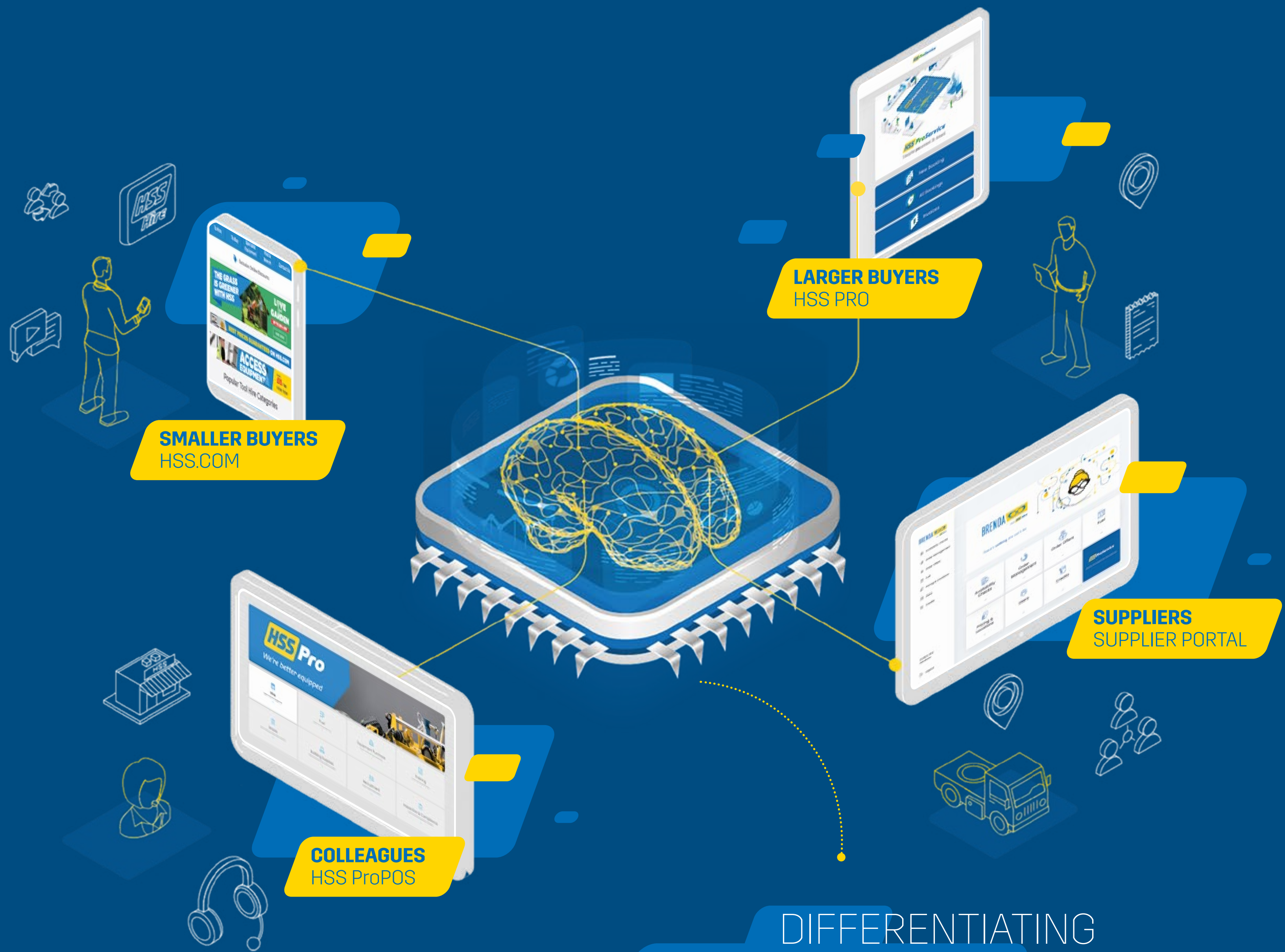


DIFFERENTIATING THROUGH TECHNOLOGY

HSS Hire

HSS Hire Group plc
Annual Report and Financial Statements 2022

MARKET-LEADING TECHNOLOGY PLATFORM IN TOOL HIRE

BRENDA is our underlying technology

page 3

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 the complementary combination of its HSS ProService and HSS Operations divisions. HSS ProService is a capital-light, scalable, technology-based business focussing on sales acquisition, whilst HSS Operations is a fleet-owning fulfilment business focussing on customer service, health and safety and efficiency.

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 TECHNOLOGY

Our technology platform, which we call Brenda, was launched in FY19. Modular in design and inherently scalable, this technology was built from a user's perspective, with tailored interfaces for different user types that encourage self-service. Our ambition is 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 17

HIGHLIGHTS

FINANCIAL – CONTINUING OPERATIONS

Delivered another year of excellent financial results, maintaining a strong balance sheet and improving returns.

Read more on page 28

Group revenue
£332.8m
FY21: £303.3m

Rental and related revenues
£206.2m
FY21: £191.2m

Services revenue
£126.6m
FY21: £112.1m

Adjusted EBITDA and margin
£71.6m
21.5% margin

Adjusted EBITA and margin
£32.0m
9.6% margin

Adjusted profit before tax
£21.0m
FY21: £10.7m

Adjusted earnings per share (diluted) (EPS)
2.34p per share
FY21: 1.22p per share

Leverage – Total operations
1.3x
FY21: 1.5x

Return on capital employed (ROCE)
22.8%
FY21: 22.1%

SUSTAINABILITY

Health and safety (RIDDORs)
0.02 FY21: 0.11

Colleague engagement
76.0% FY21: 76.1%

Net Promoter Score (NPS)
44 FY21: 38

Greenhouse gases
3.38 TCO_2e/£m rev (FY21: 4.77)

UN Sustainable Development Goals
The six focus SDGs for the Group:

Sustainability page 18

OPERATIONAL

- Continued to invest in our technology platform Brenda, leading to the launch of our self-service platform for larger customers, HSS Pro, in Q4.

Read more on page 16

- Rolled out Satalia route optimisation technology to our HSS Operations teams, delivering an 11% reduction in mileage per job and associated reduction in carbon footprint

Read more on page 15

- Published our ESG Impact Report in June and launched our Net Zero 2040 roadmap

Read more on page 20

- Completed the legal restructuring for HSS ProService and HSS Operations on 3 July 2022, creating new focus and clarity for the two divisions

Read more on page 8

INVESTMENT CASE

Read about our resilient investment proposition on page 7

CHAIRMAN'S STATEMENT

Read what our Chairman, Alan Peterson OBE, has to say about FY22 on page 8

CEO STATEMENT

Read what our CEO, Steve Ashmore, has to say about FY22 on page 10

STRATEGY

Find out about our strategic priorities on page 14

SUSTAINABILITY

Discover more about sustainability at HSS on page 18

GOVERNANCE

Read our Chairman's introduction to governance on page 42

WHAT'S INSIDE

STRATEGIC REPORT

GOVERNANCE

FINANCIAL STATEMENTS

ADDITIONAL INFORMATION

BUSINESS AT A GLANCE

OUR VISION

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

OUR TWO DIVISIONS

HSS PROSERVICE

HSS ProService

Digital marketplace business focussed on customer and supplier acquisition. Technology driven. Extremely scalable. Uniquely differentiated.

Read more on page 13

HSS Training

Extensive training offering for customers.

800+
sales and training colleagues

700+
supply chain partners

HSS OPERATIONS

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

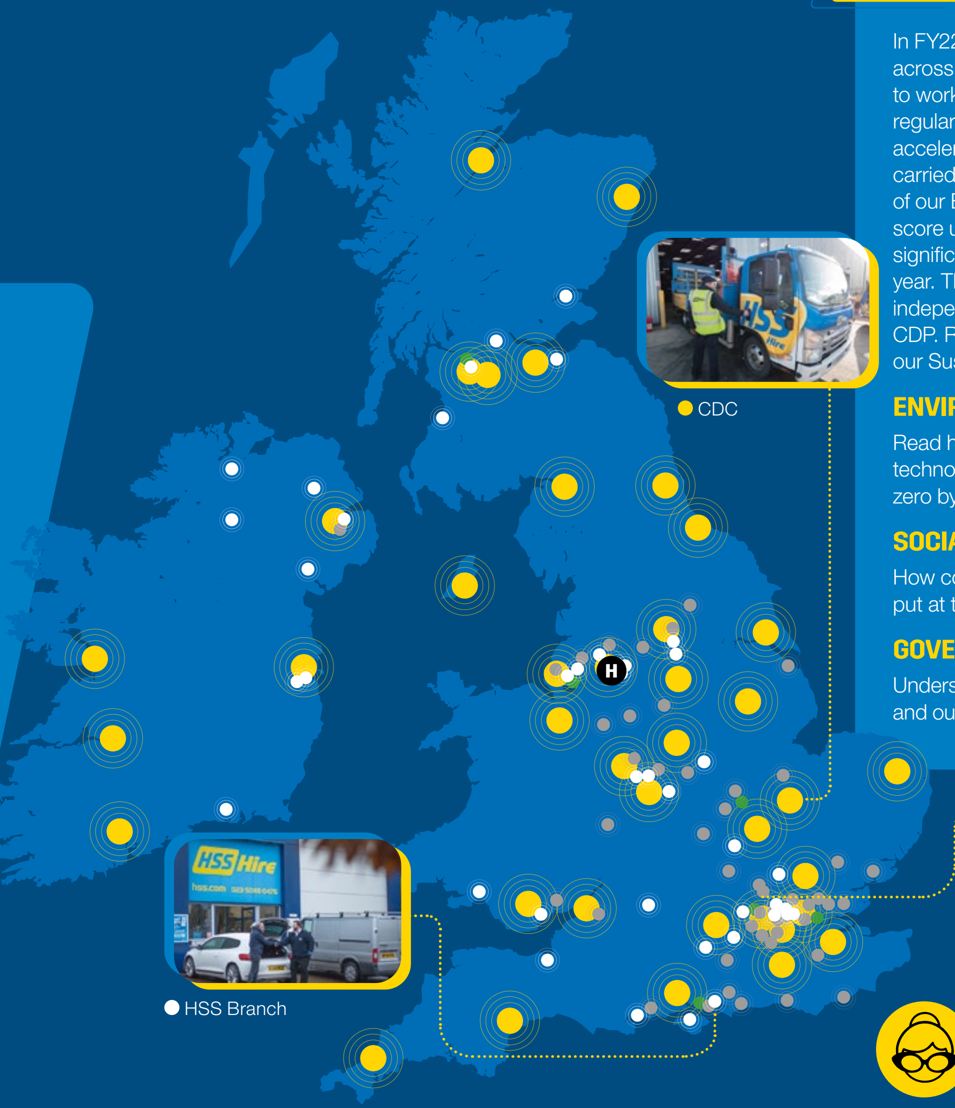
Read more on page 13

HSS Hire Tools, site equipment and powered access.

APEX / **ABIRD** Specialist power generation providers.

550+
delivery fleet

38
Customer Distribution Centres



CDC

HSS Branch

Builders merchants

SUSTAINABILITY

In FY22 we continued to make progress across all areas of sustainability. We continue to work with Sustainable Advantage who regularly review our progress and help us accelerate our ESG strategy. They recently carried out their annual independent review of our ESG position and moved our maturity score up from 61% to 80%, reflecting the significant progress we have made over the year. This year we have also received pleasing independent assessments from EcoVadis and CDP. Read more about our developments in our Sustainability section 18.

ENVIRONMENTAL

Read how HSS is using innovation and technology in our commitment to net zero by 2040.

SOCIAL

How colleagues and communities are being put at the heart of everything we do.

GOVERNANCE

Understand our voluntary approach to TCFD and our commitment to science-based targets.

BRENDA is our underlying technology →

KEY OF MAP

- Head office
- Branch
- Customer Distribution Centre (CDC)
- Builders merchants
- Specialist

OUR VALUES

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

BUSINESS AT A GLANCE CONTINUED

OUR UNDERLYING TECHNOLOGY

BRENDA

OUR 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

+ p17

Microsoft Dynamics Customer Relationship Management (CRM)
- Optimises sales activity
- Improves customer contact points

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

COLLEAGUE INTERFACE:

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

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:

HSS Pro
- All the benefits of our website, but with additional functionality
- Approval management
- Onsite and in-office visibility
- Additional reporting functionality
- Consolidated purchase orders
- Single invoice

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 management
- Customer assurance
- Single invoice

LEADING WITH INNOVATION

HSS IN NUMBERS

MEASURING OUR **PROGRESS**

STRATEGIC FRAMEWORK

KPIs AND STRATEGY

With the completion of the 2017 strategy during FY21, FY22 saw the Group enter an exciting new phase of growth. FY22 KPIs have been kept the same as these best reflect the performance of the business and progress against the new strategy.

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 the periods prior to FY20 are not directly comparable.

KEY

IFRS 16 adoption means FY19 is not directly comparable.

KEY 1 Capitalising on converging customer and supplier requirements 2 Taking advantage of market conditions 3 Continuing to differentiate our offering

Key performance indicator	FY22 performance	Importance of KPI	Definition	Performance	Remuneration linkage	Track record
GROUP REVENUE 1 2 3 Financial Review on page 29	**Continuing operations** **£332.8m** FY21: £303.3m	Simplest measure of the ongoing growth of the Group's sales from which profits can be generated and shareholder value created.	Revenue from contracts with third party customers derived from continuing operations after deducting VAT, rebates and credit note provision movements.	Increase of 9.7%, delivering growth across both our Rental and our Services businesses.	Driver of colleague incentive plans.	Growth/(decline) FY22 £332.8m 9.7% FY21 £303.3m 21.3% FY20 £250.1m -18.6% FY19 £307.3m 1.2%
RENTAL AND RELATED REVENUES 1 2 Financial Review on page 29	**Continuing operations** **£206.2m** FY21: £191.2m	Simplest measure of the ongoing growth of the core hire business' sales from which profits can be generated and shareholder value created.	Revenue including kit and equipment sales derived from the direct contact with our customers.	Growth of 7.9%, through improving enquiry conversion via our Brenda technology, the expanded builders merchant network and targeted fleet investment.	Driver of colleague incentive plans and component of leadership incentive plan.	Growth/(decline) FY22 £206.2m 7.9% FY21 £191.2m 19.0% FY20 £160.6m -21.9% FY19 £205.7m 0.3%
SERVICES REVENUE 1 2 3 Financial Review on page 28	**Continuing operations** **£126.6m** FY21: £112.1m	Simplest measure of the ongoing growth of the Services business representing the strategic goal of focusing on a capital-light structure.	Revenue including kit and equipment sales derived from the rehire of third party equipment and our Training business.	Growth of 12.9%, with customers continuing to value the one-stop shop that our Services division provides.	Driver of colleague incentive plans.	Growth/(decline) FY22 £126.6m 12.9% FY21 £112.1m 25.4% FY20 £89.4m -12.0% FY19 £101.6m 2.9%
ADJUSTED EBITDA AND MARGIN 1 2 3 Financial Review on page 30	**Continuing operations** **£71.6m** 21.5% margin	Widely recognised measure of profitability. Metric also used in leverage and covenant calculations.	Operating profit before depreciation, amortisation and exceptional items. With the adoption of IFRS 16.	EBITDA has increased by 2.6% to £71.6m, driven by increased revenue through our lower-cost operating model. EBITDA margin has been reduced by 1.5pp due to the greater mix that Services now represents in our performance and the prior year benefiting from Covid-19 related relief.	Indirectly, as a key component of EBITA.	Margin FY22 £71.6m 21.5% FY21 £69.8m 23.0% FY20 £59.6m 23.8% FY19 £56.1m 18.3%
ADJUSTED EBITA AND MARGIN 1 2 3 Financial Review on page 30	**Continuing operations** **£32.0m** 9.6% margin	Measure of profitability before amortisation, impacts of capital structure (interest and tax) and exceptional costs.	Operating profit before amortisation and exceptional items.	EBITA has marginally increased to £32.0m through improved EBITDA, partly offset by increased depreciation.	Driver of colleague incentive plans and component of leadership incentive plan (including as a threshold element).	Margin FY22 £32.0m 9.6% FY21 £31.7m 10.4% FY20 £13.4m 5.3% FY19 £22.9m 7.4%
LEVERAGE 1 2 3 Financial Review on page 31	**Total operations** **1.3x** FY21: 1.5x	Measure of balance sheet strength.	Net debt is borrowings expressed as a multiple of Adjusted EBITDA.	Reduction from FY21 driven by improved Adjusted EBITDA and lower net debt.	Component of leadership incentive plan.	Improvement FY22 1.3x 0.2x FY21 1.5x 1.3x FY20 2.8x 0.0x FY19 2.8x 0.5x

