify areas of strength and weakness, and help us establish a new set of commitments and targets which are outlined later in this report (page 41).

With a new business model, stronger balance sheet, and one of the most advanced digital offerings in the marketplace, we ended 2021 well. We have continued to build on this and started 2022 strongly with first quarter revenue growth of 13% compared to 2021 and we are well-positioned to build on this as we continue our exciting new phase of growth.

Our strategy

The hire market in the UK is significant – estimated to be £5-6bn in size – but it is fragmented, consisting of a small number of large providers and over 1,000 smaller, independent businesses, most of which operate from single sites.

The market is also digitally immature, and many companies are still in their technological infancy. As a result of the work we have done over the last four years, accelerated in 2020 through increased investment in technology, we benefit from a highly differentiated position within the marketplace which we believe creates an exciting prospect for investors as well as our customers.

For customers, our differentiated offering is focused on employing our technology to provide a superior service to that of our peers, building brand loyalty and increasing our market share. Through our website, our customer app, HSS Pro, our ProService platform and Brenda – the technology on which our digital capabilities are built – we offer our customers a one-stop shop for a full range of building services. We believe our technology provides the quickest, most efficient, most reliable and most comprehensive offering in the sector.

For suppliers, we offer volume and access to the end user. In our ProService division, our rehire suppliers can put their rental equipment on hire with our broad portfolio of customers. We consolidate that demand for them, lowering their customer acquisition and administration costs. Our technology provides them with the insight they require to enhance their returns on investment.

For investors, our differentiated operating model benefits from an extremely flexible cost base and strong margin and ROCE performance. Our technology also means we are highly scalable without the need for large capital investment. By transitioning from a capital-heavy operating model with a large branch network to an agile, digitally-enabled, capital-light model, we fulfil our customers' requirements while delivering superior returns for shareholders (see investment case on page 16 for more information).

This differentiation is key to our success and, as we enter our new chapter of growth, our strategy will focus on leveraging our technology to build on this and position ourselves as the most comprehensive, accessible and reliable service provider in the equipment hire sector, retaining existing client relationships while building new ones to drive revenue growth.

Our new operating model

At the heart of our strategy is our operating model which underwent significant change in 2020 and 2021, making us a far more efficient and profitable business. Our two divisions – HSS ProService and HSS Operations – work together to provide customers and suppliers with the equipment and services they need to complete projects.

HSS ProService:

HSS ProService is our customer-facing sales acquisition division, offering customers a one-stop shop for Hire, Equipment Sales, Accessories, Parts, Fuel, Waste Management, Training, Materials and other building services.

Built on Brenda, the technology platform on which all our digital applications will sit, HSS ProService can source – either from our own fleet or through our extensive supplier network – the equipment our customers need the moment a request is made. By acting as a supply aggregator, we can optimise our owned fleet investment decisions towards higher returning products, while providing our customers with one of the broadest and deepest product offerings in the sector. Similarly, our technology allows us to connect our suppliers with an extensive customer base, consolidating supply and demand and capitalising on converging customer and supplier requirements.

Our Brenda technology ecosystem has been designed to provide tailored interfaces to meet the needs of different users – large customers, SMEs, suppliers and colleagues – but each with a consistent goal: to be quick and easy-to-use and to provide access to our complete range of products and services.

Supported by the Brenda platform, HSS ProService allows us to operate a market-leading, technologically-enabled acquisition model at low cost, positioning us as an aggregator, differentiating us from our peers and replacing a legacy manual process with an advanced, automated digital system to improve the accuracy and speed of conversion, driving customer loyalty and enquiry volumes.

HSS Operations:

HSS Operations leverages our well established, national distribution and engineering network to deliver upon the relationships we build and the enquiries we generate through our HSS ProService team.

Focused on customer service, utilisation and fulfilment rates, HSS Operations makes sure our customers get the equipment they need when and where they need it in the quickest, most efficient, way possible. Operations acts as the largest single fulfilment solution for ProService requirements, choosing to fulfil enquiries where it is well placed from both a customer service and operational efficiency perspective.

At the heart of HSS Operations is 'Spanner', our asset management tool that automates the entire fulfilment process, ensuring that all products are safe and in good working order for our customers. As a 'circular economy' business, HSS Operations is inherently sustainable and Spanner is the foundation of this, prolonging the life-cycle of our equipment by ensuring that our fleet is managed efficiently. In addition, when a piece of equipment is returned, it is routinely tested and maintained to ensure that its life-cycle is extended and our ROCE is maximised. Finally, when equipment does reach the end of its life-cycle, it is recycled or disposed of in a manner that minimises environmental impact. When buying new fleet, our procurement process carefully considers the sustainability credentials of products and this is key to our decision-making process.

IN NUMBERS

UK rental market size

£5-6bn

HSS operating model savings[1]

£15m

1 Annualised savings from Oct 2020.

Builders merchant locations

55

Online transactions

23%

CHIEF EXECUTIVE OFFICER'S STRATEGIC REVIEW continued

Alongside Spanner, we introduced Satalia Delivery – a tried and tested third party routing and scheduling system – to our CDCs in late 2021 to optimise the efficiency of our deliveries. Using technology, and integrating seamlessly with our customer and driver apps, Satalia Delivery examines all our orders to determine the most effective way they can be fulfilled, outlining which drivers should deliver which tools to each customer and by which route. This improves our service by increasing the number of orders we can fulfil in a day and provides our customers with more accurate timeframes as to when they can expect their deliveries. Importantly, it also reduces the time our vans spend on the road, lowering fuel costs, reducing carbon emissions and improving our sustainability as a business.

Working in unison, our Operations platforms ensure our customers are provided with a seamless service, our colleagues have easy-to-use systems to support their day-to-day work.

Our technology roadmap

Beyond the initial focus areas (see box, right) we will continue to build our digital capabilities by accelerating our investment in customer and supplier acquisition, utilising the data we collect from our digital applications to better understand consumer behaviour and improve fulfilment choices.

We will also leverage our technology to enter new verticals in the building services sector, expanding our customer offering and capitalising on converging customer and supplier needs.

Increasing automation underpins our growth plan, with our digital platforms ensuring transactions are seamless and accurate, reducing manual intervention and improving both customer and supplier adoption.

In short, by utilising our technology and providing our customers with the easiest, quickest and most accurate service in the marketplace, we will continue to differentiate our offering and become the 'go to' building services provider, growing our business, our customer base and our market share.

Acting responsibly and sustainably

Health and Safety is our priority and, via the monthly Health and Safety forums which I chair, I can see that our teams consistently strive to keep themselves, their colleagues and our customers safe at all times. We continue to make progress reporting near misses and safety observations, and our colleagues have really embraced the first of our four values: Make It Safe.

FOCUS AREAS

Our technology roadmap: Initial focus areas

With technology at the heart of our strategy and business model and a key enabler to our growth, we have a clear technology roadmap that will ensure we retain and build on our already differentiated position, provide our customers, suppliers and colleagues with a seamless, efficient and easy-to use service, and grow market share.

The initial focus areas for our investment will be:

1

Continuing to develop the ProService platform for larger customers, improving its features such as auto-approval and revised order flow, customer push notifications and purchase order validation capabilities.

2

Moving our hss.com website from Spanner to the Brenda technology platform to provide our small customers with the same benefits our large customers receive through the ProService platform, giving them a quicker, easier-to-use system with increased visibility of product availability.

3

Improving our supplier portal and the on-boarding of suppliers to ensure they capitalise on the full benefits of the system. These include the ability to quickly and easily respond to enquiries, manage the equipment they have out on hire and optimise their own utilisation by adjusting their catchment area and pricing. Not only does this benefit our suppliers by improving their efficiency but it also benefits our customers, enhancing availability and response times.

4

Continuing the roll-out of our Satalia Delivery routing and scheduling software to our CDCs to improve efficiency and reduce the carbon impact of deliveries and collections.

While we strive to act as a sustainable business (see page 38 for our sustainability report), our appointment of Sustainable Advantage to conduct a review of our policies was in recognition of the fact that there is always room for improvement.

At the end of the year, Sustainable Advantage provided us with a comprehensive review and suggestions for development of our ESG credentials. We are currently in the process of developing a new approach and set of commitments and targets which are detailed later in this report (page 41).

Our market

Following a period of uncertainty created by COVID-19 and the associated reductions in demand and supply-side challenges, we saw our market recover well. While the Group has no direct customer exposure, recent tragic events in Ukraine have resulted in cost inflation and supply chain disruptions. Our exposure to supply chain disruption had already been mitigated through early ordering of our current year's hire fleet requirements in the latter part of 2021 as well our Services business supply chain of 600+ partners ensuring that we can continue to provide national availability. We are offsetting cost pressure through targeted selling price increases. We will continue to monitor the situation closely.

Outlook

To summarise, the business is in great shape and, with a high performing team, leading technology, differentiated organisational structure and strong balance sheet, we have all the elements in place to begin a new chapter of sustainable growth.

We have started this already and in the first quarter of 2022 revenue is 13% ahead of prior year.

We continue to benefit from a differentiated position in an attractive marketplace and as such, continuing historic performance trends, we are targeting growth in our Services business segment of 10ppts above the market and our Rental business segment in line with the market.

Steve Ashmore
Chief Executive Officer

> The business is in great shape and, with a high performing team, leading technology, differentiated organisational structure and strong balance sheet, we have all the elements in place to begin a new chapter of sustainable growth."

OUR BUSINESS MODEL

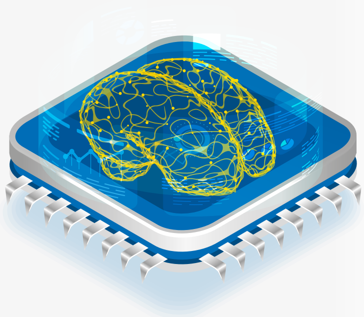
RESOURCES AND RELATIONSHIPS

WHAT WE DO AND HOW WE DO IT

ACQUISITION MODEL

HSS PROSERVICE

Single platform offering a wide range of solutions to the building services market, addressing converging customer and supplier requirements.



Well-trained salesforce
ProService has c.750 colleagues, including field-based, home-based, branch-based and builders merchant-based sales colleagues, in addition to our Training colleagues.

Powered by technology
Intelligent, scalable, easy-to-use and accessible by customers and colleagues on a range of devices at home, in the office or on site.

Extensive supply chain
With access to around half of all equipment available for hire in the UK, our 600+ fulfilment partners provide impressive availability and quick response.

Wide-ranging expertise
Experts not just in hire, but also equipment sales, training, builders merchant products, waste management and many other product verticals.

CUSTOMER NEEDS

- **Wide product offering and extensive supply chain all in one place**
- **Fast response time**
- **Enquiries automatically routed to most appropriate available colleague**
- **Full visibility of order status**
- **Real-time delivery tracking**
- **Choice of fulfilment slots**
- **Lowest prices possible**

SME CUSTOMERS ALSO WANT:

- Extremely quick ordering process
- 'On-the-go' or 'in-hand' accessibility

...Our hss.com website and customer app have been designed to address these additional requirements

SME CUSTOMERS

LARGER CUSTOMERS

LARGER CUSTOMERS ALSO WANT:

- Order approval processes
- PO validation
- Additional reporting
- Interface with their systems

...Our ProService platform is designed to address all these additional requirements

LOW CAPITAL INVESTMENT.

FULFILMENT MODEL

HSS OPERATIONS

Longest established tool hirer in the UK, fulfilling equipment requirements of a broad range of customers and end-user markets.

TECHNOLOGY

- **Satalia** – third party route optimisation software. Used by the transport teams to route our vehicles
- **Spanner** – in-house asset management software. Used to track the status of all equipment, prompt servicing and testing and recording repairs
- **PRISM** – in-house stock distribution software. Sources equipment for new orders and rebalanced available stock

BUY VERSUS HIRE ENVIRONMENTAL IMPACT

Research by our ESG advisers, Sustainable Advantage, highlights the significant reduction in carbon footprint that results from customers hiring equipment rather than buying

Health and safety systems
Robust operating systems and strong health and safety culture, driven by technology and leadership focus.

Logistics expertise
Long established, process driven transport teams, operating from 40 distribution centres, recently enhanced by new route optimisation software.

Procurement capability
Strong relationships with equipment manufacturers and technical product expertise.

Engineering skills
More than 200 well-trained fitters and service technicians based in our locations or in mobile service vehicles.

Life-cycle management capabilities optimising product life-cycles, maximising utilisation, enhancing returns and minimising carbon footprint across a fleet of c.£134m (gross book value).

HSS collect from customer site using HSS operated transport. Satalia optimises routing

OR

Customer drops equipment in to any one of our locations at their convenience

Equipment is tested by Service Technician using Spanner-prompted checklist. Equipment that passes is put in to 'available' status, ready to hire to the next customer. Failed equipment is put in to 'maintenance' status which prevents them from being hired

HIRE ENDS

TEST

HIRE STARTS

HIRE REQUIREMENT

Delivered to customer site using HSS operated transport. Satalia optimises routing

OR

Customer uses click-and-collect, visiting one of our locations to collect their equipment

CIRCULAR ECONOMY BUSINESS, WITH LEADING

PERFORMANCE FRAMEWORKS

VALUE CREATED FOR STAKEHOLDERS

THE PROSERVICE TEAM

- c.130 HSS field-based sales colleagues building relationships
- 44 HSS local sales branch teams
- 55 HSS builders merchant counter-based teams
- c.250 desk-based sales colleagues driving enquiries and conversion
- 17 builders merchant salesforces promoting our offering

COLLEAGUE NEEDS

- Say yes to customers
- Raise orders to drive performance
- Tech automatically updates the customer with push notifications on ETAs
- Minimal rework

BRENDA

PROSERVICE TEAM

SUPPLY PARTNERS

600+ SUPPLY PARTNERS

- Generalist and specialist equipment hirers
- Spare parts and components, equipment sales and accessories
- National and local suppliers
- Builders merchants
- Training companies

SUPPLIER NEEDS

- Minimise overheads and admin costs
- Utilise excess equipment available
- Access to our customer base and the volumes they bring

Enquiries

Conversion rates

Revenue growth

Gross margins

Digital penetration

One-stop shop
ProService aggregates products, services and suppliers offering customers a single marketplace for all their requirements, reducing procurement, administration and invoicing costs.

Accessibility & availability
Customers can access our services, quickly and easily whether they are on site, in the office or at home. Our extensive supply chain means we are more likely to say 'yes', and fulfil quickly.

Value for money
We source from a wide range of suppliers providing customers with a solution that strives for the optimal balance of hire rate, transport cost and quality.

Information & accuracy
Our single technology platform and tailored interfaces provide customers, colleagues and suppliers with information at their fingertips.

Supplier access to customers
A combination of our brand, customer base and technology provides our supply chain partners with the volumes to improve utilisation and returns.

DRIVEN BY TECHNOLOGY. EXTREMELY SCALABLE. UNIQUE.

If economical, equipment is repaired by a HSS fitter, and is then put in to 'available' status

End of life equipment is recycled, repurposed or sold at auction to secondary owners

SPANNER SATALIA PRISM

MAINTENANCE & REPAIR

LIFE-CYCLE MANAGEMENT

STORAGE AND TESTING

Infleeting new equipment. Focus on sustainable products

Equipment is stored in 'available' status, ready for the next hire. Periodic inspections are required on certain equipment all of which is Spanner-prompted. Cooling equipment is 'winterised' at the end of the summer and then refreshed in spring. Stock levels are redistributed to ensure best availability and quickest response times (prompted by PRISM)

CUSTOMER SATISFACTION AND RETURNS ON CAPITAL.

Fulfilment rates

Customer service

Utilisation

Cost to serve

Sustainability

Colleague wellbeing
Going home to families safe and well is our priority.

Accessibility & availability
Provides ProService and its customers with a significant proportion of their hire requirements nationally.

Service quality
Our newly introduced Satalia software will enable customers to select time windows for deliveries and collections and improve reliability.

Equipment quality
The quality systems in place around our Spanner technology ensure equipment has been thoroughly tested and inspected before hiring to a customer.

Sustainability
Our lean operating model combined with the recently introduced Satalia route optimisation software aim to minimise customers' carbon footprints and the impact on local communities.

INVESTMENT CASE

A RESILIENT PROPOSITION

Our differentiated customer proposition, facilitated by market-leading technology, means we occupy a unique space within the sector.

2 INNOVATIVE TECHNOLOGY

- We believe our integrated technology platform leads the industry, and our technology roadmap for 2022 will further differentiate us from our competitors.
- Following the roll-out of HSS Pro to all colleagues, they have access to our entire range of equipment and services, so can offer the full one-stop shop to our customers. The technology also connects our suppliers and customers giving them new routes to market for their products.
- The scalable nature of our technology allows us to add non-hire building services to our offering, as we have already demonstrated with waste services, equipment sales and training.

1 ATTRACTIVE MARKET DYNAMICS

- The UK equipment hire industry is worth an estimated to be between £5bn and 6bn and its fragmented supply base provides an opportunity to grow share.
- The industry is digitally immature with less than 3% of orders estimated to be made via digital channels compared to 15%+ in other sectors. HSS's technology platform is well-placed to take advantage of this growth opportunity.
- Customer and supplier requirements are converging with both trying to access the whole market, and demanding speed, accuracy and transparency. Our one-stop shop proposition, enhanced by our recent technology transformation, addresses these requirements.

CUSTOMER NEEDS

Equipment availability
One-stop shop
Easily accessible
Value for money
Quick response
Accurate invoicing

CONVERGING REQUIREMENTS ADDRESSED BY PROSERVICE, ENHANCED BY TECHNOLOGY

Access to the whole market:
Suppliers to all customers, customers to all suppliers

Speed and efficiency:
Reduced administration, minimising cost to buy and cost to serve

Information and insight:
Transparency for customers, informed decisions for suppliers

Access to customers
Administration reduction
Brand recognition
Customer assurance
Digital channels and marketing
Opportunities for occasional hires

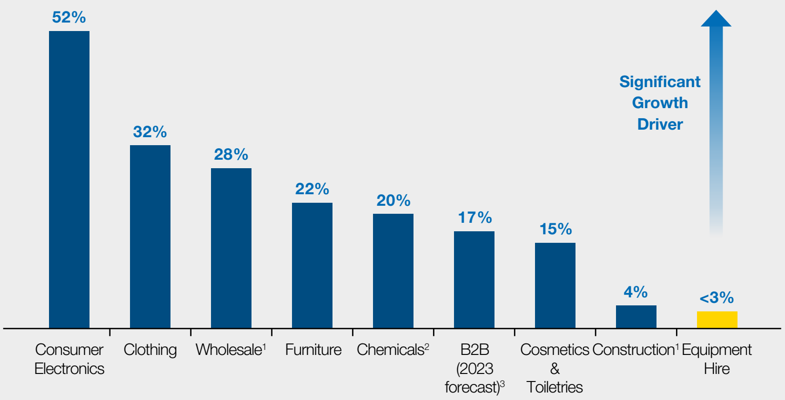
SUPPLIER NEEDS

3

SCALABLE MODEL

- Our fast-growing (18% CAGR over ten years) capital-light services business can be scaled without capex.
- We have a flexible, low-cost model comprising a hub-and-spoke distribution network providing national delivery coverage from just 40 distribution centres, a rehire supply chain of over 600 partners covering a huge range of equipment and services and a flexible low-cost builders merchant network providing convenience for customers.
- Our technology platform enables us to rapidly expand our supply chain and add new product verticals.
- Digital immaturity in equipment hire sector provides significant growth driver for HSS.

Digital transactions less than 3% vs 15%+ in other sectors



Source:
(1) ONS – UK E-commerce sales as a percentage of total turnover in 2019;
(2) CheMondis – Proportion of the global market that is online in 2019;
(3) Forrester Research - Forecasted US B2B E-commerce sales as a proportion of total B2B sales in 2023.

4

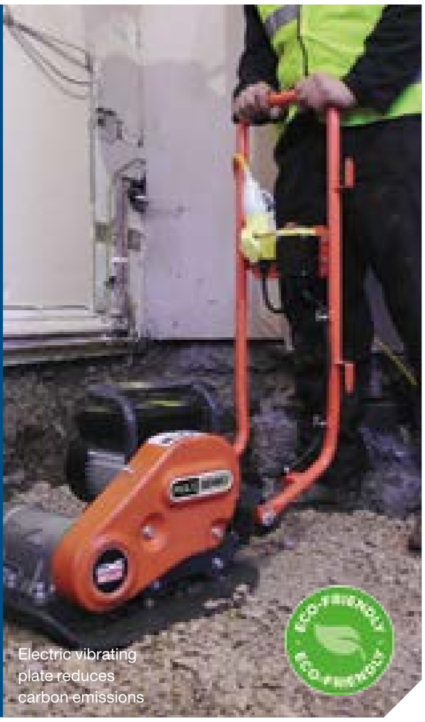
STRONG, WELL-RECOGNISED AND TRUSTED BRAND

- We have market-leading brand recognition.
- Our reputation and track record underpinned by technology and systems provide assurance to customers.
- We are highly attractive to supply partners, whether rehire partners or builders merchants, providing them with access to customers and technology.

5

DRIVING SUSTAINABILITY

- We have the circular economy at the heart of our business model, ensuring that equipment is used again and again by multiple customers who would otherwise have large amounts of poorly utilised equipment.
- We have a proven track record of reducing our building carbon footprint by 97% since 2016.
- We have been working with a third party specialist ESG adviser, developing an ambitious set of sustainability targets and commitments (see Sustainability section on page 38).



Electric vibrating plate reduces carbon emissions

6

STRONG BALANCE SHEET AND ATTRACTIVE RETURNS

- Leverage (non-IFRS16) at 0.8x, well-positioned to invest for future growth.
- ROCE above 22%, leveraging insight tools to focus investment on high demand, high return hire fleet.
- Industry-leading EBITA margins.

STRATEGY AT A GLANCE

2017 STRATEGY DELIVERED

FOCUSED PROJECTS...

2018
- Network reconfiguration £11m annual savings
- Central efficiencies £4m annual savings
- Customer segmentation study
- Data insight investment
- Introduction of new vision

2019
- Divestment of UKP
- Launch of customer and driver Apps
- Launch of Brenda
- Started builders merchant trial
- Cross-dock removed

2020
- Organisational restructure £15m annual savings
- Builders merchant roll-out
- Launch of HSS Pro and Vodafone Storm
- Capital raise £53m

2021
- Roll-out of HSS Pro
- Ongoing technology investment
- Divestment of Laois
- Divestment of ASH
- Refinancing completed

Key
- Delever
- Transform
- Strengthen

...DELIVERING ON OUR STRATEGIC GOALS

DELEVER THE GROUP
1

Leverage (non-IFRS 16) reduced from 4.8x in 2017 to 0.8x...
- Significant reduction in net debt (non-IFRS 16) from £235m+ (2018) to £45m (2022)
- Refinancing in November 2021 significantly reduced the cost of capital
- Interest charges reduced from c.£16m in 2021 to c.£3m in 2022
- Foundation established to invest in next exciting phase of growth

Leverage 1 January 2022
0.8x

TRANSFORM THE TOOL HIRE BUSINESS
2

Transformed and now performing well...
- Core tool hire business returned to profitability
- Builders merchant model provides low-cost access to new customers
- Launch of HSS App, website improvements and click-and-collect service have all improved customer experience
- New organisational structure operating well with revenues ahead of pre-COVID-19 levels

Builders merchant sites
55

STRENGTHEN COMMERCIAL POSITION
3

New technology platform established...
- Development of new technology platform, Brenda, and associated interfaces, makes our proposition uniquely positioned to scale rapidly
- Capitalises on converging requirements of customers and suppliers

Digital channel penetration
23%

ENTERING AN EXCITING **NEW PHASE OF GROWTH**

CAPITALISING ON CONVERGING CUSTOMER AND SUPPLIER REQUIREMENTS

Access to the whole market
Customers want access to more suppliers, increasing availability, improving response times, and minimising cost and carbon footprint. Suppliers want access to more customers to drive efficiencies, improving utilisation and return on capital.

Speed and efficiency
Customers and suppliers want reduced administration, minimising the cost to buy and to serve respectively. They want to focus on their core activities and not be distracted by administration and rework.

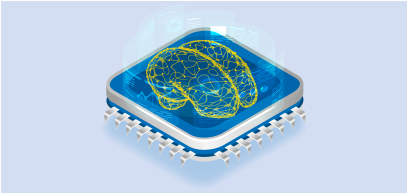
Information and insight
Customers want transparent pricing and confidence that they are getting value for money. Suppliers want to be able to make informed decisions to maximise utilisation. Both want access to real-time information to improve their efficiency.

TAKING ADVANTAGE OF MARKET CONDITIONS

Highly fragmented
There are approximately 1,000 hire companies in the UK with many small, good quality local and regional independents and specialists. There is an opportunity to provide our customers with a one-stop shop access to this supply chain.

Differentiation
Suppliers have historically struggled to differentiate their offering, as customers perceive the products offered as similar in nature. National providers cannot guarantee availability without unsustainable levels of capex and inferior returns. The opportunity remains to enhance availability through a marketplace model.

Technologically immature
Our sector has historically focused on products and asset utilisation rather than customer journey and technology. The opportunity exists to take market share as customers shift to digital channels and take advantage of our technology proposition.



CONTINUING TO DIFFERENTIATE OUR OFFERING

Investing in our technology
We have a development roadmap in place for 2022 that will further enhance our technology platforms, in particular: launching an enhanced platform for larger customers; providing full access to our services for small customers via our website; and expanding our product verticals.

Expanding our offering via a scalable platform, growing our share of customers' wallets
Strengthening our supply chain and launching new products and services such as building materials and consumables.

Using data insight to deliver value for all stakeholders
Our technology platform allows intelligent decision-making across our entire operating model, from improving responsiveness and reducing costs for customers, making colleagues more efficient and improving their performance, reducing carbon footprint and enhancing shareholder returns.

Read more in our Investment case (page 16)

2022 PRIORITIES

- Continue to prioritise health and safety for customers and colleagues
- Delivering our technology development roadmap
- Investing in our sales acquisition teams to drive enquiries and conversion rates
- Delivering a scheduling system so that we can offer customers a choice of time slots
- Achieving our ESG objectives, as outlined in our ESG Impact report, improving outcomes for our stakeholders and the planet

Risks
- Ongoing COVID-19 impacts, such as supply chain and labour supply
- Cyber security and business continuity
- Macroeconomic conditions

Read more on pages 30 to 34

CASE STUDY

MAKING IT EASIER FOR CUSTOMERS

CUSTOMER BENEFITS

- Our website is quicker and easier to use than ever
- Customers have access to more user content, helping them to choose the right equipment for their job
- Our new chatbot service provides customers with a rapidly accessible channel for support and advice

23%
online ordering FY21

16%
improvement in average website page load speed

4.5
App Store rating Q4 2021

THE OPPORTUNITY

We know that customers want the ordering process to be quick and easy, and we learnt during the pandemic that customers are prepared to go online (22% of orders were taken online by the end of 2020). Entering 2021, we set ourselves the challenge of enhancing the online customer journey so that customers continued to use this channel as they returned to work after lockdown and reverted to pre-pandemic norms in other areas.

WHAT WE DID

We made significant improvements to page speed and website performance, and introduced new intelligent search functionality giving customers quicker and more relevant results. We introduced a 'mini basket' on our website, allowing customers to view a summary of their order anywhere on the site. We migrated our blog from a standalone domain to hss.com, driving more traffic to the website, improving SEO performance and allowing customers to view blogs then quickly return to their hire journey. We introduced an AI-enabled chatbot service and enhanced our user content with post-checkout emails providing video user guides and blog posts.

THE RESULTS

Average page load speed improved 16% and server connection time improved 43% (Q4 21 versus 20). In 2021, our chatbot resolved 77% of all requests, and our post-checkout emails achieved an 82% open rate. The number of unique visits to our website increased by 9% to 4.3m (143% more traffic than the nearest national competitor) and the average online order value was up 7%. Our digital penetration was 23%, above the level seen at the end of 2020 despite the industry returning to relatively normal ways of working for most of 2021, following the end of COVID-19 restrictions.

CASE STUDY

EQUIPPING OUR COLLEAGUES

COLLEAGUE BENEFITS

- Our new hybrid working practices provide colleagues with choice and flexibility
- Our HSS Pro technology makes it easier for colleagues to serve their customers
- New recruits can get up to speed quicker with HSS Pro making them feel part of the team early in their career with HSS

76%
engagement score

80%
response rate

22%
increase in rehire revenue FY21 versus FY20

THE OPPORTUNITY

During the COVID-19 pandemic we adapted our working practices significantly, with many colleagues working from home, taking enquiries over the phone, via email or online. Our digital mix also changed significantly, from c.8% to over 20%, with customers and colleagues embracing our ongoing investment in technology and adapting to new ways of working. Throughout this period we sought feedback from colleagues to understand how we could optimise our ways of working. 2021 was an opportunity to embrace this feedback, learn from our new experiences and further leverage our technology-based model.

WHAT WE DID

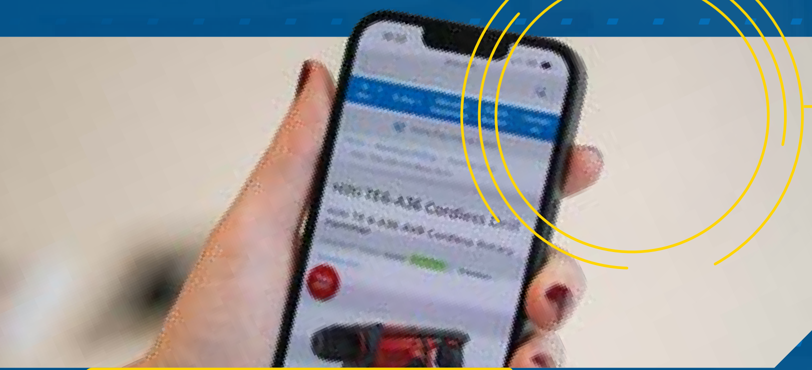
We made two major changes in 2021. First, in Q1 we rolled out HSS Pro to our entire salesforce. HSS Pro is the user interface to our underlying technology platform, Brenda. HSS Pro, designed specifically for colleagues, is easy and intuitive to use, is accessible via various devices and allows sales colleagues to fulfil customer requirements immediately, across our entire range of services. Second, in Q4 we relocated our head office to a smaller, better, technology-enhanced site located at Think Park in Manchester and adopted hybrid working practices.

THE RESULTS

The HSS Pro roll-out has significantly increased our cross-selling activity, with more colleagues promoting and selling the full range of our products and services. This has led to very strong growth in our Services division with rehire revenue up 22% on FY20. The shift to hybrid working has given colleagues the flexibility to choose the optimal balance between working from home and the office. Working from home led to improved productivity and better work-life balance, but colleagues missed out on the social interactions and benefits of working in an office. Our new hybrid model provides the best of both worlds for colleagues. It’s early days at Think Park, but our recent colleague engagement survey suggests colleagues are enjoying the new hybrid way of working.

CASE STUDY

CREATING A MORE AGILE **BUSINESS MODEL**



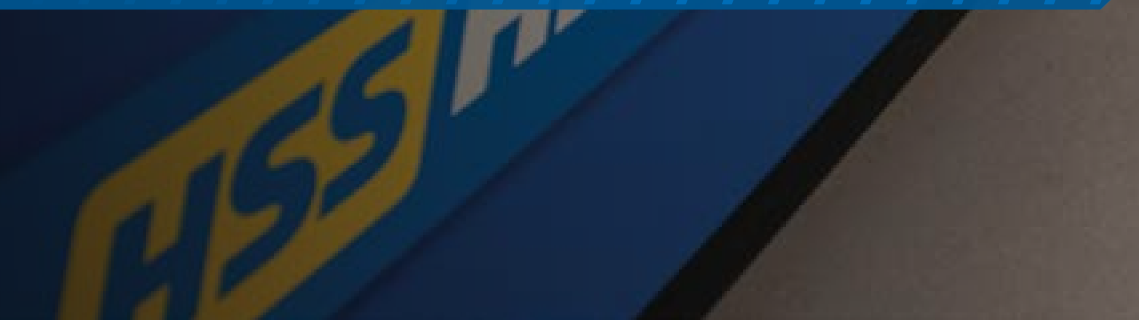
CUSTOMER BENEFITS

- Our hire counters in builders merchant locations provide a convenient way for customers to collect their hire equipment along with building materials
- Saves customers time and money, and reduces their carbon footprint
- Full integration with our click-and-collect offering

55
builders merchant locations

70k
contracts in 2021

£15m
lower fixed cost base compared to 2019



THE OPPORTUNITY

OPPORTUNITY

Our unique hub and spoke distribution network provides national delivery and collection capability from 40 distribution centres. This allowed us to pioneer a low-cost and flexible model for sales counters, as an alternative to the traditional hire branch. We entered 2021 with a new, lean operating network and a builders merchant model that we were keen to expand on.

WHAT WE DID

In 2021, we expanded our builders merchant model from 24 to 55 locations, with new partners in the North and Midlands adding to the established relationships we had forged in the South. The model targets the customers of successful regional builders merchants, offering them the convenience of hire when they collect their building materials. Our sales counters are usually an extension of the builders merchant counter and our colleagues work as part of the wider builders merchant team, benefiting from their customer relationships and experience.

THE RESULTS

Our builders merchant locations raised over 70,000 contracts in 2021, generating £16m of sales, and as these locations mature during 2022 we expect them to grow further. The fixed cost of our branch network in 2021 was £15m lower than in 2019, and we believe we have the most agile model in our industry. This leaves us well placed to respond to changing customer requirements in the future.

OUR KEY PERFORMANCE INDICATORS

MEASURING OUR PROGRESS

Key
- Delever
- Transform
- Strengthen

STRATEGIC FRAMEWORK

Key performance indicator (KPI)	FY21 performance	Importance of KPI
GROUP REVENUE	**Continuing operations** **£303.3m** FY20: £250.1m	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 35
RENTAL AND RELATED REVENUES	**Continuing operations** **£191.2m** FY20: £89.4m	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 35
SERVICES REVENUE	**Continuing operations** **£112.1m** FY20: £89.4m	Simplest measure of the ongoing growth of the Services business representing the strategic goal of focusing on a capital-light structure. **Link to Strategy:** Delever the Group Strengthen the Group's commercial proposition **See** Financial Review page 35
ADJUSTED EBITDA AND MARGIN	**Continuing operations** **£69.8m** 23.0% 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 35
ADJUSTED EBITA AND MARGIN	**Continuing operations** **£31.7m** 10.4% 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 35
LEVERAGE	**Total operations** **1.5x** FY20: 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 35

KPIs and strategy

The Group will publish its new strategy during 2022 and will therefore be reviewing and selecting the KPIs that best reflect the performance of the business and progress against strategy. For FY21 the strategy referenced is the 2017 strategy that was completed with the refinancing of the business in November 2021.

IFRS 16 and KPIs

The Group adopted IFRS 16 during FY20. Under the adoption method chosen, prior years are not restated. The standard has a significant impact on several financial measures and, as a result, certain KPIs. The Group now reports its KPIs on an IFRS 16 basis which means that periods prior to FY20 are not directly comparable.

Key

IFRS 16 adoption means FY19 and earlier not directly comparable

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.	Increase of 21.3%, with recovery from COVID-19 and results back in line with pre-pandemic levels.	Driver of colleague incentive plans.	Growth/(decline) FY21 £303.3m 21.3% FY20 £250.1m -18.6% FY19 £307.3m 1.2% FY18 £303.8m 1.2%
Revenue including kit and equipment sales derived from the direct contact with our customers.	Growth of 19.0% driven by strong performance as business recovered from impact of COVID-19.	Driver of colleague incentive plans and component of leadership incentive plan.	Growth/(decline) FY21 £191.2m 19.0% FY20 £160.6m -21.9% FY19 £205.7m 0.3% FY18 £205.1m 2.1%
Revenue including kit and equipment sales derived from our OneCall and Training businesses.	Growth of 25.4% driven by strong performance as business recovered from impact of COVID-19.	Driver of colleague incentive plans.	Growth/(decline) FY21 £112.1m 25.4% FY20 £89.4m -12.0% FY19 £101.6m 2.9% FY18 £98.7m -0.4%
Operating profit before depreciation, amortisation and exceptional items. The Group adopted IFRS 16 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 strong performance in a year of significant progress. Margins have improved slightly in both segments with overall margin slightly reduced due to mix.	Driver of colleague incentive plans and component of leadership incentive plan (including as a threshold element).	Margin FY21 £69.8m 23.0% FY20 £59.6m 23.8% FY19 £56.1m 18.3% FY18 £53.4m 17.6%
Operating profit before amortisation and exceptional items.	137% increase in EBITA and margin increased to 10.5%.	Indirectly, as numerator in ROCE calculation.	Margin FY21 £31.7m 10.4% FY20 £13.4m 5.3% FY19 £22.9m 7.4% FY18 £19.1m 6.3%
Net debt is borrowings, including finance leases, less cash expressed as a multiple of Adjusted EBITDA.	Large reduction from FY20 following the capital raise, strong trading and sale of Laois and ASH.	Component of leadership incentive plan.	Improvement FY21 1.5x 1.3x FY20 2.8x 0.0x FY19 2.8x 0.5x FY18 3.3x 1.5x

OUR KEY PERFORMANCE INDICATORS continued

Key
- Delever
- Transform
- Strengthen

LONG-TERM MEASURES

Key performance indicator (KPI)	FY21 performance	Importance of KPI
RETURN ON CAPITAL EMPLOYED (ROCE)	**Continuing operations at reporting date** **22.1%** FY20: 10.7%	Measure of the return-generating ability of the business over the longer term and key measure for leadership incentives. **Link to Strategy:** Delever the Group Transform the Tool Hire business **See** Financial Review page 35
ADJUSTED EARNINGS PER SHARE (DILUTED) (EPS)	**Profit of** **1.49p per share** FY20: Loss of (4.64)p 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 35

STAKEHOLDERS

Key performance indicator (KPI)	FY21 performance	Importance of KPI
HEALTH AND SAFETY (RIDDORS)	**Continuing operations** **0.11** FY20: 0.04	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 38
COLLEAGUE ENGAGEMENT	**Continuing operations** **76.1%** FY20: 75.0%	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 38
NET PROMOTER SCORE (NPS)	**Total operations** **38** FY20: 44	A measure of how likely our customers are to recommend HSS and used to benchmark against the industry. **Link to Strategy:** Transform the Tool Hire business Strengthen the Group's commercial proposition **See** CEO's Strategic Review page 8
GREENHOUSE GAS EMISSIONS	**Total operations** **32.9** TCO_2e/£m Rev FY20: 44.3	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 38

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.	Increased, through strong growth in EBITA.	Component of 2019 LTIP.	Growth/(decline) FY21 £191.2m 19.0% FY20 £160.6m -21.9% FY19 £205.7m 0.3% FY18 £205.1m 2.1%
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.	Increase of 6.14p driven by the increase in EBITA.	Adjusted EPS is a component of 2019 LTIP.	Change FY21 1.49p 6.13p FY20 -4.64p -5.53p FY19 0.89p 0.72p FY18 0.16p 9.29p

Definition	Performance	Remuneration linkage	Track record
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.	Increase in rate and 5 RIDDORs for the year despite the significant increase in activity versus last year; evidence of continued focus.	Component of leadership incentive plan.	Change FY21 0.11 0.07 FY20 0.04 -0.16 FY19 0.20 -0.14 FY18 0.34 -0.05
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 consistently high completion rate of 84% despite challenging working conditions through the pandemic.	N/A	Change FY21 76.1% 1.1 pp FY20 75.0% 2.6 pp FY19 72.4% 0.8 pp FY18 71.6%
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	FY21 38 FY20 44 FY19 45 FY18 44
The total UK and ROI (for FY21, UK only for earlier years) greenhouse gas emissions produced by the Group during the period in tonnes, divided by Total Group Revenue in £m.	Significant reduction. The increase in trading has been more than offset by the reduction in network and ongoing efforts to reduce emissions.	N/A	Change FY21 32.9 25.8% FY20 44.3 9.7% FY19 49.1 11.7% FY18 55.6 39.3%

PRINCIPAL RISKS AND UNCERTAINTIES

MANAGING **RISK AND UNCERTAINTY**

Effective risk management underpins everything we do at HSS and is embedded within our culture as a business. We employ a comprehensive risk management process to identify, assess and mitigate risks to ensure we deliver on our strategic objectives.

Ownership

The Board has overall responsibility for the business strategy and managing the risk associated with its delivery, setting the risk appetite, tolerance and culture to achieve goals. The Audit Committee plays a key supporting role through monitoring the effectiveness of risk management and the control environment, reviewing and requesting deep dives on emerging risk areas and through directing and reviewing independent assurance.

The Group's Executive Management Team (EMT) has overall responsibility for day-to-day risk management. Mark Shirley, HSS's Risk and Assurance Director, maintains the Group's Risk Register which is reviewed in detail by the EMT on a quarterly basis with changes to the risk landscape, assessment and mitigating actions agreed.

Identification and assessment

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

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, with the result being the residual risk. This assessment is compared with the Group's risk appetite to determine whether further mitigating actions are required.

All risks have an overall EMT owner responsible for the day-to-day management. Health and safety is a key area in our industry and as such it requires collective ownership to continually improve. There is an established Health and Safety Forum which is made up of the EMT, Operational MDs and the Risk and Assurance Director, that meets bi-monthly (and more frequently if required, e.g. during COVID-19) to review trends, incidents and issues such as COVID-19.

Monitoring

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. Risk-based assurance work is then reported to the Audit Committee on a quarterly basis for review.

How we manage risk

We adopt a 'Three Line of Defence' model for managing risk, providing 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 such as Health, Safety Environment and Quality (HSEQ).
- The third line of defence – functions that provide independent assurance, in the HSS case primarily Internal Audit (IA).

Culture and values

The Board is cognisant that risk management processes alone are not enough to mitigate risk, and behaviour is a critical element in risk management. The wellbeing of our colleagues, the drive and skill set they bring and the training and environment we provide are key to our success. These are underpinned in the HSS values which are vital in us achieving our strategy as well as mitigating the risks associated with it:

MAKE IT SAFE

MAKE IT HAPPEN

MAKE IT BETTER

MAKE IT TOGETHER

COVID-19

In 2021 the Group effectively implemented strategy and delivered strong performance, all against the continued backdrop of the COVID-19 pandemic. Keeping our colleagues and customers safe remained paramount throughout the year with measures taken in 2020 maintained including flexible working for colleagues, COVID-19 safety procedures (which were subject to regular audit) above and beyond government guidelines and click-and-collect capability. We continue to monitor emerging variants and adapt policies and procedures to ensure supply is not disrupted and all stakeholders remain safe.

New risks in 2021

In 2021 we expanded our key risks from 9 to 11. We added 'Environment, Social and Governance' (ESG) recognising the importance of working with all our stakeholders to drive a sustainable end-to-end business with defined targets underpinned with clear deliverable plans. 'Safety' and 'Legal and Regulatory Requirements' were previously combined as one risk. We have now separated out Safety as a standalone risk, reflecting its importance to us and the effort and innovation that has gone into improving our performance, for example introducing incident reporting on mobile devices and increasing safety observations, with colleagues challenging each other to keep everyone safe.

Ukraine conflict

The conflict is increasing macroeconomic risk in 2022 and will be closely monitored for its effect on inflation, interest rates and demand.

Measures will be put in place to minimise exposure as risk evolves.

> COVID-19 has continued to impact the Group's risk profile in 2021. Policies and procedures developed and a close working relationship across the Group have continued to keep colleagues and customers safe and informed as we navigated the pandemic."
>
> **Mark Shirley**
> Risk and Assurance Director

RISK MANAGEMENT FRAMEWORK

BOARD

AUDIT COMMITTEE

GROUP EXECUTIVE TEAM

EXTERNAL AUDIT

INDUSTRY (HAE) AND ISO ACCREDITATIONS

1st line of defence
Owns and manages risk and implements/operates business controls

Who is responsible:
- Operational management/colleagues

Activity/Controls:
- Policies and procedures
- Internal controls
- Planning, budgeting, forecasting processes
- Delegated authorities
- Business workflows/IT system controls
- Personal objectives and incentives

2nd line of defence
Oversight of risks and control compliance

Who is responsible:
- Compliance/oversight functions

Activity/Controls:
- SHQ Team with Audit programme in place
- Environmental/legal/regulatory compliance
- Risk management
- Controls compliance monitoring
- Management/Board reporting and review of KPIs and financial performance
- Corporate policies and central function oversight

3rd line of defence
Independent assurance

Who is responsible:
- Internal Audit

Activity/Controls:
- Approved Internal Audit plan
- Internal Audit has reporting line to Audit Committee
- Regular Internal Audit updates at Audit Committee

2021 RISK MANAGEMENT DEVELOPMENTS

The Group has continued to improve its approach to the management of risk and assurance throughout 2021, with significant emphasis on the new operational model, the impact of continued investment in technology platforms and improvement in the automation of reporting, findings and trends to better focus ongoing assurance activities.

- Improved the ease of accident, near miss and safety observations reporting by enabling reporting through mobile devices. Our Incident Report Management System (IRMS) roll-out increased safety observations threefold to over 22,000, helping to keep colleagues safe.
- Implemented new assurance software with improved functionality enabling enhanced controls tracking and insight.
- Launched an improved Customer Distribution Centre (CDC) audit with the addition of virtual branch and builders merchant audits to assurance programmes.
- Enhanced quality of accident investigations through introduction of a new senior HSEQ role; introducing subject matter expertise and improving investigations, reporting and insight.
- Increased early Internal Audit involvement supporting strategy implementation, helping shape controls for new processes and systems and minimise issues post change.
- Engaged third party companies to provide specialist knowledge on areas such as cyber security and Environment and Social Governance (ESG). This has helped with the implementation of an IT Risk assessment tool providing a more detailed view of risk across the estate.

2022 PLANNED IMPROVEMENTS TO RISK MANAGEMENT PROCESS

Significant progress has been made in the last year. The focus in 2022 is on enhancing and leveraging our reporting tools, supporting the Group's strategic technology roadmap delivery and working more collaboratively with outside specialists to better understand and manage risk.

- Work with specialist ESG partners to establish targets, the implementation plan to deliver and governance process to monitor progress.
- Increase the amount of guidance and training material accessible to colleagues through mobile technology.
- Increase risk management awareness across the organisation enabling more colleagues to have a better understanding of controls, why they are important and why we concentrate assurance on these areas.
- Implement actions required to secure ISO 270001 Information Security Management accreditation.
- Increase internal audit engagement in assessing and shaping controls for new processes and systems being implemented as part of the strategy execution.
- Develop and implement succession plans for risk and assurance specialist colleagues.

PRINCIPAL RISKS AND UNCERTAINTIES continued

PRINCIPAL RISKS REVIEW

Key Risk	Description and Impact	How we mitigate	What we have done in 2021
1. Macro-economic conditions **Movement** = **Owner:** Steve Ashmore (Chief Executive Officer)	The Group's sales and profits, either volume or price, are adversely impacted by any decline in the macroeconomic environment. COVID-19 and the Ukraine conflict could have a material impact on inflation, effecting 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 large proportion of recurring spend. Ongoing monitoring and modelling of performance, which is reviewed regularly by the EMT.	Embedded our new lower and flexible cost operating model, which mitigates against any downturn in future demand. Trading via this model was in line with 2019. Strengthened the balance sheet by completing the strategic divestures of Laois Hire and All Seasons Hire, and successfully refinancing the Group's debt. Continued to consider via a reverse stress test model the impact of COVID-19 should there be further lockdowns, each time demonstrating significant liquidity and covenant headroom.
2. Competitor challenge **Movement** = **Owner:** Steve Gaskell (Group Strategy Director)	A highly competitive and fragmented industry, with the chance of increased competition could result in excess capacity therefore creating pricing pressure and adverse impacts on planned growth.	Differentiated technology platforms including fully integrated Customer App. National presence through Customer Distribution Centres (CDCs), branches and builders merchants. Through the Services business, the Group provides customers with access to a huge range of products and complementary services such as training courses.	Further investment and development in the Group's technology capability including re-platforming the business onto the HSS Pro system. Expansion of the builders merchant network to 55 branches, increasing local presence in key markets. Targeted investment in hire fleet based on demand and returns, utilising insight capability.
3. Strategy execution **Movement** = **Owner:** Steve Gaskell (Group Strategy Director)	Failure to successfully implement the Group's strategic plans could lead to lower than forecast financial performance both in terms of revenue growth and cost savings.	A clearly defined and communicated strategic plan is in place. Clear governance structure, with defined accountabilities. Each strategic initiative is sponsored by an EMT member. Implementation of projects is monitored by the EMT including resource allocation. Regular updates, including initiative-specific deep dives, provided to the Board.	The 2017 strategic plan was completed following the Group's refinancing in November 2021. Delever the Group: leverage reduced from a high of 4.8x to 0.8x (non-IFRS 16) following the completion of strategic divestures. Transform the Tool Hire Business: the new digitally-led, lower-cost operating model has been implemented with performance back to pre-COVID-19 levels. Strengthen the Commercial Proposition: continued investment in technology platforms and fast delivery of improvements through agile development. This includes the re-platforming of the business onto HSS Pro, making it easier for colleagues and customers. A new strategic plan and targets are in development, and will be published during 2022.
4. Customer service **Movement** = **Owner:** Tom Shorten (Chief Commercial Officer)	The provision of the Group's expected service levels depends on its ability to efficiently transport the hire fleet across the network to ensure it is in the right place, at the right time and of the appropriate quality. Any disruption in supply can reduce revenue and drive additional costs into the business.	National reach and presence through CDCs, branches, builders merchants and online. Diverse range of rehire suppliers provides ongoing flexibility to ensure continuity of supply for customers. Clear business continuity plans to ensure continuity of supply. Extensive and continued training to ensure testing and repair quality standards are maintained. Audits and reporting covering quality, contracts and complaints. Business accreditations are maintained, including ISO 9001 providing customers with confidence in the quality of the services provided.	Ongoing engagement with colleagues and customers, monitoring and acting on feedback as the technology develops, improving the customer experience at pace. Introduction of new routing and scheduling software for CDCs, improving operational efficiency and providing more accurate delivery windows for customers. Introduction of new engineering processes, including storing digital images to improve quality, and continual colleague development.

Key Risk	Description and Impact	How we mitigate	What we have done in 2021
5. Third party reliance **Movement** = **Owner:** Tom Shorten (Chief Commercial Officer)	A significant amount of Group revenue is derived from the Services business which is dependent on the performance of third party service providers. Other third parties, such as builders merchants, are an increasingly important part of the operational model. 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 reputation.	Third party rehire suppliers are subject to rigorous on-boarding processes. Each supplier is subject to demanding service level agreements with performance monitored on an ongoing basis. The wide and diverse range of rehire suppliers provides flexibility to select those who meet required service levels. Extensive commercial and risk assessment process undertaken before and after entering into a relationship with a builders merchant or opening a new location.	Further expansion of the rehire supplier base in 2021, ensuring availability of equipment for customers and mitigating against risks caused by COVID-19 or broader supply chain issues. Strengthened relationships with builders merchant partners. There are currently 55 branches open through 17 partners.
6. IT infrastructure **Movement** = **Owner:** Paul Quested (Chief Financial Officer)	The Group requires an IT system that is appropriately resourced to support the business. An IT system malfunction may affect the ability to manage operations and distribute hire equipment and service to customers, affecting revenue and reputation. An internal or external security attack could lead to a potential loss of confidential information and disruption to transactions with customers and suppliers.	Third party specialists are used to assess the appropriateness of IT controls, including the risk of malicious or inadvertent security attacks. Firewalls, antivirus software, endpoint detection and clean up tools to protect against malicious attempts to penetrate the business IT environment and remove malware or similar agents. Procedures to update supplier security patches. Regular disaster recovery tests conducted and appropriate back-up servers to manage the risk of primary server failure. Cross-departmental Data Governance Team to ensure that business processes are, and continue to be, adequate.	Detailed third party review commissioned to review cyber security and develop Group's ongoing server upgrade strategy. Cyber security improvements implemented including the introduction of new software to reduce spear-phishing risk, refreshed testing protocols and colleague awareness and training programmes. Enhanced IT Risk assessment tool introduced. Ongoing resilience and penetration testing with prioritisation of any resultant actions through the Group's governance process.
7. Financial **Movement** ⌄ **Owner:** Paul Quested (Chief Financial Officer)	To deliver its strategic goals the Group must have access to funding at a reasonable cost. Some customers may be unwilling or unable to fulfil the terms of their rental agreements. Bad debts and credit losses can arise due to service issues or fraud. Unauthorised, incorrect or fraudulent payments may lead to financial loss or delays which could affect relationships with suppliers and lead to a disruption in supply.	Working capital management with cash collection targets (which roll up into our net debt KPI). Extensive credit checking for account customers with strict credit control over a diversified customer base. Credit insurance in place to minimise exposure to larger customer default risk. Investigation team focused on minimising Group's exposure to fraud. Clearly defined authorisation matrix governing payments and amendments.	Strategic divestures of Laois Hire and All Seasons Hire materially reduced the Group's net debt and leverage. This improved balance sheet position enabled the Group to refinance at a materially lower interest cost of c.£3.0m (FY20: £16.3m). Technology enhancements to the Group's dispute management modules improved the efficiency in ensuring invoices are paid when they fall due. The vast majority of dark store leases were surrendered during 2021. There are currently eight onerous locations with a liability over the next five years of £0.8m.

PRINCIPAL RISKS AND UNCERTAINTIES continued

Key Risk	Description and Impact	How we mitigate	What we have done in 2021
8. Inability to attract, train and retain personnel **Movement** ^ **Owner:** Max Morgan (Group HR Director)	The Group needs to ensure the appropriate human resources are in place to support the existing and future growth of the business. Failure to attract and retain the necessary high-performing colleagues could adversely impact financial performance.	Market rates are regularly benchmarked to ensure competitive pay and benefits packages. Training for colleagues is provided at all levels to build capability and improve compliance. Training is role-related and behaviour focused, via blended learning. Colleague engagement surveys are conducted, with actions taken as a result of feedback.	Colleague wellbeing and mental health activity has been prioritised, especially with the backdrop of the pandemic and increased homeworking. A number of initiatives have been established to attract and retain certain critical skills, for example Earn as you Learn schemes. Recruitment programmes reintroduced working with the Prison Service and social enterprises (e.g. ex-military personnel).
9. Legal and regulatory requirements **Movement** = **Owner:** Daniel Joll (General Counsel)	Failure to comply with laws or regulation, leading to material misstatement and potential legal, financial and reputational liabilities for non-compliance.	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. Training and awareness programmes, focusing on anti-bribery, anti-modern slavery, anti-facilitation of tax evasion and data protection legislation. Whistleblowing process in place providing colleagues with the ability to raise non-compliance issues.	Ongoing review of relevant compliance requirements including development of anti-competition e-learning training programmes and its roll-out to all sales colleagues. Refresher training completed by colleagues on anti-bribery, modern slavery, tax evasion and data protection.
10. Safety **New** ★ **Owner:** (Previously included within Safety, legal and regulatory requirements) **Owner:** Steve Ashmore (Chief Executive)	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.	Clear Health and Safety policy with ongoing risk management and monitoring of accidents and incidents. Health and Safety leadership forum chaired by the CEO and comprising senior managers with responsibility for setting direction and monitoring progress. Fully skilled HSEQ team and an internal Group investigation team providing assurance and support. Mandatory training programmes for higher risk for activities. The Group is ISO 45001 Health and Safety accredited.	A range of COVID-19 measures were in operation throughout 2021. These were continually risk-reviewed and flexed in line with changes to the business and government advice, including in response to the Omicron variant. Risk assessments were undertaken for all colleagues with an element of home working, to check on physical and mental wellbeing. A new mobile technology enabled Incident Reporting Portal has been established to improve on the already high level of safety observations – these have a key role in reducing accidents. Creation of a Senior HSEQ role to enhance accident investigation and resulting insight. Increased focus on awareness communication across the Group.
11. Environmental, Social and Governance (ESG) **New** ★ **Owner:** Steve Gaskell (Group Strategy Director)	If the Group fails to set and meet appropriate ESG goals, there may be an adverse reputational impact with stakeholders and limit ability to trade with customers. This could result in revenue reduction, deterring people from joining the business and limit attractiveness to investors.	The Group has a comprehensive set of procedures in place to minimise adverse environmental impact including procurement of electricity from renewable sources, third party monitoring of utility consumption and waste management. Procedures are in place to manage Social and Governance risks, many of which are covered in key risks 8, 9 and 10. The Group is ISO 140001 Environmental Management accredited.	Energy carbon emissions reduced 91% compared to 2020 and are now 97% lower than 2016. While the Group has continually improved performance year on year, we recognise the need to set scientifically based environmental targets to become net zero. External consultants were engaged from the start of Q4 FY21 to support the Group set targets and develop milestones within a coherent delivery plan. This will be governed by a senior ESG Forum led by the CEO.