Key performance indicator	FY22 performance	Importance of KPI	Definition	Performance	Remuneration linkage	Track record
RETURN ON CAPITAL EMPLOYED (ROCE) 1 2 3 **Financial Review** on page 31	**Continuing operations at reporting date** **22.8%** FY21: 22.1%	Measure of the return-generating ability of the business over the longer term and key measure for leadership incentives.	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 targeted fleet investment and growth of the capital-light Services business.	N/A	Change FY22 22.8% 0.7% FY21 22.1% 11.4% FY20 10.7% -10.1% FY19 20.8% 4.3%
ADJUSTED PROFIT BEFORE TAX [1] 1 2 3 **Financial Review** on page 31	**Continuing operations** **£ 21.0m** FY21: £10.7m	Measure of profitability before tax that forms part of the Adjusted EPS calculation.	Profit before tax, amortisation of customer relationships and brand related intangibles and exceptional items.	Increase of £10.3m driven by the improved performance of the business and the significantly reduced annual interest charge from the successful refinancing in FY21.	N/A	Change FY22 £21.0m £10.3m FY21 £10.7m £24.2m FY20 -£13.5m -£16.5m FY19 £3.0m £3.0m
ADJUSTED EARNINGS PER SHARE (DILUTED) (EPS)[1] 1 2 3 **Financial Review** on page 31	**Profit of** **2.34p per share** FY21: 1.22p per share	Measure of adjusted profitability per share. Widely recognised measure excluding non-recurring or exceptional items and amortisation and after charging the prevailing rate of corporation tax.	Earnings are defined as PBT after adding back exceptional items and amortisation of brand and customer lists and then charging the prevailing rate of tax. Earnings are then divided by the number of shares in issue and potentially dilutive equity derivatives outstanding.	Increase of 1.12p driven by the improved performance of the business and the significantly reduced annual interest charge from the successful refinancing in FY21.	N/A	Change FY22 2.34p 1.12p FY21 1.22p 7.01p FY20 -5.79p -6.72p FY19 0.93p 1.24p
HEALTH AND SAFETY (RIDDORS) 3 **ESG** on page 18	**Continuing operations** **0.02** FY21: 0.11	Widely recognised measure of safety in the workplace. Safety is at the heart of how HSS operates.	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.	An improved RIDDOR frequency rate, with one RIDDOR for the year, compared with five in the previous year.	Component of leadership incentive plan.	FY22 0.02 FY21 0.11 FY20 0.04 FY19 0.20
COLLEAGUE ENGAGEMENT 3 **ESG** on page 19	**Continuing operations** **76.0%** FY21: 76.1%	A measure of the level of engagement across the entire population of colleagues.	Proportion of responses from colleague engagement survey (carried out by Anthem Engagement) that either Strongly Agree or Agree to positively phrased questions.	A high score was following from our highest ever completion rate of 92%.	N/A	FY22 76.0% FY21 76.1% FY20 75.0% FY19 72.4%
NET PROMOTER SCORE (NPS) 2 3 **Strategic Report** on page 34	**Total operations** **44** FY21: 38	A measure of how likely our customers are to recommend HSS and used to benchmark against the industry.	The percentage of promoters less the percentage of detractors based on survey and as measured by Kantar.	An improved score that continues to be significantly ahead of the industry benchmark.	N/A	FY22 44 FY21 38 FY20 44 FY19 45
GREENHOUSE GAS EMISSIONS (GHG)[2] 1 3 **ESG** on page 26	**Gross operations** **3.38** **TCO_2e/£m Rev** FY21: 4.77	A key measure of the impact we have on the environment relative to our scale and which allows progress to be tracked.	The total UK and ROI greenhouse gas emissions produced by the Group during the period in tonnes, divided by Total Group Revenue in £m.	A significant reduction was achieved. The increase in trading has been more than offset by ongoing efforts to reduce emissions.	N/A	FY22 3.38 FY21 4.77 FY20 8.18 FY19 11.89

1 Adjusted profit before tax was modified during FY22, also impacting adjusted EPS. Comparative figures have been restated.

2 GHG ratio is now based on build energy only and all prior years have been restated.

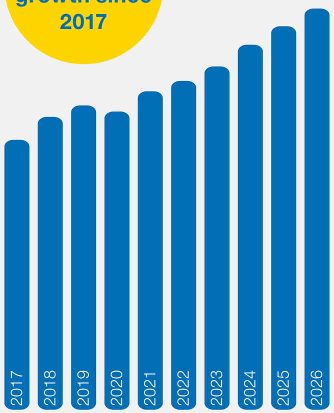
OUR MARKET

The scale and fragmented nature of our market provides a significant growth opportunity and its diversity offers inherent resilience.

c.£5.7bn
UK equipment rental market

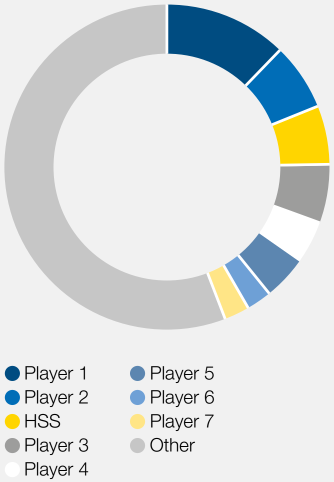
Total market size

25% growth since 2017



Market breakdown by supplier

Total market = £5.7bn



Source: AMA Research

MARKET CHARACTERISTICS

LARGE, DIVERSE AND VERY FRAGMENTED

- The equipment hire market in the UK is large (c£5.7bn) but extremely fragmented, with the top ten hire companies accounting for one-third of the market.
- Analysis by AMA Research suggests the market has become more fragmented since 2017, when the top ten suppliers accounted for 36% of the market.
- Lack of differentiation and low barriers to entry make it difficult to consolidate using traditional fleet expansion or M&A activity.
- AMA Research estimates there are around 4,000 construction equipment hire companies in the UK operating approximately 6,000 outlets. These companies range from large multinational conglomerates to national chains, but most companies are small family-owned businesses.
- The industry is digitally immature with an estimated 3% of transactions conducted online.
- The equipment hire market in the UK is extremely diverse, offering a range of products from large earth-moving plant to small power tools.
- Suppliers tend to focus on either plant, small tools or specialist products and, outside the top 10 suppliers, most of the others do not offer a nationwide service.
- Customers are therefore usually dependent on multiple suppliers to meet all their requirements.
- Customers serve a diverse set of end markets including new build, infrastructure, repairs and maintenance, residential, commercial, industrial and many other non-construction markets.
- Customer activities range from small DIY projects to large civil engineering projects.

"Construction is one of the UK's least digitised industries and the use of technology is still in its infancy."
AMA Research November 2022

MARKET DRIVERS

HIRE vs. BUY
Hire is a way of reducing risk (capital investment risk, operating risk, legislative risk).

ECONOMIC OUTPUT
Whilst hire is well correlated to economic output, times of uncertainty can create a preference for hire over purchase.

CONSTRUCTION TECHNIQUES
Shifts in construction techniques have implications for the type of tools and hire equipment required (e.g. shift to offsite construction).

ESG
Health and safety and Sustainability agendas impact the working practices and equipment requirements of hire customers.

POLITICAL AND LEGAL INFLUENCES
Government spending plans (e.g. Build Back Better infrastructure plans) and sustainability.

OTHER MACROECONOMIC FACTORS
Inflationary pressures, labour availability, materials supply, skills shortages and other macroeconomic agendas (e.g. carbon emission legislation).

OUTLOOK: Forecasts for the rental market point to growth:

- ✓ AMA Research forecast the market to reach £7.1bn by 2026, representing 4.7% CAGR between 2021 and 2026 **See graph above**
- ✓ European Rental Association forecasts 2.6% growth in 2023 and 3.5% growth in 2024[1]

AMA Research Part of Barbour ABI

1 Source: S&P Global Market Intelligence/ERA Market Report 2022

INVESTMENT CASE

A RESILIENT PROPOSITION

1. ATTRACTIVE MARKET DYNAMICS

- The UK equipment hire industry is estimated to be £5.7bn 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 with 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' access to all customers, customers' access to all suppliers

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

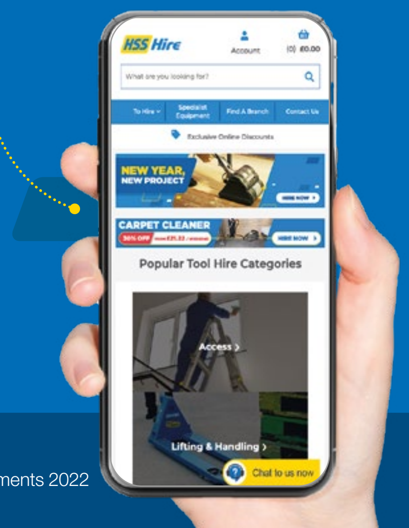
Information and insight: Transparency for customers, informed decisions for suppliers

Access to customers	Customer assurance
Brand recognition	Administration reduction
Digital channels	Driving utilisation
and marketing	and returns

SUPPLIER NEEDS

2. INNOVATIVE TECHNOLOGY

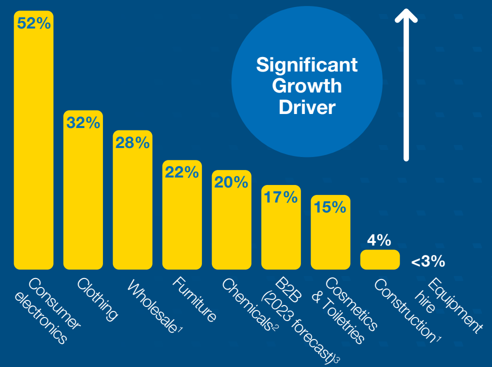
- We believe our integrated technology platform leads the industry, and our technology roadmap for FY23 will further differentiate us.
- Our colleagues have access to our entire range of equipment and services, so can offer the full one-stop shop to our customers.
- Following the launch of HSS Pro, larger customers can take control of their requirements and control their spend.
- Our suppliers use the technology to drive utilisation of their fleet and improve returns.
- 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.



3. SCALABLE MODEL

- Our unique operating model, comprising two distinct, yet complementary divisions, ensures complete clarity on their objectives and focuses on their responsibilities.
- Our HSS ProService business focusses on customer acquisition and can be scaled without any capital investment in fleet. It has a hybrid sales model, with self-serve technology for customers, complemented by a technology-enabled salesforce working in branches, builders merchants, in the field and in our central sales team in Manchester. The platforms provide access to over 700 suppliers covering a huge range of equipment and services.
- Our technology platform allows us to rapidly expand our supply chain and add new product verticals.
- Our HSS Operations business focusses on customer service, efficiency, and health and safety. It has a flexible, low-cost model comprising a hub-and-spoke distribution network providing national delivery coverage from 38 CDCs. Our logistics are powered by Satalia route optimisation technology that minimises mileage, improves customer service and reduces our carbon footprint.
- Digital immaturity in the equipment hire sector is a significant growth driver for HSS (see graph).

Digital transactions less than 3% versus 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.
- We published our ESG Impact Report in June, which lays out our plans and objectives that will ultimately ensure we meet our Net Zero 2040 commitment.
- We have recently been awarded the EcoVadis Silver medal, putting us in the top 10% of companies in our sector, and a reflection of our achievements to date and the clear ESG roadmap we have set out.
- We have submitted science-based targets to the Science Based Targets initiative (SBTi).
- We have voluntarily adopted early TCFD (Taskforce for Climate-related Financial Disclosures).

6. STRONG BALANCE SHEET AND ATTRACTIVE RETURNS

- Leverage at 1.3x, well positioned to invest for future growth.
- ROCE at 22.8%, leveraging insight tools to focus investment on high-demand, high-return hire fleet.
- Industry leading EBITA margins.

CHAIRMAN'S STATEMENT

DIFFERENTIATING THROUGH **TECHNOLOGY**

DELIVERING GROWTH
Like-for-like growth 10.7%*

DRIVING PROFITABILITY
PBT up £10.5m

STRONG BALANCE SHEET
Leverage 1.3x

I am delighted to report another year of strong results for HSS and further strategic progress that is setting us apart in our industry.

ALAN PETERSON OBE
CHAIRMAN

Dear Shareholder

The Group is now producing consistently strong results and we continue to be driven by our vision: to be the market-leading, digitally-led brand for equipment services.

Our results
The Group has delivered further revenue growth and enhanced returns on capital. These results, which are outlined in more detail by our CFO, Paul Quested, in the CFO's Financial Review, have enabled us to maintain a strong balance sheet and we have been pleased to reinstate the dividend for shareholders earlier this year. The proposed final dividend payment of 0.37p reflects the continued confidence the Board has in the management team and its execution of our strategy.

Our strategic progress
The Board and management team see a great opportunity to address the ongoing challenges faced by both customers and suppliers in what is a very fragmented, digitally-immature and undifferentiated equipment hire market. With this opportunity in mind, we have executed three strategic priorities this year.

Firstly, on 3 July 2022 we completed the legal restructuring around our two divisions, HSS ProService and HSS Operations. ProService is an asset-light, technology-driven business and its formal separation gives it complete focus on successful customer acquisition and enquiry conversion. HSS Operations is an asset-owning fulfilment business focusing on delivering service, efficiency and the highest standards of health and safety. HSS Operations is a key supplier to ProService. You can find out more about the two divisions in Our Business Model on page 13 and in the CEO's statement on page 10 where the creation of these two divisions is explained in more detail.

The second significant development this year is with our Brenda technology platform. Brenda has come a long way since we started its development in 2019 and we continue to make enhancements to extend its reach, taking advantage of its modular, scalable codebase. This year we have made improvements to one of its key interfaces, HSS Pro, which is a self-serve platform designed for larger customers, giving them widespread access to our products and services while enhancing controls and visibility over their purchasing. You can read more about this in the case study on page 16.

Another major element of our technology journey this year has been the development of our extended offering on hss.com, which was launched in early 2023. I am confident this will drive further growth in Services revenue through better conversion and wider product penetration. Our CEO, Steve Ashmore, talks more about the roll-out of HSS Pro and the upgrade of hss.com in his CEO's Statement, see page 11.

* Like-for-like growth excludes the additional week's revenue in FY21.

CHAIRMAN'S STATEMENT CONTINUED

ESG

This year the team has made considerable progress with our ESG agenda. We worked closely with specialist consultant Sustainable Advantage in the first half of FY22 to create a new ESG roadmap, with clear goals and governance ultimately overseen by the Board. The culmination of that activity was the publication of our first ESG Impact Report in June which set out our ESG objectives, including our Net Zero 2040 ambition.

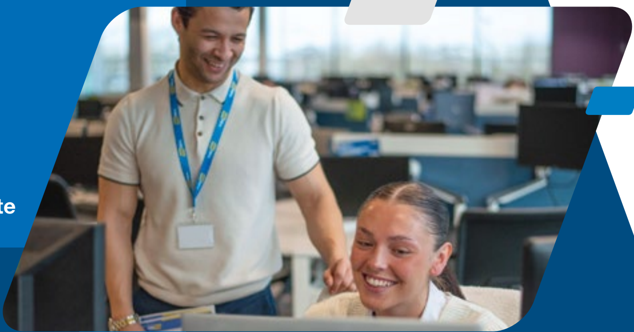
I was delighted that EcoVadis, one of the global leaders in ESG accreditation, awarded us its silver medal at the first time of asking. This 'advanced' rating puts us in the top 10% of companies in our sector, and reflects the hard work and dedication put in by our colleagues in recent years. The continued progress with health and safety has also been pleasing to see, with improvements on all three metrics: RIDDORs, Lost Time accident and All Injury frequency rates in FY22. These are impressive results given the low levels already delivered in earlier years.

0.02
FY21: 0.11
RIDDOR frequency rate

0.40
FY21: 0.46
Lost Time accident frequency rate

3.24
FY21: 3.68
All Injury frequency rate

READ OUR ESG SECTION HERE
page 18



The third significant area of progress I wanted to highlight is the expansion of our Central Sales team. This initiative was made possible by the 2021 launch of HSS ProPOS. This is the Brenda technology interface designed specifically for colleagues, allowing them to access the full range of products and services on a single, easy-to-use platform accessible via a variety of devices. We have been able to build a highly productive, flexible and adaptive, strongly motivated Central Sales team driven by data insight. We now have over 40 individuals working in this structured environment, managing a portfolio of over 5,000 customers and achieving revenue growth through enhanced customer insight and cross-selling. We have recently upgraded our CRM tool to Microsoft Dynamics to further improve performance.

As in previous years, during FY22 we have been unwilling to rest on our laurels, continuing to push forward with technology enhancements and new ways of working. On behalf of the Board, I would like to thank our colleagues for their ongoing commitment and hard work.

Our Board

We continue to benefit from a stable and experienced Board, with no Director having served for fewer than five years. We remain custodians of the HSS brand, supporting senior management with their strategic decisions, reviewing the Company's risk profile and monitoring progress in areas such as our ESG roadmap and technology development programme.

The Board continues to engage with all stakeholders to ensure HSS operates with transparency, integrity and in the interests of our colleagues and stakeholders.

> "We have been unwilling to rest on our laurels, continuing to push forward with technology enhancements and new ways of working."

Dividends

We have been pleased to reinstate a progressive dividend policy this year, which is designed to ensure sustainability through the economic cycle, taking into account underlying profit generation and balance sheet strength.

Having considered the Group's outlook and financial position, and all stakeholders' interests, the Board is recommending a final dividend of 0.37p, making 0.54p for the full year. Assuming the dividend is approved at the Annual General Meeting, it will be paid on 14 July 2023 to shareholders on the register on 9 June 2023.

Outlook

We have seen several years of consistent results for the Group, and this momentum has continued into 2022. I would like to thank my fellow Board members for their support and express my gratitude to our colleagues for their hard work and contribution to our achievements over the year.

Our strategic progress, delivered by our colleagues and underpinned by technology, continues to set the Group apart and, combined with the strength of our balance sheet, positions us well for future transformational growth.

Alan Peterson OBE
Chairman

26 April 2023

CHIEF EXECUTIVE OFFICER'S STATEMENT

A SINGLE PLATFORM FOR A SINGLE MARKETPLACE

STEVE ASHMORE
CHIEF EXECUTIVE OFFICER

DELIVERING GROWTH*

Rental revenue +8.8%
Services revenue +13.9%

IMPROVING RETURNS

ROCE 22.8%, up 0.7ppts

I am pleased to report on a strong performance for HSS and would like to extend my thanks to all my colleagues for their exceptional dedication to the Group and continued high level of engagement over the last year.