FINANCIAL REVIEW

STRONGER BALANCE SHEET, WELL-POSITIONED FOR GROWTH

Paul Quested
Chief Financial Officer

2021 has been a milestone year for the Group, successfully completing the 2017 strategy and delivering improved performance through our technology-led, scalable, low-cost operating model. Combined with a strong balance sheet, the business is well-positioned for the next phase of growth."

Financial highlights – Continuing operations

Revenue

£303.3m

2020: £250.1m

Adjusted EBITDA

£69.8m

2020: £59.6m

Adjusted EBITA

£31.7m

2020: £13.4m

Operating profit

£34.5m

2020: loss of £4.7m

Leverage

1.5x

2020: 2.8x

ROCE

22.1%

2020: 10.7%

Financial highlights[1]

	£m	2021	2020	2021 vs 2020
Revenue	Rental	**191.2**	160.6	19.0%
	Services	**112.1**	89.4	25.4%
	Group	**303.3**	250.1	21.3%
Contribution[2]	Rental	**132.6**	116.8	13.5%
	Services	**16.2**	10.7	51.5%
	Group	**148.8**	127.5	16.7%
Adjusted EBITDA[3]		**69.8**	59.6	17.2%
Adjusted EBITA[3]		**31.7**	13.4	18.3
Operating Profit/(Loss)[3]		**34.5**	(4.7)	39.2

1 Results are for Continuing operations.
2 Contribution is defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs (for each segment).
3 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

FY21 has been an excellent year for the Group, delivering improved performance across all key financial measures and successfully completing the strategy set out in 2017. This is testament to the hard work and commitment demonstrated every day by each and every colleague, especially given it was delivered against the backdrop of the pandemic.

Our revenue, which is back to pre-pandemic levels, was underpinned by continued technology development, including the re-platforming of the business onto our HSS Pro system, and efficient hire fleet investment, leveraging insight from our various tools. This performance was also positive affirmation of the operational changes made at the end of 2020 where we moved to a lower variable cost and scalable model with our regional builders merchant partners. These changes have delivered improved EBITA margin.

FINANCIAL REVIEW continued

> Our Rental revenues recovered throughout 2021 as we rolled out HSS Pro, expanded the builders merchant network to 55 locations and increased hire fleet investment where customer demand and returns were strong."

Pleasingly, the balance sheet was materially strengthened with the proceeds from the strategic business sales of Laois and All Seasons Hire used to repay the Group's debt and enable an early refinancing at materially lower interest costs. An important part of these divestitures was the ongoing commercial agreement through our technology-led, capital-light business, offering our customers continued access to the broadest range of products. We are delighted with the performance to date under these agreements. To ensure comparability all commentary in this report is on a continuing operations basis.

The combination of these actions resulted in the Group delivering a significant increase in both adjusted EBITDA and EBITA alongside a material reduction in net debt leverage to 1.5x (2020: 2.8x); the lowest level in the Group's history.

With our technology platforms in place and supported by a flexible, low-cost, scalable operating model and strong balance sheet, we are well-positioned for the next phase of growth.

Revenue

Group revenue grew by 21.3% to £303.3m (FY20: £250.1m) and recovered back to pre-pandemic levels through effective strategy execution. This is against a backdrop of COVID-19, including the impact of stricter lockdowns in some territories in the early part of 2021.

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 recovered throughout 2021 as we rolled out HSS Pro, expanded the builders merchant network to 55, increased hire fleet investment where customer demand and returns were strong and COVID-19 restrictions were gradually eased. Revenues grew 19.0% to £191.2m (FY20: £160.6m) and accounted for 63% of Revenue (FY20: 64.2%). 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 £132.6m (FY20: £116.8m) was up 13.5%. Prior year benefited from £2.0m of COVID-19 support.

Services

Services revenues increased by 25.4% to £112.1m (FY20: £89.4m), accounting for 37% (FY20: 35.7%) of Group revenues. Customers continue to value the one-stop-shop that our Services division provides and our technology platforms, supported by a large network of supply chain partners, are making every transaction even easier and therefore enabled exceptional growth in the financial year.

Contribution from Services increased 51.5% to £16.2m (FY20: £10.7m) as our scalable operating model more efficiently connected customers and suppliers through technology.

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 the successful surrender of branches closed in October 2020 (see note 7 to the Financial Statements).

Our cost of sales increased by 17.1% to £146.3m (2020: £124.9m) reflecting increased sales through our Services division.

Distribution costs reduced to £21.9m (2020: £25.3m) with reduced operating costs following the Group's operating network changes in the latter part of 2020.

Administrative expenses were reduced by £12.2m, of which £7.9m relates to the release of provisions and lease liability held following the successful surrender of the branches closed in October 2020 – refer to the exceptional items section of this review for more detail.

Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA for 2021 was 17% higher at £69.8m (2020: £59.6m) driven by improved revenue through our lower-cost operating model. Adjusted EBITDA margin reduced 0.8pp to 23.0% (2020: 23.8%) with the mix of the business moving more towards our Services segment. Adjusted EBITDA and EBITDA margin are included in our KPIs.

Our Adjusted EBITA increased £18.3m to £31.7m (2020: £13.4m), a combination of improved EBITDA and reduced depreciation on property (Right of Use assets, dilapidations and leasehold enhancements) following the Group's network changes in 2020. This also reflects the impact of careful fleet management to match demand at the height of the pandemic. Adjusted EBITA margin increased 5.1pp to 10.4% (2020: 5.3%). Adjusted EBITA and EBITA margin are included in our KPIs.

Other operating income

Total other operating income was £1.7m, principally due to insurance proceeds following a successful claim under our business interruption policy. This compares to £11.2m in 2020; mainly the result of Government grant income via participation in the UK and Irish Governments' furlough programmes (£9.2m), rate relief grants (£0.6m) and insurance proceeds (£1.2m).

Operating profit

Our operating profit increased by £39.2m to £34.5m (2020: operating loss £4.7m).

Exceptional items

Exceptional costs, excluding profit on disposal of discontinued operations, totalled £1.9m.

Following the successful surrender of properties post the network restructure in October 2020, lease liabilities, onerous property costs and dilapidation provisions related to these locations have been released resulting in an exceptional credit of £7.9m.

This has been offset by costs expensed refinancing the Group (£9.7m) comprising accelerated amortisation of original debt issue costs, and prepayment penalties incurred on the early settlement of the previous senior finance facility.

Restructuring costs of £0.6m were incurred as the Group legally restructures to reflect the two core divisions of ProService (sales acquisition) and HSS Operations (fulfilment) that were introduced at the time of our H1 2021 results. This project will complete later in 2022.

Profit on disposal of discontinued operations

We completed two strategic divestitures in 2021 realising a profit on disposal of £41.2m. Laois Hire Services was sold in April 2021 (profit: £3.2m) and All Seasons Hire in September 2021 (profit; £38.0m). The cash generated was used to further reduce the Group's debt.

Finance costs

Net finance expense increased to £28.5m (2020: £25.0m). The charge for the year included £9.7m of exceptional costs associated with the early repayment of the Group's senior finance facility as part of the successful refinancing completed in November 2021. The new debt facility is lower in quantum and at significantly reduced interest rates. As such ongoing finance expenses will be materially reduced.

Taxation

The Group had a tax credit for the year of £1.2m (2020: tax charge £42k), with a deferred tax credit offsetting tax paid in the year.

Reported and adjusted earnings per share

Our basic and diluted earnings per share, both on a reported and adjusted basis, stepped forward in 2021 from the loss per share in 2020, driven by the improved performance of the business. The successful refinancing of the Group will result in a materially reduced ongoing annual interest charge which will enhance EPS in the future.

Capital expenditure

Additions to Intangible assets, Property, plant and equipment and Right of Use hire equipment in the year were £34.2m (2020: £24.6m). Investment in technology to support the strategic growth of the business totalled £4.3m, up 30% on 2020. Investment in hire fleet to support our Rental business was £27.1m (2020: £19.0m) with decisions informed from our insight tools to maximise returns.

Return on capital employed

Our ROCE for 2021 was 22.1%, an increase of 11.4pp over 2020. The strong EBITA growth, including from our capital-light Services business, underpinned this performance. ROCE is one of our KPIs.

Trade and other receivables

Gross trade debtors increased 11% over 2020 as revenue recovered throughout the financial year. A strong focus on cash collections is core to the business and forms part of colleagues' objectives. Despite this focus on collections, macroeconomic uncertainty remains and as such we continue to provide at levels above the historic loss rate. The situation will be kept under review moving forward.

Provisions

Provisions reduced £9.8m to £23.8m (2020: £33.7m). The vast majority of this reduction relates to the release of onerous property cost and dilapidations provisions associated with properties surrendered during the year. The balance relates to the ongoing annual utilisation of the onerous contract provision associated with Unipart, created in 2017.

Cash generated from operations

Cash generated from operating activities was £71.6m for FY21, an increase of £15.6m compared to FY20. Materially increased profitability supported by continued focus on working capital management contributed to this improved performance.

Leverage and net debt

Net debt non-IFRS 16 (stated gross of issue costs) decreased by £75.0m to £45.4m (2020: £120.4m) reflecting the strategic divestitures during the year and continued trading performance. On a reported basis net debt is £104.6m (2020: £194.6m). As at 1 January 2022 the Group had access to £78.1m (2020: £118.3m) of combined liquidity from available cash and undrawn borrowing facilities. With the significantly improved Adjusted EBITDA and lower net debt, leverage reduced to 1.5x (2020: 2.8x). Leverage or Net Debt Ratio is one of our KPIs.

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 was used in 2021 to calculate 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 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 33 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 was also used in the calculation of annual bonuses payable to Executive Directors in 2021.

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.

Paul Quested
Chief Financial Officer

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

ACCELERATING OUR SUSTAINABILITY STRATEGY

CEO INTRODUCTION

At HSS we have a strong desire to operate responsibly and sustainably, and with the best interests of our stakeholders and the planet in mind.

In recent years we have continued to make significant progress with ESG across several areas, including colleague engagement and welfare, health and safety and year on year reductions in energy carbon emissions. In 2021 we decided to take stock of our progress, engaging with a specialist sustainability consultant to review our ESG credentials and help us create an ESG strategy for our business.

In Q4 2021 we appointed Sustainable Advantage to carry out a comprehensive assessment of our ESG activity and provide recommendations of where we could improve. As part of this work Sustainable Advantage have recently conducted a materiality assessment on our behalf to understand our stakeholders' requirements. They have also completed a thorough analysis of our carbon footprint, including scope 3, and have advised us on how to reduce gross emissions further. The conclusion of this work is an ESG strategy, incorporating new objectives including a net zero target.

As we embark on an exciting new phase of growth, I am also looking forward to seeing the positive impact our new ESG strategy will have on all our stakeholders and ultimately the contribution we make to the global challenge of climate change.

Steve Ashmore
CEO

Our people

The guiding principles of how our colleagues operate are set by our corporate values, all of which are underpinned by an ethos of sustainability.

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.

In 2021 we continued our commitment to supporting, engaging and protecting our colleagues, and made advances in many areas including health and safety, wellbeing, personal development and colleague engagement.

COVID-19

Throughout 2021, our priority was to "Make It Safe" for our colleagues during the ongoing COVID-19 pandemic. We continued to operate the COVID-19 protocols introduced in 2020 which are outlined in our HSS COVID-19 colleague handbook.

We made our new hybrid-working model permanent in 2021, giving colleagues flexibility to work from home. This also enabled us to relocate our head office in Manchester to a smaller site with improved facilities for colleagues. Our new head office facilitates collaboration between colleagues whether at home or in the office, via a combination of physical meeting spaces and technology that connects colleagues in different locations.

In Q1 2021 we rolled out our HSS Pro technology platform to our sales colleagues, giving them the flexibility to work remotely whilst also improving our efficiency in serving our customers.

To support our colleagues working from home, remote working packages were provided containing practical advice and support. We also carry out regular workplace assessments to ensure our colleagues are properly supported.

Against the backdrop of the pandemic, communication was also key in ensuring our colleagues across the business remained up to date with changes to our policies as government guidelines around self-isolation continued to develop. Regular communication through bulletins, emails, WhatsApp groups, our annual colleague roadshow, working from home welfare calls, and our CEO blog helped support this while also ensuring our colleagues felt part of one cohesive business and not isolated. It was important, however, that conversation was two-way, with management engaging with colleagues to ask them their opinions and ensure that the Board remained cognisant of colleague concerns so they could be addressed.

The introduction of electric vehicles combined with our our switch to renewable electricity sources is helping reduce our carbon footprint as well as that of our customers.

Health and safety

As well as protecting our colleagues from COVID-19, keeping our colleagues safe and well in their day-to-day work remains fundamental to our success as a business. It is why 'Make It Safe' is the first of our values. We have seen continued low levels of RIDDOR accidents with just 5 in 2021. While this is a significant improvement on pre-COVID-19 levels, we regard any accident as one too many. Accordingly, we implemented additional health and safety initiatives in 2021 including an increased focus on safety observations and new training materials such as safety videos and safety flipbooks for our drivers.

We also held a dedicated 'Health and Safety Month' in December which focused on a different health and safety topic each week. We continued to hold CEO-led health and safety forums to maintain a collaborative approach and ensure colleagues from all levels of the business give suggestions on how to improve our company-wide health and safety procedures.

To complement our internal initiatives, we launched a number of external health and safety projects including undertaking an International Powered Access Federation (IPAF) review, the result of which saw us receive an IPAF Rental+ silver safety award for the first time.

Responsibility for our colleagues extends beyond accidents, with employee wellbeing equally important to our "Make It Safe" value. Our wellbeing agenda is based around three core pillars – financial wellbeing, physical wellbeing and mental health – and each month, an expert in their field hosts a webinar to provide colleagues with useful information to support their wellbeing. For example, in January, we had an expert nutritionist host a bespoke session for our colleagues focused on nutrition and healthy living. The topics for discussion are informed by our monthly Employee Assistance Programme (EAP) reports, our forums and our other engagement activities. For example, following feedback from the Women's Networking Group, in 2022 we will be increasing focus on menopause and fertility, providing additional support in these areas as well as re-thinking our family-friendly policies.

Our health and safety initiatives are supported by our learning and development programme (see 'colleague development' section, below) with qualified first-aider and responder mental health training delivered in collaboration with St John's Ambulance.

Colleague development

To support our 'Make It Happen' and 'Make It Better' values, colleague development is a central element of our activity. It ensures our colleagues can provide customers with unrivalled service and provides our colleagues with an engaging and fulfilling place to work. Our Learning and Development (L&D) team utilises a variety of tools to support this. Along with specific training modules for certain subjects such as health and safety and diversity, we offer a range of structured training programmes to foster talent, engage colleagues and build careers. We have also adapted many training courses taking on a blended in-person and virtual approach.

Our apprenticeship programme gives current and future colleagues the opportunity to take the next step in their career, whether that be through our early career development partnership with Reaseheath College, or our advanced in-role schemes which offer technical and managerial development in a range of areas, from customer services to IT to coaching. In addition, we provide ongoing Continued Development Programmes to address the changing world of business, such as more effective management in the age of permanent hybrid working. We are also currently trialling an 'Earn As You Learn' scheme with our drivers to encourage upskilling and hope to roll the scheme out in our engineering community with a view to expanding further beyond that.

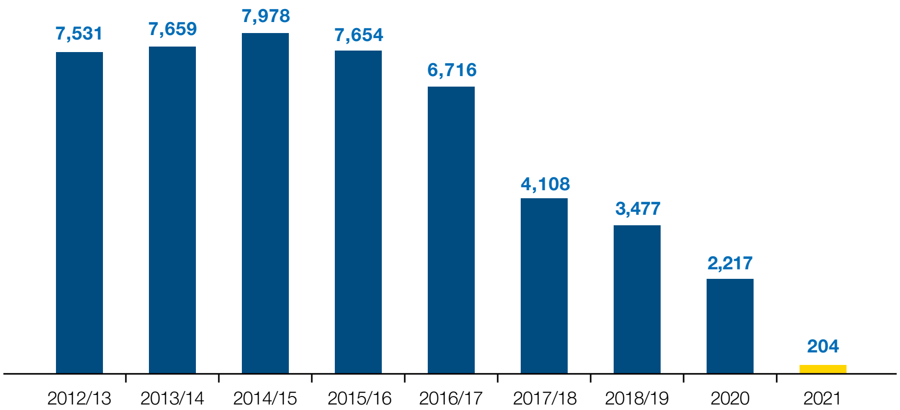
At the heart of our Learning & Development programmes is our e-learning platform, LearningLab, and our dedicated HSS L&D intranet page, which offer colleagues a wealth of resources and information to support their development, allowing them to learn remotely at a time that is suitable for them.

The success of our learning and development programme is dependent on colleague engagement – therefore, we always collect anonymous feedback following each session and conduct pulse surveys at the conclusion of each course.

Our annual engagement survey acts as a consistent signpost to inform our policies. Last year we saw the opportunity to improve 'My Manager' scores and following a series of development initiatives for managers in 2021, we have been pleased to see a significant improvement in scores in this area in our latest engagement survey.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE continued

Building Energy Carbon Emissions kg CO_2e pa



Source: Maloney Associates

Colleague engagement

A key indicator of colleague wellbeing in the workplace is our annual engagement survey. Our latest survey carried out in February 2022 showed further improvement in colleague engagement, which has now risen four times in a row since our first survey in FY16. Our latest score of 76.1% is up on 75.0% from the prior year and is significantly higher than the national average of 61%. The score is a good reflection of our workforce with over 80% of colleagues answering the survey once again.

One area that saw a significant increase, up 4ppts, was 'My Manager', which is very pleasing to see following the focus we put on training and developing our managers in 2021.

Diversity and inclusion

Our approach to diversity and inclusion is led by our commitment to open dialogue with our colleagues. We believe that there is always progress to be made in this area and we therefore encourage engagement at all levels of the business to make HSS a more inclusive company.

This engagement has involved a number of initiatives that are pushing the Company forward and enhancing the colleague experience. For example the Women's Networking Group, which brings together women at all levels of seniority to discuss their experiences and how they believe HSS can improve its approach to diversity and attracting women to a traditionally male dominated industry. We maintain a constant thread of diversity and inclusion throughout all training programmes, from induction to apprenticeships. Our 2021 median pay gap was -6.9% (2020 -1.01%).

Our colleague engagement has laid the groundwork for the future, helping us update our Diversity, Equity and Inclusion (DE&I) learning programmes.

Our communities

In line with our values, we are committed to giving back to the communities we work in. We are a corporate partner of the Lighthouse Club (an organisation which provides mental, financial, and medical support for construction industry workers and their families) and in 2021 we raised funds through several charity events and initiatives.

Our relationship with the charities we support is reciprocal and extends beyond simply raising money. We regularly engage with the Lighthouse Club and men's mental health charity, Andy's Man Club, both of which have hosted webinars to support our colleagues as part of our wellbeing agenda.

At a local level, we're proud to say our colleagues regularly support local community initiatives in their area: for example, our Onsite team collaborated with Sir Robert McAlpine to support a local food bank, with the wider business supporting the cause through raising donations.

The environment

Approach

As a circular economy business, tool hire is inherently sustainable, ensuring that a single piece of equipment is reused multiple times by multiple clients during its life-cycle. We help our customers reduce their carbon footprint through hire, but we are very conscious that there is much more we can do, not just with our customers but with our suppliers too. It was with this in mind that we engaged Sustainable Advantage to work with us towards the end of 2021 to help us accelerate our ESG strategy, and this project has led to a new set of objectives which are outlined later on page 41. Progress has been made in 2021 across several key areas:

Responsible waste management

We have made good progress in disposing of our waste in a responsible manner, thanks to our continuous relationship with Biffa. In 2021, Biffa disposed of 985.3 tonnes of waste for us (2020 – 937.5 tonnes), diverting 88% from landfill. Our hazardous waste disposal partner, Slicker, ensured that items like waste oils are recovered, reused or converted into electricity in accordance with their zero landfill policy. Across HSS, 27,900 litres of waste oil was collected. We have also achieved 57% Waste to Energy, 1% Reuse, 2% Processed Fuel Oil and 30% Recycling.

Energy and emissions

Through our partnership with Maloney Associates, we maintain a robust approach to monitoring our energy and emissions and, in 2021, building energy carbon emissions reduced 91% compared to 2020 and are now 97% lower than in 2016. We have moved to 100% sourced renewable electricity at all our sites in England, Wales and Scotland and are targeting to do the same in Ireland this coming year.

As part of the Streamlined Energy and Carbon Reporting (SECR) framework, the total UK energy use for HSS totals 48,325,397 kWh for the period 1 January to 31 December 2021 (2020 – 49,167,771 kWh). This includes our built environment, transport, and process fuel energy. Total emissions expressed as a percentage of revenue is a Group KPI (see page 28). 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.

We continue to reduce the carbon footprint of our company car fleet with 24% of our fleet now electrified in some way, and that number set to increase significantly as we replace older models next year. All our commercial vehicles are now a minimum of Euro 6 standard and we have reduced idling through a driver education program and the adoption of anti-idling technology in new vehicles. All commercial vehicles are also fitted with telematics which were updated in 2021 to provide additional information on driver behaviours and fuel consumption. Looking forward, we have recently launched a trial of Hydrotreated Vegetable Oil (HVO) as a fuel for a small number of vehicles and we are exploring a range of larger electric delivery vehicles, including trucks. Our Electric Vehicle (EV) loan scheme, by which colleagues can try out an EV for a limited period before deciding on their permanent company vehicle, has proven popular and we expect to see greater take-up next year as many drivers near the end of their current leases. To support this, we have introduced charging points at our head office and will increase the number of these this year across our CDCs.

Our new route optimisation system, Satalia, which we rolled out at the end of 2021, is expected to reduce our mileage per job and we look forward to seeing the associated reduction in carbon as this technology embeds in 2022.

Our future plans

Our future plans for sustainability have been informed by the ongoing project carried out in partnership with Sustainable Advantage which has involved five stages:

1. ESG Benchmarking Review
2. Materiality Assessment
3. Net Zero Analysis
4. Objective Setting
5. ESG Impact Report

Benchmarking Review

Sustainable Advantage carried out a comprehensive benchmarking review in Q4 2021 involving 62 areas that cover Environment, Social, Governance and ESG Integration.

Our overall score put us in their top category of 'Excellent' which accounts for the top 10% of companies they have benchmarked.

Following their review they made a series of recommendations in many areas, which we have since made commitments against. In January 2022 we set up an ESG committee to ensure that we meet these commitments and improve our scores across all areas.

Materiality Assessment

Stage 2 of this ESG project has been to carry out a materiality assessment to gauge the ESG requirements of our colleagues, customers, suppliers, our Board and our biggest shareholders. This materiality assessment was concluded in March 2022 and has informed our new set of ESG objectives. The results of these surveys will continue to inform our ESG priorities and activity throughout 2022.

Net Zero Analysis

We decided to carry out a comprehensive independent analysis of our Scope 1, 2 and 3 carbon emissions across the HSS Group. Following the conclusion of this work, we have clear and realistic goals for reducing our gross emissions over the coming years which has culminated in the net zero pledge outlined in our ESG Objectives.

ESG Impact Report

Following the comprehensive work in stages 1-3 we will publish our first ever ESG Impact Report in Q2 2022. This will showcase the progress we have made and set out our plan going forward. The report will also confirm our objectives for 2025 and beyond.

LOOKING **FORWARD**

ESG OBJECTIVES

The culmination of these five areas of activity now means we have a very clear ESG plan and well defined objectives.

Our key objectives include:

1. Net Zero pledge by 2040
2. Submit science-based targets in 2022
3. 40% of company cars and vans electric by 2025
4. 10% of commercial fleet (HGVs) electric or other low-carbon technology by 2025
5. 16% of fuel through ABird and Apex generators is HVO (or other low-carbon fuel) by 2025
6. 6% of orders for large generators are fulfilled by low-carbon products (e.g. hybrid machines) by 2025
7. 100% of electricity is sourced from renewable providers
8. Achieve 95% zero waste to landfill by 2025
9. Achieve ISO 50001: 2018 accreditation for Energy Management
10. All products in our fleet to have 'Eco' classification and credentials, and 20% of capex is spent on 'Eco' products by 2025
11. Targeting a zero RIDDOR environment by 2025
12. Adoption of the following UN Sustainable Development Goals by the end of 2022:
    - SDG3: Good Health and Wellbeing
    - SDG7: Affordable and Clean Energy
    - SDG8: Decent Work & Economic Growth
    - SDG9: Industry, Innovation and Infrastructure
    - SDG12: Responsible Consumption & Production
    - SDG13: Climate Action
13. Adoption of the TCFD reporting framework by Q1 2023

In addition, we have various ESG activities in 2022, including the creation of an ESG policy, a community investment policy, a gap analysis against the Government's Social Value model, creation of a CEO-led ESG forum (akin to our successful H&S forum), new carbon reporting for customers, enhanced ESG integration with suppliers and improved DE&I reporting.

In summary, we have a clear ESG plan, a defined set of objectives and a management framework that ensures we will accelerate the progress we have made in all areas of sustainability.

We'll be publishing our 2022 ESG Impact Report during Q2 2022.

Net Zero Carbon Target

2040

Adoption of the following UN Sustainable Development Goals by the end of 2022

SECTION 172 STATEMENT

A proactive approach is taken to stakeholder engagement to create mutually positive opportunities and outcomes.

The Board's approach:

- The Board recognises the importance of maintaining strong relationships with our stakeholders in order to create sustainable long-term value and encourages active dialogue and transparency with all of its stakeholder groups.
- We take time to engage with, and listen to, the views of our stakeholders in order to shape our decision-making and to continue improving the way we do things. The Board exercises skill and judgement, having regard to the likely consequences of their decisions, to promote actions that lead to the long-term success of the Group.
- When developing strategy, the Board has regard to financial considerations as well as the need to engage, and the potential impact on, the Company's stakeholder groups. The Board strives to balance appropriately the effects of decision-making on key stakeholder groups whilst always ensuring the need to promote the success of the Group for the benefit of its members as a whole.

Further information on how S172 has been applied by the Directors can be found throughout the Annual Report:

S172 duties	Read more	Pages
Consequences of decisions in the long-term	Our Business Model Our Strategic Framework Principal Risks and Uncertainties Going Concern Board Activities	14 18 30 53 53
Interests of employees	Non-Financial Information Statement Our People Employee Engagement Diversity and Inclusion Culture and Values	70 39 40 47 2
Fostering business relationships with suppliers, customers and others	CEO Strategic Review Case studies	8 20
Impact of operations on the community and the environment	Sustainability Performance Energy and emissions ESG objectives	38 40 41
Maintaining high standards of business conduct	Non-Financial Information Statement Culture and Values Whistleblowing Anti-fraud, Bribery and Corruption Modern Slavery	70 0 53 47 53
Acting fairly between members	Shareholder engagement Voting Rights	54 71

HOW THE BOARD FULFIL THEIR S172 DUTIES

BOARD TRAINING

Each of the Directors is aware of their duties and has received training on S172

BOARD INFORMATION

All Board papers for principal Board decisions contain a section on S172 and stakeholder interests

Our Board directly and indirectly engages with our stakeholders. **Read more** on pages 50 to 53

BOARD STRATEGIC DISCUSSION

S172 factors are considered in the Board's discussions on strategy, including how they underpin the Company's long-term success

The Company's open and honest culture helps ensure there is proper consideration of the impact of Board decisions on our stakeholders

The Board considers the quality of information it has received and seeks assurance where appropriate

BOARD DECISION

Outcomes of Board decisions are assessed and further engagement with stakeholders is undertaken where appropriate

As a result of the Board's engagement, the necessary actions are taken

OUR STAKEHOLDERS

SHAREHOLDERS AND INVESTORS

Stakeholder
Our shareholders monitor the performance and governance of HSS and regular dialogue is crucial in ensuring the Board is aware of their expectations.

Interests
- HSS's strategy and objectives
- Group performance and growth potential
- Ongoing impact of COVID-19
- HSS's digital tools, their progress, and how they differentiate HSS from peers
- Quality and effectiveness of the Group's governance
- HSS's ESG approach and strategy development
- Capital allocation

How we engaged
- The Chairman, CEO and CFO had regular, transparent communication with major shareholders through calls, emails and one-to-one meetings
- The AGM and its subsequent Q&A session provided the opportunity for all shareholders to engage with the Chairman, CEO and CFO directly and have their questions answered. A recording was subsequently made available on HSS's website
- The Chair of Remuneration Committee engaged with major shareholders on any significant remuneration decisions
- The ESG review conducted at the end of the year will lead to the publication of HSS's ESG Impact Report in Q2 2022, which will be made available on the HSS website

Outcomes
- Strong support for the next stage of our strategy and comprehension of our investment case
- Shareholders' ongoing confidence in the Group's ability to deliver shareholder value, evidenced by existing shareholders increasing investment and new investors buying shares in the Company
- The Board is aware of investors' expectations on governance and ESG

COLLEAGUES

Stakeholder
Our talented team of 2,000 colleagues is our primary asset and regular engagement helps ensure we understand what is important to them to make HSS a fulfilling place to work.

Engagement also ensures HSS's purpose and values are understood across the business as we work together to deliver on our strategy.

Interests
- HSS's strategy and objectives during a period of significant change
- Impact of the COVID-19 pandemic and resulting changes to our working policies
- Diversity, equity and inclusion and our approach to operating responsibly
- Employee benefits and remuneration
- Development opportunities and career progression
- Engagement with senior management

How we engaged
- Regular updates during the year through the CEO blog, calls, company WhatsApp groups, emails and the annual executive roadshow, delivered via 'HSS TV', all helped keep colleagues abreast of developments
- The annual colleague engagement survey was used to provide management with a strong understanding of colleagues' needs and concerns, allowing us to adapt our working practices based on their feedback
- Our bi-monthly Executive Health and Safety Forum and subsequent pulse surveys after health, safety and wellbeing events helped identify areas where more support was needed
- Senior Managers have attended Board meetings this year to present on developments in their areas of the business, including their team structures, and discuss key matters with the Board. Senior Managers also attended a dinner with the Board in November which facilitated engagement in an informal setting
- The Board visited the Company's new offices in Manchester in November, with Board members taking a tour of the new offices and liaising with colleagues
- Colleagues took part in our ESG materiality assessment to understand the relative importance they place on various ESG subjects

Outcomes
- Colleagues have a strong understanding of company performance, strategy and our updated business model
- Colleagues remain abreast of COVID-19 policies and management remain abreast of employee concerns, implementing new working policies to ensure colleagues feel safe and comfortable in their working environments
- The Learning and Development team is continuing to update training programmes based on employee feedback to upskill colleagues and support career progression
- Feedback from the annual colleague survey led to even more focus on supporting colleagues' health and wellbeing – including physical, mental and financial – along with widening our training and development opportunities and improving our benefits offer
- Findings from colleague engagement initiatives and interaction with the Women's Networking Group will feed into a review of our diversity approach including improving our recruitment and diversity, equity and inclusion e-learning programmes
- We updated our colleague intranet which went live in December 2021 following their suggestions
- Stronger links have been built between the Board and Senior Managers
- The Board has greater visibility and have seen the benefits to colleagues of improved, collaborative working spaces as well as the benefits these provide from a wellbeing perspective

OUR STAKEHOLDERS continued

CUSTOMERS

Stakeholder
We supply our customers with the essential tools and equipment they need to complete their projects. We engage with them to ensure our offering adapts to meet their evolving requirements and so that we remain their supplier of choice.

Interests
- High-quality products
- Access to a broad range of equipment and services, all in one place
- High quality, reliable and competitively priced service with a quick and easy journey from order to delivery
- Acknowledgement of, and responses to, customer feedback
- Responsible and sustainable business practices, and wider ESG interests
- COVID-safe branch and delivery policies

How we engaged
- Feedback on our service provision through direct engagement with our sales teams, either face-to-face, phone calls, email, and through social media
- Indirect feedback on our service provision through Trust Pilot and other review services
- Annual NPS survey carried out by a third party, Kantar TNS
- Reviews of our customer app on Apple's and Android's respective app stores
- Regular social media updates on our blog and social media channels
- Customers took part in our ESG materiality assessment to understand the relative importance they place on various ESG subjects

Outcomes
- Based on customer feedback about collections we have rebalanced the prioritisation of transport activity using our new Satalia technology
- Reviews and direct feedback allowed us to continue to improve our digital offering to best suit customer needs
- Our NPS score this year, at 38 remains well ahead of the industry benchmark
- Following the ESG materiality assessment carried out recently we have a better understanding of customers' preferences here, which is informing our ESG strategy and objectives, due to be published in our ESG Impact Report in Q2

SUPPLIERS

Stakeholder
Our suppliers, both equipment manufacturers and rehire providers, allow us to serve our customers and are central to our business model. Frequent engagement with our suppliers builds strong working relationships and improves customer service. It also helps us identify risks in our supply chain and ensures HSS's values and approach to responsible business are shared.

Interests
- Access to customers
- Transparency of orders and data insight, via an easy-to-use supplier portal
- Impact of COVID-19
- Responsible and sustainable business practices

How we engaged
- We engaged with new suppliers during the year to expand our supplier network
- Rehire suppliers have been individually introduced to our supplier portal
- 12 key suppliers were consulted during our sustainability review to better understand their own ESG procurement practices
- 21 manufacturing suppliers and 22 rehire suppliers took part in our ESG materiality assessment

Outcomes
- Communication has ensured that our suppliers retain a strong relationship with the Company, have open communication with us and readily provide feedback
- Following the ESG materiality assessment carried out recently we have a better understanding of suppliers' preferences here, which is informing our ESG strategy and objectives, due to be published in our ESG Impact Report in Q2
- Increased supplier network by c. 20%
- Improved understanding and use of the supplier portal by rehire suppliers

LENDERS

Stakeholder

Our lenders provide HSS with the funding we need to deliver on our strategy and support our customers. In 2021, following engagement with our lenders, we successfully refinanced the business, significantly reducing our interest costs.

Interests

- Our reputation as a responsible business
- Confidence in our strategy and ongoing ability to repay and service our debt

How we engaged

- Met with lenders on a quarterly basis to update on business performance
- In-depth discussions were held regarding refinancing the business following significant delevering and strengthening of balance sheet

Outcomes

- Continued support from actively engaged lenders throughout the year
- Successfully refinanced the business, reducing annual interest costs on main facility from £16.3m to c.£3.0m (based on current SONIA rate)

LOCAL COMMUNITIES AND THE ENVIRONMENT

Stakeholder

We strive to be a responsible and sustainable business and a good corporate citizen and engagement with the communities in which we operate is central to this.

Interests

- Climate change and initiatives to limit the Company's environmental impact
- Supporting local communities

How we engaged

- Participate with local charitable initiatives. Partnering with NSPCC, supporting Childline services in Wales, Lighthouse Club, a charity offering support for construction workers, and men's mental health charity Andy's Man Club
- Onsite team collaborated with Sir Robert McAlpine to support a local foodbank, with the wider business supporting the cause through donation raising
- During the ESG review carried out recently our advisers provided new insight in to the interests of our local communities and how we can help the planet address the environmental challenges it faces

Outcomes

- Contribution towards the local economy via direct investment and community involvement
- New Net Zero Carbon Target of 2040
- New ambitious set of ESG commitments for 2025
- Active discussions with local community groups
- Raised money for charities through various events

The strategic report on pages 1 to 45 was approved by the Board of Directors on 27 April 2022 and is signed on its behalf by:

Steve Ashmore
Director

CHAIRMAN'S INTRODUCTION TO CORPORATE GOVERNANCE

GOVERNANCE GUIDES US THROUGH THESE CHALLENGING TIMES

ALAN PETERSON OBE
CHAIRMAN

On behalf of the Board, I am pleased to present the corporate governance report for 2021. Our governance structures have continued to guide us through the challenges of COVID-19 and key projects for the business."

Overview of the year

Governance, controls and careful stewardship of the business have continued to be vital in another year of significant achievement, allowing us to complete several major projects, despite the ongoing challenges caused by the COVID-19 pandemic.

The Board, committees, senior managers and colleagues across the business have again risen to the challenges with new ways of working and driving the delivery of our strategy, while also remaining focused on the safety of each other and our customers.

Key projects, such as the strategic disposal of two wholly-owned subsidiaries, the refinancing of the Group and the move to trading on AIM have been some of the areas of focus for the Board, requiring additional Board meetings as we analysed the impact on all stakeholders.

Our Health and Safety Forums have continued to be of great importance, as we maintained our COVID-19 compliant working practices, click-and-collect offering for our customers and safe sites for our colleagues and customers.

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 2021 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. I expressed my disappointment in my report last year that the Board had not been able to enjoy more direct engagement with colleagues from across the business at Board meetings, on site visits and through informal meetings. FY21 has been better in this regard and we have enjoyed welcoming senior managers and other stakeholders to our Board meetings, as well as a Board visit to the new head offices in Manchester. In FY22 we are hoping to visit our colleagues in Ireland and Scotland. The Board remains of the view that this is an important aspect for engagement and also for colleague development and succession planning.

Further details are provided in the report on page 55.

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 FY21, with some encouraging results and some areas to focus on; more details on this are on page 40.

Senior management

We have had good continuity amongst senior management during 2021, with the team showing excellent resilience, fresh thinking and innovation to counter a challenging environment, while completing our many special projects and day-to-day activities.

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 January 2021, the Company was admitted to trading on AIM and the Directors were briefed regarding director responsibilities and key differences between a Main Market listing and an AIM listing. The Directors were also briefed on the QCA Corporate Governance Code, under which the business now reports.

The Group's Data Governance Team monitors day-to-day data protection issues as the UK continues to apply the principles of the GDPR as enacted 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 FY20 was published during 2021, with the FY21 statement to follow in 2022.

Our gender pay gap is -6.9% and I am pleased to note the continued balance there. We remain 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 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.

Governance Code

As indicated in our FY20 Report, 2021 is our first year of 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 2020.

AGM

It is our intention, once again, to hold our AGM at the Hilton Garden Inn, Hatton Cross, at 11.00am on 21 June 2022. We are pleased to be able to invite shareholders to attend in person once again. Should matters change and/or should any additional precautions around COVID-19 be required, such arrangements will be advised via our corporate website (www.hsshiregroup.com).

Alan Peterson OBE
Chairman

27 April 2022

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 FY20 was published during 2021, with the FY21 statement to follow in 2022."

BOARD OF DIRECTORS

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

ALAN PETERSON OBE
CHAIRMAN

Tenure on Board
7 years and 3 months

Independent
No

Committee memberships
N

External roles
- Honorary Colonel Army Cadets, Wales

Past roles (include)
- Chairman, BBI Diagnostics Group
- 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 & logistics
- Manufacturing
- Sales and marketing
- Housing
- Infrastructure
- Chair/Chief Executive Officer
- Retail
- Healthcare

STEVE ASHMORE
CHIEF EXECUTIVE OFFICER

Tenure on Board
4 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 & logistics
- Manufacturing
- Sales and marketing
- Housing
- Infrastructure

PAUL QUESTED
CHIEF FINANCIAL OFFICER

Tenure on Board
5 years and 7 months

Independent
No

Committee memberships

External roles
- None

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

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

AMANDA BURTON
SENIOR NON-EXECUTIVE DIRECTOR

Tenure on Board
7 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 Partnerships plc
- Senior Independent Director, Elevate Services Inc.

Past roles
- Chief Operating Officer, Clifford Chance LLP
- Director, Meyer International plc
- Senior Independent Non-Executive Director, Galliford Try plc, Monitise plc
- Non-Executive Director, Fresca Group Limited, Skipton Building Society and Connells Limited
- Chair, Battersea Dogs' & 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
7 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 & logistics
- Manufacturing

THOMAS SWEET-ESCOTT
NON-EXECUTIVE DIRECTOR

Tenure on Board
7 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
5 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

CORPORATE GOVERNANCE

COMPLIANCE WITH THE QCA CORPORATE GOVERNANCE CODE

As noted in our FY20 Report, the Board adopted the QCA Code following the Company's move to AIM in January 2021. FY21 is the Company's first year of reporting under the QCA Code.

The Board is committed to high standards of corporate governance and as such has complied with the QCA Code during the FY21 reporting year.

Details of how the Company has applied the ten principles of the QCA Code are included on its corporate website, which has been updated for the 2021 year:

www.hsshiregroup.com/investor-relations/corporate-governance/

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 as he represents Exponent Private Equity (Exponent) and related investors (the Exponent Shareholders), who currently control 33.43% of the Company's issued shares. Amanda Burton and Douglas Robertson are both considered independent. On that basis, the Code provision is met. Independence on the Board was reviewed for FY21 by the Board and, in the Board's judgement, there remains an appropriate balance between executive and non-executive representation.

On 14 January 2021, the Company, Exponent and the Exponent Shareholders entered into a new Relationship Agreement which regulates the ongoing relationship between them. Whilst there is no specific requirement for the Company to have a Relationship Agreement in place, the Board considered it good governance to do so. In summary, Exponent and the Exponent shareholders give undertakings in the Relationship Agreement to conduct all transactions and arrangements with the Company and its Group on an arm's length basis and on normal commercial terms and shall not take any actions which may prevent or hinder the Company from complying with the AIM Rules.

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 and other stakeholders.

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 QCA 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 55).

GOVERNANCE FRAMEWORK

Alan Peterson OBE
Chairman

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 and other stakeholders.

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:

- Define and 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 56

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 66

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.
- People – promote the right culture and engagement, colleague development and wellbeing.

Find out more in the Nomination Committee Report on page 55

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

Role:

- Ensure compliance with applicable 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 FY21.

Director	Board (of 10)	Audit Committee (of 6)	Remuneration Committee (of 4)	Nomination Committee (of 2)
Executive Directors				
Steve Ashmore	10	–	–	–
Paul Quested	10	–	–	–
Non-Executive Directors				–
Alan Peterson OBE	10	–	–	2
Amanda Burton	10	6	4	2
Doug Robertson	10	6	4	2
Thomas Sweet-Escott	9	–	–	–

All the individuals who were Directors as at 1 January 2022 offer themselves for re-election at the next AGM of HSS Hire Group plc to be held at 11.00am on 21 June 2022.
The biographical details of each of the Directors, including details of their other directorships and relevant skills and experience, are on pages 48 and 49 of this Annual Report and are also set out in the Notice of AGM.
The Board recommends that shareholders approve the resolutions to be proposed at the AGM relating to the re-election of all of the Directors.

Terms and conditions and time commitments

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

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

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

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

Conflicts of interest

Exponent and the Exponent Shareholders currently control 33.43% 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.
The Group trades on an arm's length basis with certain Exponent portfolio companies.

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

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

Effectiveness

Board composition

The Board and committees are considered to have an appropriate range of experience, skills and knowledge to fulfil their duties. Profiles of each of the members of the Board are provided on pages 48 and 49.

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.

Board evaluation

Internal evaluation of the Board and of our sub-committees was carried out as detailed on page 55.

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 46.

Access to information and support

The Board is provided with an agenda, 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. 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's position and performance, business model and strategy.

Risk management and internal control

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

The principal risks and uncertainties facing the Company and how these are being managed/mitigated are detailed on pages 30 to 34.

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 51 and pages 56 to 59) assists the Board in reviewing the effectiveness of the Group's risk management and internal controls, including financial, operational and compliance controls and risk management systems. This is carried out with the assistance of the Chief Financial Officer and the Risk and Assurance Director and supported by the findings of specific projects/investigations completed by the internal audit team, which are presented to the Audit Committee during the financial year.

Whistleblowing

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

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

Modern Slavery Act 2015

The Group published its Modern Slavery Act statement for the financial year ended 26 December 2020 on its website during the first six months of 2021, in accordance with guidelines.

Going concern

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

In summary, taking into account the adequacy of the Group's debt facilities, its ability to deploy mitigating actions where appropriate and the principal risks and uncertainties (see pages 30 to 34) 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.

Statement on disclosure of information to the auditor

The Directors who held office as at 27 April 2022 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.

Overview of Board's work during 2021

The Board met ten times during 2021, being a combination of scheduled meetings and ad hoc meetings to discuss the Group's special projects undertaken through the year.

Regular agenda items for the Board included, and will include in 2022:

- health and safety;
- operational and financial performance;
- risk management and the risk register;
- reviewing, setting and approving strategy;
- colleague/stakeholder/shareholder engagement, values and culture;
- 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.

CORPORATE GOVERNANCE continued

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 51 and pages 62 to 65) sets the policy for and terms of executive remuneration.

Relations with shareholders and other capital providers

Shareholder engagement

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

The Company's engagement activities during FY21 are detailed on pages 43 to 45.

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 21 June 2022. Details of the resolutions proposed and being voted on are included 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 hsshiregroup.com regarding the 2022 AGM in light of the COVID-19 pandemic.

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 6 April 2022 are as follows:

Name	Number of ordinary shares of 1p	% holding
Exponent[1]	235,681,708	33.43
Ravenscroft (CI) Limited[2]	188,280,487	26.71
Hestia Investments NV	39,000,000	5.53
Merchant Capital	28,000,000	3.97
Lombard Odier Investment Managers	24,765,761	3.51

1 Comprises shareholdings held by Exponent Private Equity Partners GP II, LP (UK) and Exponent Havana Co-Investment GP Limited Partners (UK).
2 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.

Details of Directors' interests in the Company's ordinary share capital are provided in the Directors' Remuneration Report on page 68.

NOMINATION COMMITTEE REPORT

Alan Peterson OBE
Committee Chairman

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. 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.

DEAR SHAREHOLDER

On behalf of the Nomination Committee (the Committee), I am pleased to present our report for the 2021 financial year.

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 and engagement. 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 71.

Activities

The Committee had two scheduled meetings in 2021.

At the meeting held in February 2021, the findings of the internal Board evaluation in respect of FY20 were considered and the resulting actions, as reported in the 2020 Annual Report, were agreed.

At the meeting held in September 2021, people and workforce engagement were discussed, with a particular focus on wellbeing, given the ongoing impact of COVID-19 and many colleagues working from home and/or being affected by illness themselves or of family members.

The actions for 2021 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 and an independent IT audit undertaken during the year had been useful in identifying some development opportunities.
- **Succession planning** – the Committee noted that the People process had recommenced, which includes Leadership Development and Apprenticeship programmes, leading to more internal promotions.
- **Colleague and stakeholder engagement** – the Committee had been impressed with the number and quality of activities which had taken place throughout the year, with a strong focus on colleague wellbeing.

Board evaluation

The FY21 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 QCA 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.

Alan Peterson OBE

Looking ahead

In 2022, 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, progress made against previous objectives and the adoption of the QCA Code, the Committee considered it appropriate to focus on the following action areas during 2022:

- Stakeholder interests & engagement
- Succession planning
- ESG programme

AUDIT COMMITTEE REPORT

Doug Robertson
Committee Chairman

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, 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 57) and advising the Board as appropriate; and
- overseeing the Group's procedures for detecting fraud and whistleblowing arrangements.

DEAR SHAREHOLDER

On behalf of the Audit Committee (the Committee), I am pleased to present our report for the 2021 financial year.

The Committee has reviewed the contents of the 2021 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 readers to assess the Company's position and performance, business model and strategy.

It has been a busy year for the Committee as the wider economy recovered from the more severe COVID-19 lockdowns and restrictions imposed during 2020 and HSS returned to pre-pandemic levels of revenue. Alongside the recovery, HSS has also delivered the remaining elements of its 2017 strategy, including reducing non-IFRS 16 net debt leverage to 0.8x following the improved performance of the Group, ongoing working capital management and strategic divestitures of Laois Hire Services Limited (Laois) and All Seasons Hire Limited (ASH); all of which enabled the successful refinancing in November 2021. The Committee also continued to fulfil its core areas of responsibility.

Core activities

The Committee met six times in 2021. All meetings were conducted via video conference call in light of COVID-19 restrictions, although the Committee plans to meet in person during 2022. All members attended the 2021 meetings.

The Committee's core activities during 2021 included, and will include in 2022:

- reviewing and challenging management's assumptions 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.

FY21 has been another busy year for the Committee given the strong recovery of the business and high level of strategic progress made."

Ad hoc activities

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

- COVID-19 – although the impact of the pandemic has reduced in the year, work has been required to ensure the ongoing situation is properly considered in the accounting and disclosures as well as changes to risk assessments as we progressed through the year;
- Builders Merchant review – the Builders Merchant network is now a significant part of HSS's operating model (see pages 14 to 15) and the Committee conducted a review of the partner selection process, new location set-up process and ongoing auditing of each site and was pleased to note the robustness of processes and controls in place;
- detailed review and challenge to ensure robustness of going concern modelling throughout the year (see next page);
- monitoring the implementation of IFRS 16 Leases which the Group adopted in the 2020 Annual Report and Accounts;
- consideration of anti-theft technology with regard to protecting the Group's hire fleet;
- reviewing the accounting treatment of the Group's refinance in November;
- participating in the third party reviews of the Group's cyber security policies and procedures;
- review of a three-year plan for the Internal Audit function; and
- reviewing the Group's accounting treatment related to the disposals of Laois and ASH announced in April and September respectively.

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 QCA 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 disposals of Laois and ASH and 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 rebate and credit note provisions;
- debtor recoverability, particularly in light of COVID-19;
- property accounting including onerous contract and dilapidations provisions;
- share option schemes and management incentives generally;
- capitalisation of IT development;
- management assessment of going concern;
- Environmental, Social and Governance factors;
- exceptional items; and
- IFRS 16 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) remains 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 tested as part of year-end reporting. At the interim reporting date the Committee concluded a full review was not required given the recovery of the Group's Revenue and profit since the last review which was conducted at year-end 2020.

The Group's methodology has been consistent with that used in 2020 and 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. Of note this year is the impact of the ASH disposal as ASH comprised a CGU in its own right, which has consequently been removed leaving two CGUs – HSS Core and Power Generation. As a result of this work, the Committee has concluded that no 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 FY21 results. Following these reviews, the Committee has concluded that the procedures and controls are adequate.

Debtor recoverability, particularly in light of COVID-19

The Committee reviewed the methodology and judgements applied to arriving at the Group's expected credit loss provisions in relation to Trade debtors and Accrued income, and in particular the additional risk weighting applied to historical loss rates to allow for management's expectation that customer defaults driven by the impact of COVID-19 on the economy have not yet peaked.
The Committee also reviewed the disclosures made in this regard.

Property accounting including onerous contract and dilapidation provisions

2021 has seen the Group be very successful in its efforts to surrender the remaining dark stores following the decision to permanently close 134 branches announced in October 2020. Associated right-of-use assets were fully impaired in 2020 however significant lease liability and onerous contract cost provisions were carried forward into 2021. During the year 66 properties were surrendered resulting in material releases of lease liability and associated onerous property cost and dilapidations provisions. The Committee reviewed with management the impact of these surrenders within the FY21 Financial Statements. The significantly lower 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.

Share option schemes and management incentives generally

During the year the Group has made new awards of restricted stock to certain senior managers, and announced the inception of a value creation plan for the Executive Directors. In addition a retention scheme has been implemented for Directors and senior managers to secure the resource required to deliver the next set of strategic initiatives. A 2019 option based long-term incentive scheme remains in flight (refer to the Director's Remuneration Report on pages 66 to 69 for further details). The Committee has reviewed the accounting and disclosures made with regard to incentive schemes and concluded that these are appropriate.

Capitalisation of IT development

The Group has significantly increased its investment in internally-generated software with the development of Brenda and HSS Pro as well as ongoing improvements to HSS.com. The Committee scrutinised the 2021 capitalisation for these and other projects and concluded that the treatment was appropriate.

Management assessment of going concern

Once again the Committee has spent a significant amount of time in FY21 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 risk presented by ongoing waves of COVID-19 and possible restrictions means that forecasts have been kept under constant review.

AUDIT COMMITTEE REPORT continued

Completion of a capital raise in December 2020 significantly improved the Group's liquidity and net debt, and this, combined with cash generated from strategic disposals and improved trading in 2021, meant the Group was able to repay debt and refinance in November at a significantly lower interest cost."

The completion of a capital raise in December 2020 significantly improved the Group's liquidity and net debt, and this, combined with cash generated from strategic disposals and improved trading in 2021, meant the Group was able to repay debt and refinance in November at a significantly lower interest cost. As at 1 January 2022, the Group's financing arrangements include a fully drawn senior finance facility of £70.0m, an undrawn revolving credit facility of £17.2m and undrawn overdraft facilities of £6.0m. Cash at the balance sheet date was £42.3m providing liquidity headroom of £65.5m (FY20: £103.6m). Both the senior finance facility and revolving credit facility are subject to net debt leverage and interest cover financial covenant tests every quarter. At the financial year-end the Group had 44% and 49% headroom against these covenants respectively.

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. The Group's base case for the 12 months to 29 April 2023 assumes a continued recovery of revenue during 2022.

The Board has considered various downside scenarios including a 'reasonable worst case' driven by lower than forecast market growth rates, the loss of a major customer contract, increased inflationary pressures and an increase in debtor days. In addition, it assumes that continued strategic investment in technology does not deliver the expected uplift in revenue. This reasonable worst-case scenario has been modelled without mitigating actions and, despite this, the Group is forecast to maintain headroom against its working capital requirements and financial covenants within the assessment period.

These facts reinforce that it is appropriate to adopt the going concern assumption in the preparation of the accounts.

Environmental, Social and Governance factors

As is noted below, the Committee reviewed the Group's position on the risk presented by ESG factors generally, but also with regard to financial reporting matters.

Exceptional items

The Committee reviewed with management the expenses classified as exceptional during the year. Exceptional items included the release of liabilities related to dark stores and costs associated with the Group's restructure into two new divisions – HSS Pro Service and HSS Operations – as well as the strategic disposals of Laois and ASH and refinancing costs. The Committee concluded that, given the size and nature of these items, and the associated disclosures in the notes to the accounts, the approach adopted in respect of exceptional items is appropriate.

IFRS 16 Leases

IFRS 16 Leases was adopted by the Group during 2020. IFRS 16 is a complicated standard and HSS has a large number of leases creating material positions on the balance sheet. The complexity was amplified following the material restructuring of the Group's branch network and successful surrender of the majority of sites. As such IFRS 16 remains a significant area in the Annual Report going forward. The Committee has reviewed the Group's accounting and disclosures related to IFRS 16 as well as the finalisation of implementing IFRS 16 in the Group's primary ledgers.

FRC review of 2020 Annual Report and Accounts

In November 2021 the Company received a letter from the Financial Reporting Council (FRC) which made enquiries related to a number of disclosures in the 2020 Annual Report and subsequent updates in the 2021 interim results. The FRC's questions focused mainly on the accounting treatment and disclosures arising from the Group's decision to permanently close 134 locations in October 2020 as part of the Group's acceleration of strategy (as explained in the 2020 Annual Report) and the subsequent success in surrendering dark stores as well as the disclosure of impairment loss on trade receivables.

The FRC highlighted that the impairment loss on trade receivables should be separately disclosed on the face of the Consolidated Income Statement. Previously it was included within administration expenses. The figure is now shown separately with no impact on profit. In addition, certain other disclosures in the notes to the financial statements have been enhanced to provide greater clarity for readers of the Annual Report and Accounts.

The FRC closed its enquiry in February 2022.

Scope and limitations of the FRC's review

The Company recognises that the FRC's review was based on the Annual Report and Accounts for the year ended 26 December 2020 and did not benefit from detailed knowledge of the Company's business or an understanding of the underlying transactions entered into. The FRC's review provides no assurance that the Company's Annual Report and Accounts are correct in all material respects; the FRC's role is not to verify the information provided but to consider compliance with reporting requirements. The FRC's letters are written on the basis that it (and its officers, employees and agents) accepts no liability for reliance on them by the Company or any third party, including but not limited to investors and shareholders.