After a good set of results and significant strategic progress in FY21, we set out some ambitious goals for FY22 to improve returns further and continue differentiating our proposition to meet the converging needs of customers and suppliers in the building services sector. I am pleased to say the teams delivered on our plan and we are now very well positioned to maintain this momentum in FY23, with several of our technology developments now reaching fruition.

OUR YEAR IN SUMMARY

Strong financial performance

We entered the year with positive trading momentum which carried through to FY22. Like-for-like revenues were approximately 11% ahead of the prior year, driven by increasing conversion rates, builders merchant growth and excellent Services performance.

Improved conversion rates were driven by the use of HSS ProPOS, the colleague interface of our technology platform Brenda. HSS ProPOS allows all sales colleagues to fulfil enquiries there and then on behalf of customers across our entire range of products, from small drills to large earth-moving equipment and site accommodation. This technology is now accounting for c60% of contracts raised and, as we roll it out further, we expect conversion rates to continue to grow.

The ongoing expansion of our builders merchant network also supported revenue growth.

We continue to be very pleased with the performance of this channel and consistently receive positive feedback from our builders merchant partners who continue to grow in number. During FY22 we opened a further eight carefully selected locations which are performing well. Although we are very happy with our current network, we continue to look for opportunities to strengthen it.

In Q2 2022, we began to expand our central sales team following an outstanding performance from a newly established group of Business Development Managers who had been supporting a portfolio of several hundred customers since June 2021. Armed with our HSS ProPOS technology and incentivised to cross-sell, this team delivered over 3x revenue growth on its portfolios and significantly expanded share of wallet with these customers over a period of just 12 months. Since then, we have grown this highly productive, data-driven team to over 40 colleagues and we plan to grow it further in FY23.

Incorporation of HSS ProService

We changed our organisational model in FY21 forming the ProService and the HSS Operations teams (see Our Business Model section on page 13). Following this, in H1 FY22 a key focus was the legal separation of these two divisions, which we completed on 3 July 2022. This now gives complete focus for each division, with ProService targeting customer acquisition and technology development, and HSS Operations concentrating on service, operational efficiency and safety.

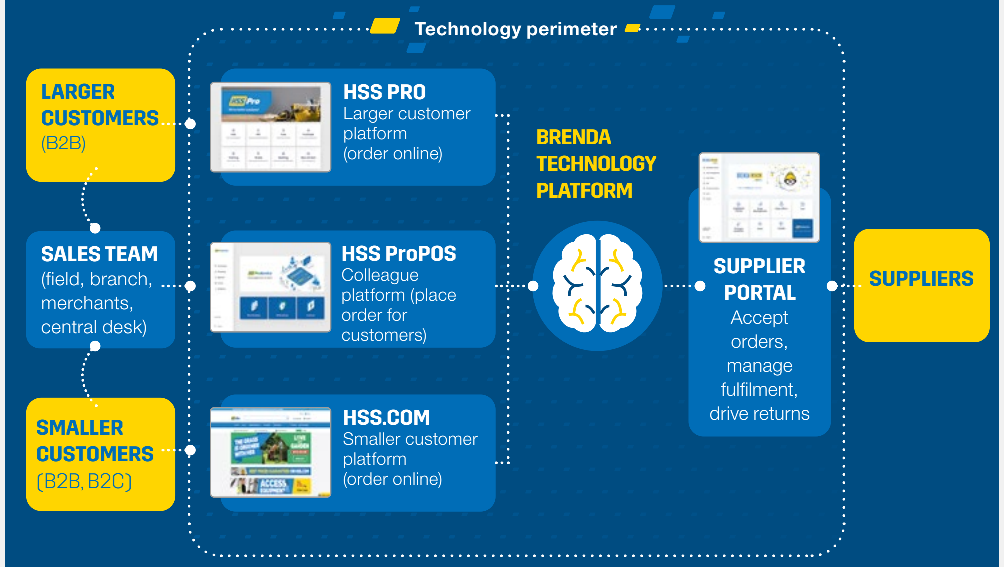
Following additional development work on HSS Pro and a significant increase in product content covering our extended range, in October 2022 we rolled this platform out to our first major customer, a top 20 UK contractor. This has been a great success (read more in the case study on page 16), and we now have a pipeline of customers lined up to adopt this technology. Our largest customer, Amey, is due to migrate onto this platform as part of our recent contract extension.

* Growth represents like-for-like growth.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

ONGOING INVESTMENT IN TECHNOLOGY

Amongst a long list of enhancements to our technology platform, Brenda, we have achieved two major milestones this year: the launch of HSS Pro, our self-serve platform for larger customers, and the development of hss.com, allowing us to re-platform it onto Brenda in Q1 FY23.



The second technology milestone involves our website. We have consistently achieved industry-leading levels of web traffic to hss.com and have seen over 20% of orders consistently raised online since the pandemic. In May 2022, we were delighted to be awarded the Catalogue of the Year 2022 at the HAE & EHA Hire Awards, recognising the quality of the digital catalogue on HSS.com. At HSS we never stand still; we constantly strive to Make It Better, and with our website we were keen to improve the way we present our extended range.

Until recently, the transactional capability on hss.com was limited to HSS-owned products, with reduced product content, availability and pricing for products in our extended rehire range. Following the re-platforming of hss.com on Brenda, customers can raise orders across our entire range from small drills to large earth-moving equipment and site accommodation on our website, quickly and easily. This transformation mirrors the one we made in 2021 when we launched HSS ProPOS to our colleagues, giving them the same step change in access to equipment. Back then, we saw significant improvements in conversion rate and revenue growth, something we now expect to be repeated over the next year as customers increase their adoption of our online channel.

ESG roadmap

Following the ESG benchmarking review we carried out in FY21, we put in place a new ESG roadmap including a set of clear objectives for FY22. In Q1 FY22 we set up our ESG committee, conducted a materiality assessment across all stakeholders and commissioned a third party, Sustainable Advantage, to undergo a net zero assessment for us. This allowed us to agree a new set of objectives, including a Net Zero 2040 target, which we published in April in our FY21 Annual Report, and then subsequently in June in our first ever ESG Impact Report. The report sets out in more detail our plans and initiatives to achieve those objectives.

Since the publication of the Impact Report, our ESG committee has overseen the delivery of a series of initiatives that puts us on target to deliver our objectives. Our achievements this year are detailed in the ESG section on page 18, but would like to highlight four significant achievements:

1. In FY21 we transferred our electricity supply to renewable sources and, despite volatility in the energy markets, we committed to retaining these during FY22. In December we were also able to take the final step of transferring our Irish electricity supply to renewable sources.

2. The roll-out of Satalia route optimisation technology to our HSS Operations teams has delivered a 14% reduction in mileage per job (FY22 versus FY21) and has reduced our carbon emissions by over 195,696kg. Transport mileage is the major contributor to our scope 1 and 2 emissions, so this is a significant step on our journey to net zero. More can be read about this in the case study on page 15.

3. There has been an across-the-board improvement in our safety statistics to record levels. Our RIDDOR rate improved from 0.11 to 0.02, Lost time accident frequency improved from 0.46 to 0.40 and our All Accident frequency rate improved from 3.68 to 3.24. Whilst we are very proud of these improvements, we continue to strive for a zero-accident environment, and this will remain a key priority in FY23.

4. We undertook our colleague engagement survey in November and I am pleased to say we had a record level of responses, with a 92% completion rate (compared with 81% last year) and our engagement score remained at our all-time high of 76%, well above the industry average of 50%. I believe it is so important to keep our teams engaged and this will continue to be an area we focus on.

Given the progress made on our roadmap, we were delighted that EcoVadis classified us in its 'Advanced' category following a comprehensive audit of our ESG credentials this year. This puts us in the top 10% of companies in our industry.

I am excited about our ESG roadmap and, as Chair of our ESG Forum, look forward to personally driving this agenda over the coming years.

Read more about ESG on page 18

Amey renewal

At the end of the year we were delighted to agree a contract extension that will see us working with our largest customer, Amey, for another two years. We have operated a managed service contract for Amey since 2016, inheriting its supply chain and consolidating its equipment requirements through a single HSS team. Amey values the one-stop shop solution we offer and the additional controls and visibility the HSS team provides. As part of the extension we have agreed to migrate the services onto HSS Pro to drive additional benefits for Amey and we are currently rolling this out.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

STRATEGY

We continue to see significant opportunity in our market, and we remain focused on the three objectives outlined in last year's Annual Report:

1. CAPITALISING ON CONVERGING CUSTOMER AND SUPPLIER REQUIREMENTS
2. TAKING ADVANTAGE OF MARKET CONDITIONS
3. CONTINUING TO DIFFERENTIATE OUR OFFERING

Capitalising on converging customer and supplier requirements

Significant challenges persist in the equipment rental market for customers and suppliers; both experience difficulties and high costs associated with transactions. Customers have broad requirements and consequently must access lots of suppliers, frequently struggling to control their expenditure. They have high administration costs, frequently experience invoicing issues, and often have limited buying power.

Similarly, suppliers, ranging from local specialist plant hirers to national generalist hirers, have lots of end markets to serve, many customers to target but most have a lack of reach. There are large acquisition costs associated with targeting the market and returns can be limited by underutilised resources.

We believe we can address these challenges through our technology-led business model. We provide one place for all buying needs and managing the order lifecycle, offering central visibility and control. Customers benefit from our buying power, and they receive one invoice which is accurate to their actions.

Suppliers have one place where they can access thousands of customers, benefiting from our brand recognition, website traffic and credit management controls. They receive a single monthly payment and drastically reduce their administration costs whilst enhancing their utilisation and returns.

Our network of suppliers drives excellent availability, making our solution more attractive to customers, which in turn drives further opportunity for suppliers. We believe that, by focusing on the needs of customers and suppliers, we can deliver significant growth.

Taking advantage of market conditions

The £5.7bn equipment rental market in the UK is highly fragmented with approximately 4,000 suppliers, the biggest of which represents only c10% of the market. Market consolidation is difficult, requiring large deployment of capital with no guarantees of share gain. The barriers to entry are small so consolidation of smaller players can often be followed by their re-emergence. There is also limited differentiation with most suppliers offering the same brands of equipment in particular categories, with similar delivery and collection service levels.

We believe our business model takes advantage of these market conditions, offering an alternative, low-capital way of bringing together fragmented supplier and customer bases through a single platform ensuring simple, fast, and frictionless user journeys. We are committed to scaling up our business to drive customer retention and supplier adoption and we see opportunities to replicate the model across other product verticals such as training and equipment sales.

Continuing to differentiate our offering

We are differentiated by our technology, our scale and our operating model.

Technology is the key to our operating model, enabling the rapid matching of customers' and suppliers' needs, addressing their challenges and driving down their costs. Our technology development roadmap focuses on three areas that enhance our differentiation:

1. Providing suppliers and customers with greater control and visibility by enhancing our self-serve user interfaces
2. Adding product verticals beyond equipment hire to improve the one-stop shop proposition
3. Deploying our technology amongst our salesforce to make every customer touchpoint more effective

The combined scale of our customer and supplier networks provides a significant barrier for technology-focused new entrants to our market. We will continue to broaden and deepen our supplier network to drive greater availability and customer retention, whilst reinforcing our advantage.

Our operating model is unique. The legal restructuring around HSS ProService and HSS Operations gives complete focus for each division, with ProService targeting customer acquisition, enquiry conversion and technology development, and HSS Operations concentrating on service, operational efficiency and safety.

OUTLOOK

The Group has good momentum and a healthy balance sheet following several years of strong performance. We have an operating model and technology platform that set us apart from the competition and believe we can take significant market share by persistently seeking to address the long-established challenges faced by customers and suppliers in our market.

Our technology is well established and we have an exciting roadmap to evolve it further. Our team is highly engaged and motivated to deliver on our ambitions. We have the scale of both customer and supplier networks, with significant opportunity to increase share of wallet with customers and improve utilisation for suppliers.

Whilst the UK economy faces headwinds in 2023, we believe our team is in great shape and we have the right organisational structure to create clarity of direction for our colleagues. In a challenging market our one-stop shop proposition aimed at reducing customers' procurement costs will be particularly attractive, continuing to differentiate us from peers.

We continue to target Services revenue growth of 10ppts above the market and I remain excited about the prospects for the Group in FY23.

Once again, I would like to thank all my colleagues for their efforts during FY22.

Steve Ashmore
Chief Executive Officer

26 April 2023

> "We are differentiated by our technology, our scale and our business model."

BUSINESS MODEL

RESOURCES AND RELATIONSHIPS › WHAT WE DO AND HOW WE DO IT → VALUE CREATION

AQUISITION MODEL

HSS PROSERVICE

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

TECHNOLOGY

- BRENDA in-house marketplace technology platform
- MS DYNAMICS customer relationship management tool
- VODAFONE STORM® call management technology

Well-trained salesforce
ProService has c800 colleagues.

Powered by technology
Intelligent, scalable, easy to use and accessible.

Extensive supply chain
With access to around half of all equipment available for hire in the UK and over 700 supply partners.

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 available colleague
- Full visibility of order status
- Real-time delivery tracking
- Choice of fulfilment slots
- Lowest cost to serve

SME CUSTOMERS ALSO WANT:

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

Technology solution = hss.com

LARGER CUSTOMERS ALSO WANT:

- Order approval processes
- Purchase order validation
- Additional reporting
- Interface with their systems

Technology solution = HSS Pro

THE PROSERVICE TEAM

- c100 HSS field-based sales colleagues building relationships
- 35 HSS local sales branch teams
- 63 HSS builders merchant counter-based teams
- c250 desk-based sales colleagues driving enquiries and conversion
- 19 builders merchant salesforces promoting our offering
- 20 marketing and e-commerce colleagues

Technology solution = HSS ProPOS

700+ SUPPLY PARTNERS

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

Technology solution = Supplier portal

COLLEAGUE NEEDS

- Say yes to customers
- Raise orders to drive performance
- Cross-sell the full range
- Minimal rework

SUPPLIER NEEDS

- Minimise overheads and admin costs
- Access to our customer base and the volumes they bring
- Drive fleet utilisation and returns

LOW CAPITAL INVESTMENT. DRIVEN BY TECHNOLOGY. EXTREMELY SCALABLE. UNIQUE.

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.

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

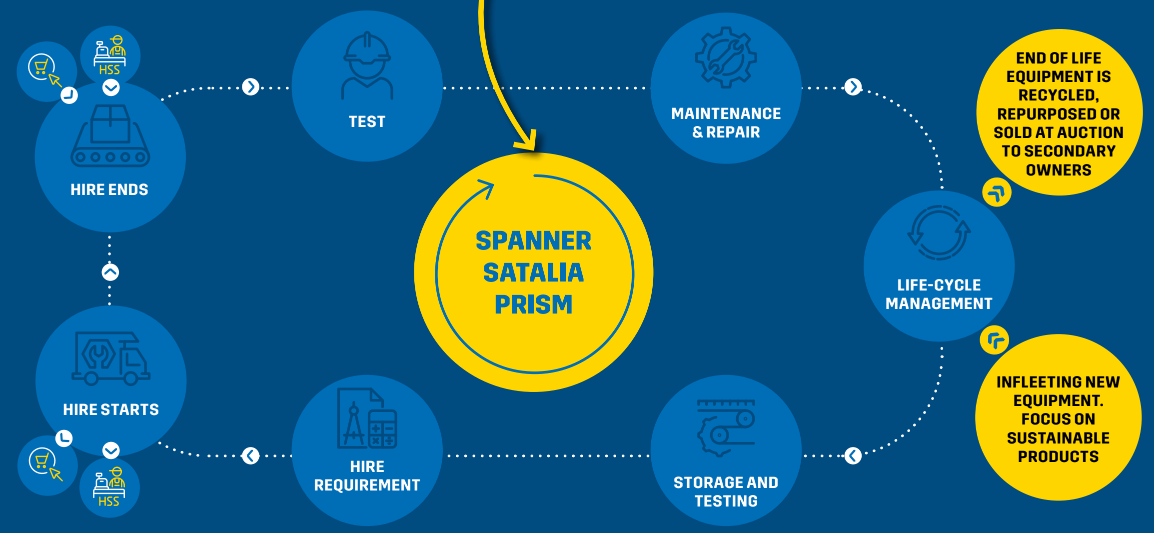
- **Spanner** in-house asset management software
- **Satalia** third-party route optimisation software
- **PRISM** in-house stock distribution software

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 38 CDC's, recently enhanced by new route optimisation software.

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

Engineering skills
100+ well-trained fitters and service technicians based in our locations or in mobile service vehicles.



CIRCULAR ECONOMY BUSINESS, WITH LEADING CUSTOMER SATISFACTION AND RETURNS ON CAPITAL.

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.

STRATEGY AT A GLANCE

1 CAPITALISING ON CONVERGING CUSTOMER AND SUPPLIER REQUIREMENTS

Customers and suppliers in our industry face similar challenges

2 TAKING ADVANTAGE OF MARKET CONDITIONS

The fragmented nature of our industry and the persistence of long-established analogue practices means that customer and supplier challenges have endured

3 CONTINUING TO DIFFERENTIATE OUR OFFERING

The hire industry has traditionally focussed on the equipment process rather than the end-to-end customer journey.

THE CHALLENGE

	CUSTOMERS	SUPPLIERS
Difficult	Lots of requirements Lots of suppliers Lack of control	Lots of end markets Lots of customers Lack of reach
Costly	High admin Invoicing issues Limited buyer power	Large acquisition costs Underutilised resources Reluctance to invest in tech

HIRE INDUSTRY LEGACY CHALLENGES:

FRAGMENTED · DIGITALLY IMMATURE · UNDIFFERENTIATED · LOW BARRIERS TO ENTRY

Difficult to consolidate
Lack of customer loyalty
Expensive to operate

CUSTOMER JOURNEY

Source equipment → Receive equipment → Equipment on hire → Off hire → Equipment collected → Payment & admin

MONITOR AND CONTROL

The hire industry has traditionally focused on these elements – improving distribution performance and equipment quality – and it is now increasingly difficult to differentiate here. A Belle mixer from one supplier is the same as a Belle mixer from the next supplier, provided they are well maintained.