External auditor

The Committee oversees the Group's relationship with 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 three years (including FY21). 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 17 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 six years, following its incorporation in January 2015. It is the Group's intention to put the audit 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 1 January 2022.

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 FY21 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 2021, BDO provided non-audit-related services to the Group; these totalled £39,000 representing 5.2% of the total fees payable to BDO. The non-audit fees mainly relate to reviewing and agreeing the Group's responses to the FRC enquiries noted above. Notwithstanding the non-audit fees, 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 management and internal controls through 2021, together with a summary of the principal risks facing the Group, is provided on pages 30 to 34.

During 2021, 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 included 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, the Committee has completed a review of the three-year plan for the internal audit function to ensure that it continues to cover the full scope of HSS activities business and wider environment continue to develop.

It is pleasing to note that the Group continued to have a sharp focus on the management of risk in the year. The impact of COVID-19 receded and the Group's success in completing strategic objectives strengthened the financial footing of the business. The potential impact of Environmental, Social and Government factors has resulted in a new key risk being identified and the Group has split out Safety from Legal and Regulatory risk. The Committee has kept itself abreast of developments in both areas, and supported the focus on these important topics.

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 2022.

Following the year-end, the Committee has considered the impact of the war in Ukraine – from a risk management and disclosure perspective.

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 and implementation of appropriate follow-up action, in relation to confidential concerns raised by staff via the whistleblowing process (see page 53). The Committee confirmed the steps taken to ensure 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 four 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

INTRODUCTION TO DIRECTORS' REMUNERATION REPORT

Amanda Burton
Chair of the Remuneration Committee

Roles and responsibilities

The Committee's full terms of reference can be found on the Company's website at www.hsshiregroup.com/investorrelations/corporategovernance.

The key responsibilities include:

- determining the Company's policy on remuneration of Executive Directors and other senior management to support sustainable growth
- ensuring the Company complies with disclosure requirements of the QCA

DEAR SHAREHOLDER

I am pleased to present, on behalf of the Board, our Directors' Remuneration Report in respect of the year ended 1 January 2022, which comprises three sections:

- This annual statement
- The Group's Directors' Remuneration Policy (the Policy)
- The Annual Report on Remuneration, which provides details of the amounts earned by Directors in respect of FY21 and remuneration for FY22

This is the first Directors' Remuneration Report to be presented following the Company's transition from the Main Market to AIM. As an AIM company, we are no longer subject to the remuneration reporting regulations of fully listed UK companies, and therefore the disclosures in this Report are provided on a voluntary basis. In preparing this Report, we have taken into account the remuneration reporting regulations and guidance from the QCA.

We believe that our shareholders should continue to have 'a say on executive pay'. Therefore, in line with good governance for AIM companies, the Directors' Remuneration Report is subject to an advisory vote at the 2022 AGM.

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

Ensuring a reward strategy that supports short, and long-term **sustainable growth**."

Review of the Policy

Our current Policy was approved by shareholders at the 2019 AGM and later amended at the 2020 AGM (receiving a vote in favour of 99.98% and 99.99% respectively), and is reaching the end of its three-year term. A new Policy will therefore be subject to shareholder approval at the 2022 AGM, as part of an advisory vote on the 2021 Directors' Remuneration Report.

There are two key changes to the Policy as follows:

- The Executive Directors will not participate in any new long-term incentive arrangements during the three-year Policy period. This reflects their participation in the Value Creation Plan as announced on 25 February 2021, further information in relation to which is set out on page 67.
- Under the current Policy, Executive Directors are required to defer any annual bonus earned in excess of 50% of the maximum award into shares for a two year-period. Taking into account AIM market practice and the maximum annual bonus opportunity (100% of salary), the Committee has agreed that any bonus earned under the Policy will be paid fully in cash. The Committee has also agreed that the FY21 bonus will be paid fully in cash.

FY21 salary increase

Executive Directors received a 2% salary increase effective from 1 July 2021, in line with the average increase for the wider workforce. Non-Executive Directors also received a 2% salary increase.

FY21 performance and variable pay outcome

The FY21 annual bonus was subject to Adjusted EBITDA (50% weighting), core hire rental revenue growth (20%), Net Leverage Ratio (net debt/Adjusted EBITDA) performance (20%), and a RIDDOR target (10%). Furthermore, payment of any bonus was subject to the achievement of a threshold Adjusted EBITDA target.

Performance in FY21 was excellent with revenue back to pre-pandemic levels and adjusted EBITDA up 17.1% on 2020. RIDDORs, at 5, were up on the prior year but under target despite the increased operations. All measures reached the stretch target and as a result maximum payout was achieved (refer to page 66 for details).

Long-term incentive awards were granted to the Executive Directors on 8 October 2018 (FY18 LTIP awards) and 4 June 2019 (FY19 LTIP awards).

The FY18 LTIP awards were structured as market value share options, which would vest subject to the achievement of challenging share price performance targets over a four-year period through to the end of FY21. The share price targets were not achieved and therefore the awards have lapsed in full.

The FY19 LTIP awards were structured as nil-cost share options, which would vest subject to the achievement of Adjusted EPS and ROCE performance targets over a three-year period through to the end of FY21. The Executive Directors waived their entitlement to the FY19 LTIP awards in light of being granted an Existing Schemes Award. Further information is set out below.

VCP awards

As disclosed in our 2020 Directors' Remuneration Report, in light of the Company's admission to AIM, the Committee undertook a review of incentive arrangements for the Executive Directors. As part of the review, the Committee consulted with the Company's three largest shareholders (who held 77.12% of the Company's shares at the time the awards were granted) who supported the implementation of a Value Creation Plan (VCP). Awards were granted to Executive Directors under the VCP on 25 February 2021 and further information is set out on page 67.

ESA Plan

The Committee believes that the Executive Directors have performed exceptionally well since their respective appointments, making significant progress towards the turnaround of the business. Performance-based long-term incentive awards were granted in FY17 and FY18, which were capable of vesting following FY20 and FY21, subject to stretching performance targets. Despite best efforts, the targets were not achieved and the awards have lapsed in full. Therefore, in order to recognise their performance and to continue to incentivise them, Steve Ashmore and Paul Quested were granted one-off awards under an Existing Schemes Award Plan (ESA Plan) on 25 February 2021. The Committee consulted with the Company's three major shareholders on the terms of the awards. Further information is set out on page 67.

Reward for FY22

Executive Director salaries

In line with the salary review timetable for all other employees, the Executive Directors' salaries will be reviewed during June 2022, with any changes taking effect from 1 July 2022. 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

No changes are proposed to the maximum opportunity of the annual bonus, which will remain at 100%. The bonus will be subject to Adjusted EBITA performance, core hire rental revenue, the reduction of overdue debt and the reduction of RIDDORs.

We will be evolving our Environmental, Social and Governance (ESG) strategy during 2022. As part of this process, the Committee will consider how ESG performance will be incorporated within the FY23 annual bonus. Similar to previous years, and as noted above, the FY22 annual bonus will incorporate Health and Safety performance (through RIDDOR targets).

As noted above, the Executive Directors will not be granted any long-term incentive arrangements during FY22.

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. A colleague dashboard that provides key information on workforce demographics and wider workforce pay and reward is reviewed annually by the Committee.

Conclusion

We aim to provide clear and transparent reporting on executive remuneration, taking into account good governance practice amongst larger AIM listed companies. I look forward to receiving your support at our 2022 AGM, where I will be available to respond to any questions shareholders may have on this Directors' Remuneration Report or in relation to any of the Committee's activities.

Amanda Burton
Chair of the Remuneration Committee

27 April 2022

DIRECTORS' REMUNERATION POLICY

Policy table for Executive Directors

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	To provide a competitive base salary for the market in which the Group operates to attract and retain Executives of a suitable calibre.	Salaries are usually reviewed annually taking into account a number of factors, including (but not limited to): – underlying Group performance; – role, experience and individual performance; – competitive salary levels and market forces; and – pay and conditions elsewhere in the Group.	While there is no maximum salary, increases will normally be in line with the range of salary increases awarded (in percentage of salary terms) to other employees in the Group. Salary increases above this level may be awarded to take account of individual circumstances, such as, but not limited to: – where an Executive Director has been promoted or has had a change in scope or responsibility; – an individual's development or performance in role (e.g. to align a newly appointed Executive Director's salary with the market over time); – where there has been a change in market practice; or – where there has been a change in the size and/or complexity of the business. Increases may be implemented over such time period as the Committee deems appropriate.	Not applicable.
Benefits	To provide broadly market competitive benefits as part of the total remuneration package.	Executive Directors receive benefits in line with market practice, and these include life insurance, private medical insurance, company car or car allowance and, where relevant, relocation expenses. Other benefits may be provided based on individual circumstances. These may include, for example, travel expenses.	Whilst the Committee has not set an absolute maximum on the level of benefits Executive Directors may receive, the value of benefits is set at a level which the Committee considers to be appropriately positioned taking into account relevant market levels based on the nature and location of the role and individual circumstances.	Not applicable.

Component	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Retirement benefits	To provide an appropriate level of retirement benefit (or cash allowance equivalent).	Executive Directors are eligible to participate in the Group defined contribution pension plan. In appropriate circumstances, such as where contributions exceed the annual or lifetime allowance, Executive Directors may be permitted to take a cash supplement instead of contributions to a pension plan.	Maximum contribution is 10% of salary.	Not applicable.
Annual bonus	Rewards performance against targets which support the strategic direction of the Group.	Awards are based on performance (typically measured over a financial year) against key financial targets and/or the delivery of strategic/ individual objectives. For up to two years following the payment of a bonus award, clawback provisions will apply such that the Committee may require the repayment of some or all of the award in the circumstances set out at the foot of this table. The Committee has discretion to amend the pay-out should any formulaic output not reflect the Committee's assessment of overall business performance over the performance period.	Maximum annual bonus opportunity is 100% of salary.	Targets are set annually reflecting the Company's strategy and aligned with key financial, strategic and/or individual targets. At least 75% of the annual bonus is assessed against key financial performance measures of the business and the balance may be based on non-financial strategic/personal objectives.

Circumstances in which malus and/or clawback may apply

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

Explanation of performance measures chosen

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

Shareholding guidelines

In order to further align the Executive Directors' long-term interests with those of shareholders, share ownership guidelines are in place that expect the CEO and other Executive Directors to build up and maintain (as relevant) a shareholding in the Company equivalent in value to 200% and 125% of annual salary respectively.

Existing arrangements

The Committee reserves the right to settle the vesting of existing arrangements, which includes:

- Awards granted to Executive Directors under the Value Creation Plan on 25 February 2021.
- Awards granted to Executive Directors under the Existing Schemes Award Plan on 25 February 2021.
- Restricted share awards granted to Executive Directors on 2 July 2020.

DIRECTORS' REMUNERATION POLICY continued

Policy table for Non-Executive Directors

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

Policy for the remuneration of employees more generally

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

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

Recruitment remuneration

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

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

The Committee will typically seek to align the remuneration package with the above Policy. The Committee may include other elements of pay which it considers are appropriate, where the Committee believes there is a need to do so in the best interests of the Company and shareholders.

The Committee may make payments or awards in respect of hiring an employee to 'buyout' remuneration arrangements forfeited on leaving a previous employer. When doing so the Committee will take account of relevant factors including any performance measures attached to the forfeited arrangements and the time over which they would have vested. The Committee will generally seek to structure buyout awards or payments on a like-for-like basis to the remuneration arrangements forfeited.

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

Service contracts

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

All Non-Executive Directors have 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	Date of initial appointment	Expiry of current term	Notice period
S Ashmore	1 June 2017	N/A(1)	12 months
P Quested	22 August 2016	N/A(1)	12 months
A Peterson	9 February 2015	2 years	N/A
A Burton	9 January 2015	2 years	N/A
D Robertson	9 January 2015	2 years	N/A
T Sweet-Escott(2)	9 January 2015	2 years	N/A

(1) Executive Directors' service contracts are on a rolling basis and have no defined expiry date.
(2) Under the Relationship Agreement, Exponent is able to appoint a Non-Executive Director to the Board for so long as the Exponent shareholders are entitled to exercise or to control the exercise of 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Mr Sweet-Escott is Exponent's current appointee.

Payments for loss of office

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

	Policy
Payment in lieu of notice	The Company has discretion to make a payment in lieu of notice. Such a payment would include salary and compensation for benefits and pension contributions for the unexpired period of notice.
Annual bonus	This will be at the discretion of the Committee on an individual basis and the decision as to whether or not to award an annual bonus award in full or in part will be dependent on a number of factors, including the circumstances of the individual's departure and their contribution to the business during the annual bonus period in question. Any annual bonus award amounts paid will normally be pro-rated for time in service during the annual bonus period and will, subject to performance, be paid at the usual time (although the Committee retains discretion to pay the annual bonus award earlier in appropriate circumstances).
Mitigation	The Committee's practice is that if an Executive Director's employment is terminated any compensation payment will be calculated in accordance with normal legal principles, including the application of mitigation to the extent appropriate to the circumstances of the termination. There is a mechanism within the service contracts to reduce termination payments by up to 50% where the Executive Director commences alternative employment during the notice period.
Other payments	In appropriate circumstances, payments may also be made in respect of accrued holiday, outplacement and legal fees.
Existing awards	The extent to which FY20 restricted share awards, FY21 VCP awards and FY21 ESA awards vest will be determined in accordance with the relevant rules and, as regards the FY20 restricted share awards, the Remuneration Policy under which they were granted.

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

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

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

Shareholder views

The Committee is committed to an ongoing dialogue with shareholders and welcomes feedback on Executive and Non-Executive Directors' remuneration. The Committee consulted with major shareholders in relation to the VCP and Existing Schemes Award.

DIRECTORS' REMUNERATION REPORT

Annual Report on Remuneration

Single figure table

The following table sets out total remuneration for each Director in respect of FY21 and FY20.

	Salary and fees[1] £000		Benefits[2] £000		Pension £000		Subtotal £000		Bonus £000		LTIP £000		Subtotal £000		Total remuneration	
	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20
Executive Directors																
Steve Ashmore	371	280	3	17	31	31	404	328	371	–	–	–	371	–	776	328
Paul Quested	268	203	18	17	24	24	310	247	268	–	–	–	268	–	578	247
Non-Executive Directors																
Alan Peterson	152	113	–	–	–	–	152	113	–	–	–	–	–	–	152	113
Amanda Burton	51	38	–	–	–	–	51	38	–	–	–	–	–	–	51	38
Douglas Robertson	51	38	–	–	–	–	51	38	–	–	–	–	–	–	51	38
Thomas Sweet-Escott[3]	40	30	–	–	–	–	40	30	–	–	–	–	–	–	40	30

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 The taxable value of benefits received in the year, which are principally medical insurance, company car allowance.
3 Thomas Sweet-Escott's fee is paid directly to Exponent.

Additional disclosures in respect of the single figure table

Base salary

Details of annual base salaries for Executive Directors for FY21 and FY20 are set out below.

	Base salary at 25 December 2021 £000	Base salary at 28 December 2020 £000
Steve Ashmore	375	368
Paul Quested	270	265

FY21 annual bonus

The maximum annual bonus opportunity for FY21 was maintained at 100% of salary. The bonus was set subject to stretching performance measures based on Adjusted EBITDA performance (50%), core hire rental revenue growth (20%), Net Leverage Ratio (Net Debt/Adjusted EBITDA) (20%), and a reduction in RIDDORs (10%). 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 FY21 and how this reflects performance for the year against targets. The financial targets were adjusted by the Committee to take into account the sale of Laois Hire Services Limited in April 2021 and All Seasons Hire Limited in September 2021. The Committee considered that the revised targets were no less challenging.

Performance measure	Proportion of bonus determined by measure	Threshold performance (25%)	Target performance (50%)	Maximum performance (100%)	Actual performance	Actual Performance (% of salary)[1]
Adjusted EBITDA (non-IFRS 16)	50%	40.4	42.5	44.6	53.9	50%
Core hire rental revenue growth	20%	134.0	136.7	139.5	146.6	20%
Net Leverage Ratio (Net Debt/Adjusted EBITDA)	20%	1.88x	1.78x	1.69x	0.8x	20%
Number of RIDDORs	10%	8	7	6	5	10%
Total	100%					100%

1 Subject to achieving a threshold Adjusted EBITDA target of £40.4m.

The Committee considered the bonus outcome to be appropriate taking into account underlying financial performance during the performance period.

LTIP awards vesting in respect of FY21

FY18 LTIP awards

The Company received shareholder approval via a General Meeting on 7 August 2018 to grant an exceptional LTIP award to the Executive Directors outside of the approved Policy. The awards were granted on 8 October 2018. The awards were structured as market value share options, which would vest subject to the achievement of challenging share price performance targets over a four-year period through to the end of FY21. The threshold share price target was not achieved and therefore the awards have lapsed in full.

FY19 LTIP awards

The FY19 LTIP awards were structured as nil-cost share options, which would vest subject to the achievement of Adjusted EPS and ROCE performance targets over a three-year period through to the end of FY21. Following the year end, the Executive Directors' waived their entitlement to the FY19 LTIP awards in light of being granted an Existing Schemes Award. Further information is set out below.

VCP awards granted during FY21

On 25 February 2021, Steve Ashmore and Paul Quested were granted one-off awards under a new VCP.

Participants will share in a total 20% of any increase in value of the Company up to the time of a change of control (or other relevant event) (the VCP Pool). Steve Ashmore and Paul Quested will each be entitled to one-third of the VCP Pool.

The increase in the value of the Company will be calculated by reference to the increase in its market capitalisation from an opening value of £104,471,648 (based on a share price of £0.15) to the closing market capitalisation on an exit event. Appropriate adjustments shall be made in respect of any capital raised from or returned to shareholders over the period. Awards will be settled in cash other than in certain circumstances where an award which vests early to a 'good leaver' may be settled in shares.

Malus and clawback provisions apply.

ESA

The Committee believes that the Executive Directors have performed exceptionally well since their respective appointments, making significant progress towards the turnaround of the business. Performance-based long-term incentive awards were granted in FY17 and FY18, which were capable of vesting following FY20 and FY21, subject to stretching performance targets. Despite best efforts, the targets were not achieved and the awards have lapsed in full. Therefore, in order to recognise their performance and to continue to incentivise them, Steve Ashmore and Paul Quested were granted one-off awards under an Existing Schemes Award Plan (ESA Plan) on 25 February 2021.

The awards will ordinarily vest on 1 January 2023 subject to continued employment and meeting a liquidity threshold. The awards will ordinarily be settled in cash unless the Committee determines that the awards should be settled in shares.

The maximum value of the awards for Steve Ashmore and Paul Quested is £2,194,037 and £1,370,254 respectively. The awards will be reduced by the value of FY20 RSP awards (based on the market value of the underlying shares on 31 December 2022).

Malus and clawback provisions apply.

Payments made to former Directors and payments for loss of office during FY21

There were no payments made to former Directors and no payments made for loss of office during FY21.

DIRECTORS' REMUNERATION REPORT continued

Directors' share interests

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 in May 2017, Steve Ashmore has built his shareholding in the Company to 78% of annual salary. Since joining the Group in August 2016, Paul Quested has built his shareholding in the Company to 47% of annual salary.

The interests of the Directors and their connected persons in the Company's ordinary shares as at 25 December 2021 were as follows:

	Type	Owned outright	Unvested and subject to performance conditions	Unvested and not subject to performance conditions	Total as at 25 December 2021
Executive Directors					
Steve Ashmore	Shares	1,068,560	–	–	1,068,560
	FY20 restricted shares (nil-cost share options)	–	–	841,348	841,348
Paul Quested	Shares	219,916	–	–	219,916
	FY20 restricted shares (nil-cost share options)	–	–	606,685	606,685
Non-Executive Directors					
Alan Peterson	Shares	22,021	–	–	22,021
Amanda Burton	Shares	110,118	–	–	110,118
Douglas Robertson	Shares	29,362	–	–	29,362

As noted on page 67, FY18 LTIP awards (and CSOP options) lapsed in full following FY21 as the share price performance measure was not achieved. As noted on page 67, Steve Ashmore and Paul Quested waived their entitlement to the FY19 LTIP awards.

As at 27 April 2022, 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, save for in respect of Alan Peterson who acquired 1,498,525 shares on 13 January 2022 and 888,409 shares on 24 January 2022.

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.

Implementation of the Policy for FY22

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 2022, with any changes taking effect from 1 July 2022. 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

The maximum bonus opportunity for FY21 is maintained for FY22. The annual bonus will be subject to Adjusted EBITA performance (50% of overall opportunity), core hire rental revenue (20% of overall opportunity), the reduction of overdue debt (20% of overall opportunity), and the reduction of RIDDORS (10% of the overall opportunity).

The Executive Directors will not be granted any long-term share incentive arrangements during FY22.

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 (2019 AGM)	132,930,615	99.98	21,900	0.02	3,498
Amendments to the Policy and LTIP (2020 AGM)	146,802,910	99.99	11,185	0.01	5,483
Annual Report on Remuneration (2021 AGM)	559,584,773	99.93	398,763	0.07	28,911

Advisers to the Remuneration Committee

During FY21, the Committee received independent advice from Deloitte LLP in relation to the Committee's consideration of matters relating to Directors' remuneration. 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.

Approval

This Report was approved by the Board on 27 April 2022 and signed on its behalf by:

Amanda Burton
Chair of the Remuneration Committee

27 April 2022

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 21 June 2022, 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 30 June 2021, 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 FY21 year (FY20: £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 27 of the Financial Statements on pages 119 and 120.

Events and developments impacting the Company

The likely future developments of the Company and Group are referred to in the Chief Executive Officer's Review on page 8 in the Strategic Report.

Acquisition of own shares

At the AGM held on 30 June 2021, the Company was authorised to make market purchases of up to 69,647,764 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 2022 AGM. A special resolution will be proposed at this year's AGM to authorise the Company to make market purchases of up to 105,748,193 ordinary shares.

Equality and diversity

The Group is committed to promoting diversity and creating a positive and supportive working environment for all colleagues. We aim to attract, engage and develop a diverse workforce reflective of the communities we serve. Raising awareness of diversity and having respect for all is at the heart of our mandatory all-colleague training.

The Group's policy is to recruit based on competence, experience and skills. 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. We promote an inclusive culture and are committed to equal opportunity for all colleagues, no matter their background and characteristics and 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.

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

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 43 to 45.

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 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-IFRS 16) finance leases have conditions where a change of control could lead to early repayment.

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 above.

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. Upon 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, as may the ESA and VCP Awards granted to certain senior executives, as announced on 25 February 2021.

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.

DIRECTORS' REPORT AND OTHER STATUTORY DISCLOSURES continued

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 33.43% 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.

Appointment and replacement of Directors

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

Under the Relationship Agreement, Exponent is able to appoint a Non-Executive Director to the Board for so long as the Exponent Shareholders are entitled to exercise or to control the exercise of 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Mr Sweet-Escott is the current appointee. In addition, in accordance with the Relationship Agreement, Exponent has appointed an observer to attend Board meetings. 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.

Approval of the Directors' Report

The Directors' Report on pages 70 to 72 was approved by the Board of Directors on 27 April 2022 and is signed on its behalf by:

Steve Ashmore
Director

27 April 2022

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 accounting standards in conformity with the requirements of the Companies Act 2006 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 international accounting standards in conformity with the requirements of the Companies Act 2006 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 and a Strategic 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. 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.

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 1 January 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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 1 January 2022 which comprise the Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the Consolidated and Company 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 UK adopted international accounting standards. 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:

- Assessment of the internal forecasting processes to ascertain whether the projections used are:
  - prepared by appropriate personnel who have appropriate understanding of the business' strategy, customer base and expected performance; and
  - reflective of the potential impacts of COVID-19 and inflationary pressures on the business, including those trends that have emerged more significantly following the year end.
- Review of the forecasts and challenge of the key assumptions against prior year, current economic risks and our knowledge of the business;
- Challenge of the appropriateness of the reasonably possible downside scenarios, and consideration of whether other scenarios (or specific events) might be appropriate to incorporate into the assessment;
- Review of the assessment of various downside scenarios, including challenge of assumptions used, to analyse: the levels of revenue reduction; the extent of the impact of inflation; the availability of any mitigating actions; and an increase in debtor days that could be sustained without breaching banking covenants; and
- 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 specific risks posed and scenarios that the Directors have considered in reaching its going concern assessment.

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	91% (2019: 94%) of Group net profit for the financial period 91% (2019: 94%) of Group revenue 96% (2019: 96%) of Group total assets		
Key audit matters		1 January 2022	26 December 2020
	Hire stock	✓	✓
	Leases – IFRS 16	✓	✓
	Revenue recognition	✓	✓
	Carrying value of goodwill and other intangible assets	×	✓
	The carrying value of goodwill and other intangible assets is no longer considered to be a key audit matter after evaluation of the associated risk attached to the area after considering headroom and performance in FY21 and year to date.		
Materiality	*Group financial statements as a whole* £1.2m (2019: £0.9m) based on 4% (2019: 4%) of adjusted earnings before interest, tax and amortisation		

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 two reporting units which, in our view, required a full scope audit due to their size or their risk characteristics and were therefore considered to be significant components.

All audit work on the three units was performed by the Group engagement team. The work on the other components of the Group, which was carried out by the Group engagement team, comprised analytical procedures and certain tests of detail aimed at specific areas of risk.

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 Refer to page 88 (accounting policy) and pages 106-107 (financial disclosures).	Hire stock represents a very large number of assets, numbering over 1 million, which have a high frequency of movement in individual assets through asset purchases, hires, disposals, and transfers around the operations network. Judgement is required in ensuring that depreciation charges are accurately calculated, having regard to economic useful lives and residual values, together with calculation of the cost of renovation work undertaken on specific classes of assets. Therefore, we consider the existence and valuation of hire stock to be a key audit matter.	Our procedures included the following: – We tested the operating effectiveness of key controls in respect of the existence and value of hire stock, including authorisation of additions and use of unique asset identification numbers; – We have reconciled 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 test 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 the fixed asset register and the accounting ledgers; – We further evidenced 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 in the fixed asset registers for the current year, and reconciled this to the charge included in the accounting ledgers; – For the principal asset classes we assessed the appropriateness of the useful economic lives applied by management by reference to historic data and the group's industry peers; and – We agreed, on a sample basis, the calculation of the cost of the renovation work undertaken to supporting documentation and assessed whether the capitalisation was appropriate with reference to the underlying asset. **Key observations** Through the performance of these procedures, we found the judgements made in accounting for hire stock to be reasonable. We also found the renovation costs to be appropriately calculated.

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
IFRS 16 – "Leases" Refer to page pages 92-93 (accounting policy) and pages 108-109 & 111-113 (financial disclosures).	The Group's portfolio of c.1,500 leases is significant, and there is a risk that the interpretation of IFRS 16 – "Leases", which has a number of complexities and areas of judgement required, specifically the incremental borrowing rates ("IBRs") used and consideration of whether changes represent modifications or new leases, could lead to misstatement of the Group's financial statements. There have been significant changes to the Group's leases during the year, with c.50 lease modifications and c.250 disposals having taken place. There is therefore a risk that the accounting for the impact of the movements within the year is incorrect. We therefore consider accounting for the impact of lease modifications and the treatment of the disposal of leases to be a key audit matter.	Our procedures included the following: – For a sample of lease modifications, we discussed the movement with management including whether they are new leases or modifications, obtained the revised lease agreements and recalculated the impact on the related right of use assets and lease liabilities; and – We also considered the appropriateness of the IBRs applied by comparing them to third party documentation for fleet vehicles, and by comparing against publicly available mortgage rates for properties on banks' websites. – We tested a sample of disposals, obtaining supporting documentation for each including termination letters, and deeds of transfers. **Key observations** Through performing these procedures, we found that the accounting for the impact of lease modifications and disposals of leases was appropriate and in line with the requirements of IFRS 16 – "Leases". We also found the IBR's used to be appropriate.
Revenue recognition Refer to page 87 (accounting policy) and pages 94-96 (financial disclosures).	There is a risk that revenue is incorrectly calculated or recorded in the wrong period, including accrued revenue arising on hires around the year end. There is also a risk that manual adjustments made to revenue could result in material errors, specifically in respect of rebates payable to customers being omitted or incorrectly calculated, and that credit note provisions may be incorrectly calculated. Therefore, we consider revenue recognition to be a key audit matter.	Our procedures included the following: – We tested 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 systems and the accounting records. – We obtained management's calculations of accrued revenue at the year end and the underlying data. For a sample, we agreed the inputs to customer contracts, recalculated the amounts accrued, and tested that there was a subsequent invoice to a third party and that the revenue recognition criteria used were in accordance with the stated accounting policy. – We tested the calculation of rebates payable for a sample of customers with reference to sales data and their underlying agreements; compared rebates by customer against those payable in previous years to evaluate completeness; and investigated any significant variances; – We tested the calculation of the credit note provision and associated assumptions, including analysing historic loss rates, whether rebate related credit notes are excluded appropriately from the calculation as they are provided for separately and whether invoices credited as they were originally raised to the wrong customer were subsequently correctly rebilled. A review of post-year end credit notes was also performed in order to assess the appropriateness of the of the provision. **Key observations** Based on our audit procedures, we consider that revenue has been recorded in the appropriate period and the calculations for manual adjustments to revenue, rebate and credit provisions are reasonable.

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	
	1 January 2022 £m	26 December 2020 £m	1 January 2022 £m	26 December 2020 £m
Materiality	1.2	0.9	1.1	0.8
Basis for determining materiality	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 9 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	0.7	0.5	0.7	0.5
Basis for determining performance materiality	60% of materiality. In setting our 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 27% and 90% (FY20: 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 £0.3m to £1.1m (FY20: £0.1m to £0.8m). In the audit of each component, we further applied performance materiality levels of 60% (FY20: 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 £36k (FY20: £27k). 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 and Financial Statements 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.

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, and revenue recognition (revenue recognition has been assessed as a Key Audit Matter above). Fraud risks, and applicable laws and regulations, were communicated to all members of the audit team during both the planning and execution of the audit.
- Our procedures included journal entry testing, with a focus on large or unusual transactions and journals with characteristics of audit interest, year end consolidation journals, journals processed by users with privileged IT systems access rights and those relating to revenue. Based on our knowledge and understanding of the business, we held enquiries with Group management about known or suspected irregularities and non-compliance with laws and regulations, including fraud; and focused 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 FCA (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London
UK
27 April 2022

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

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 1 JANUARY 2022

	Note	Year ended 1 January 2022 £000s	Year ended 26 December 2020 Restated[1] £000s
Revenue	5	**303,269**	250,063
Cost of sales		**(146,271)**	(124,881)
Gross profit		**156,998**	125,182
Distribution costs		**(21,915)**	(25,312)
Administrative expenses		**(100,435)**	(112,606)
Impairment losses on trade receivables and contract assets[2]	18	**(1,835)**	(3,085)
Other operating income	6	**1,708**	11,150
Adjusted EBITDA	5, 33	**69,777**	59,560
Less: Depreciation	9	**(38,120)**	(46,193)
Adjusted EBITA	33	**31,657**	13,367
Less: Exceptional items (non-finance)	7	**8,039**	(13,016)
Less: Amortisation	9	**(5,175)**	(5,022)
Operating profit/(loss)		**34,521**	(4,671)
Finance expense	8	**(28,455)**	(24,968)
Adjusted profit/(loss) before tax		**13,147**	(11,228)
Less: Exceptional items (non-finance)	7	**8,039**	(13,016)
Less: Exceptional items (finance)	7	**(9,945)**	(373)
Less: Amortisation	9	**(5,175)**	(5,022)
Profit/(loss) before tax		**6,066**	(29,639)
Income tax credit/(charge)	12	**1,239**	(42)
Profit/(loss) from continuing operations		**7,305**	(29,681)
Profit on disposal of discontinued operations	7, 29	**41,242**	–
Profit from discontinued operations, net of tax[1]	29	**5,179**	6,100
Profit/(loss) for the financial period		**53,726**	(23,581)
Earnings/(loss) per share (pence)			
Continuing operations			
Basic earnings/(loss) per share	13	**1.05**	(15.13)
Diluted earnings/(loss) per share	13	**1.02**	(15.13)
Adjusted basic earnings/(loss) per share[3]	13	**1.52**	(4.64)
Adjusted diluted earnings/(loss) per share[3]	13	**1.49**	(4.64)
Continuing and discontinued operations			
Basic earnings/(loss) per share	13	**7.71**	(12.02)
Diluted earnings/(loss) per share	13	**7.52**	(12.02)
Adjusted basic earnings/(loss) per share[3]	13	**2.15**	(2.03)
Adjusted diluted earnings/(loss) per share[3]	13	**2.11**	(2.03)

1 As required by IFRS 5 Non-current Assets Held for Sale and Discontinued Operations, the income statement and related notes for the prior year have been restated to separately present the results of discontinued operations (note 4z).
2 Impairment losses on trade receivables and contract assets, as determined in accordance with IFRS 9 Financial Instruments (notes 4z and 18), previously included in administration expenses have been shown separately.
3 Adjusted earnings/(loss) 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 123 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 1 JANUARY 2022

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 £000s
Profit/(loss) for the financial period	**53,726**	(23,581)
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**(720)**	617
Foreign currency reserve disposal as part of business divestiture (note 29)	**(49)**	–
Gains arising on cash flow hedges	**–**	306
Other comprehensive (loss)/gain for the period, net of tax	**(769)**	923
Total comprehensive profit/(loss) for the period	**52,957**	(22,658)
Attributable to owners of the Company	**52,957**	(22,658)

The notes on pages 84 to 123 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 1 JANUARY 2022

	Note	Year ended 1 January 2022 £000s	Year ended 26 December 2020 Restated[1] £000s
ASSETS			
Non-current assets			
Intangible assets	14	**147,648**	158,498
Property, plant and equipment			
Hire equipment[1]	15	**44,332**	50,429
Non-hire assets	15	**15,605**	17,946
Right of use assets			
Hire equipment[1]	16	**20,651**	20,576
Non-hire assets	16	**55,329**	62,912
Deferred tax asset	23	**2,404**	–
		285,969	310,361
Current assets			
Inventories	17	**2,682**	3,183
Trade and other receivables	18	**78,680**	75,880
Cash and cash equivalents		**42,269**	97,573
		123,631	176,636
Total assets		**409,600**	486,997
LIABILITIES			
Current liabilities			
Trade and other payables	19	**(78,704)**	(61,821)
Lease liabilities	20	**(19,310)**	(23,395)
Borrowings	21	**–**	(15,000)
Provisions	22	**(4,713)**	(7,448)
Current tax liabilities		**(293)**	(1)
		(103,020)	(107,665)
Non-current liabilities			
Lease liabilities	20	**(57,255)**	(66,177)
Borrowings	21	**(68,166)**	(179,099)
Provisions	22	**(19,110)**	(26,206)
Deferred tax liabilities	23	**(148)**	(260)
		(144,679)	(271,742)
Total liabilities		**(247,699)**	(379,407)
Net assets		**161,901**	107,590
EQUITY			
Share capital	24	**7,050**	6,965
Share premium	24	**45,552**	45,580
Warrant reserves	25	**–**	2,694
Merger reserve		**97,780**	97,780
Foreign exchange translation reserve		**(754)**	15
Retained earnings/(deficit)		**12,273**	(45,444)
Total equity		**161,901**	107,590

1 Leased assets transferred to right-of-use assets on adoption of IFRS16 were overstated in the prior year due to the inclusion of expired leases. These have been re-presented as owned assets. The net book value of the assets as at 26 December 2020 was £6.4m – there is no impact to total non-current assets (notes 4z,15 and 16).

The notes on pages 84 to 123 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 27 April 2022 and were signed on its behalf by:

P Quested
Director

27 April 2022

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 1 JANUARY 2022

	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 27 December 2020	**6,965**	**45,580**	**2,694**	**97,780**	**15**	**–**	**(45,444)**	**107,590**
Profit for the period	–	–	–	–	–	–	53,726	53,726
Foreign currency translation differences arising on consolidation of foreign operations	–	–	–	–	(720)	–	–	(720)
Foreign currency reserve disposal as part of business divestiture (note 29)	–	–	–	–	(49)	–	–	(49)
Total comprehensive (loss)/profit for the period	**–**	**–**	**–**	**–**	**(769)**	**–**	**53,726**	**52,957**
Transactions with owners recorded directly in equity								
Warrants exercised	85	–	(2,694)	–	–	–	2,694	85
2020 Share issue cost	–	(28)	–	–	–	–	–	(28)
Share-based payment charge	–	–	–	–	–	–	1,374	1,374
Share-based payment transfer to reserves	–	–	–	–	–	–	(77)	(77)
At 1 January 2022	**7,050**	**45,552**	**–**	**97,780**	**(754)**	**–**	**12,273**	**161,901**

	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	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 profit/(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

The notes on pages 84 to 123 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 1 JANUARY 2022

	Note	Year ended 1 January 2022 £000s	Year ended 26 December 2020 £000s
Profit/(loss) after income tax		**53,726**	(23,581)
Adjustments for:			
– Tax	12	**(1,156)**	15
– Profit on disposal of discontinued operations	29	**(41,242)**	–
– Amortisation	9	**5,310**	5,197
– Depreciation	9	**36,128**	44,709
– Accelerated depreciation relating to hire stock customer losses and hire stock write-offs	9	**3,761**	4,727
– Impairment of property, plant and equipment and right of use assets	9	**497**	11,557
– Disposal of sub-lease		**–**	59
– Loss on disposal of property, plant and equipment and right of use assets	9	**2**	2,110
– Lease disposals	20	**(6,222)**	(4,012)
– Capital element of receipts from net investment in sublease		**311**	356
– Rent concessions	20	**–**	(996)
– Share-based payment charge	26	**1,374**	453
– Foreign exchange (gains)/loss on operating activities		**(506)**	535
– Finance expense	8	**28,527**	25,065
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories	17	**252**	552
– Trade and other receivables	18	**(6,999)**	9,845
– Trade and other payables	19	**23,671**	(1,780)
– Provisions	22	**(8,401)**	(5,181)
Net cash flows from operating activities before purchase of hire equipment		**89,033**	69,630
Purchase of hire equipment	15	**(17,468)**	(13,673)
Cash generated from operating activities		**71,565**	55,957
Interest paid		**(26,628)**	(22,052)
Income tax (paid)/received		**(779)**	552
Net cash generated from operating activities		**44,158**	34,457
Cash flows from investing activities			
Proceeds from disposal of business, net of cash disposed of	29	**62,813**	–
Proceeds from disposal of assets as part of business divestiture	29	**526**	–
Purchases of non-hire property, plant, equipment and software	14, 15	**(6,651)**	(5,814)
Net cash generated from/(used by) investing activities		**56,688**	(5,814)
Cash flows from financing activities			
(Costs associated with)/proceeds from capital raise (net of share issue costs paid)	24	**(1,471)**	52,335
Proceeds from borrowings (third parties)	21	**70,000**	17,200
Facility arrangement fees	32	**(1,946)**	–
Repayment of borrowings	21	**(199,182)**	–
Capital element of lease liability payments	20	**(23,551)**	(23,263)
Net cash (paid)/received from financing activities		**(156,150)**	46,272
Net (decrease)/increase in cash		**(55,304)**	74,915
Cash at the start of the year		**97,573**	22,658
Cash at the end of the year – continuing operations		**42,269**	94,978
Cash at the end of the year – discontinued operations		**–**	2,595
Cash at the end of the year		**42,269**	97,573

The notes on pages 84 to 123 form part of these Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 1 JANUARY 2022

1. Basis of preparation

a) Reporting entity
The Company is a public limited company which was listed on the London Stock Exchange up until 14 January 2021, when the Group's ordinary shares of one pence each were admitted to trading on AIM. The Company is incorporated under the Companies Act and domiciled in the United Kingdom. The address of the Company's registered office is Building 2, Think Park, Mosley Road, Manchester, M17 1FQ. 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 UK (IFRS).

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 53-week period from 27 December 2020 to 1 January 2022 (2020: 29 December 2019 to 26 December 2020).

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 1 January 2022, the Group's financing arrangements consisted of a fully drawn term loan of £70m, an undrawn revolving credit and overdraft facility (RCF) of £23.2m and finance lines to fund hire fleet capital expenditure, of which £12.6m had not been utilised. Both the term loan and RCF are subject to net debt leverage and interest cover covenant tests each quarter. At the financial year-end the Group had significant headroom against these covenants. Cash at 1 January 2022 was £42.3m.

The Directors have prepared a going concern assessment up to 29 April 2023, 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's base case for the 12 months to 29 April 2023 assumes a continued recovery of revenue during 2022. The Board has considered various downside scenarios including a 'reasonable worst-case' driven by lower than forecast market growth rates, the loss of a major customer contract, increased inflationary pressures and an increase in debtor days. In addition, it assumes that continued strategic investment in technology does not deliver the expected uplift in revenue. This reasonable worst-case scenario has been modelled without mitigating actions and, despite this, the Group is forecast to maintain headroom against its working capital requirements and financial covenants within the assessment period.

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, its ability to deploy mitigating actions where appropriate and the principal risks and uncertainties (see pages 30 to 34) 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.

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.

a) Estimates

Useful economic life and residual value of assets

Sensitivity analysis has not been carried out 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 multiple 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. Following the implementation of a new asset management system in the 2020 financial year, continuing improvements have been made in the recording and monitoring of fixed assets in the core UK hire business. Going forward, the Directors expect to make further improvements to the recording, reporting and management of property, plant and equipment across the Group.

Useful economic life of intangible assets

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. Further details of the net carrying value of intangible assets are give in note 14.

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, the rate of inflation 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 non-trading stores, distribution centres and unused office space within the Group's property portfolio. Due to the interdependency of assets within the branch and distribution centre network, the assessment of whether a site is onerous is based predominately on whether it is contributing to the wider network's profit. Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other non-lease related unavoidable costs. Future operating losses are not provided for. The carrying amount of the onerous property costs for closed locations will be affected by changes in the discount rate, inflation and general market conditions. Further details of the assumptions and sensitivities are given in note 22.

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, in some cases, 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 22.

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 IFRS 16 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 for properties based on the level of risk driven by geographic region or age. Further details on the lease liabilities are given in note 20.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

2. Critical accounting estimates and judgements continued

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.

b) 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.

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. Further details of the impairment reviews undertaken, assumptions and sensitivities are given in note 14.

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. 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.

For properties which are no longer trading, costs, including dilapidations provisions, are provided on the assumption that leases will not be surrendered before the first exercisable break date because management believe that it is very difficult to make such an estimate of early surrender reliably. Therefore a prudent view is taken, which could lead to release of provisions in the event an early surrender is obtained.

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

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 1 January 2022 are listed and explained in note 7.

Deferred tax assets
The assessment of probability of utilisation of tax losses is a key judgement discussed in further detail in note 23.

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

Standards issued and effective beginning on or after 2021
The new standards, interpretations and amendments that are effective for the first time for the financial year beginning 27 December 2020 are detailed below:

COVID-19- Related Rent Concessions beyond 30 June 2021: Amendments to IFRS 16
The IASB issued these amendments on 28 May 2020. The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification.

These amendments have not had a material impact on the group.

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);
- IAS 1 and IFRS Practice Statement 2 (Amendment – Disclosure of Accounting Policies);
- IFRS 3 Business Combinations (Amendment – Definition of Business);
- Revised Conceptual Framework for Financial Reporting;
- 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);
- IFRS 17 Insurance Contracts; and

– IAS 12 Deferred Tax (Amendment – Assets and Liabilities Arising from a Single Transaction).
– Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

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 within accruals (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 within accruals (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

4. Accounting policies continued

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

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

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

e) Foreign currency translation
Foreign currency transactions are translated into an entity's functional currency using the exchange rates prevailing at the dates of the transactions. 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 2021 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.

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.

With regard to Software as a Service (SaaS) arrangements, where the Group controls the underlying software, configuration and customisation costs are capitalised as part of bringing the identified intangible asset into use. Where the Group does not control the underlying software, but the related configuration and customisation costs are not distinct from access to the software, these costs are expensed over the SaaS contract term. In all other circumstances, configuration and customisation costs are recognised as an expense as incurred, except in the limited instances where these costs result in a separately identifiable intangible asset.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

4. Accounting policies continued

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

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

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

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

k) Trade receivables and contract assets
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.

Contract assets relate to the group's right to consideration for work completed but not billed at the reporting date and consist of accrued income. Contract assets are recognised initially at fair value, which is deemed to be the agreed transaction price. The contract assets are transferred to trade receivables when an invoice has been issued at which point the right to payment becomes unconditional.

Recoverability of trade receivables and contract assets
The provision for impairment of trade receivables and contract assets consists of a bad debt and a credit note provision (see note 2). For bad debt provisioning, the Group applies the IFRS 9 simplified approach of using a lifetime expected credit loss provision for trade receivables and contract assets 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. If material, the impairment loss is disclosed on the face of the Consolidated Income Statement.

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.

The group derecognises borrowings when, and only when, the liability is extinguished. Where an exchange occurs between an existing lender of borrowings with substantially different terms this is considered as an extinguishment of the existing borrowings and the new borrowings are recognised.

o) Provisions
Provisions for onerous property costs, contracts, 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 (excluding lease costs) on non-trading stores, distribution centres and unused office space within the Group's property portfolio. Trading stores form part of a wider network of assets and are not judged to be onerous as they contribute to the wider network. Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other non-lease unavoidable costs to the first exercisable break under the related lease. 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 and property disposals. 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 22.

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 for all occupied properties held prior to 29 December 2019 (IFRS 16 transition date). From 29 December 2019 adjustments are reflected against the right of use asset for any new properties. Where a property is non-trading any increase or decrease in the dilapidations provision will be reflected directly in profit and loss. 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 22.

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, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

4. Accounting policies continued

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.

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
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.

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 £0.2m (2020: £1.3m).

(u) Holiday pay accrual

A liability is recognised to the extent of any unused holiday pay entitlement which is accrued at the balance sheet date and carried forward to future periods. This is measured at the undiscounted salary cost of the future holiday entitlement accrued at the balance sheet date.

(v) 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.

w) 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.

x) 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.

y) 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.

z) Prior period restatements

The group made two strategic divestitures during the year ended 1 January 2022 (see note 29). These meet the IFRS 5 definition of discontinued operations and so the prior period figures included in the Consolidated Income Statement and the supporting notes have been re-presented to exclude amounts relating to discontinued operations.

Following a review of the Annual Report and Accounts for the year to 26 December 2020 by the FRC's Corporate Reporting Review Team, a change has been made to separately disclose the impairment loss on trade receivables of £3.1m on the face of the Consolidated Income Statement. Previously it was included within administrative expenses (which has now decreased by the corresponding amount of £3.1m to £112.6m) and disclosed within note 18. There was no impact on profit.

Subsequent to the approval of the financial statements for the year ended 26 December 2020, the Directors established that certain assets that had previously been held under finance leases had been incorrectly classified as right of use assets. The balances have been amended in these financial statements and shown as a prior year adjustment. The effect of this adjustment has been to increase property, plant and equipment, as at 26 December 2020, by £6.4m and decrease right of use assets by £6.4m. There has been no effect on the profit and loss reserve or on net assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

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 and 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 either not held within or available from 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 recognised £0.2m in grant income from participation in the Republic of Ireland's job retention scheme which had been received in 2020 and deferred. In 2020, £9.1m was recognised 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 £0.1m (2020: £2.7m) being allocated to Rental and related contribution, £nil (2020: £0.7m) to Services contribution, £0.1m (2020: £5.2m) to branch and selling costs, £nil (2020: £0.3m) to central costs, and £nil (2020: £0.2m) to exceptional items.

In 2020, £0.6m of grant income related to property rates was allocated to branch and selling costs – no such grant income was received in 2021.

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. No single customer represented more than 10% of Group revenue in the year (2020: one customer was more than 10%).

	Year ended 1 January 2022			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	**191,158**	**112,111**	**–**	**303,269**
Contribution	**132,583**	**16,209**	**–**	**148,792**
Branch and selling costs			(49,229)	(49,229)
Central costs			(29,786)	(29,786)
Adjusted EBITDA				**69,777**
Less: Exceptional items			**8,039**	**8,039**
Less: Depreciation and amortisation	**(22,350)**	**(826)**	**(20,119)**	**(43,295)**
Operating profit				**34,521**
Net finance expenses				(28,455)
Profit before tax from continuing operations				**6,066**
Income tax credit				1,239
Profit after tax from continuing operations				**7,305**
Profit on disposal of discontinued operations				**41,242**
Profit for the year from discontinued operations				**5,179**
Profit for the financial period				**53,726**

	Year ended 1 January 2022			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	18,558	16	2,750	21,324
Right of use assets	8,558	56	6,826	15,440
Intangibles	2,928	39	1,361	4,328
Non-current assets net book value				
Property, plant and equipment	44,332	129	15,476	59,937
Right of use assets	20,651	384	54,945	75,980
Intangibles	143,553	836	3,259	147,648
Deferred tax assets			2,404	2,404
Current assets			123,631	123,631
Current liabilities			(103,020)	(103,020)
Non-current liabilities			(144,679)	(144,679)
				161,901

	Year ended 26 December 2020			
	Restated[1]			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers from continuing operations	160,615	89,448	–	250,063
Contribution	116,812	10,737	–	127,549
Branch and selling costs			(46,202)	(46,202)
Central costs			(21,787)	(21,787)
Adjusted EBITDA				59,560
Less: Exceptional items			(13,016)	(13,016)
Less: Depreciation and amortisation	(25,134)	(600)	(25,481)	(51,215)
Operating loss				(4,671)
Net finance expenses				(24,968)
Loss before tax from continuing operations				(29,639)
Income tax charge				(42)
Profit for the year from discontinued operations				6,100
Loss after tax and discontinued operations				(23,581)

1 The notes supporting the income statement have been restated to disclose continuing operations (note 4z).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

5. Segment reporting continued

	Year ended 26 December 2020			
	Restated[2]			
	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	50,429	203	17,743	68,375
Right of use assets	20,576	212	62,700	83,488
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

2 Leased assets transferred to right-of-use assets on adoption of IFRS16 were overstated in the prior year due to the inclusion of expired leases. These have been re-presented as owned assets. The net book value of the assets as at 26 December 2020 was £6.4m – there is no impact to total non-current assets (see notes 4z, 15 and 16).

6. Other operating income

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 Restated[1] £000s
COVID-19 Government grant income: job retention schemes	**232**	9,118
COVID-19 Government grant income: rates grants	**–**	595
Insurance proceeds (net of fees)	**1,203**	1,216
Sub-lease rental and service charge income	**273**	221
	1,708	11,150

During the year, the Group recognised £0.2m as a result of earlier participation in the Republic of Ireland's job retention scheme. The income was received during 2020 with recognition deferred pending confirmation of eligibility. In 2020, the Group received and recognised £9.1m of grant income from the UK COVID-19 Job Retention Scheme and a similar scheme in the Republic of Ireland; and COVID-19 rates grants of £0.6m. During the year the Group also received £1.2m (2020: £1.2m) from COVID-19 business interruption insurance claims. Sub-let rental income of £0.3m (2020: £0.2m) was received on vacant properties.

1 The notes supporting the income statement have been restated to disclose continuing operations (note 4z).

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 1 January 2022 the Group has recognised exceptional items as follows:

	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Year ended 1 January 2022 £000s
Onerous property (credits)/costs	**(7,982)**	**(106)**	**223**	**(7,865)**
Costs expensed on refinancing	**–**	**–**	**9,730**	**9,730**
Costs relating to restructure	**556**	**–**	**–**	**556**
Onerous contract	**(257)**	**–**	**(8)**	**(265)**
Capital Raise and Aim listing	**(250)**	**–**	**–**	**(250)**
Exceptional items continuing operations	**(7,933)**	**(106)**	**9,945**	**1,906**
Profit arising on business divestiture – discontinued operations	**(41,242)**	**–**	**–**	**(41,242)**
Total	**(49,175)**	**(106)**	**9,945**	**(39,336)**

During the year ended 26 December 2020, the Group recognised exceptional costs analysed as follows:

	Restated[1]					
	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	–	–	7,010	(21)	373	7,362
Network restructure	305	25	4,422	(150)	–	4,602
Onerous contract	–	–	557	–	–	557
Capital Raise and AIM listing	–	–	868	–	–	868
	305	25	12,857	(171)	373	13,389

1 The notes supporting the income statement have been restated to disclose continuing operations (note 4z).

Exceptional items incurred in 2021 and 2020

Costs related to onerous properties: branch and office closures

In October 2020 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 to agree exits from these and pre-existing dark stores. An exceptional credit of **£7.9m** has been recognised in 2021 (2020 an exceptional charge of £7.4m) was recognised. This relates mainly to the release of lease liabilities, onerous property cost and dilapidations provisions on surrender of properties following the branch closures.

Right of use (ROU) assets valuing £9.5m were fully impaired following the decision to close stores in October 2020. As a result, any subsequent surrender of the associated leases results in a gain on the disposal of remaining lease liability. 66 of the leases related to October 2020 restructuring were disposed of in the year resulting in a gain of **£4.0m** (2020: 60 leases surrendered and net gain of £4.0m). Other dark stores exited in the year resulted in a gain of **£1.0m**. The lease liability associated with the last nine dark stores is £1.1m.

Two closed stores were subject to lease modifications (rent reviews) during 2021. This resulted in the addition of lease liabilities and corresponding ROU assets – which were immediately impaired – generating a charge of **£0.1m**.

In 2020, COVID-19 qualifying rent concessions of £0.3m were recognised as an exceptional credit because they related to stores that were non-trading and previously had been considered onerous.

An interest charge (discount unwind) of **£0.2m** (2020: £0.4m) on dark store liabilities was recognised through exceptional finance costs.

Onerous property cost provisions for rates and utilities associated with surrendered dark stores have been released resulting in a credit of **£3.0m** (figure is net of £1.1m in fees paid, mainly to the Group's restructuring adviser). In 2020, onerous property costs of £2.1m were recognised, including £0.4m in advisory fees.

As part of the surrender negotiations to exit dark stores dilapidations liabilities were agreed and a net credit of **£0.2m** was recognised. In 2020, dilapidations assets totalling £1.2m were impaired 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 in 2020.

The amounts remaining for onerous contract costs and dilapidations provisions on dark stores are £0.2m and £1.1m respectively (2020: £4.0m and £3.9m respectively).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

7. Exceptional items continued

Onerous contract

The Group maintains a provision to cover the expected outflows related to its onerous contract with Unipart for the NDEC operation which ceased in late 2017 (note 22). The liability at the balance sheet date is £13.5m (2020: £17.0m). The discount rate used to calculate the present value of the provision is the 5 year UK gilt rate of 0.81% (2020: -0.05%). Application of the new discount rate at the balance sheet date resulted in a credit to the income statement of £0.3m (2020: debit of £0.6m), recognised as exceptional in line with the original provision.

Capital raise and AIM listing

In 2020 the Group successfully completed a capital raise to strengthen its balance sheet and moved its listing to AIM in January 2021. An over-accrual of legal costs of £0.3m was released in 2021 (fees totalling £0.9m had been recognised in 2020). Costs that related specifically to the capital raise were deducted from the net proceeds and included in the share premium account (note 24).

Exceptional items incurred in 2021 only

Costs expensed on refinancing

In October 2021, following the sale of All Seasons Hire Limited (see business divestitures below and note 29) the Group repaid £50.0m of the senior finance facility in place at that time. The early repayment resulted in a prepayment penalty of £1.9m. In November 2021 the Group completed a refinancing exercise. A new senior finance facility of £70m was agreed at a significantly reduced interest rate. The early repayment of the previous facility resulted in a prepayment penalty of £4.5m. Repayments of the senior finance facility led to accelerated amortisation of debt issue costs of £3.3m.

Costs related to restructure

Following the changes made to its operating network in Q4 2020 and the roll-out of HSS Pro in Q1 2021, the Group has commenced an exercise to legally separate the HSS Operations and Pro Service divisions into distinct entities. Fees incurred relating to the restructure of £0.6m have been recognised as exceptional. The restructure is expected to complete in 2022 and to cost less than £2m in total.