The hire industry has traditionally addressed these elements of the customer journey with inefficient analogue solutions, reliant on manual processes and susceptible to human error. There is no common self-serve platform for customers and suppliers across the breadth of products required.

OUR SOLUTION

Our solution is a technology platform that customers and suppliers can access and use to control their transactions, minimise costs and drive returns. Our self-serve platforms give both customers and suppliers:

1. ACCESS TO THE MARKET
2. OPERATIONAL CONTROL
3. FINANCIAL TRANSPARENCY

We offer a hybrid sales solution for customers, maintaining a network of physical branches, builders merchant concessions, field sales and central sales, all of which use our technology platform to operate. This maintains information integrity.

We have critical mass of suppliers, driving excellent availability, making our solution more attractive to customers which in turn drives further opportunity for suppliers.

We offer a differentiated solution for customers and suppliers alike. Driven by technology, we have created a single marketplace that meets our customers' hire requirements and our suppliers' demand.

Our extensive supply chain allows us to offer excellent availability, accepting orders immediately across a comprehensive range of product and geographic requirements.

Our model allows us to grow our business without the deployment of capital in fleet.

As the business scales, we benefit from powerful network effects; availability improves further, driving customer retention and, in turn, supplier adoption.

We have been focusing on the whole customer journey and differentiate in three ways:

1.
   - Our self-serve interfaces provide customers and suppliers with greater control and visibility
   - We continually add product verticals to improve the one-stop shop experience
   - Our salesforce uses the same platform which enhances every customer touchpoint, and ensures we maintain information integrity
2.
   - The combined scale of our customer and supplier networks provides a significant barrier for technology-focused new entrants to our market
3.
   - Our operating model is unique and gives complete focus for each division, separating operational activity from sales acquisition and administration.

OBJECTIVE

Continue to enhance our technology to meet the requirements of customers and suppliers alike, ensuring fast and frictionless user journeys, and ultimately making equipment hire easier and less costly.

Grow our business organically without the deployment of incremental capital investment in fleet, in turn enhancing availability for customers and returns for suppliers.

Create further differentiation by enhancing our technology, whilst at the same time broadening and deepening our supplier network to drive greater availability and customer retention.

FY23 PRIORITIES

Each of our two divisions has four key priorities for FY23:

HSS PROSERVICE

1. DELIVER OUR TECHNOLOGY ROADMAP
2. DRIVE ENQUIRIES AND CONVERSION RATES
3. PROMOTE SELF-SERVE
4. BROADEN OUR PRODUCT OFFERING AND DEEPEN OUR SUPPLIER NETWORK

HSS OPERATIONS

1. MAXIMISE FULFILMENT RATES AND DRIVE UTILISATION
2. DELIVER EXCELLENT CUSTOMER SERVICE
3. IMPROVE EFFICIENCY AND RETURNS
4. TARGET ZERO HARM AND DELIVER ON ESG

STRATEGY IN ACTION

Link to strategy

SATALIA

1 2 3

THE OPPORTUNITY

Our transport teams have always done a great job delivering, collecting and exchanging equipment for our customers, routing almost one million transport jobs every year. At the end of FY21, we decided to introduce some new technology to help them optimise their routes. The objective was to minimise the mileage covered by our vehicles and reduce our carbon footprint whilst retaining great customer service.

WHAT WE DID

We went to market to find tried-and-tested technology and, after a thorough assessment, selected Satalia as our chosen provider. Our transport teams worked closely with Satalia, calibrating its technology to meet the specific requirements of our business. In FY22, we rolled it out across our network, trained our colleagues how to get the best from it, and continued to work with Satalia to optimise the way it works.

THE RESULTS

We have reduced our mileage by c14% saving, on average, just over one mile per job. Over the year, we have saved over 195 metric tonnes of carbon emissions, and reduced our mileage by 525,103 miles, enough to drive round the world twenty-one times.

We have achieved all this whilst maintaining great customer service, with delivery performance at 98.4%.

Carbon reduction
195,696kg

Delivery performance
98.4%

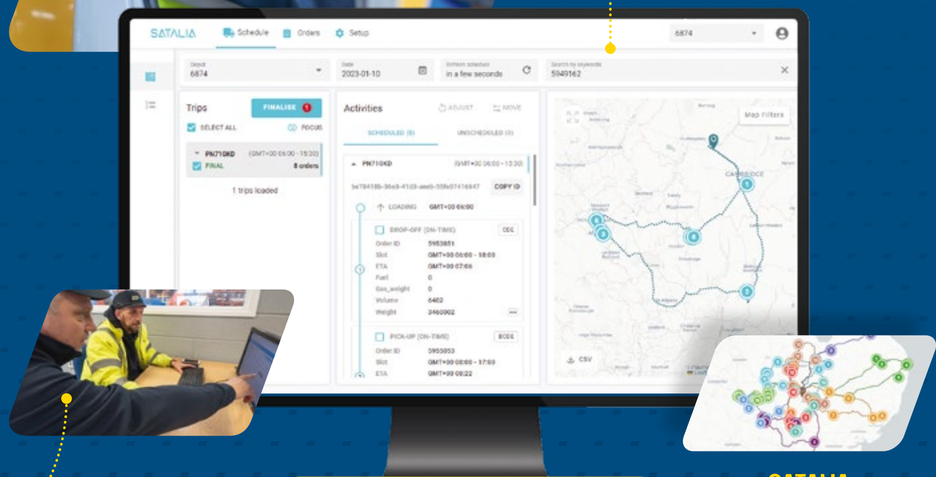
DRIVING EFFICIENCY

SATALIA

SCHEDULE INTERFACE

Software automatically schedules drivers' routes based on a complex combination of customer requirements, equipment characteristics, health and safety and road network conditions.

Find out more on page 21



Reduction in mileage per job
14%

SATALIA

MAP VIEW

Transport teams have full live visibility of fleet status and performance.

Read more on page 21

STRATEGY IN ACTION CONTINUED

Link to strategy

BRENDA AND HSS PRO

1 2 3

THE OPPORTUNITY

We have learned from many of our larger customers that they want a single place to go to access a broad range of products and services, where they can control their spend and reduce their administration. Large customers have a myriad of requirements and many sellers to manage amongst a very fragmented supply chain. Offering a one-stop, self-serve digital platform for these customers is a fantastic opportunity to improve customer experience, enhance controls, drive loyalty and increase share of wallet.

WHAT WE DID

We worked with a top 20 UK contractor to understand our larger customer requirements and discover what they want from a self-serve platform. We created a new user interface in our Brenda technology stack called HSS Pro, designed specifically for larger customers to overcome the challenges they experience in the analogue world. We built this technology during the year and started a roll-out with the customer in October 2022.

THE RESULTS

Since the launch of HSS Pro, we have onboarded customers with the potential to spend over £20m. We have seen their activity grow by a factor of 3.7x, revenue up 45% and 88% of the orders placed have been self-serve, with an improving trend and a target of 95%. We are also pleased to see the range of products taken by these customers increase by a factor of 2.8x. We are now providing customers with services beyond hire, including training, equipment sales and building materials. During FY23, HSS Pro will be rolled out to a pipeline of additional customers with a potential to spend over £50m on our platform.

Percentage of contracts self-serve

88%

Activity increased

3.7x

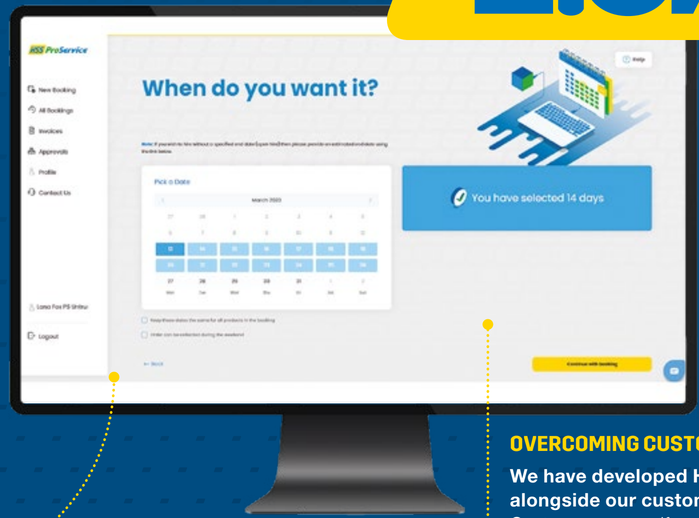
ENABLING SELF-SERVICE

DASHBOARD

HSS Pro is a marketplace for procurement professionals in the building services market, offering a wide range of products and services on a single technology platform.

Increase in range of products

2.8x



OVERCOMING CUSTOMER CHALLENGES

We have developed HSS Pro alongside our customers.

Customers can self-serve, guaranteeing them invoices that are true to their actions. They can manage their approval process, reducing administration, consolidating purchase orders and avoiding unnecessary cost.

Find out more on page 13

STRATEGY IN ACTION CONTINUED

Link to strategy

BRENDA AND HSS.COM

1 2 3

THE OPPORTUNITY

We have the highest website traffic in our industry and perform strongly in SERP* positioning against our competition. The experience for customers using the site at the start of FY22 was good if they were looking for equipment in the core HSS range, with strong product content, live availability and full transactionally functionality. However, the same functionality was not available for our extended range of products and services provided through our rehire, resale and training propositions. This presented a great opportunity to extend our online offering.

WHAT WE DID

We have continued to optimise our website to improve the customer journey and have recently re-platformed our hss.com site on the technology which underpins our entire ProService proposition: Brenda. This means that the full range of products and services that is available to our colleagues (via HSS ProPOS) and to our self-serve customers (via HSS Pro) is now available online to all customers.

THE RESULTS

Average page download time has reduced by 38% y-o-y and the conversion rates have increased to 2.65%. Average order value for online transactions has increased by 19% y-o-y. We are now in a position where any products and services that are added to our offering are automatically available online. During Q2 FY23 we will be launching the full extended hire proposition online, accompanied by equipment for sale and building materials for sale.

* Search Engine Result Position.

Average page download time

↓ 38%

Conversion rate

2.65%

Average order value

↑ 19%

HSS.COM POWERED BY BRENDA

All of our products and services that are available to our colleagues (via HSS ProPOS) and to our larger customers (via HSS Pro) are now available online to all customers.

LEVERAGING OUR TECHNOLOGY

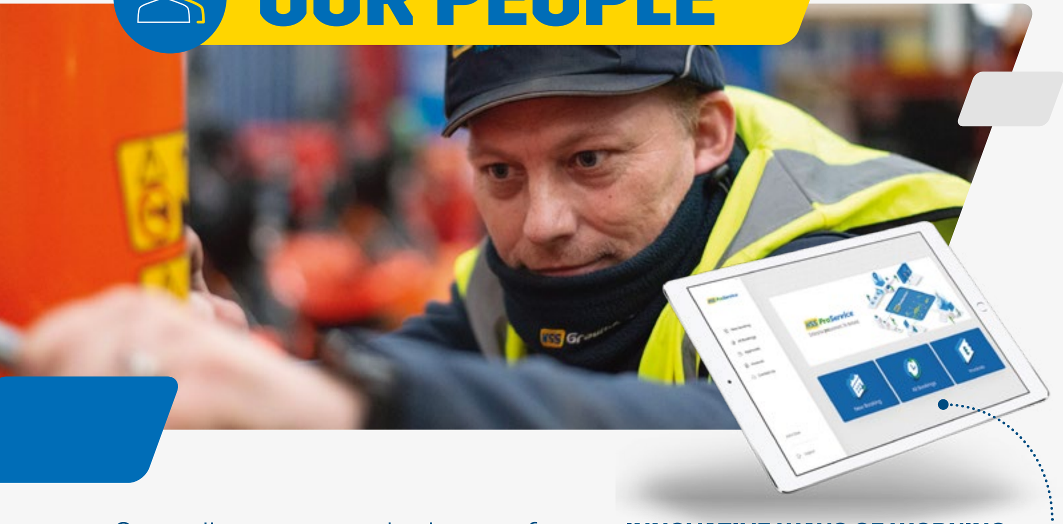
A TRULY DIGITAL BUSINESS

Our technology platform, which we call Brenda, was launched in 2019. 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.

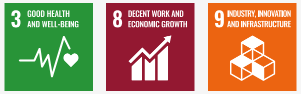
Find out more on page 3

SUSTAINABILITY AT HSS

OUR PEOPLE



Our colleagues are the heart of our business, and key to setting us apart within our industry. Our aim is to ensure they are safe, valued, supported, developed, and rewarded for the hard work they do for our business and customers.



INNOVATIVE WAYS OF WORKING

Our technology innovation has allowed us to create systems which make day-to-day working processes easier for our teams, and we continued this momentum into FY22. Our HSS ProPOS system has continued to grow and develop, and to further support our sales strategy we launched our new Customer Relationship Management (CRM) system in December, making sales administration and customer relationship management easier than ever.

To enhance our customer and colleague experience we created a new sales function based in our Manchester head office, spanning business development and customer improvement activities. With these teams co-located, we've been able to create a collaborative, competitive and rewarding working environment, keeping the teams engaged and allowing us to roll out sales development training so they can upskill together and create lasting careers with HSS.

HEALTH AND SAFETY

Safety is at the forefront of our working practices, and it flows through our communications and operational activities at all levels, driven from the top down by our CEO, Steve Ashmore. We're proud that our RIDDOR rates have reduced and we finished FY22 with only one RIDDOR for the reporting period. This demonstrates our colleagues' commitment to keeping safety top of the agenda.

RIDDOR year on year rate

Year	Number of RIDDORs	RIDDOR frequency rate
FY22	1	0.02
FY21	5	0.12
FY20	2	0.04
FY19	11	0.20

1 RIDDOR in 2022

SAFETY STARTS WITH ME

Our biggest risk area within the Group is Operations, as often these roles involve handling equipment, loading and unloading vehicles and driving. To offer more support to these teams, we launched our 'Safety Starts with Me' campaign, implementing a range of actions such as new safety notice boards and signage, new PPE, and regular team huddles to discuss key safety topics and drive best practice.

STEVE ASHMORE

Steve Ashmore continues to lead our Executive Health and Safety forum, ensuring focus and accountability from the top of our business, and keeping the Board informed of our performance and progress.

COLLEAGUE DEVELOPMENT

We take a blended approach to learning and development to ensure all our colleagues have opportunities to grow their skills, knowledge and careers. Whether it's apprenticeships, e-learning, video modules or classroom-based training, we strive to tailor our approach and offer colleagues the chance to progress and build a long-term career with HSS.

One of our key successes in FY22 has been our 'Earn As You Learn' programme, which upskills our drivers from 3.5 to 7 tonne vehicles. 11 colleagues have completed their training, with a further 25 expected to complete it early in FY23. This initiative has created a clear career path for drivers wanting to progress and has aided in retention in traditionally high-turnover driving roles.

We had 18 colleagues successfully complete our nine-month development programme. They took part in workshops focused on leading people, managing change, and personal effectiveness, equipping them with the skills to take the next steps in their careers with HSS. Four of the colleagues who completed the programme have since secured promotions or new roles within the Group.

SUSTAINABILITY AT HSS CONTINUED

COLLEAGUE ENGAGEMENT

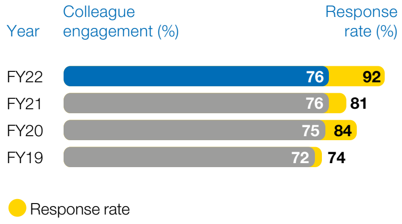
Our annual colleague survey helps drive our engagement agenda for the year, informing Group-wide initiatives, as well as local level activities to ensure HSS is the best place to work. This year we had our highest ever completion rate, with 92% of our colleagues providing a response. Our overall engagement score remained high at 76%, a good result considering the change projects we have implemented over the past two years and the impact of macroeconomic conditions on living standards.

One of our key engagement initiatives this year was to address the pressures many of our colleagues were facing in relation to the rising cost of living. As well as communicating our benefits and financial wellbeing support, we made a one-off payment of £750 to colleagues earning under £35,000 per annum.

Throughout FY22, we have run our usual engagement campaigns, including our peer-to-peer recognition campaign 'Love Your Colleague' around Valentine's Day, and an educational campaign for Pride across our communications and social channels. To ensure we reached more of our operational colleagues, we introduced 'Wellbeing Wednesdays', one day each month where the management team would visit depots and join the local teams to discuss wellbeing topics, highlighting our benefits and support.

We continue to see success from our apprenticeship programmes, with colleagues enrolled from level 2 to level 7 in a broad range of disciplines. We also introduced two new programmes this year, for team leaders and operational management, which are helping to improve our internal management capabilities. We ended FY22 with 39 delegates in active programmes, and enrolment re-opened for FY23.

Colleague engagement

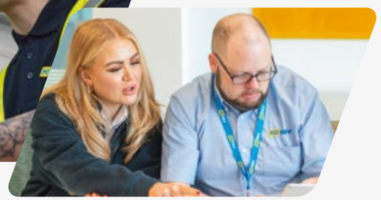


76% colleague engagement in FY22

92% response rate in FY22

39 delegates in active apprenticeship programmes

76% engagement score

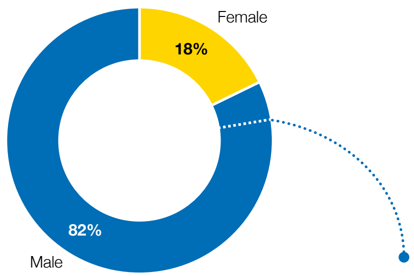


EQUALITY, DIVERSITY & INCLUSION

At HSS we are committed to creating a diverse, inclusive workforce, where everyone is made to feel welcome and valued, and during FY22 we have made some tangible progress against our ED&I strategy.