Business divestiture

To enable the Group to strengthen its balance sheet and focus on its strategic priority to Transform the Tool Hire Business, the Group made two strategic divestments during the year:

> Laois Hire Limited
>
> Laois Hire Limited, the Irish large plant hire business was sold to Briggs Equipment Ireland Limited (Briggs) on 7 April 2021. Proceeds of the disposal, net of transaction costs, were £10.0m generating a profit on disposal of £3.2m.
>
> All Seasons Hire Limited
>
> All Seasons Hire Limited, a cooling and heating provider was sold to Cross Rental Services Limited with the transaction completing on 29 September 2021. Proceeds of the disposal, net of transaction costs, were £54.3m generating a profit on disposal of £38.0m.

As part of these transactions, the Group entered into commercial agreements to cross-hire equipment to ensure the broadest possible distribution of, and customer access to, each party's existing fleet.

Exceptional items incurred in 2020 only

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 leaving the business on completion of consultation. £1.6m was recognised in this regard. Property, plant and equipment with a net book value of £2.0m was impaired and a further £0.8m (note 9) disposed of. Excess resale stock valued at £0.3m was written off.

8. Finance expense

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 Restated[1] £000s
Senior finance facility	**12,653**	16,334
Senior finance facility prepayment penalties (note 7)	**6,430**	–
Debt issue costs	**1,896**	2,398
Lease liabilities	**3,950**	4,950
Interest unwind on discounted provisions	**15**	424
Revolving credit facility	**58**	382
Interest on financial instruments	**–**	320
Bank loans and overdrafts	**153**	160
Accelerated amortisation of debt issue costs (note 7)	**3,300**	–
	28,455	24,968

1 The notes supporting the income statement have been restated to disclose continuing operations (note 4z).

9. Operating profit

Operating profit is stated after charging/(crediting):

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 Restated[1] £000s
Depreciation (see below for detail)	**38,120**	46,193
Amortisation (see below for details)	**5,175**	5,022
Write off inventory (note 17)	**256**	277
Operating lease rentals:		
– motor vehicles and equipment for internal use	**984**	358
– hire stock	**662**	–
Sub-lease rental income (note 6)	**(273)**	(221)
Foreign currency translation gains	**(81)**	(400)
COVID-19 Government grant income (note 6)	**(232)**	(9,713)
Business interruption insurance proceeds (note 6)	**(1,203)**	(1,216)

	£000s	£000s
Auditors' remuneration		
– audit of Group and Company Financial Statements	**148**	105
– audit of subsidiary Financial Statements	**712**	399
– other non-audit assurance services	**39**	194
	899	698

1 The notes supporting the income statement have been restated to disclose continuing operations (note 4z).

Below is a reconciliation of depreciation and amortisation across the asset categories:

	Year ended 1 January 2022 £000s			Year ended 26 December 2020 £000s			
	Property, plant and equipment £000s	Right of use assets £000s	Total £000s	Property, plant and equipment £000s	Right of use assets £000s	Net investment in subleases £000s	Total £000s
Depreciation (note 15,16)	**16,735**	**19,393**	**36,128**	20,173	24,536	–	44,709
Accelerated depreciation relating to hire stock customer losses and hire stock write-offs	**3,370**	**634**	**4,004**	4,324	403	–	4,727
Loss on disposals of non hire stock assets	**91**	**997**	**1,088**	2,028	82	59	2,169
Impairment (note 15,16)	**264**	**233**	**497**	2,016	9,541	–	11,557
Total depreciation as per asset notes	**20,460**	**21,257**	**41,717**	28,541	34,562	59	63,162
Less dilapidations profit on surrender	**(1,086)**	**–**	**(1,086)**	–	–	–	–
Disposal of assets as part of business divestiture (note 29)	**(243)**	**–**	**(243)**	–	–	–	–
Depreciation per consolidated statement of cash flows	**19,131**	**21,257**	**40,388**	28,541	34,562	59	63,162
Less depreciation and loss on disposal of assets from discontinued operations (note 29)	**(1,364)**	**(472)**	**(1,836)**	(2,779)	(618)	–	(3,397)
Less exceptional profit on disposal of leases	**–**	**(432)**	**(432)**	(4,004)	(9,568)	–	(13,572)
Depreciation as reported on a continuing operations basis	**17,767**	**20,353**	**38,120**	21,758	24,376	59	46,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

9. Operating profit continued

Amounts charged in respect of amortisation	Year ended 1 January 2022 £000s	Year ended 26 December 2020 £000s
Intangible assets		
Amortisation (note 14)	5,310	5,197
Less amortisation relating to discontinued operation (note 29)	(135)	(175)
	5,175	5,022

10. Employees

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

	Year ended 1 January 2022	Year ended 26 December 2020
Distribution	403	460
Hire stock and inventory maintenance	251	268
Sales and administration	1,394	1,602
	2,048	2,330
Discontinued operations	(145)	(163)
	1,903	2,167

The aggregate remuneration costs of these employees were as follows:

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 £000s
Wages and salaries	71,696	69,324
Social security costs	7,101	6,733
Pension costs	1,942	2,081
Share-based payment expense	1,374	453
	82,113	78,591
Discontinued operations	(3,383)	(6,231)
	78,730	72,360

During the year, remuneration costs of £1.8m (2020: £1.2m) were capitalised as software development and infleeting of hire equipment costs. These amounts have been 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 1 January 2022 £000s	Year ended 26 December 2020 £000s
Wages and salaries	2,928	2,562
Employer's national insurance contributions and similar taxes	416	375
Bonus	1,841	–
Other pension costs	162	125
Share-based payment expense	877	473
	6,224	3,535

11. Directors' remuneration

The remuneration costs of the Group's Directors were:

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 £000s
Aggregate emoluments	954	736
Bonus	639	–
Pension costs	55	55
Directors' emoluments	1,648	791
Share-based payment expense	278	217
Total charged to Consolidated income statement	1,926	1,008

Included above is the fee of £40,000 (2020: £30,000) for one Director (2020: one) that is paid to Exponent Private Equity LLP (note 30).

The remuneration of the highest paid Director was:

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 £000s
Aggregate emoluments	374	297
Bonus	371	–
Pension costs	31	31
Directors' emoluments	776	328
Share-based payment expense	168	132
Total charged to Consolidated income statement	944	460

12. Income tax charge

(a) Analysis of tax charge in the year

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 Restated[1] £000s
Current tax charge/(credit)		
UK corporation tax on the result for the year	1,151	78
Adjustments in respect of prior years	(80)	17
Total current tax charge	1,071	95
Deferred tax (credit)/charge for the year		
Deferred tax credit for the year	(2,319)	(592)
Deferred tax impact of change in tax rate	(117)	13
Adjustments in respect of prior years	126	526
Total deferred tax credit (note 23)	(2,310)	(53)
Income tax (credit)/charge	(1,239)	42

1 The notes supporting the income statement have been restated to disclose continuing operations (note 4z).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

12. Income tax charge continued

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

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

	Year ended 1 January 2022 £000s	Year ended 26 December 2020 Restated[1] £000s
Profit/(loss) before tax from continuing operations	**6,066**	(29,639)
Profit/(loss) before tax multiplied by the effective standard rate of corporation tax of 19% (2020: 19%)	**1,153**	(5,631)
Effects of:		
Unprovided deferred tax movements on short-term temporary differences and capital allowance timing differences	**(2,958)**	3,003
Adjustments in respect of prior years	**46**	543
Expenses not deductible for tax purposes	**2,437**	858
Losses surrendered for no consideration	**–**	1,178
Foreign tax suffered	**200**	78
Recognition of prior year tax losses	**(2,000)**	–
Impact of change in tax rate	**(117)**	13
Income tax (credit)/charge	**(1,239)**	42

1 The notes supporting the income statement have been restated to disclose continuing operations (note 4z).

The charge of £2.4m (2020: £0.9m) arising in respect of expenses not deductible is mainly attributable to costs associated with the Group exiting property leases and removing dormant entities from the Group structure. The credit of £2.0m (2020: £nil) arises from the recognition of a deferred tax asset in respect of prior period losses. Based upon forecasts, the Group considers the recognition criteria in IAS 12 have been met. In 2020, the adjustment in respect of prior years relates to an increase in deferred tax liability due to accelerated capital allowances in earlier periods.

(c) Factors that may affect future tax charge

The standard rate of UK corporation tax will increase to 25% from 1 April 2023. The increased rate has been used to calculate the above deferred tax disclosures except where it is known the temporary differences will unwind before the new rate applies, in which case the existing rate of 19% has been used.

The Group has an unrecognised deferred tax asset relating to temporary timing differences on plant and equipment, intangible assets and provisions of £15.2m (2020: £12.8m) and relating to trading losses of £17.9m (2020: £13.3m). 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

Basic earnings/(loss) per share:

	Profit/(loss) after tax from total operations £000s	Profit/(loss) after tax from continuing operations £000s	Weighted average number of shares 000s	Earnings/(loss) after tax from total operations per share pence	Earnings/(loss) after tax from continuing operations per share pence
Year ended 1 January 2022	**53,726**	**7,305**	**696,821**	**7.71**	**1.05**
Year ended 26 December 2020	(23,581)	(29,681)	196,232	(12.02)	(15.13)

Basic earnings/(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 earnings/(loss) per share:

	Profit/(loss) after tax from total operations £000s	Profit/(loss) after tax from continuing operations £000s	Diluted weighted average number of shares 000s	Earnings/(loss) after tax from total operations per share pence	Earnings/(loss) after tax from continuing operations per share pence
Year ended 1 January 2022	**53,726**	**7,305**	**714,816**	**7.52**	**1.02**
Year ended 26 December 2020	(23,581)	(29,681)	196,232	(12.02)	(15.13)

Diluted earnings/(loss) per share is calculated using the profit/(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 25 and 26.

All of the Group's potentially dilutive equity derivative securities were dilutive for the purpose of diluted earnings per share (2020: anti-dilutive for the purpose of diluted basic loss per share).

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

	Year ended 1 January 2022 pence total operations	**Year ended 1 January 2022 pence continuing operations**	Year ended 26 December 2020 pence total operations	Year ended 26 December 2020 pence continuing operations
Basic earnings/(loss) per share	**7.71**	**1.05**	(12.02)	(15.13)
Add back:				
Exceptional items per share[1]	**(5.64)**	**0.27**	6.85	6.82
Amortisation per share[2]	**0.76**	**0.74**	2.65	2.56
Tax per share	**(0.17)**	**(0.18)**	0.01	0.02
Charge:				
Tax (credit)/charge at prevailing rate	**(0.51)**	**(0.36)**	0.48	1.09
Adjusted basic earnings/(loss) per share	**2.15**	**1.52**	(2.03)	(4.64)

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 diluted earnings/(loss) per share and the adjusted diluted earnings/(loss) per share:

	Year ended 1 January 2022 pence total operations	**Year ended 1 January 2022 pence continuing operations**	Year ended 26 December 2020 pence total operations	Year ended 26 December 2020 pence continuing operations
Diluted earnings/(loss) per share	**7.52**	**1.02**	(12.02)	(15.13)
Add back:				
Exceptional items per share[1]	**(5.50)**	**0.27**	6.85	6.82
Amortisation per share[2]	**0.74**	**0.72**	2.65	2.56
Tax per share	**(0.16)**	**(0.17)**	0.01	0.02
Charge:				
Tax (credit)/charge at prevailing rate	**(0.49)**	**(0.35)**	0.48	1.09
Adjusted diluted earnings/(loss)	**2.11**	**1.49**	(2.03)	(4.64)

1 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.
2 Amortisation per share is calculated as the amortisation charge divided by the diluted weighted average number of shares in issue through the year.

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

	Year ended 1 January 2022 Weighted average number of shares 000s	Year ended 26 December 2020 Weighted average number of shares 000s
Basic	**696,821**	196,232
LTIP share options (note 26)	**8,296**	–
Restricted stock grants (note 26)	**8,988**	–
CSOP options (note 26)	**711**	–
Diluted	**714,816**	196,232

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14. Intangible assets

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 27 December 2020	124,877	26,744	23,222	27,580	202,423
Additions	–	–	–	4,328	4,328
Disposals	–	–	–	(52)	(52)
Business disposal (note 29)	(9,018)	(1,344)	(632)	–	(10,994)
Foreign exchange differences	(4)	–	–	–	(4)
At 1 January 2022	115,855	25,400	22,590	31,856	195,701
Amortisation					
At 27 December 2020	–	21,348	622	21,955	43,925
Charge for the period	–	2,675	84	2,551	5,310
Disposals	–	–	–	(52)	(52)
Business disposal (note 29)	–	(722)	(408)	–	(1,130)
At 1 January 2022	–	23,301	298	24,454	48,053
Net book value					
At 1 January 2022	115,855	2,099	22,292	7,402	147,648

	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 year	–	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

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	**109,802**	**21,900**	**–**	**1,900**	**133,602**
Power generation	**6,053**	**–**	**392**	**199**	**6,644**
At 1 January 2022	**115,855**	**21,900**	**392**	**2,099**	**140,246**

	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

The remaining life of intangible assets other than goodwill and indefinite life brands is between nil and 13 years (2020: nil and 14 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 brands for impairment annually and considers at each reporting date whether there are indicators that impairment may have occurred. In identifying indicators of impairment management considers current market capitalisation, asset obsolescence or closure, adverse trading performance and any other relevant wider economic or operational factors.

Following the disposal of All Seasons Hire Limited, which was the sole component of the Climate Control CGU, the Group has two cash generating units (CGUs): HSS Core and HSS Power.

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 (2020: 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 inflation 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 2022 and model of the business for the following two years (to the end of 2024).
- 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 2.0% for each of the CGUs (2020: 1.8%).
- A pre-tax discount rate of 9.44% (2020: 9.16%), calculated by reference to a weighted average cost of capital (WACC) based on an industry peer group of quoted companies and including a 2.0% premium reflective of the Group's market capitalisation.

An impairment may be identified if changes to any of the factors mentioned above become significant, including under performance 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 brand assets carried in the balance sheet at 1 January 2022 for either 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 either CGU. 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. The Directors also noted that the market capitalisation of the group at the balance sheet date was below the consolidated net asset position – which is an indicator that an impairment may exist. On consideration of various factors including the concentrated shareholder base and recent shareholder and investor activity they concluded that an impairment was not required in this regard.

In respect of HSS Core (the more sensitive CGU) at 1 January 2022, the headroom between VIU and carrying value of the related assets was £156.0m (2020: £75.1m). The Directors' sensitivity analysis with regard to HSS Core shows that an increase in the discount rate to 15.0% (2020: 11.5%) or a reduction in the long-term growth rate to a decline of 6.2% (2020: decline of 0.7%) would eliminate the headroom shown. In addition, the Directors have assessed the combined impact of the long-term growth rate falling to zero (2020: zero) and an increase in the discount rate of 1% to 10.44% (2020: 10.16%). This shows that the headroom drops to £64.7m (2020: £53.9m) for HSS Core but that impairment is not required for either 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 27 December 2020	58,419	55,315	149,534	263,268
Transferred from right of use assets	–	–	8,742	8,742
Additions	2,011	755	18,558	21,324
Disposals[1]	(22,394)	(11,193)	(16,515)	(50,102)
Business disposal (note 29)	(702)	(1,683)	(26,064)	(28,449)
Foreign exchange differences	(31)	(31)	(581)	(643)
At 1 January 2022	37,303	43,163	133,674	214,140
Accumulated depreciation				
At 27 December 2020	45,208	50,580	99,105	194,893
Transferred from right of use assets	–	–	5,200	5,200
Charge for the year	2,543	1,710	12,482	16,735
Impairment	264	–	–	264
Disposals[1]	(22,325)	(11,171)	(13,145)	(46,641)
Business disposal	(231)	(1,485)	(14,148)	(15,864)
Foreign exchange differences	(6)	(56)	(322)	(384)
Transfers	–	(170)	170	–
At 1 January 2022	25,453	39,408	89,342	154,203
Net book value				
At 1 January 2022	11,850	3,755	44,332	59,937

1 Following the reduction in the Group's branch network and surrender of the majority of dark stores (note 7), an asset verification exercise has been carried out. As a result, land and buildings and property, plant and equipment assets with a gross book value of £19.6m, and which had previously been fully impaired, have been disposed during the year.

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

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire Restated £000s	Total Restated £000s
Cost				
At 29 December 2019	73,505	61,925	179,788	315,218
Transferred to right of use assets at 29 December 2019 – as previously reported	–	–	(46,888)	(46,888)
Restatement[1]	–	–	15,906	15,906
Transferred to right of use assets – restated	–	–	(30,982)	(30,982)
Transferred from right of use assets – as previously reported	–	–	3,144	3,144
Restatement[1]	–	–	348	348
Transferred from right of use assets – restated	–	–	3,492	3,492
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	149,534	263,268
Accumulated depreciation				
At 29 December 2019	54,437	55,936	102,994	213,367
Transferred to right of use assets at 29 December 2019 – as previously reported	–	–	(17,576)	(17,576)
Restatement[1]	–	–	7,843	7,843
Transferred to right of use assets – restated	–	–	(9,733)	(9,733)
Transferred from right of use assets – as previously reported	–	–	1,652	1,652
Restatement[1]	–	–	377	377
Transferred from right of use assets – restated	–	–	2,029	2,029
Charge for the year – as previously reported	3,516	2,139	14,518	20,173
Restatement[1]	–	–	1,683	1,683
Charge for the year – restated	3,516	2,139	16,201	21,856
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	99,105	194,893
Net book value				
At 26 December 2020	13,211	4,735	50,429	68,375

1 'Transferred to right of use assets' category represents the transfer of assets held under finance lease to right of use (ROU) assets (note 16) on adoption of IFRS 16. 'Transferred from right of use assets' category represents the return of ROU assets at expiry of the lease in cases where title is transferred to the Group. Leased assets transferred to right-of-use assets on adoption of IFRS 16 were overstated in the prior year due to the inclusion of expired leases. These have been re-presented as owned assets. The net book value of the assets at transition was £8.1m – there is no impact to total non-current assets (see notes 4z and 16). The net book value of the total restatement was £6.4m. The restatement has no impact on the consolidated income statement and no impact on net assets in the consolidated statement of financial position.

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16. Right of use assets

	Property £000s	Vehicles £000s	Equipment for internal use £000s	Equipment for hire £000s	Total £000s
Cost					
At 27 December 2020	61,253	23,681	562	21,998	107,494
Additions	1,882	5,000	–	8,558	15,440
Re-measurements	3,407	128	(12)	–	3,523
Transfers to property, plant and equipment	–	–	–	(4,462)	(4,462)
Disposals	(8,755)	(859)	–	(755)	(10,369)
Business disposals (note 29)	(1,304)	(1,662)	(30)	–	(2,996)
Amount re-recognised on disposal of sublease	544	–	–	–	544
Foreign exchange differences	(180)	(5)	–	–	(185)
At 1 January 2022	56,847	26,283	520	25,339	108,989
Accumulated depreciation					
At 27 December 2020	15,403	6,854	327	1,422	24,006
Transfers to property, plant and equipment	–	–	–	(920)	(920)
Charge for the period	7,840	7,099	147	4,307	19,393
Impairments	233	–	–	–	233
Disposals	(7,975)	(642)	–	(121)	(8,738)
Business disposals (note 29)	(397)	(538)	(30)	–	(965)
At 1 January 2022	15,104	12,773	444	4,688	33,009
Net book value					
At 1 January 2022	41,743	13,510	76	20,651	75,980

	Property £000s	Vehicles £000s	Equipment for internal use £000s	Restated Equipment for hire £000s	Restated Total £000s
Cost					
Recognised on transition date at 29 December 2019 – as previously reported	58,014	21,416	789	29,312	109,531
Restatement[1]	–	–	–	(8,063)	(8,063)
Recognised on transition date – restated	58,014	21,416	789	21,249	101,468
Additions	1,317	3,040	–	4,880	9,237
Re-measurements	6,931	17	–	–	6,948
Transfers to property, plant and equipment – as previously reported	–	–	–	(3,144)	(3,144)
Restatement[1]	–	–	–	562	562
Transfers to property, plant and equipment – restated	–	–	–	(2,582)	(2,582)
Disposals	(5,164)	(814)	(227)	(1,549)	(7,754)
Foreign exchange differences	155	22	–	–	177
At 26 December 2020	61,253	23,681	562	21,998	107,494
Accumulated depreciation					
Transfers to property, plant and equipment – as previously reported	–	–	–	(1,652)	(1,652)
Restatement[1]	–	–	–	533	533
Transfers to property, plant and equipment – restated	–	–	–	(1,119)	(1,119)
Charge for the period – as previously reported	10,999	7,613	554	5,370	24,536
Restatement[1]	–	–	–	(1,683)	(1,683)
Charge for the period – restated	10,999	7,613	554	3,687	22,853
Impairments	9,541	–	–	–	9,541
Disposals	(5,137)	(759)	(227)	(1,146)	(7,269)
At 26 December 2020	15,403	6,854	327	1,422	24,006
Net book value					
At 26 December 2020	45,850	16,827	235	20,576	83,488

1 Transfers to property, plant and equipment represents the return of ROU assets at expiry of the lease and where title is transferred to the Group. Leased assets transferred to right of use assets on adoption of IFRS16 were overstated in the prior year due to the inclusion of expired leases. These have been re-presented as owned assets. The net book value of the assets at transition was £8.1m – there is no impact to total non-current assets (see notes 4z and 15). The overall correction to net book value at 27 December 2020 is £6.4m. The restatement has no impact on the consolidated income statement and no impact on net assets in the consolidated statement of financial position.

Right of use (ROU) assets are depreciated over the lease term on a straight-line basis, except where the Group expects to exercise the 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.

ROU assets are measured at cost comprising the initial measurement of lease liability, initial direct costs and restoration costs. During the year the Group recorded re-measurements of £3.4m (2020: £6.9m) on its property leases due to changes in property footprint, including lease extensions and disposals following the decision to close 134 branches in 2020 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. During the year rent reviews were enacted on two closed stores resulting in the recognition and immediate impairment of additional ROU assets. In 2020 the value of ROU assets impaired as a result of the decision to permanently close locations is £9.5m.

Disclosures relating to lease liabilities are included in note 20.

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17. Inventories

	1 January 2022 £000s	26 December 2020 £000s
Inventories	**1,972**	2,038
Inventory spares	**1,310**	1,245
Total inventories	**3,282**	3,283
Provision for impairment	**(600)**	(100)
Inventories	**2,682**	3,183

Provision for impairment of inventories	1 January 2022 £000s	26 December 2020 £000s
Balance at the beginning of the year	**100**	344
Additions	**500**	250
Utilisation	**–**	(494)
Balance at the end of the year	**600**	100

The cost of inventories recognised as an expense and included in cost of sales is £25.5m (2020: £21.4m) and includes the write off of inventories to the value of £0.3m (2020: £0.3m).

18. Trade and other receivables

	Year ended 1 January 2022				Year ended 26 December 2020			
	Gross £000s	Provision for impairment £000s	Provision for credit notes £000s	Net of provision £000s	Gross £000s	Provision for impairment £000s	Provision for credit notes £000s	Net of provision £000s
Trade receivables	**73,873**	**(3,884)**	**(3,225)**	**66,764**	66,434	(2,916)	(2,458)	61,060
Accrued income	**4,165**	**(47)**	**–**	**4,118**	6,965	(107)	–	6,858
Total trade receivables and contract assets	**78,038**	**(3,931)**	**(3,225)**	**70,882**	73,399	(3,023)	(2,458)	67,918
Net investment in sub-lease	**961**	**–**	**–**	**961**	1,497	–	–	1,497
Other debtors	**1,282**	**–**	**–**	**1,282**	3,502	–	–	3,502
Prepayments	**5,555**	**–**	**–**	**5,555**	2,963	–	–	2,963
Total trade and other receivables	**85,836**	**(3,931)**	**(3,225)**	**78,680**	81,361	(3,023)	(2,458)	75,880

The following table details the movements in the provisions for impairment of trade receivables and contract assets and credit notes:

	1 January 2022 £000s	1 January 2022 £000s	26 December 2020 £000s	26 December 2020 £000s
	Provision for impairment	Provision for credit notes	Provision for impairment	Provision for credit notes
Balance at the beginning of the year	**(3,023)**	**(2,458)**	(1,568)	(2,177)
Increase in provision	**(1,835)**	**(3,746)**	(3,085)	(2,877)
Utilisation	**910**	**2,752**	1,630	2,596
Business disposals (note 29)	**17**	**227**	–	–
Balance at the end of the period	**(3,931)**	**(3,225)**	(3,023)	(2,458)

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

1 January 2022	Current	0 to 60 days past due	61 to 365 days past due	1 to 2 years past due	Total
Trade receivables and contract assets	**44,209**	**22,847**	**9,376**	**1,606**	**78,038**
Expected loss rate	**1.0%**	**2.4%**	**19.7%**	**68.7%**	**5.0%**
Provision for impairment charge	**435**	**544**	**1,848**	**1,104**	**3,931**

26 December 2020	Current	0 to 60 days past due	61 to 365 days past due	1 to 2 years past due	Total
Trade receivables and 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

Contract assets consist of 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 level of uncertainty in the economy driven by the impact of COVID-19, the associated pressures on businesses facing staff and material shortages and, more latterly, increased inflation. At the balance sheet date, similar to 2020, the Group has not seen a marked increase in debt write-offs. However, as has been widely reported, there is an expectation that the situation will deteriorate as companies that continued trading only as a result of Government support fail now that the support has been withdrawn. Given these facts, the Group considers that historical losses are not a reliable 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 (2020: £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 £2.8m (2020: £4.1m). Unless the counter-party is in liquidation, these amounts are still subject to enforcement action.

Following a review of the Annual Report and Accounts for the year ended 26 December 2020 by the FRC's Corporate Reporting Review Team, the presentation of the income statement has been changed to separately disclose the impairment loss on trade receivables of £1.8m (2020: £3.1m) on the face of the consolidated income statement. Previously it was included within administrative expenses (which has now decreased by the corresponding amount of £1.8m (2020: £3.1m). There was no impact on profit.

In line with the requirements of IFRS 15, provisions are made for credit notes expected to be raised after year-end for income recognised during the year (see note 2).

The combined provisions for bad debt and credit notes amount to 9.2% of trade receivables and contract assets at 1 January 2022 (2020: 7.5%). A 0.5% increase in the combined provision rate would give rise to an increased provision of £0.4m (2020: £0.4m).

19. Trade and other payables

	1 January 2022 £000s	26 December 2020 £000s
Current		
Trade payables	**43,062**	23,957
Other taxes and social security costs	**5,175**	5,109
Other creditors	**1,308**	2,300
Accrued interest on borrowings	**271**	3,442
Accruals	**28,494**	26,907
Deferred income	**394**	106
	78,704	61,821

20. Lease liabilities

	1 January 2022 £000s	26 December 2020 £000s
Current		
Lease liabilities	**19,310**	23,395
Non-current		
Lease liabilities	**57,255**	66,177
	76,565	89,572

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20. Lease liabilities continued

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

			1 January 2022	26 December 2020
Equipment for hire	Floating	%age above NatWest base rate (2020: LIBOR)	**2.4 to 3.3%**	2.4 to 2.9%
Other	Fixed		**3.5 to 6.0%**	3.5 to 6.0%

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

	1 January 2022	26 December 2020
Lease liabilities	**4.8%**	4.8%

The lease liability movements are detailed below:

	Property £000s	Vehicles £000s	Equipment for hire and internal use £000s	Total £000s
At 27 December 2020	**57,181**	**16,861**	**15,530**	**89,572**
Additions	**1,981**	**5,029**	**8,591**	**15,601**
Re-measurements	**3,407**	**128**	**(12)**	**3,523**
Discount unwind	**2,805**	**535**	**5**	**3,345**
Payments (including interest)	**(13,209)**	**(7,012)**	**(6,675)**	**(26,896)**
Disposals	**(6,006)**	**(216)**	**–**	**(6,222)**
Business disposals (note 29)	**(1,063)**	**(1,048)**	**–**	**(2,111)**
Foreign exchange differences	**(217)**	**(30)**	**–**	**(247)**
At 1 January 2022	**44,879**	**14,247**	**17,439**	**76,565**

	Property £000s	Vehicles £000s	Equipment for hire and internal use £000s	Total £000s
Recognised on transition	60,609	21,331	17,369	99,309
Additions	1,301	3,040	4,896	9,237
Re-measurements	6,931	17	–	6,948
Discount unwind	3,622	661	779	5,062
Payments (including interest)	(10,241)	(8,213)	(7,514)	(25,968)
COVID-19 rental concessions	(996)	–	–	(996)
Disposals	(4,012)	–	–	(4,012)
Foreign exchange differences	(33)	25	–	(8)
At 26 December 2020	57,181	16,861	15,530	89,572

The Group's leases have the following maturity profile:

	1 January 2022 £000s	26 December 2020 £000s
Less than one year	**23,015**	27,452
Two to five years	**48,755**	55,544
More than five years	**19,354**	23,483
	91,124	106,479
Less interest cash flows:		
Lease liabilities	**(14,559)**	(16,907)
Total principal cash flows	**76,565**	89,572

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

	1 January 2022 £000s	26 December 2020 £000s
Less than one year	**19,310**	23,395
Two to five years	**41,417**	47,030
More than five years	**15,838**	19,147
	76,565	89,572

21. Borrowings

	1 January 2022 £000s	26 December 2020 £000s
Current		
Senior finance facility	**–**	15,000
Non-current		
Senior finance facility	**68,166**	161,899
Revolving credit facility	**–**	17,200
	68,166	179,099

The Senior finance facility is stated net of transaction fees of £1.8m (2020: £5.0m) which are being amortised over the loan period.