We established a colleague council which meets quarterly, sharing ideas and insights from across the colleague population to help drive positive progress. We have also completely revised our ED&I training, adopting a top down approach with our Management and Executive teams completing the training first so they can lead on this topic within their own organisations. Once the management training is complete, we will then roll out our mandatory e-learning to all other colleagues in FY23.

Gender split



We are aiming for 25 by 25, a 25% female workforce by 2025.

COMMUNITIES

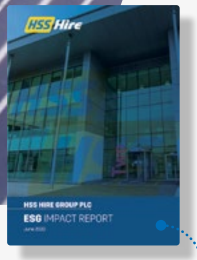
As well as providing a supportive, engaging and progressive workplace for our colleagues, we are committed to giving back to the communities we operate within. This year we continued our partnership with the Lighthouse Club, a charity which supports the construction industry on health and wellbeing. As well as a corporate donation, our colleagues held a range of fundraising activities such as golf days, competitions and games to raise further funds throughout the year.

We supported two charities helping families and children impacted by the war in Ukraine. In addition, we supported a number of our customers with charitable outreach work throughout FY22, such as the Green Corridor initiative through Heathrow Airport. The initiative supports local people with special educational needs, creating opportunities for them to learn new skills. Throughout the year, we donated a range of equipment for their horticultural activities. We have also worked with our Onsite partners in central London, donating a percentage of their spend to the charity of their choice. For example, the Multiplex Onsite at 30 Grosvenor Square which supports Willow, a charity providing special days out for seriously ill 16 to 40-year-olds.

Lighthouse The Construction Industry Charity CLUB

SUSTAINABILITY AT HSS CONTINUED

OUR ENVIRONMENT



In FY22, we produced our inaugural ESG Impact Report, which is available on-line, detailing progress and future plans as we navigate our ESG journey. We've committed to achieve net zero by 2040 and the report explains our materiality-based approach to our ESG strategy and disclosure.

This Annual Report outlines how we are driving practical and positive environmental and social changes as a business, in partnership with our key stakeholders, along with appropriate amendments to our already strong governance.

OUR ESG IMPACT REPORT

The report is a blueprint for the future as we strive to deliver positive changes for our people, planet and performance. Amongst other things, the report sets out:

- Our vision, values and purpose
- Our sustainability journey
- ESG commitments and targets
- Governance
- Carbon footprint
- Net Zero 2040 roadmap
- Supply chain and other stakeholder engagement
- Equality, Diversity and Inclusion
- Health and safety
- Learning and development
- Community engagement

We highly recommend you take the time to read the report to gain a greater understanding of HSS's ESG vision.

Available at www.hsshiregroup.com/wp-content/uploads/2022/06/HSS-Net-zero-facing-pages_24.06.22_16.15.pdf

INNOVATION

At HSS, we pride ourselves in driving innovation within the hire industry and this has always been key to enabling us to implement positive change across our Group. When it comes to our ESG programme and hitting our ambitious 2040 net zero goals, innovation is especially important. In line with this thinking, we are working hard to improve our ESG offering to our customers to help them meet their net zero targets, as well as our own.

One important example of this is our Innovation Roadshows, which ran between February and October 2022. We held a roadshow each month across the length and breadth of the UK, inviting our suppliers to collaborate and showcase their ranges and technology to our customers and sales teams. The purpose of these events was to highlight our eco-friendly product lines and the environmental improvements these can help our customers drive across their own sites and locations. Products showcased included hydrogen powered lighting towers, solar powered welfare units, solar-hybrid Hydrotreated Vegetable Oil (HVO) compatible generators, electric plant, electric powered access and electric grounds care equipment.

Given the success of the roadshows, we are planning to repeat these throughout FY23, making them even bigger and better in order to reach more customers.

HSS ProService has continued to focus on improving and streamlining our customer journey and, with increasing numbers of customers looking for more sustainable product lines and CO_2 data, we will be launching enhancements to our Brenda system in early FY23 to help meet this requirement.

SCIENCE BASED TARGETS (SBT)

In our 2022 ESG Impact Report, we set out our ambition to be net zero by 2040. To achieve this, we are taking several steps and a materiality-based approach to our ESG goals. To further demonstrate our commitment to accelerate the reduction of our greenhouse gas (GHG) emissions, in October 2022 we signed up to the UN-backed Science Based Targets initiative (SBTi).

We have publicly set near and long-term Company-wide emissions reduction targets and have made the decision to align with a 1.5°C rise in global temperatures compared with pre-industrial levels through the Business Ambition for 1.5°C campaign.

Our net zero by 2040 and 1.5°C temperature alignments are more ambitious than those mandated by the SBTi, demonstrating how seriously we are taking our ESG commitments. We believe these goals are crucial to futureproofing our business, the planet, and the people and communities we work with.

2040
Net Zero Carbon Target

BUSINESS AMBITION FOR 1.5°C

SUSTAINABILITY AT HSS CONTINUED

CUSTOMER SUSTAINABILITY METRICS

In FY22, we experienced a dramatic rise in the number of end users, government bodies and customers requesting carbon data and other ESG-related information, something we expect to continue as more of these drive their own ESG strategies. To better support this demand, we kick-started a number of pilot projects in FY22, working in partnership with a number of key customers to understand their ESG requirements. Our aim is to take advantage of the lessons learned and understand how we can provide customers with greater transparency in their selection and use of more eco-friendly products, and more sustainable solutions. The intention is to expand these initiatives throughout FY23 to support all our stakeholders on their own ESG journeys.

To externally assess where we are on our own ESG journey, we participated in the CDP and EcoVadis ESG surveys in FY22. We have made excellent progress, evidenced by an increase in our CDP rating. Furthermore, we have been awarded a Silver EcoVadis medal for the first time, placing HSS as a leader in our industry sector and in the 91st percentile overall, testament to our hard work and progress on our ESG strategy.

Our supply chain has a significant impact on our ESG performance and has been an increasing area of focus. In Q2 FY22, we sent out our first full ESG supplier surveys, aiming to benchmark where our suppliers are on their ESG journeys. The surveys covered the fundamental elements of ESG for their businesses, but also probed how they are thinking about the emissions of their businesses, product lines, and their future operations. In FY23, we intend to build on this baseline information and place more focus on our supply chain's emissions, innovation pipeline, governance practices and look to partner more closely with suppliers who share our ESG vision, helping us to collaboratively drive change in our industry.

LOW-CARBON FLEET

As we look to further reduce the emissions of our vehicle fleet, we continue to invest in hybrid and electric vehicles, encouraging our company car users to select these options as well. During FY22, as vehicle leases expired, we moved to 33% of our company car fleet being electric (EV) or Hybrid (PHEV), with a further 30% of vehicles with emissions less than 120g CO_2. With 120 cars (30 EV, 66 PHEV) on order and mostly due for delivery in the first half of FY23, our fleet will soon comprise over 60% EV or PHEV.

One of the challenges we face is that the range of EVs currently available is insufficient given the mileage undertaken. Our 45 mobile fitters' vans are a good example, as these vehicles do a high mileage per day. After an in-depth study we are now replacing them with PHEVs that still have on average 55% lower CO_2 emissions, whilst providing appropriate range to ensure we satisfy our customer service requirements.

Looking at our commercial vehicle fleet, we have focused on depots which average lower delivery distances from their respective locations, to ensure we balance our ESG goals and the limitations of the current vehicle technology against delivering the high level of service our customers expect. These locations with lower average delivery mileages are mainly in the South of England, and we have ordered 40 PHEV drop sides due to arrive in the first half of FY23.

We remain committed to taking advantage of the very latest in EV and PHEV technology as the ranges improve, and we are working alongside various innovative suppliers to find the best solutions. We have engaged with a new start up, BE-EV, which in December 2022 began testing a prototype van at our Central Distribution Centre in Bootle. The prototype is fitted with telematics which provide invaluable data to help advance the technology further. We remain committed to exploring new and developing technologies as they come to market and offer practicable solutions to helping us reduce our carbon emissions without adversely affecting customer service or efficiency.

Technology in relation to our fleet is not solely restricted to vehicle operation. In the second half of FY21, HSS Operations introduced a leading-edge AI software called Satalia, which enables our daily routing of deliveries and collections to be as efficient as possible. Throughout FY22, we have continued to embed and improve the software and it has reduced our average journey in FY22 by over one mile. Whilst this may sound insignificant, throughout the full year period it equates to more than 525,103 miles and 195tCO_2 in total per annum, a significant impact on our overall emissions.

See case study on page 15

33%
of company cars moved to EV or PHEV in FY22

40
further PHEV drop side vehicles by June 2023

During FY23 as leases end, these ratios will continue to increase.

DRIVING TOWARDS NET ZERO BY 2040

KEY FOCUS AREAS FY23

- MORE PROACTIVE, COLLABORATIVE SUPPLIER ENGAGEMENT
- INCREASE CUSTOMER ACCESS TO SUSTAINABLE PRODUCTS AND SERVICES
- FURTHER REDUCTION OF OUR UP AND DOWNSTREAM GHG EMISSIONS
- ENVIRONMENT, WASTE AND A MORE CIRCULAR ECONOMY
- COLLEAGUE WELFARE WITH A FOCUS ON WELLBEING DEVELOPMENT
- ENVIRONMENT FURTHER FOCUS ON SCOPE 3 CONTRIBUTIONS
- INCREASE OUR COLLEAGUES' ESG AWARENESS AND ENGAGEMENT

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

TCFD

Climate change presents one of the most pressing challenges that has been confronted in modern times and is already happening. Rising temperatures are fuelling environmental degradation, natural disasters, weather extremes, food and water insecurity and economic disruption. It is clear that business as usual is not good enough.

HSS is committed to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD). We aim to be transparent to all our stakeholders on the risks we face and the way we strive to mitigate them. Using a standard format enables us to explain the process for responding to these challenges in a purposeful and comparable way. We have utilised the expertise of an independent ESG consultancy to aid us in our journey as we continue to develop the methodology and coverage for targets and monitoring of risks and adaptation measures, in line with our 2023 roadmap and onwards.

In this, our first disclosure, we are voluntarily adopting early TCFD. We are embedding climate-related considerations into our operations, under the direction of our Board and the Executive Management Team (EMT). The report spans TCFD's four key elements: **Governance**, **Strategy**, **Risk Management** and **Metrics and Targets**. This year, we have undertaken a range of activities that have strengthened our understanding and management of climate-related issues. Some of these activities include establishing processes and structures that align our climate governance to the TCFD recommendations, undertaking a scenario analysis of HSS's sector and services to identify climate-related financial risks and opportunities and disclosing our broader carbon commitments.

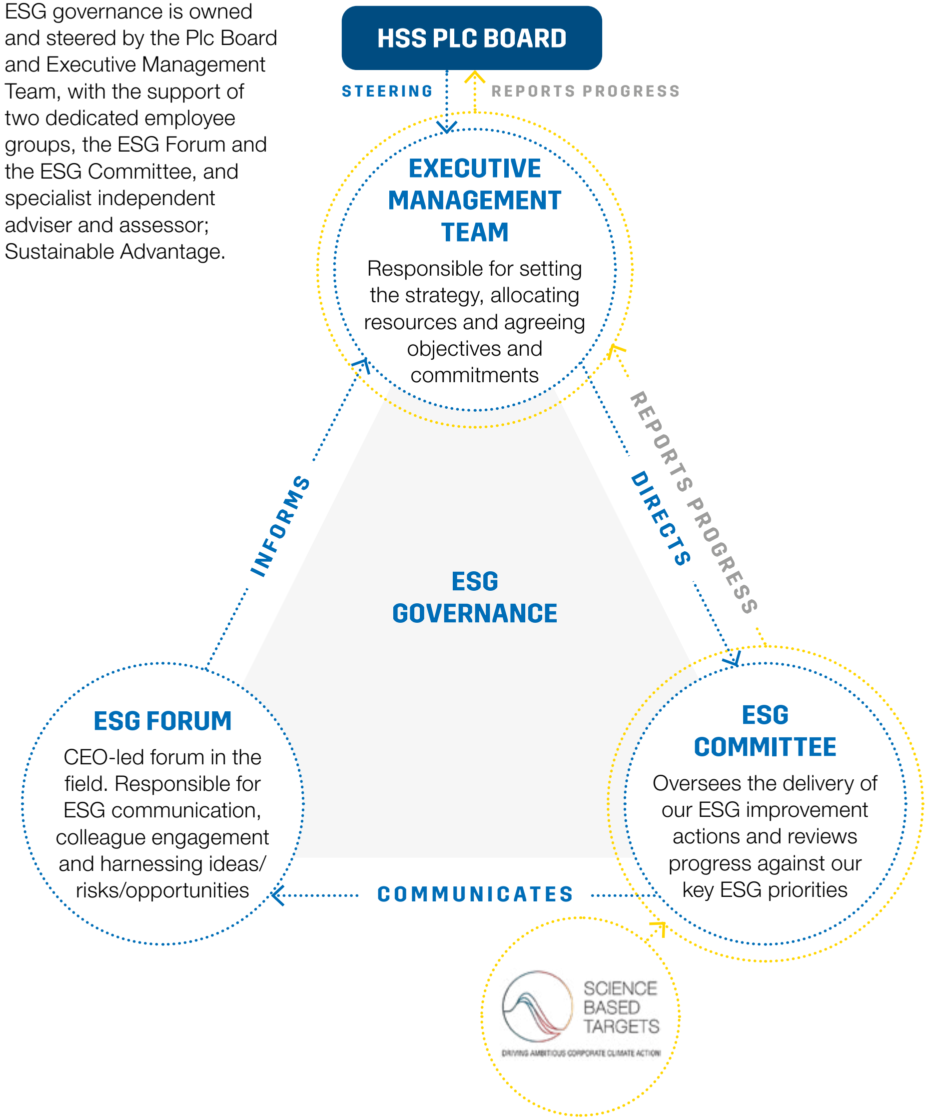
While climate change is often viewed as a major risk, there is also business opportunity. The low-carbon transition creates opportunities for efficiency, innovation and growth. Our key strategic priorities are focused on the decarbonisation of our equipment fleet and collaborating with our suppliers to promote innovation and develop low-emissions technology.

It is clear that business as usual is not good enough.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

EMBEDDING ESG GOVERNANCE THROUGHOUT THE GROUP

ESG governance is owned and steered by the Plc Board and Executive Management Team, with the support of two dedicated employee groups, the ESG Forum and the ESG Committee, and specialist independent adviser and assessor; Sustainable Advantage.



GOVERNANCE

At HSS, we recognise that customers and investors are increasingly asking for more transparency on how companies are governed. This is especially the case when it comes to climate change, with a clear and scientifically supported consensus on the threat posed by a warming planet and a strong enthusiasm for the business community to step up and do its bit. The targets and actions detailed in this report strive to provide detail and clarity on the steps HSS is taking within the organisation to respond to the climate emergency.

During FY22, HSS has been integrating climate risk into our business model and ensuring that we have in place a strong and resilient corporate governance regime. This will ultimately enable us to reach ‘full’ TCFD disclosure.

Board leadership

HSS has embedded oversight of climate-related risks at the highest level of our Company. Responsibility for assessing and managing climate-related risks and opportunities lies with our Board, supported by the EMT and the Risk and Assurance Director.

Therefore, the Board, will drive and be accountable for all climate-related risks and opportunities. This reflects the urgency with which we believe the climate emergency should be addressed, but also the emphasis that we are placing on tackling it. This approach ensures that the implications of climate-related risks and opportunities are considered in all of our decision making, strategic planning and business continuity plans. Whenever the Board or the Board committees meet, climate change will be on the agenda. This will include periodic reviews of the performance of the Company’s climate metrics and targets.

Board committees

To support the Board in addressing climate impacts, HSS will utilise its various Board committees to support the gathering of information and data. The Audit Committee will provide oversight of climate-related risks using current climate data and associated financial data, for example data to support the financial implications of climate risks and opportunities. Currently, we have added the various elements of climate risk into key risk 11 (ESG). However, over time the various elements may either be integrated into our other principal key risk areas or added to a specific climate risk register as appropriate.

HSS’s Remuneration Committee will ensure that climate targets are embedded into our incentivisation scheme over time, starting in FY23. The Committee will oversee the development of the Company’s management incentivisation schemes, which will evolve to promote and reward sustainable value creation. HSS will be including specific climate targets and goals in the management incentivisation model. This will include setting clear key performance indicators (KPIs) that will impact executive compensation.

Management level oversight

While the Board will retain oversight of all climate-related issues, we recognise the importance of creating a structure that enables it to make informed decisions. HSS’s EMT will have overall responsibility for handling day-to-day risk management. The Group’s risk register will be maintained by HSS’s Risk and Assurance Director and will be reviewed on a quarterly basis. This will enable the EMT to advise the Board on how the Company should adapt its business strategy by considering climate change risks and opportunities. The EMT is reviewing whether to develop a specific climate risk register, or whether it would be more effective to integrate climate risk into the Company’s existing enterprise risk register.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

STRATEGY AND RISK

HSS has considered climate-related risks and opportunities in the following time frames. Our short-term horizon is zero to two years, our medium-term horizon is three to five years, and our long-term horizon is five to ten years. When considering the impacts of physical risks, a longer horizon of more than ten years is used.

When determining future risks and exposure to HSS's business, two future scenarios have been considered:

A less than 2°C emission scenario pathway. This scenario represents a transition to the low-carbon economy. Risks and the associated timeframes are more immediate, with the potential for accelerated policy changes and changing technology demands in favour of this transition.

A 4°C emission scenario pathway. In this scenario, and particularly by 2050, the impact of climate change on physical risks in the UK would start to have a much greater impact on the business.

Transition risks

The table below highlights transition risks recognised by HSS in four key areas: Policy and Legal, Technology, Market and Reputation. It also considers the impact of these risks on the business and the timeframe when this can be considered material to HSS.

KEY – TIMEFRAME

Short
Medium
Medium to long
Long to very long

TRANSITIONAL RISKS (<2°C FUTURE)

	Risks	Impacts
POLICY AND LEGAL	Further regulatory changes that impact the use of higher-emission equipment, transport methods or services.	This would only impact higher-emission areas of the business and associated revenue streams. This could also cause equipment and services to become obsolete such as diesel fuels and generators.
	Greater stakeholder interest in emissions reporting compounded by some limitations in the availability and relevance of historical data within the supply chain and the understanding of the relationship between climate and traditional financial risks.	Emissions credentials will become more valuable to clients, customers and investors. Potentially higher administration costs and negative impact on HSS competitive advantage if we cannot fulfil.
TECHNOLOGY	Low-carbon technologies could be operationally less profitable and/or customers continue to use high-emission products.	Loss of revenue from current business areas if customers continue to demand high-emission products no longer provided by HSS at historical levels. This will be less likely in the low-carbon economy scenario as a result of policy and regulatory changes.
	Strain on supply chains impacting the ability to provide low-emission technology.	Increased competition for low-emission equipment, increasing the difficulty to acquire or longer lead times. This could result in loss of revenue and loss of competitive advantage.
MARKET	Increased energy and fuel prices could negatively impact demand for fuel-based products.	Increased fuel and energy costs could impact areas of the potentially lower returns and obsolete fleet associated with fuel-based products.
	Changes to costs for products and services, with focus on low-emission technology.	Potential for increased costs to customers if energy and new technology requirements pass through the value chain.
REPUTATION	The Company not meeting SBTs and net zero commitments to reduce emissions.	A negative public image arising from issues related to ESG and climate change results in reduced demand for products and services. Impact extended to other stakeholders, investors and ratings houses and reputation decreases as a result.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Physical risks

HSS's operations are based in the UK and Ireland (UK&I), with branches, CDCs and facilities located across the countries. Many of HSS's primary suppliers are also located within the UK&I. As a result of this, material physical risks mirror those expected in the UK&I in future scenarios. The impacts of climate change are already being seen within the UK&I with increased flooding and hotter summers. A 4°C future scenario pathway considered here highlights that current physical risks at UK locations will become further exacerbated because of climate change. As such, the timeframe where this becomes more material to HSS in addition to current physical risks is by 2050, a longer interval than the more immediate transition risks.

PHYSICAL RISKS (4°C FUTURE)

	Risks	Impacts
ACUTE	Increased flooding risk to key sites or locations prone to flooding.	Disruption to business operations, ability to deliver, provide services and return equipment. Damage to sites, assets and equipment.
CHRONIC	Increasing UK summer temperatures and hottest days.	This could put the workforce at greater health risk.

Climate-related opportunities

There are also opportunities that are brought about by the transition to the low-carbon economy and the changing physical environment over the longer term. These have been recognised and highlighted >.

Climate-risk mitigation

HSS recognises that the transition risks shown are the most material risks to the business. Key areas of these risks are associated with emissions and the transition to new technology. As a result, we have completed an evaluation of scope 1, 2 and 3 emissions within the business. This has highlighted hotspots and key areas of focus to reduce exposure to high-emission equipment and technologies.

We have also committed to science-based targets with a pathway of reduction in place. This proactive stance on climate change will ensure exposure to climate-related risks is reduced. It will also put HSS in a good position in the event of more ambitious UK government policies on climate change to achieve a <2°C emissions pathway. The EMT will advise on climate-related risks and build this into HSS strategy to mitigate future impacts.

Physical climate-related risks are focused within the UK&I and so the impacts of increased flooding and increased summer temperatures in the future can be expected. These will be considered as part of the EMT risk management process for current and future sites and locations.

TRANSITIONAL OPPORTUNITIES (<2°C FUTURE)

	Opportunities	Impacts
POLICY AND LEGAL	Regulatory changes to the use of high-emission technology or transport methods.	Opportunity to proactively implement ahead of likely policy changes and secure new business areas for HSS.
	Opportunity to highlight emission reporting completed throughout the value chain to stakeholders and action taken to mitigate climate change.	Emission credentials and reduction targets will become more valuable to clients, customers and investors. This is an area where HSS can add value and maintain its position as a leader.
TECHNOLOGY	Increased demand for products and services with lower emissions and associated drop in demand for emissions-intensive counterparts.	HSS can become a market leader in low-emission technology, giving customers greater choice coupled with development of new areas of growth.
	Supply chain opportunity to secure relationships with low-emission technology providers.	HSS can establish early supplier relationships strengthening the ability to deliver new technology.
	Investment in low-emission technology.	Investment in this area allows the ability to meet customer demand and emissions reduction targets, and meet climate-related goals.
MARKET	Increased fuel prices and price volatility affect operational costs and financial exposure.	Migration away from fuel dependency reduces exposure to fuel price fluctuations in the future.
REPUTATION	The Company can become an industry/sector leader in climate reporting.	Enhances HSS's positive reputation, increasing the ability to retain and grow customer base with emphasis on lower-emission technology.

PHYSICAL OPPORTUNITIES (4°C FUTURE)

	Opportunities	Impacts
ACUTE	Increased flooding risk to UK locations that are prone to flooding generates additional business.	HSS can provide products and support services to regions affected by increased flooding.
CHRONIC	Increasing UK summer temperatures and increasing hottest days recorded generates additional business.	The Company can provide products and support services to regions affected by increasing temperatures.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

METRICS

HSS has set the following metrics to reduce exposure to climate-related risks:

Performance metric	FY22	FY21	FY20	FY19
GHG EMISSIONS				
Total direct emissions SCOPE 1 metric tonnes (t) CO_2e	**10,165**	9,821	9,787	12,325
Total indirect emissions SCOPE 2 – LOCATION metric tonnes (t) CO_2e	**1,011**	1,312	1,965	3,073
Total indirect emissions SCOPE 2 – MARKET metric tonnes (t) CO_2e	**6.5**	188	–	2,840
Value chain emissions – waste, business travel, grey fleet SCOPE 3 metric tonnes (t) CO_2e	**248**[a]	53[e]	48[e]	301[a]
Value chain emissions – all additional categories SCOPE 3 metric tonnes (t) CO_2e	–[c]	–[c]	–[c]	134,912[b]
Total Gross carbon emissions (Market based) metric tonnes (t) CO_2e	**11,424**	11,133	11,752	150,611[b]
Total Gross carbon emissions Location based) metric tonnes (t) CO_2e	**10,419**	10,010	11,752	150,379[b]
GHG intensity (turnover)[d] tCO_2e/£m revenue	**3.38**	4.77	8.18	11.89
ENERGY CONSUMPTION				
Total energy consumption kilowatt hours (kWh)	**5,842,499**	6,904,183	9,428,951	11,806,259
Total electricity kilowatt hours (kWh)	**5,227,177**	6,177,136	8,921,521	11,079,212
Total renewable electricity kilowatt hours (kWh)	**5,193,587**	5,290,355	8,921,521	232
Total gas kilowatt hours (kWh)	**615,322**	727,047	507,430	727,047
Total propane litres (l)	**14,440**	15,282	15,876	14,497
WASTE				
Total waste consumption metric tons (t)	**915**	1,086	1,033	1,522[b]
Total waste recycled percentage (%)	**29%**	24%	23%	26%
Landfill diversion rate percentage (%)	**88%**	89%	90%	90%

a 2019 and 2022 Partial scope 3 based on SECR with additional report areas waste & business travel (scope 3) & refrigerant losses (scope 1). Additional categories will be added to 2022 number on completion of Net Zero report in June 2023
b 2019 is the base year where full scope 3 calculations have been completed, 2019 Gross, Net emissions and GHG intensities have been rebased due to divestitures in 2021
c Data not calculated for years marked with – (data for 2022 is being calculated as part of the Net Zero report due in June 2023)
d GHG intensity ratio is based on building energy only
e 2020-2021 Partial scope 3 based on SECR only

UN SUSTAINABLE DEVELOPMENT GOALS (SDGs)

We have identified six UN SDGs where we can make a particularly strong contribution towards a more sustainable future, and remain committed to supporting all 17 SDGs.

TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES (TCFD) CONTINUED

Risks and opportunities

HSS is in the process of developing climate-related risks metrics associated with water, energy, land use, waste management and pollution where relevant and applicable. In FY21 and FY22, we have worked to develop a baseline for a range of metrics including GHG emissions, energy, and waste management. In FY23, we are planning to expand the scope metrics that have a baseline, such as water, land use/biodiversity and pollution. Additionally, we are beginning to assess and measure the climate-related opportunities and the resulting revenue earned from low and zero-emission equipment.

GHG emissions disclosure

At HSS, we use the Greenhouse Gas Protocol methodology to calculate our GHG emissions, which allows for aggregation and comparability across organisations and jurisdictions. In accordance with Carbon Reduction Commitment (CRC) Energy Efficiency Scheme reporting (pre-2019) and now Streamlined Energy and Carbon Reporting (SECR) compliance, HSS has been disclosing scopes 1 and 2 emissions since 2012, allowing for trend analysis. From a FY19 base year, our historical GHG emissions disclosures will now also include scope 3 emissions.

An overview of our GHG emissions and energy consumption data for FY21 and the 2019 base year can be found in the table on page 26. All our targets and disclosures clearly specify the timeframe by which they will be realised, 2030, and the base year of FY19 against which they are measured.

Targets

HSS has set a near-term science-based target (SBT) to reduce our scopes 1, 2 and 3 in line with the SBTi's Net-Zero Standard. We have committed to reducing absolute scopes 1 and 2 GHG emissions by 46.2% by 2030 from a FY19 base year. In particular, we commit to increasing annual sourcing of renewable electricity from 7.6% in FY19 to 100% by 2030. This is aligned with a 1.5°C degree emissions pathway. To go further, we have also committed to reducing absolute scope 3 GHG emissions by 27.5% by 2030 from a FY19 base year. This commitment is aligned with a well below 2°C emissions pathway. As a Group, we are committed to reaching net zero by 2040 and, in line with the net zero standard, will be setting long-term SBTs in the near future.

Our decarbonisation pathway includes targets that cover every scope and category of GHG emissions, with notable targets for our transport fleet, fuel generators, energy, and waste consumption. By 2030, we aim to move 60% of our Company fleet to electric and 35% of commercial fleet to electric and/or low-carbon alternative fuel. We aim to install EV charging points at a minimum of 30 CDCs. Our largest category of scope 3 GHG emissions is from the use of fuel generators (including the fuel) and therefore we aim to ensure that 26% of fuel used for generators comes from low-carbon alternative fuels and 15% of generators on hire are hybrid. By 2030, we commit to reducing our energy consumption by 30% per site and our general waste consumption by 50%, along with achieving a 70% reuse and recycling rate across all our sites.

In the medium to long term, we aim to establish an internal carbon price along with long-term SBTs.

To respond effectively, we must ensure that ESG-related risks are well understood across our organisation and that we are able to evaluate progress against goals and measure success. That is why, in FY21, we conducted a thorough review of our overall ESG governance approach and worked with an independent ESG consultancy to better integrate the management of ESG. As part of the review process, a comprehensive assessment conducted by an external assessor, spanning over 60 ESG areas, provided us with a detailed overview and benchmark of our overall ESG maturity with tailored recommendations to improve performance in each critical area. HSS received an overall ESG maturity score of 61% during the initial assessment in October 2021, classed as ESG excellent. By 31 December 2023, HSS is aiming to reach the target ESG maturity score of 80% by implementing the recommendations in the action plan.

HSS has responded to the SBTi's urgent call for corporate climate action by committing to align with 1.5°C and net zero through the Business Ambition for 1.5°C campaign.

FINANCIAL REVIEW

STRONGER BALANCE SHEET, **WELL POSITIONED FOR GROWTH**

PAUL QUESTED
CHIEF FINANCIAL OFFICER

OVERVIEW

The Group has achieved another year of excellent financial results. Double digit like-for-like revenue growth combined with effective price and cost management, has enabled a step change in profit before tax.

FINANCIAL HIGHLIGHTS[1]

CONTINUING OPERATIONS

Revenue
£332.8m
FY21: £303.3m

Adjusted profit before tax[4]
£21.0m
FY21: £10.7m

Adjusted EBITDA
£71.6m
FY21: £69.8m

Leverage
1.3x
FY21: 1.5x

Adjusted EBITA
£32.0m
FY21: £31.7m

ROCE
22.8%
FY21: 22.1%

	£m	FY22	FY21	FY22 versus FY21
Revenue	Rental	**206.2**	191.2	7.9%
	Services	**126.6**	112.1	12.9%
	Group	**332.8**	303.3	9.7%
Contribution[2]	Rental	**138.4**	132.6	4.4%
	Services	**19.3**	16.2	18.9%
	Group	**157.7**	148.8	6.0%
Adjusted EBITDA[3]		**71.6**	69.8	2.6%
Adjusted EBITA[3]		**32.0**	31.7	1.0%
Adjusted profit before tax[4]		**21.0**	10.7	95.4%

1 Results are for continuing operations and on a reported basis (with FY21 having an extra week of trading).
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.
4 Adjusted profit before tax was modified during FY22 to include amounts relating to amortisation of software. Comparative figures have been restated.

FINANCIAL REVIEW CONTINUED

FY22 has been another positive year for the Group, delivering double-digit revenue growth and a significant increase in profit before tax, all against the backdrop of well-documented global inflationary pressures. As always this is testament to the hard work and commitment demonstrated by each and every colleague across the business.

Our revenue performance was underpinned by continued technology development with £5.6m invested in FY22, further embedding relationships with our builder merchant partners and efficient hire fleet investment, leveraging insight from our various tools which has enabled asset utilisation and ROCE to increase again. Despite significant inflationary pressures, effective price management and cost control has enabled EBITA margins to be maintained at an underlying level.

Following FY21's successful refinancing, our interest expense has materially reduced which has supported a step change in profit before tax of £10.5m and basic earnings per share more than doubling. Based on the Group's cash generation, net debt has reduced further with leverage now at 1.3x. Our strong balance sheet and continued positive trajectory supported another major milestone for the Group in FY22 with the reintroduction of a dividend. As part of a progressive dividend policy, the Board are recommending a final dividend.

We also successfully legally restructured the Group in FY22 into HSS ProService (focussed on customer acquisition and enquiry conversion) and HSS Operations (focussed on service, efficiency and returns). The final operational changes were made at the start of FY23, including rebasing our internal reporting around the new structures and, as such, will adapt our segmental reporting to reflect this going forward.

We have our technology, organisation and balance sheet in place and, through the flexible, low-cost, scalable model we are well positioned for growth.

Revenue

Group revenue grew by 9.7% to £332.8m (FY21: £303.3m), driven by growth in both our Rental and Services businesses as we continue to effectively execute our strategy.

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 grew as we continued to drive improved conversion through HSS Pro, expanded the builders merchant network to 63 and increased hire fleet investment where customer demand and returns were strong. Revenues grew 7.9% to £206.2m (FY21: £191.2m) and accounted for 62% of revenue (FY21: 63%). 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 £138.4m (FY21: £132.6m) was up 4.4%.

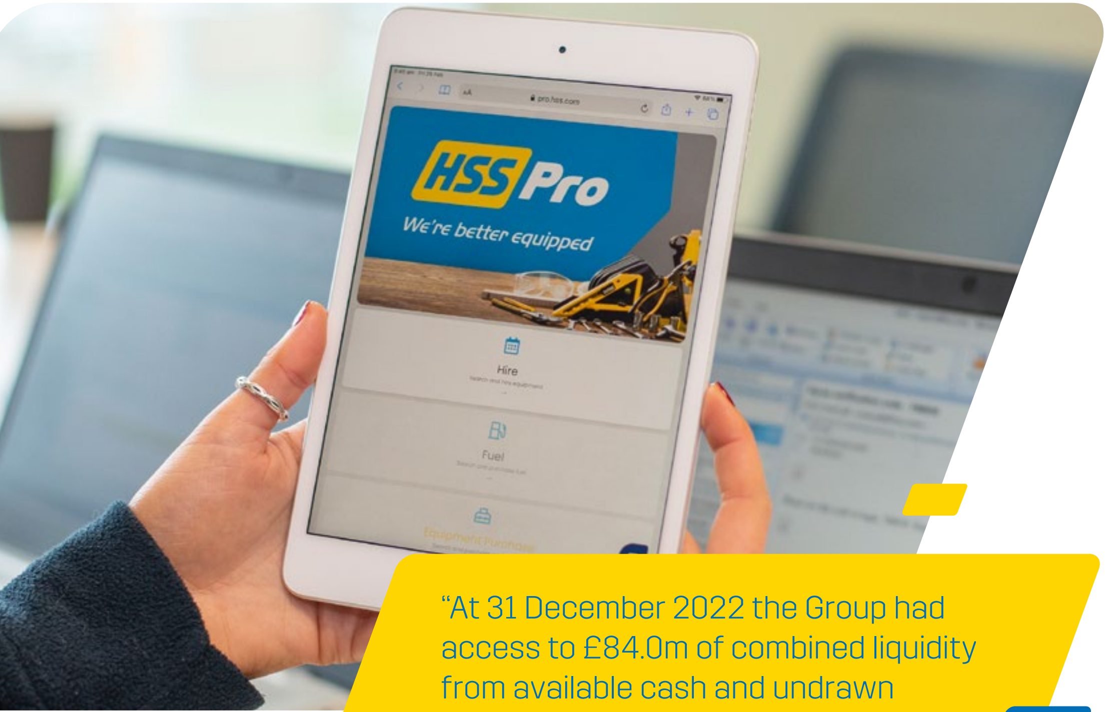
Services

Services revenues increased by 12.9% to £126.6m (FY21: £112.1m), accounting for 38% (FY21: 37%) of Group revenue. 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.