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

	1 January 2022 £000s	26 December 2020 £000s
Senior finance facility	**70,000**	181,982
Revolving credit facility	**–**	17,200
	70,000	199,182

On 9 November 2021, the Group refinanced, replacing the existing Senior finance facility and Revolving credit facility (RCF). The new finance facility consists of a Senior finance facility of £70.0m and a Revolving credit facility (RCF) of £25.0m both of which expire on 9 November 2025 with an option to extend for a further 12 months.

The Senior finance facility and RCF are secured over the assets of a Group company, Hampshire BidCo Limited and Hero Acquisitions Limited, and all of its subsidiaries. These subsidiaries comprise all of the trading activities of the Group. 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 (note 28).

The Group had undrawn committed borrowing facilities of £35.8m at 1 January 2022 (2020: £20.7m), including £12.6m of finance lines to fund hire fleet capital expenditure not yet utilised. Including net cash balances, the Group had access to £78.1m of combined liquidity from available cash and undrawn committed borrowing facilities at 1 January 2022 (2020: £118.3m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

21. Borrowings continued

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

			1 January 2022	26 December 2020
Senior finance facility	Floating	%age above SONIA (2020: LIBOR)	3.0%	8.0%
Revolving credit facility	Floating	%age above SONIA (2020: LIBOR)	3.0%	2.5 to 3.0%

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

	1 January 2022	26 December 2020
Borrowings	3.0%	9.8%

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 SONIA (2020: LIBOR) and a fixed margin.

The Group's borrowings have the following maturity profile:

	Borrowings 1 January 2022 £000s	Borrowings 26 December 2020 £000s
Less than one year	2,235	30,581
Two to five years	76,498	208,725
	78,733	239,306
Less interest cash flows:		
Senior finance facility	(8,733)	(38,822)
Revolving credit facility	–	(1,302)
Total principal cash flows	70,000	199,182

22. Provisions

	Onerous property costs £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 27 December 2020	3,959	12,677	17,018	33,654
Additions	86	1,471	–	1,557
Utilised during the period	(212)	(2,538)	(3,290)	(6,040)
Unwind of provision	(1)	24	(8)	15
Impact of change in discount rate	(31)	(457)	(257)	(745)
Releases	(3,615)	(643)	–	(4,258)
Business disposals (note 29)	–	(361)	–	(361)
Foreign exchange	–	1	–	1
At 1 January 2022	186	10,174	13,463	23,823
Of which:				
Current	70	1,453	3,190	4,713
Non-current	116	8,721	10,273	19,110
	186	10,174	13,463	23,823

	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	(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 property costs

The provision for onerous property costs represents the current value of contractual liabilities for future rates payments and other unavoidable costs (excluding lease costs) on leasehold properties the Group no longer uses. The additions of £0.1m (2020: £5.3m) and the release of the provision of £3.6m (2020: £3.5m) have been treated as exceptional and are included in the property cost credit of £3.0m (2020: £2.1m) (note 7). The releases are the result of early surrenders being agreed with landlords – the associated liabilities are generally limited to the date of surrender but provided to the date of the first exercisable break clause to align with recognition of associated lease liabilities.

On adoption of IFRS 16, the Company took the practical expedient available to rely on its assessment of whether a lease was 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 five years (2020: nine years) with the weighted average age of the onerous property costs being 3.30 years (2020: 3.76 years). The onerous property cost provision has been discounted at a rate of 0.81% (2020: inflated at 0.1%). Sensitivity analysis has not been conducted due to the immaterial nature of the remaining provision.

Dilapidations

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 01 January 2022 was £7.53 per square foot (psf) (2020: £6.65 psf). The increase is the result of a 5% uplift on the rates used for estimates to reflect market conditions and the changing profile of the estate given the large number of properties surrendered in the year. Estimates for future dilapidations costs are regularly reviewed as and when new information is available. Given the large portfolio of properties, the Directors do not believe it is useful or practical to provide sensitivities on a range of reasonably possible outcomes on a site by site basis. Instead, consideration is given to the impact of a sizeable shift in the average rate. A £1.00 psf increase in the dilapidations provision would lead to an increase in the provision at 01 January 2022 of £1.5m (2020: £0.50 psf lead to an increase of £0.7m).

The dilapidations provisions have been discounted depending on the remaining lease term and the rate is based on the 5 or 10 year UK gilt yields of 0.81% and 0.97% respectively (2020: ten-year UK gilt yields 0.25%). A 1% increase in both the discount rates at 01 January 2022 would decrease the dilapidations provision by £0.6m (2020: £0.7m). The inflation rate applied in the calculation of the dilapidations provision was 3.0% (2020: 1.8%). The Directors have noted the significant pressure on inflation towards the end of 2021 and especially in 2022, however most longer-range forecasts still see inflation returning to 2%. Applying an inflation rate of 5% would result in the provision increasing by £1.3m.

The aggregate movement in additions, releases and change in discount rate of £0.4m has generated £0.8m of asset additions and a credit of £0.4m to exceptionals (note 7).

Onerous contract

The onerous contract represents amounts payable in respect of the agreement reached in 2017 between the Group and Unipart to terminate the contract to operate the NDEC. Under the terms of that agreement, at 1 January 2022 £13.5m is payable over the period to 2026 (2020: £17.0m) and £3.3m has been paid during the year (2020: £3.3m). The provision has been restated to present value by applying a discount rate of 0.81% (2020: inflation rate of 0.1%). A 1% increase in the discount rate at 1 January 2022 would decrease the provision by £0.3m (2020: a 1% increase in the inflation rate would increase the provision by £0.5m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

23. Deferred tax

Deferred tax is provided in full on taxable temporary differences under the liability method using applicable tax rates.

	Tax losses £000s	Property, plant and equipment and other items £000s	Acquired intangible assets £000s	Total £000s
At 27 December 2020	–	66	(326)	(260)
Credit to the income statement – continuing operations	2,000	289	21	2,310
Charge to the income statement – discontinued operations	–	–	(12)	(12)
Eliminated on business disposal (note 29)	–	49	169	218
At 1 January 2022 Deferred tax asset/(liabilities)	2,000	404	(148)	2,256

	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 – continuing operations	48	5	53
Credit to the income statement – discontinuing operations	18	10	28
At 26 December 2020 deferred tax assets/(liabilities)	66	(326)	(260)

Deferred tax assets have been recognised to the extent that management consider it probable that tax losses will be utilised in the short term. Due to trading losses in prior years, the directors expect to phase in the recognition of taxable losses expected to be utilised in the medium and long term as they can better assess the probability of their utilisation. The level of losses to be utilised is measured by reference to the forecast as discussed in note 14 and 2b.

At 1 January 2022 £0.1m (2020: £0.3m) of the deferred tax liability is expected to crystallise after more than one year.

At 1 January 2022 the Group had an unrecognised deferred tax asset relating to trading losses of £17.9m (2020: £13.3m). The gross balance at 1 January 2022 was £94.0m (2020: £69.8m).

The Group also has an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £15.2m (2020: £12.8m). The gross balance at 1 January 2022 was £80.0m (2020: £67.4m).

These potential deferred tax assets have not been recognised on the basis that it is not sufficiently certain when taxable profits that can be utilised to absorb the reversal of the temporary difference will occur.

24. Share Capital and Capital raise

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 27 December 2020	696,477,654	6,965	45,580
2020 share issue cost	–	–	(28)
Shares issued	8,510,300	85	–
At 1 January 2022	**704,987,954**	**7,050**	**45,552**

Warrants issued in 2018 (note 25) have been exercised during the year ended 1 January 2022.

	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**

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.

25. Warrant reserve

In 2018, the Group issued 8,510,300 warrants to the holders of its debt under the Senior finance facility leading to a warrant reserve of £2.7m being recognised. The warrants were exercised at a subscription price of 1 pence following the repayment of the Senior finance facility.

	1 January 2022 Number	**1 January 2022 Nominal value £000**	26 December 2020 Number	26 December 2020 Nominal value £000
Warrants	**–**	**–**	8,510,300	2,694

26. 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 1 January 2022 are summarised below. All disclosure relates to both the Group and the Company.

Value creation plan

On 25 February 2021 a VCP award has been granted to the Executive Directors and one senior manager. The VCP award is linked to an exit event (as defined in the rules of the scheme) and market value at the date of the exit event. No share-based payment expense will be recognised unless an exit event becomes likely.

Restricted stock grant

On 29 April 2021 and 7 July 2020 restricted stock grants (RSGs) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
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26. Share-based payments continued

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. The 2019 LTIP options will partially vest on the return on capital employed target being reached at the end of the 2021 performance period.

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. The threshold share price target was not achieved and therefore the awards have lapsed in full.

On the same dates as the LTIP awards, tax-qualifying share options were granted as part of the LTIP awards (CSOP options) via a Company Share Option Plan approved by HMRC. Each CSOP is subject to the same performance targets as apply to the nil-cost options part of the LTIP and will vest and be released at the same time as the nil-cost options. If a CSOP option is exercised as a gain, the number of shares that may be delivered under the associated LTIP award will be reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award delivered to the participant is not increased by the grant of the CSOP option.

As such, the LTIP comprises a bundled HMRC-approved option in respect of the first £30,000 worth of an award, and an unapproved LTIP award for amounts in excess of this HMRC limit. Therefore, the fair value of the award in aggregate is determined by reference to the market value of the original LTIP share awards at the date of grant.

Market value options
During 2018, share awards (the 2018 Awards) were granted to eligible colleagues in the form of market value options over ordinary shares. The market value options vested subject to performance conditions based on HSS's share price measured over the three-month period ending with 31 December 2021. The threshold share price target was not achieved and therefore the awards have lapsed in full.

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. The CSOP options issued with the 2018 Market value options have also lapsed as at 31 December 2021.

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. The Deferred Bonus Plan was cash settled in April 2021.

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 1 January 2022:

	MVO Number	LTIP Number	RSG Number	CSOP Number	DBP Number
Outstanding at 27 December 2020	20,969,077	8,675,422	5,442,813	1,964,201	350,715
Granted	–	–	5,857,338	–	–
Lapsed or cancelled	(20,969,077)	(3,179,834)	(532,019)	(1,880,868)	–
Cash settled	–	–	–	–	(350,715)
Outstanding at 1 January 2022	–	5,495,588	10,768,132	83,333	–
Weighted average remaining contractual life, years	–	7.4	8.9	7.4	–
Weighted average fair value of options granted, pence	–	35.9	23.6	–	–

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	–
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 total charge for the year relating to employee share-based payment plans during the year ended 1 January 2022 was £1,373,736 (2020: £453,000), all of which related to equity-settled share-based payment transactions.

27. 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 is only exposed to interest rate risk on its leases in respect of hire stock assets and its variable interest borrowings, such as the Senior finance facility, RCF and other short-term borrowings. During the year ended 1 January 2022, the Group has significantly reduced its borrowings and interest rate on the loans. 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 £0.9m (2020: £1.9m).

Interest rate sensitivity

The table below demonstrates the sensitivity to reasonably possible changes in interest rates on income and equity for the year when this movement is applied to the carrying value of financial assets and liabilities present at 1 January 2022:

	Profit before tax		Equity	
Effect of:	**1 January 2022 £m**	26 December 2020 £m	**1 January 2022 £m**	26 December 2020 £m
100 basis points increase	**0.9**	1.9	**0.9**	1.9
200 basis points increase	**1.7**	3.9	**1.7**	3.9

Refinancing risk

The Group manages its refinancing risk by not letting its borrowings run to their maturity. The Group has successfully refinanced in November 2021 with the new Senior finance facility and RCF due to expire on 8 November 2026.

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 branch. Given the relatively small size of the Republic of Ireland operations compared to the Group, the Directors do not consider this to be a significant risk to the Group.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations and arises principally from the Group's receivables from customers.

The Directors consider the Group's credit risk from cash, cash equivalents and deposits to be low as the Group only enters transactions with banks or financial institutions with a credit rating of A or above. The carrying amount of each financial asset represents the maximum exposure to credit loss.

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27. Financial instruments continued

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 21) 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 1 January 2022 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 3.0 times (2020: 3.9 times) and interest cover (calculated as Adjusted EBITDA divided by net finance charges as calculated each month on a cumulative last 12-months basis) at more than 4 times (2020: No interest cover requirement).

Asset risk
Asset risk is the risk of loss or damage to an asset adding to financial loss to the Group. Customers may damage hire equipment if they do not have the appropriate skills to use the equipment or lack a duty of care while using it. The cost of repairing or replacing the equipment can be substantial depending on the type of asset and in turn can lead to a loss of revenue until the asset is again available to be hired.

Capital management
The Group relies on capital for organic and acquisitive growth, the purchase of rental equipment to replace equipment that has reached the end of its useful economic life.

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 and sale of businesses, over recent years it has so renegotiated its debt structure including the issue of a fixed interest rate bond, fixed-term loan notes, Senior finance facilities and secured shorter-term bank borrowing through a revolving credit facilities. In December 2020 the Group completed a Capital Raise (see note 24).

Fair value
Financial assets at the balance sheet date comprise trade receivables, other receivables and cash and cash equivalents. All financial assets are classified as financial assets at amortised cost.

All financial liabilities which comprise trade and other payables, lease liabilities and borrowings are classified as financial liabilities at amortised cost.

The fair value of financial assets and liabilities is not materially different from the carrying amount.

28. Commitments and contingencies

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	1 January 2022 £000s	26 December 2020 £000s
Within one year	53	25
Between two and five years	69	–
	122	25

The Group has issued a guarantee for £1.8m (2020: £1.8m) under the RCF (see note 21) 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 £12.7m (2020: £4.1m).

29. Business disposals

To enable the Group to strengthen its balance sheet and focus on its strategic priority to Transform the Tool Hire Business, the Group made two strategic divestments during the year ended 1 January 2022:

Laois Hire Limited
Laois Hire Limited, the Irish large plant hire business was sold to Briggs Equipment Ireland Limited on 7 April 2021. Proceeds of the disposal, net of transaction costs were £10.0m generating a profit on disposal of £3.2m.

All Seasons Hire Limited
All Seasons Hire Limited, a cooling and heating provider was sold to Cross Rental Services Limited with the transaction completing on 29 September 2021. Proceeds of the disposal, net of transaction costs were £54.3m generating a profit on disposal of £38.0m.

As part of these transactions, the Group entered into commercial agreements to cross-hire equipment to ensure the broadest possible distribution of, and customer access to, each party's existing fleet.

The table below shows the assets and liabilities disposed of:

	Laois Hire Limited £000s	All Seasons Hire Limited £000s	Total £000s
Description of assets and liabilities			
Intangible assets (including goodwill)	1,691	8,173	9,864
Property, plant and equipment	5,200	7,385	12,585
ROU assets	686	1,345	2,031
Current assets (excluding cash)	2,509	1,400	3,909
Cash	504	1,035	1,539
Debt – leases	(714)	(1,397)	(2,111)
Current liabilities, excluding debt	(2,545)	(1,296)	(3,841)
Deferred tax liabilities	–	(218)	(218)
Provisions	(212)	(149)	(361)
Foreign exchange reserves	(49)	–	(49)
Net assets disposed of	7,070	16,278	23,348
Proceeds of disposal less transaction costs	9,982	54,325	64,307
Profit on asset sale	283	–	283
Total profit from disposal	3,195	38,047	41,242

The table below shows the result of discontinued operations:

	1 January 2022 £000s	26 December 2020 £000s
Result of discontinued operations		
Revenue	**8,405**	19,870
Expenses other than finance costs, amortisation and depreciation	**(1,100)**	(10,128)
Amortisation	**(135)**	(175)
Depreciation	**(1,836)**	(3,397)
Finance costs	**(72)**	(97)
Taxation	**(83)**	27
Profit from discontinued operations, net of tax	**5,179**	6,100
Profit on disposal of discontinued operations	**41,242**	–
Profit for the period	**46,421**	6,100

The revenue relating to Laois Hire Limited is £3.0m (2020: £12.8m) with a loss after tax of £0.2m (2020: profit after tax of £0.2m). The revenue relating to All Seasons Hire Limited is £5.4m (2020: £7.1m) with a profit after tax of £5.4m (2020: £5.9m).

The following table shows a summary of the cashflows relating to discontinued operations:

	1 January 2022 £000s	26 December 2020 £000s
Operating cash (outflow)/inflow	**(644)**	2,195
Cash outflow from investing activities	**(15)**	(177)
Cash outflow from financing activities	**(397)**	(689)

30. 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 £40,000 (2020: £31,187) and £40,000 was outstanding at 1 January 2022 (2020: £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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

31. Dividends

The Directors do not recommend the payment of dividends for the year ended 1 January 2022 (2020: nil).

No interim dividends were paid or proposed during the year (2020: nil).

32. Note supporting the Consolidated statement of cash flows

	At 27 December 2020 £000s	Cash flows £000s	Discontinued operations £000s	Other non-cash movements £000s	At 1 January 2022 £000s
Cash	97,573	(53,765)	(1,539)	–	42,269
Current borrowings	(15,000)	15,000	–	–	–
Non-current borrowings[1]	(179,099)	116,128	–	(5,195)	(68,166)
Lease liabilities, including interest[2]	(89,572)	27,638	2,111	(16,742)	(76,565)
Total	(186,098)	105,001	572	(21,937)	(102,462)
Accrued interest on borrowings	(3,442)	15,882	–	(12,711)	(271)
Debt issue costs[3]	(5,083)	(1,946)	–	5,195	(1,834)
Net debt[2]	(194,623)	118,937	572	(29,453)	(104,567)

	At 29 December 2019 £000s	Cash flows £000s	Implementation of IFRS 16 £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[2]	–	28,395	(99,309)	(18,658)	(89,572)
Total	(168,426)	86,110	(82,726)	(21,056)	(186,098)
Accrued interest on borrowings	(3,608)	17,020	–	(16,854)	(3,442)
Debt issue costs[3]	(7,481)	–	–	2,398	(5,083)
Net debt[2]	(179,515)	103,130	(82,726)	(35,512)	(194,623)

1 Non-current borrowings are stated net of debt issue costs.
2 Cash flows include interest payments of £4.1m (2020: £5.1m).
3 HSS calculation of net debt includes accrued interest on borrowings and excludes deduction for debt issue costs.

33. Adjusted EBITDA, Adjusted EBITA and Adjusted profit before tax

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 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.

Adjusted EBITDA is calculated as follows:

	Year ended 1 January 2022		Year ended 26 December 2020	
	Continuing operations £000s	**Total £000s**	Continuing operations £000s	Total £000s
Operating profit/(loss)	**34,521**	**39,855**	(4,671)	1,499
Add: Depreciation of property, plant and equipment (note 9)	**38,120**	**39,956**	46,193	49,590
Add: Amortisation of intangible assets (note 9)	**5,175**	**5,310**	5,022	5,197
EBITDA	**77,816**	**85,121**	46,544	56,286
Add: Exceptional items (note 7)	**(8,039)**	**(8,039)**	13,016	13,076
Adjusted EBITDA	**69,777**	**77,082**	59,560	69,362

Adjusted EBITA is calculated as follows:

	Year ended 1 January 2022		Year ended 26 December 2020	
	Continuing operations £000s	**Total £000s**	Continuing operations £000s	Total £000s
Operating profit/(loss)	**34,521**	**39,855**	(4,671)	1,499
Add: Amortisation of intangible assets (note 9)	**5,175**	**5,310**	5,022	5,197
EBITA	**39,696**	**45,165**	351	6,696
Add: Exceptional items (note 7)	**(8,039)**	**(8,039)**	13,016	13,076
Adjusted EBITA	**31,657**	**37,126**	13,367	19,772

Adjusted profit/(loss) is calculated as follows:

	Year ended 1 January 2022		Year ended 26 December 2020	
	Continuing operations £000s	**Total £000s**	Continuing operations £000s	Total £000s
Profit/(loss) before tax	**6,066**	**52,570**	(29,639)	(23,566)
Add: Amortisation of intangible assets (note 9)	**5,175**	**5,310**	5,022	5,197
Profit/(loss) before tax and amortisation	**11,241**	**57,880**	(24,617)	(18,369)
Add: Exceptional items (finance and non-finance) (note 7)	**1,906**	**(39,336)**	13,389	13,449
Adjusted profit/(loss) before tax	**13,147**	**18,544**	(11,228)	(4,920)

34. Post balance sheet events

War in Ukraine

Following the balance sheet date, the tragic eruption of conflict in Ukraine has occurred. The war has had a significant impact on macroeconomic factors and a high degree of uncertainty persists. The Group does not have operations or direct dependencies in Russia or Ukraine but is exposed to the impact of inflation and supply chain disruption.

COMPANY STATEMENT OF FINANCIAL POSITION
AS AT 1 JANUARY 2022

COMPANY REGISTRATION NUMBER: 9378067

	Note	1 January 2022 £000s	26 December 2020 £000s
ASSETS			
Non-current assets			
Investments	3	**283,841**	90,359
Other receivables	4	**–**	203,536
		283,841	293,895
Current assets			
Other receivables	4	**304**	309
Cash		**14,841**	17,294
		15,145	17,603
Total assets		**298,986**	311,498
LIABILITIES			
Current liabilities			
Other payables	5	**(160)**	(13,956)
		(160)	(13,956)
Total liabilities		**(160)**	(13,956)
Net assets		**298,826**	297,542
EQUITY			
Share capital	6	**7,050**	6,965
Share premium	6	**45,552**	45,580
Warrant reserve	6	**–**	2,694
Merger reserve		**97,716**	97,716
Retained surplus	7	**148,508**	144,587
Total surplus attributable to owners of the Company		**298,826**	297,542

As permitted by Section 408(3) of the Companies Act 2006, the Company's income statement and statement of comprehensive income and related notes have not been presented.

The Company made a post-tax loss for the year of £15,000 (2020: profit £973,000).

The notes on pages 126 to 128 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 27 April 2022 and were signed on its behalf by:

P Quested
Director

27 April 2022

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 1 JANUARY 2022

	Share capital £000s	Share premium £000s	Warrant reserve £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 27 December 2020	**6,965**	**45,580**	**2,694**	**97,716**	**144,587**	**297,542**
Loss for the year	**–**	**–**	**–**	**–**	**(15)**	**(15)**
Warrants exercised	**85**	**–**	**(2,694)**	**–**	**2,694**	**85**
2020 Share issue costs	**–**	**(28)**	**–**	**–**	**–**	**(28)**
Share-based payments	**–**	**–**	**–**	**–**	**1,374**	**1,374**
Deferred bonus options cash settled	**–**	**–**	**–**	**–**	**(132)**	**(132)**
At 1 January 2022	**7,050**	**45,552**	**–**	**97,716**	**148,508**	**298,826**

	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

The notes on pages 126 to 128 form part of these Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 1 JANUARY 2022

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 Building 2, Think Park, Mosley Road, Manchester, M17 1FQ.

a) Reporting entity

HSS Hire Group Plc 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).

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 UK 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 27 December 2020 to 1 January 2022 (2020: 29 December 2019 to 26 December 2020).

The Company complies with the accounting policies defined in notes 1 to 4 to the Group Consolidated Financial Statements on pages 84 to 93 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.

2. Critical accounting estimates and judgements

a) Recoverability of investments and intercompany receivables

Judgements are required in assessing the recoverability and timing of investments and intercompany receivables and determining whether impairments of those investments and receivables are required. Judgements are based on the historical performance as well as forecasts. The Company monitors the recoverability of such investments and receivables and recognises impairments for amounts that may not be recoverable. Further details of the net carrying value of investments and intercompany receivables are given in notes 3 and 4 respectively.

3. Investments

	£000s
At 27 December 2020	90,359
Additions	193,614
Derecognition on cash settlement of employee share-based payments	(132)
At 1 January 2022	**283,841**

Additions comprise equity-settled share-based payment awards offered to employees in subsidiary companies of £1.4m and the purchase of a further 2,721 ordinary shares in Hampshire Topco Limited for a total consideration of £192.2m.

At 1 January 2022 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%
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%
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%
HSS Hire Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Proservice Limited (formerly: HSS Hire Trading Limited)	Indirect	United Kingdom	Hire and equipment services	100%

The registered office of the subsidiaries listed above is Building 2, Think Park, Mosley Road, Manchester, M17 1FQ, except for the following:

– Apex Generators Limited, 5th Floor Sutherland House, 149 St Vincent Street, Glasgow, Scotland, G2 5NW.

4. Other receivables

	1 January 2022 £000s	26 December 2020 £000s
Non-current		
Amounts due from Group undertakings	–	203,536
Current		
Prepayments	39	32
Amounts due from Group undertakings	265	–
Other tax	–	277
	304	309

Amounts due from Group undertakings are unsecured, interest free and repayable on demand (2020: unsecured, interest free and repayable on demand, but not expected to be repaid within one year).

NOTES TO THE COMPANY FINANCIAL STATEMENTS continued
FOR THE YEAR ENDED 1 JANUARY 2022

5. Other payables: amounts falling due within one year

	1 January 2022 £000s	26 December 2020 £000s
Amounts owed to Group undertakings	–	11,120
Accruals and deferred income	160	1,505
Other creditors	–	1,331
	160	13,956

6. Share capital

The details of the Company's share capital are set out in note 24 to the Consolidated Financial Statements.

7. Profit and loss account

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The auditors' remuneration for audit and other services is disclosed in note 9 to the Consolidated Financial Statements.

8. Related party transactions

The Company's related party transactions are set out in note 30 to the Consolidated Financial Statements.

9. Financial instruments

Details of the Group's financial instruments policies are set out in note 27 to the Consolidated Financial Statements.

10. Employee and Director costs

The Directors are the only employees of the Company. Their costs are borne by a subsidiary company, HSS Hire Service Group Limited. Details of the Directors' remuneration are set out in note 11 to the Consolidated Financial Statements.

ADDITIONAL INFORMATION
SHAREHOLDER INFORMATION

Annual General Meeting

The Company's Annual General Meeting will be held at 11.00am on 21 June 2022 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. Shareholders are invited to attend in person. Should matters change and/or should any additional precautions around COVID-19 be required, such updates will be provided via the 'News & Resources' section at www.hsshiregroup.com.

Share fraud and boiler room scams

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares.

These operations are commonly known as 'boiler room fraud'. The 'brokers' (callers) can be very persistent and extremely persuasive. They often have websites to support their activities, their advice and the companies they purport to represent. 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 – 21 June 2022

COMPANY INFORMATION

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Email: investors@hss.com
Website: www.hsshiregroup.com
Registered number: England and Wales, No. 9378067

Company Secretary
Daniel Joll

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Legal Advisers
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London EC4Y 1HS

Independent Auditors
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55 Baker St
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1 Tower Place West
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London EC3R 5BU

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
'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
'HAE'	Hire Association Europe – a trade body representing plant, tool and equipment hire companies
'HSS'	the group of companies within the HSS Hire Group

DEFINITIONS AND GLOSSARY continued

'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
'non-IFRS 16'	where measures are described as non-IFRS 16 this means they have been adjusted to reflect the position that would have been reported had IFRS 16 not been adopted. Specifically this means excluding leases previously treated as operating leases from the balance sheet and replacing associated depreciation and interest with an estimate of operating lease cost
'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
'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
'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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