Combined with effective margin management through our Brenda platform, contribution from Services increased 18.9% to £19.3m (FY21: £16.2m).

"Our Rental revenues grew as we continued to roll out HSS Pro, expanded the builders merchant network to 63 and increased hire fleet investment where customer demand and returns were strong."

FINANCIAL REVIEW CONTINUED



"At 31 December 2022 the Group had access to £84.0m of combined liquidity from available cash and undrawn borrowing facilities".

1.3x
FY21: 1.5x
Leverage

Costs
Our cost analysis set out below is on a reported basis and therefore includes exceptional costs (see note 7 to the Financial Statements).

Our cost of sales increased by 12.6% to £164.7m (2021: £146.3m) reflecting increased sales through our Services division and the impact of higher fuel costs.

Distribution costs increased by £8.4m to £30.3m (2021: £21.9m) mainly due to revenue growth, higher vehicle costs (including rising fuel and maintenance costs), along with higher salaries, mainly from the one off cost of living payments to colleagues.

Administrative expenses increased by £12.1m, principally due to exceptional items. On an underlying basis, costs increased by £1.4m mainly due to investment in the central sales team as part of the strategy and inflation including one off cost of living payments made to colleagues.

Adjusted EBITDA and Adjusted EBITA
Our Adjusted EBITDA for FY22 was 2.6% higher at £71.6m (FY21: £69.8m) driven by improved revenue through our lower-cost operating model. Adjusted EBITDA margins reduced to 21.5% (FY21: 23.0%) reflective of the increased mix of revenue through our Services division. Adjusted EBITDA and EBITDA margin are included in our KPIs.

Our Adjusted EBITA for FY22 was 1.0% higher at £32.0m (FY21: £31.7m), a combination of improved EBITDA, partly offset by increased depreciation. Adjusted EBITA margin decreased 0.8pp to 9.6% (FY21: 10.4%). Adjusting for non-recurring items in FY22 (cost of living payments) and FY21 (Covid-19 related one off benefits), underlying margins were flat. Adjusted EBITA and EBITA margin are included in our KPIs.

Other operating income
Total other operating income of £0.5m relates to sub-lease rental and service charge income related to non-trading properties. This compares with £1.7m in FY21 which included £1.2m of insurance proceeds following a successful claim under our business interruption policy.

Operating profit
Our operating profit decreased by £10.1m to £24.4m (FY21: operating profit £34.5m). This was mainly due to the exceptional items. Excluding such items, operating profit increased £0.1m.

Exceptional items
Exceptional costs totalled £2.4m. This included costs of £3.2m to complete the Group's legal restructuring around its two core divisions of ProService (sales acquisition) and HSS Operations (fulfilment) and the subsequent ProService strategy refresh including evaluating options to create increased shareholder value. These costs were partly offset by exceptional credits of £0.8m from the release of onerous contract and property provisions.

Finance costs
Net financial expense decreased significantly to £7.8m (FY21: £28.5m). The charge for FY21 included £9.7m of exceptional costs associated with the early prepayment 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

FINANCIAL REVIEW CONTINUED

interest rates. As such ongoing finance expenses are materially lower.

Taxation

The Group had a tax credit for the year of £3.9m (FY21: £1.2m).

Deferred tax assets have been recognised to the extent that management considers it probable that tax losses will be utilised in the short term. In FY22 a three-year (FY21: one-year) recognition window has been applied.

Reported and adjusted earnings per share

Our basic and diluted earnings per share, both on a reported and adjusted basis, significantly improved in FY22 driven by the improved performance of the business and the significantly reduced annual interest charge from the successful refinancing.

Prior period restatement

Following a review of the accounting treatment of hire equipment subsequently financed by hire purchase agreements, a reclassification i) from Right of Use assets to Property, Plant and Equipment and ii) lease liabilities to borrowings has taken place. There is no impact on the Group's income statement, reserves or net assets. More detail is covered in note 4(z) to the Financial Statements.

Capital expenditure

Additions to Intangible assets, Property, Plant and Equipment and Right of Use hire equipment in the year were £43.8m (FY21: £34.2m). Investment in technology to support the strategic growth of the business totalled £5.6m (FY21: £4.3m). Investment in hire fleet to support our Rental business was £32.7m (FY21: £27.1m) with decisions informed from our insight tools to maximise returns.

Return on capital employed

Our ROCE for FY22 was 22.8%, an increase of 0.7ppts over FY21. The expansion of our capital-light technology-led operating model underpinning this performance. ROCE is one of our KPIs.

Trade and other receivables

Gross trade debtors increased 5% over FY22 as revenue increased 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 evolving situation is monitored on an ongoing basis.

Provisions

Provisions reduced £2.5m to £21.3m (FY21: £23.8m). The vast majority of this reduction relates to the ongoing annual payments related to the onerous contract associated with Unipart.

Cash generated from operations

Net cash generated from operating activities was £39.0m, a decrease of £5.1m compared to FY21. The benefit from improved profit before tax and lower interest costs offset by increased hire equipment investment to support the growth of our Rental division and working capital movements.

Leverage and net debt

Net debt reduced £10.3m to £94.3m (FY21: £104.6m) and at 31 December 2022 the Group had access to £84.0m (1 January 2022: £78.1m) of combined liquidity from available cash and undrawn borrowing facilities. With the improved adjusted EBITDA and lower net debt, leverage reduced to 1.3x (FY21: 1.5x). 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 are included in our KPIs as set out on pages 4 to 5.

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.

Additionally, analysts and investors assess our operating profitability using the Adjusted EBITA metric, which treats depreciation charges as an operating cost to reflect the capital-intensive nature of the sector in which we operate. This metric was used in FY22 to calculate annual bonuses payable to Executive Directors.

Adjusted profit before tax was modified during FY22 to include amounts relating to amortisation of software. Comparative figures have been restated to reflect this change.

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 profit before tax of the business, amortisation of customer relationships and brands related intangibles as well as 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.

The calculation of Adjusted EBITDA and Adjusted EBITA can vary between companies, and a reconciliation of Adjusted EBITDA and Adjusted EBITA to operating profit and Adjusted profit before tax to profit before tax is provided in note 32 to the Financial Statements.
A reconciliation of reported loss per share to Adjusted earnings per share is provided in note 13 to the Financial Statements.

In accordance with broader market practice, we comment on the amount of net debt in the business by reference to leverage (or Net Debt Ratio), which is the multiple of our Adjusted EBITDA that the net debt represents.

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.

Paul Quested
Chief Financial Officer

26 April 2023

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 its 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	13
	Our Strategic Framework	14
	Principal Risks and Uncertainties	38-41
	Going Concern	47
	Board Activities	47
Interests of employees	Non-Financial Information Statement	56
	Our People	18-19
	Employee Engagement	19
	Diversity and Inclusion	19
	Culture and Values	2
Fostering business relationships with suppliers, customers and others	CEO's Statement	10-12
	Case Studies	15-17
Impact of operations on the community and the environment	Sustainability Performance	20
	Energy and Emissions	26
	ESG Objectives	21
Maintaining high standards of business conduct	Non-Financial Information Statement	56
	Culture and Values	2
	Whistleblowing	47
	Anti-fraud, Bribery and Corruption	42
	Modern Slavery	47
Acting fairly between members	Shareholder Engagement	48
	Voting Rights	57

HOW THE BOARD FULFILS ITS S172 DUTIES

BOARD TRAINING

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

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 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

STAKEHOLDER ENGAGEMENT

ENGAGING WITH OUR STAKEHOLDERS

SHAREHOLDERS AND INVESTORS

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
- HSS's technology platforms, their progress, and how they differentiate HSS from its peers
- Quality and effectiveness of the Group's governance
- HSS's ESG approach and strategy development
- Returns on share price and dividends
- 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 provided the opportunity for all shareholders to engage with the Board, both the Executive and the Non-Executive Directors. The success of the AGM from an engagement perspective is clearly dependent on shareholder turnout; whilst all shareholders are welcome to attend, attendance has remained low since the COVID-19 pandemic
- The ESG review led to the publication of HSS's ESG Impact Report in June 2022, available on the HSS corporate 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

SUPPLIERS

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
- Receiving payments within agreed credit terms
- Responsible and sustainable business practices

How we engaged

- Regular supplier review meetings to assess service performance and explore mutual growth opportunities
- We engaged with new suppliers during the year to expand our supplier network
- Rehire suppliers have been individually introduced to our supplier portal

Outcomes

- Communication has ensured that our suppliers retain a strong relationship with the Company, have open communication with us and readily provide feedback
- Improved understanding and use of the supplier portal by rehire suppliers

LENDERS

Our lenders provide HSS with the funding we need to deliver on our strategy and support our customers. We have continued to enjoy a strong and positive relationship with our lenders throughout FY22 and have communicated regularly.

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 frequent basis to update on business performance
- Ad-hoc discussions as required

Outcomes

- Continued support from actively engaged lenders throughout the year

STAKEHOLDER ENGAGEMENT CONTINUED

COLLEAGUES

Our talented team of around 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 the next stage of our growth
- Working practices as we emerge from the COVID-19 pandemic
- Equality, Diversity & Inclusion (ED&I) and our approach to operating responsibly
- Employee benefits and remuneration
- Development opportunities and career progression
- Engagement with senior management
- Keeping our colleagues safe

How we engaged

- Regular updates during the year through the CEO blog, calls, company WhatsApp groups, emails and the annual executive roadshow, delivered online, 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
- A wider number of colleagues have been involved in our ESG planning and initiatives to input their ideas, and ideas and requirements from other stakeholders

Outcomes

- Colleagues have a strong understanding of Company performance, strategy and our updated business model
- The Learning and Development team is continuing to update training programmes based on employee feedback to upskill colleagues and support career progression
- We continue to 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
- Annual engagement survey feedback

CUSTOMERS

We supply our customers with the essential tools, equipment and services 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

- Access to a broad range of equipment and services, all in one place
- Availability of equipment and services when required
- High quality, reliable and competitively priced products and services 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

How we engaged

- Feedback on our service provision through direct engagement with our sales teams, either face-to-face, phone calls or email, and through social media
- Indirect feedback on our service provision through Trustpilot and other review services
- Annual NPS survey conducted 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

Outcomes

- Reviews and direct feedback allowed us to continue to improve our digital offering to best suit customer needs
- Our NPS score this year, at 44, remains well ahead of the industry benchmark

LOCAL COMMUNITIES AND THE ENVIRONMENT

We strive to be a responsible and sustainable business, as well as a good corporate citizen. 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

- Participation with local charitable initiatives. A summary of our involvement with local communities is on page 19
- During the ESG review carried out recently, our advisers provided new insight into 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
- Net Zero Carbon Target of 2040
- Ambitious set of ESG commitments for 2025
- Active discussions with local community groups
- Raised money for charities through various events

STAKEHOLDER ENGAGEMENT CONTINUED

CASE STUDY

A case study of decisions taken by the Board and how stakeholder views and inputs, as well as other S172 considerations, have been considered in its decision making.

CONTEXT

A proposal was put to the Board to consider splitting the customer acquisition and operational fulfilment sides of the business to align more closely to the Company's strategy, in particular the growth of the technology-led, capital-light business (the 'Proposal'). The Board reviewed the Proposal, not just in terms of impact on the Group companies involved, but also which stakeholder groups it would impact and how best to engage with them.

CONSIDERATION OF S172 IMPACTS BY THE BOARD IN ITS DECISION MAKING

Customers

The Board discussed and agreed that, with clear and simple communication, customers should not be alarmed or concerned about the Proposal since there should be no negative impact on them. In simple terms, the customer's order for hire equipment would be ordered through the sales business and fulfilled through the operations business. All existing customers were communicated with on that basis, were clear which HSS entity they would be contracting with going forward and there was no negative feedback. Key account customers were consulted in advance, with their feedback provided to the Board; this was invaluable in giving the Board confidence to approve completion of the project.

Employees

The Proposal involved moving colleagues into the HSS Group company which was most closely aligned to their work area. Given the number of colleagues impacted, the Board was mindful of workload for the HR teams and other teams in the business. The moves involved carrying out a TUPE process, for which clear communication was again key. The Board was very pleased to note that colleagues were unconcerned about these moves.

Suppliers

Suppliers affected by the Proposal were generally approached and treated in the same way as customers. The Board was keen to ensure that a diligence exercise was carried out to identify which suppliers would be assigned to which Group company and where there may be cross-over. Suppliers appreciated the communication process, with some seeing the Proposal as an opportunity to open accounts with both Group companies.

Other stakeholders

Lenders

As the changes would create a new legal entity and involve the transfer of assets to it, lenders were consulted at an early stage to ensure understanding of the strategic rationale and the process to be followed in light of the Group's lending arrangements. Our lenders were fully supportive of the changes and our CFO worked with them at every stage of the implementation.

Insurers

The Company's liability insurers were communicated with at Board level due to the creation of additional subsidiaries in the Group structure and the changes to business description for certain entities. Credit insurers were also communicated with on the same basis. Insurers appreciated being kept apprised and accordingly this element of the project also progressed smoothly.

Auditor

To ensure a smooth year-end audit process, it was considered important by the Board that the Company's auditor understood the detail of the Proposal prior to commencing the audit. On that basis, the CFO and other finance colleagues discussed all steps of the Proposal with the auditor before carrying them out.

OUTCOMES AND IMPACT ON THE LONG-TERM SUSTAINABLE SUCCESS OF THE COMPANY AND ITS GROUP

The streamlining of the Company's business and continued development of its strategy around technology and service growth is key to long-term sustainable success, in the view of the Board. This view gained strong support from the stakeholders involved, allowing the Board to approve the Proposal and the teams within the business to complete the project smoothly and successfully.

RISK MANAGEMENT

MANAGING RISK AND UNCERTAINTY

"I am immensely proud to work for an organisation that understands the impact of risk and the effect of the current inflationary pressures on colleagues, reviewing regularly how it is affecting them and taking direct action to help."

Mark Shirley
Risk and Assurance Director

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 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 and ESG are key areas in our industry and as such require collective ownership to continually improve. There is an established Executive Health and Safety Forum which is made up of the EMT, Operational Managing Directors and the Risk and Assurance Director. The forum meets bi-monthly (and more frequently if required) to review trends, incidents and issues. For ESG we have two committees, a CEO-led ESG Forum that is responsible for communication, engagement and evaluation of risks and opportunities, and an ESG committee that oversees improvement actions and monitors progress.

MONITORING

The Risk and Assurance Director reports and meets with the EMT monthly 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 lines 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 specific risk such as Health, Safety, Environment and Quality (HSEQ), performance reporting, and control risk self-assessment (CRSA) audits undertaken by regional management.
- The third line of defence – functions that provide independent assurance, in the HSS case primarily internal audit.

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 sets 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.

MACROECONOMIC RISK

Global inflationary pressures and associated interest rate increases have impacted macroeconomic risk in FY22. The conflict in Ukraine, pandemic recovery and Brexit have contributed to labour shortages, inflation and interest rate rises.

This risk in FY23 will be closely monitored for its effect on demand and colleague welfare so that we can take appropriate actions. In FY22 two separate payments were made to colleagues earning below £35,000 to help offset the effects of inflation.

ESG RISK

As part of the Group's commitment to the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), climate related risks and opportunities have been considered across multiple timeframes. These are covered in more detail on pages 22 to 27 and will be integrated into our standard risk processes in FY23.

RISK MANAGEMENT CONTINUED

RISK MANAGEMENT FRAMEWORK

BOARD

AUDIT COMMITTEE

GROUP EXECUTIVE MANAGEMENT TEAM

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 through dedicated compliance teams, CRSA, and Financial and Operational reporting and monitoring

Who is responsible:
- Compliance/oversight functions, finance and regional management

Activity/controls:
- HSEQ 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
Segregated functions that provide 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

EXTERNAL AUDIT

INDUSTRY (HAE) AND ISO ACCREDITATIONS

FY22 RISK MANAGEMENT DEVELOPMENTS

The Group has continued to improve its approach to the management of risk and assurance throughout the year. The focus in FY22 was on enhancing and leveraging our reporting and technology, supporting the Group's strategic technology roadmap delivery, and working more collaboratively with outside specialists to better understand and manage risk.

- Worked with specialist ESG partners to establish targets and an implementation plan, supporting governance process. As a consequence of this work, we achieved Silver medal status with EcoVadis, the globally recognised sustainability rating – ranking the Group in the 91st percentile for the industry.
- Increased the amount of guidance, reference and training material accessible to colleagues through mobile technology (The Gateway), to ensure that help is always available to remote colleagues such as drivers.
- Enhanced EMT review process of audit work and risks to improve the speed of response to emerging issues.
- Started our path to ISO 27001 Information Security Management accreditation, completing our stage 1 audit.
- Increased internal audit engagement in assessing and shaping controls for new processes and systems, conducting audits on new technology, and adding audits focused on merchants and virtual branches.
- Developed succession plans for risk and assurance colleagues covering internal audit and HSEQ. Training was introduced on incident management across both teams to increase geographic coverage.

FY23 PLANNED IMPROVEMENTS TO RISK MANAGEMENT PROCESS

Significant progress has been made in the last year developing reporting tools and guidance, and reference material available on mobile devices. The focus in FY23 is on broadening the organisation's risk and assurance capacity and capability to increase coverage as well as ensuring flexibility to evolve with our changing business.

- Achieve ISO 27001 Information Security Management accreditation and work with third parties to continually enhance cyber risk management.
- Broaden the focus, flexibility and skill set of HSEQ, Internal Audit and Operational Management through training and knowledge sharing. This includes the roll-out of incident management and investigation training to operational management.
- Improve the quality of branch standards and service CRSA audits performed by regional managers by aligning to Internal Audit specific location audits.
- Introduce audits relating to the new central sales team, adapting approach to the changing needs of the business and allowing direct comparison with physical locations.
- Establish monitoring of our approved SBTi's to support our journey to net zero.
- Increase the size of our supply chain auditing team to ensure all suppliers are aligned with our expected standards and supporting the business strategic growth.

PRINCIPAL RISKS AND UNCERTAINTIES

KEY – MOVEMENT

= No movement | ˅ Down

Key risk	Description and impact	How we mitigate	What we have done in FY22
1. MACROECONOMIC 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. Global inflationary pressures and associated interest rate increases impact on demand and therefore financial performance.	The Group is not over-exposed to any one area or segment. Ongoing monitoring and modelling of performance, which is reviewed regularly by the EMT. Lower and flexible cost operating model, mitigating against any downturn in future demand.	The business brought forward capital expenditure in Q1 to mitigate against supply issues and inflationary pressures. Price increases clearly communicated to customers. Maintained tight cost control measures. Reverse stress test impact of economic slowdown and higher inflation. Mitigating action plans developed to respond to uncertain macroeconomic environment.
2. COMPETITOR CHALLENGE **Movement** = **Owner:** Steve Gaskell (Group Strategy Director)	A highly competitive and fragmented industry, with the chance that increased competition could result in excess capacity, therefore creating pricing pressure and adverse impacts on planned growth.	Differentiated technology platforms, including fully integrated self-serve interfaces for customers, suppliers and colleagues, providing fast and efficient user journeys. Through our continually expanding supply chain, the Group gives customers a one-stop shop providing access to a huge range of products and complementary services such as training courses. Our organisational structure allows for strong focus on sales acquisition. We have a low-cost operating model, providing national coverage from 38 CDCs, 35 branches and 63 flexible builders merchants.	Increase in technology investment leading to the launch of HSS Pro (self-service platform) and cash on HSS ProPOS (allowing cash customers to transact through our Brenda technology) in Q4 FY22. In addition, a significant amount of development has gone towards the re-platforming of hss.com onto Brenda, which we plan to roll out in FY23, extending the range of products online. Expansion of the builders merchant network, growing to 63 branches, increasing local presence in key markets. The completion of the legal restructuring around HSS ProService and HSS Operations, which we completed on 3 July 2022, will provide complete focus for each division; ProService targeting customer acquisition and enquiry conversion and Operations concentrating on service, operational efficiency and safety. Expansion of our supply chain to 700+ suppliers.
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 in terms of both 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.	Our strategic aims were supported by five underpinning projects focused on: technology, sales acquisition, standout service, legal restructure and ESG. The legal restructure of individual businesses was completed in July, which will drive greater focus for our management teams. The standout service project was completed with the full roll-out of Satalia software nationally and the associated improvement in vehicle efficiency and carbon savings. Our ESG project achieved all its initial milestones. This initiative will continue into FY23 and beyond with a clear set of milestones. Similarly, our technology and sales acquisition projects made significant progress and continue into FY23. Created our strategic project plan for FY23 with clear milestone plans to deliver.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

KEY – MOVEMENT
= No movement
Down

Key risk	Description and impact	How we mitigate	What we have done in FY22
4. CUSTOMER SERVICE **Movement** = **Owner:** Tom Shorten (Chief Commercial Officer)	The provision of the Group's expected service levels depend 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. Management of customer relationships is important to ensure appropriate payment is received for the quality of service provided. Any disruption in supply, quality or relationship management can reduce revenue and drive additional costs into the business.	National reach and presence through CDCs, branches, builders merchant partners and online. Diverse range of rehire suppliers provides ongoing flexibility to ensure continuity of supply for customers. Clear business continuity plans to maintain 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.	The risk description has been widened to cover the importance of managing customer relationships to ensure we are appropriately paid for services provided. Expansion of the merchant model to 63 current locations. Refining of new routing and scheduling software. We have reduced our mileage by c12%, saving on average one mile per job. Central sales team expansion, increasing engagement with customers.
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 operating model. If any third parties become unable to provide reliable equipment, 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 onboarding 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.	Plans initiated to increase supplier audit capabilities, matching the growth in the supply chain. Refinement of supplier onboarding and audit processes to cover ESG.
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 are used 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. Ongoing resilience and penetration testing.	Cyber security enhancements such as multi-factor authentication (MFA) for all remote access and enhanced processes for joiners, movers and leavers implemented. Enhanced patching policy and process. ISO 27001 stage 1 audit completed, and Cyber Essentials certification achieved.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

KEY – MOVEMENT
= No movement
⌄ Down

Key risk	Description and impact	How we mitigate	What we have done in FY22
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. High inflation leads to base interest rate increases and therefore adversely impacts cash flow.	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.	A strong balance sheet, lower debt and underlying interest cost mitigated the impact of higher interest costs, with every 1% increase in the base rate increasing the interest charge by c£0.7m. Invested in additional resource to improve debt management. Developed and embedded dispute management modules to ensure invoices are paid when they fall due.
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. Global inflationary pressures impact ability to retain colleagues.	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. Recruitment programmes working with third parties such as prisons offering opportunities to ex-offenders, Initiatives such as Earn as you Learn.	A refreshed ED&I strategy launched. Refresh of employer brand and recruitment practices, including a new careers website and the introduction of a one-click application process to attract diverse talent. Two payments made to colleagues to provide support with rising prices and interest rates.
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.	Stepping up of ESG activities, including introduction of both a Committee and Forum which regularly meet. Refresher training completed by colleagues relating to cyber security. Significant internal reorganisation project completed to simplify the Group structure, liquidate various subsidiaries and reduce administrative burden and compliance requirements.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

KEY – MOVEMENT
= No movement
⌄ Down

Key risk	Description and impact	How we mitigate	What we have done in FY22
10. SAFETY **Movement** = **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 internal investigators providing assurance and support. Mandatory training programmes for higher-risk activities. The Group is ISO 45001 Health and Safety accredited.	A review and refresh of driver training was undertaken with additional reference material and reporting information made available to support drivers to undertake their role safely. Increased safety communication, including three dedicated safety weeks held to promote safe working. Launched 'The Gateway', a one-stop health and safety portal for reporting incidents, training, and guidance which can be accessed remotely on mobile devices. Combined with our underlying mitigating actions; these helped reduce RIDDORs and Lost Time accidents by 80% and 10% respectively.
11. ESG **Movement** ⌄ **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 it could limit ability to trade with customers. This could result in revenue reduction, deterring people from joining the business and limiting attractiveness to investors. More detail on ESG is contained within the Task Force on Climate-Related Financial Disclosures (TCFD) section on pages 22 to 27.	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 14001 Environmental Management accredited. An ESG Forum that is responsible for communication, engagement and evaluation of risks and opportunities. An ESG Committee that oversees improvement actions and monitors progress. Monthly Board updates on ESG progress.	An ESG Impact Report was published in June, identifying clear targets, including net zero by 2040. These are based on three key strategic priorities: materially reduce operational GHG emissions, provide customers with access to sustainable products and proactive engagement with our supply chain. An ESG roadmap with robust SBTs set with a Director appointed to lead programme. Evaluation of scope 1, 2 and 3 emissions within the business. EcoVadis Silver medal was granted in August, classifying the business in 'Advanced' status and at the 91st percentile in the industry. All electricity supply is now derived from renewable sources.

The Strategic Report page 2 to 41 was approved by the Board of Directors on 26 April 2023 and is signed on its behalf by:

Steve Ashmore
Director

26 April 2023

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

ALAN PETERSON OBE
CHAIRMAN

On behalf of the Board, I am pleased to present the corporate governance report for FY22. Our governance structures remain robust and at the forefront as we deliver our 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.

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 significant Group reorganisation to split our sales and operations businesses and the increased focus on the Group's ESG programme, have been some of the areas of focus for the Board.

Our Health and Safety Forums have continued to be of great importance, as we remain dedicated to providing safe kit and 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.

Board evaluation and colleague engagement

I am pleased to report that the findings of our 2022 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. On the engagement side, I have been particularly pleased to see the ever-growing range of colleague wellbeing activities and initiatives to ensure our people feel both valued and cared for.

Further details are provided in the report on page 49.

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 track 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 FY22, with some encouraging results and some areas to focus on; more details on this are on page 19.

Senior management

We have had good continuity again amongst senior management during FY22 and it has been great to see some home grown talent moving through the ranks. The team continues to show 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.

The Group's Data Governance Team monitors day-to-day data protection issues as the UK continues to apply the principles of the General Data Protection Regulation (GDPR).

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 FY21 was published during 2022, with the FY22 statement to follow in 2023.

Our gender pay gap is -10.3%, meaning that women in our workforce are paid slightly more than men. I am pleased to note the continued balance there, compared with the UK average of 14.9%. 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.

Corporate Governance Code

The Company continues to apply the Quoted Companies Alliance (QCA) Corporate Governance Code and reports on that basis. The QCA Code is publicly available from https://www.theqca.com.

Equality and diversity policy

As reported last year, at HSS we promote equal opportunities and diversity with a view to securing sustainable success. FY22 saw the re-design and launch of our Group-wide ED&I strategy. All line management across the business are undertaking a revised ED&I training module in a face-to face environment. The module focuses on key topics such as unconscious bias, discrimination and the diversity challenge within the wider industry. The module is complemented by mandatory manager and colleague e-learning. 18 colleagues have volunteered to participate in a new ED&I council which will encourage engagement at all levels and form a key role in developing and implementing the ED&I strategy over the coming years, allowing us to gain valuable insight and feedback directly from our workforce.

AGM

It is our intention, once again, to hold our AGM at the Hilton Garden Inn, Hatton Cross, at 11.00am on 21 June 2023. We are pleased to be able to invite shareholders to attend in person.

Alan Peterson OBE
Chairman

26 April 2023

BOARD OF DIRECTORS

KEY

Tenure on Board

Independent

- YES
- NO

Committee memberships

- N Nomination Committee
- A Audit Committee
- R Remuneration Committee
- Committee Chair
- ALL Secretary for all Committees

ALAN PETERSON OBE
CHAIRMAN

8 years and 3 months

NO 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

STEVE ASHMORE
CHIEF EXECUTIVE OFFICER

5 years and 9 months

NO

External roles
- None

Past roles include
- 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

6 years and 7 months

NO

External roles
- None

Past roles include
- 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

8 years and 3 months

YES R A N

External roles
- Senior Independent Director, Elevate Services Inc.
- Chair, Seckford Education Trust

Past roles include
- Chief Operating Officer, Clifford Chance LLP
- Director, Meyer International plc
- Senior Independent Non-Executive Director & Chair of Remuneration Committee, Galliford Try plc
- Senior Independent Non-Executive Director & Chair of Remuneration Committee, Monitise plc
- Non-Executive Director, Fresca Group Limited, Skipton Building Society and Connells Limited
- Chair, Battersea Dogs' & Cats' Home
- Senior Independent Non-Executive Director & Chair of Remuneration Committee, Countryside Partnerships plc

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

DOUG ROBERTSON
NON-EXECUTIVE DIRECTOR

8 years and 3 months

YES 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 include
- 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

8 years and 3 months

NO

External roles
- Partner, Exponent Private Equity LLP
- Serves on the Board of Meadow Foods

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

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

DANIEL JOLL
GROUP GENERAL COUNSEL & COMPANY SECRETARY

6 years and 3 months

NO ALL

External roles
- None

Past roles include
- 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
- Private equity
- Governance
- International
- Dispute resolution
- Insurance

CORPORATE GOVERNANCE

LEADERSHIP

Key roles and responsibilities

Responsible for

CHAIRMAN
Alan Peterson OBE

- 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

- 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

- 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.

Read more on page 45.

CORPORATE GOVERNANCE CONTINUED

GOVERNANCE FRAMEWORK

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.

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 Team.
- Monitor performance.
- Set values and standards aligned with culture and encourage engagement.

EXECUTIVE MANAGEMENT TEAM
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 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 50

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 the 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 53

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 49

CORPORATE GOVERNANCE CONTINUED

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS OF WHICH EACH DIRECTOR IS A MEMBER HELD DURING FY22

Director	Board (of 9)	Audit Committee (of 7)	Remuneration Committee (of 6)	Nomination Committee (of 2)
Executive Directors				
Steve Ashmore	9	N/A	N/A	N/A
Paul Quested	9	N/A	N/A	N/A
Non-Executive Directors				
Alan Peterson OBE	9	N/A	N/A	2
Amanda Burton	9	7	6	2
Doug Robertson	9	7	6	2
Thomas Sweet-Escott	9	N/A	N/A	N/A

All the individuals who were Directors as at 1 January 2023 offer themselves for re-election at the next AGM of HSS Hire Group plc to be held at 11.00am on 21 June 2023.

The biographical details of each of the Directors, including details of their other directorships and relevant skills and experience, are on pages 43 and 44 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 table on the left.

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 43 and 44.

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 Remuneration Committee is 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 49.

CORPORATE GOVERNANCE CONTINUED

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 42.

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 Financial Statements in accordance with applicable law and regulations. As set out in the Directors' Responsibility Statement (see page 58), 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 38 to 41.

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 45 and pages 50 to 52) assists the Board in reviewing the effectiveness of the Group's risk management and internal controls, including financial, operational and compliance controls and risk management systems. This is carried out with the assistance of the Chief Financial Officer and the Risk and Assurance Director and supported by the findings of specific projects/investigations completed by the internal audit team, which are presented to the Audit Committee during the financial year.

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

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

Modern Slavery Act 2015
The Group published its Modern Slavery Act statement for the 2021 financial year on its website during the first six months of 2022, 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 38 to 41) 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 26 April 2023 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 FY22

The Board met nine times during FY22, 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 FY23:

- health and safety;
- operational and financial performance;
- ESG;
- 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; and
- Nomination 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 45 and pages 53 to 55) 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, 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 FY22 are detailed on pages 33 to 35.

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 2023. 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 and Resources' section at hsshiregroup.com regarding the 2023 AGM.

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 2023 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
Lombard Odier Investment Managers	39,460,063	5.60
Hestia Investments NV	39,000,000	5.53
Merchant Capital	28,000,000	3.97

1 Comprises shareholdings held by Exponent Private Equity Partners II, LP and Exponent Havana Co-Investment Partners, LP.
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 55.

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.

Continuing to develop colleague skillsets and widen our talent pool remains key for our strategy.

DEAR SHAREHOLDER

On behalf of the Nomination Committee (the 'Committee'), I am pleased to present our report for the 2022 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 alongside 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 ED&I 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 ED&I policy is provided on page 56.

Activities

The Committee had two scheduled meetings in 2022.

At the meeting held in February 2022, the actions for the findings of the internal Board evaluation in respect of FY21 were considered and the resulting actions, as reported in the FY21 Annual Report and set out below, were agreed. Other agenda items included a discussion around who would likely be regarded as key colleagues in delivering the proposed projects for FY22 and a colleague wellbeing update. The terms of reference were also updated.

At the meeting held in November 2022, people and workforce engagement were discussed, with a particular focus on succession, where there were potential gaps and where there were strong colleagues coming through into more senior roles.

The actions for FY22 agreed by the Committee have been reviewed by the Committee and also by the Board, noting in particular as follows:

Specialist expertise – in terms of investor engagement, the Committee was satisfied that there has, once again, been meaningful and regular engagement by the Executive Directors with existing and potential new investors. This has been through a combination of face-to-face meetings and presentations arranged by the Company's broker, with the Board and its committee members also making themselves available to engage with shareholders at the AGM. Colleague engagement continues to be very strong and customer and supplier engagement happens on an almost daily basis via our sales and supply chain teams. Board level engagement is summarised in the Section 172 statement.

Succession planning – the Committee noted that there remain roles that would be difficult to replace with an internal candidate, although were very pleased to see strong performances from certain colleagues who have been developed by the business and are becoming increasingly important to its success.

ESG programme – the Committee was impressed with progress in this area, which is described in more detail on pages 20 to 22.

Board evaluation

The FY22 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, independence 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, such as the ESG programme, and information on the Group's risk management systems. The responses to the questionnaire were summarised and shared with the Board and discussed as appropriate.

Looking ahead

In FY23, the Committee has scheduled meetings in February and November, and any additional meetings will be arranged as required.

Having considered feedback from the Board (following the FY22 Board evaluation) and colleagues alongside progress made against previous objectives, the Committee considered it appropriate to focus on the following action areas during FY23:

Stakeholder interests & engagement – continue to ensure impact on stakeholders is adequately assessed and reflected in Board decision making and consider new/alternative ways of engaging with stakeholders (e.g. colleagues, investors, customers and suppliers) such as HSS or customer site visits or arranging an investor day.

Succession planning – continue to identify and develop colleagues who could step up into key senior roles and identify any new roles required or likely vacancies, particularly as the new structure of the Group continues to be implemented.

ESG programme – continue to give this prominence as part of the Board's regular reviews of strategy and consider further ways of driving this forward.

Alan Peterson OBE
Committee Chairman

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

FY22 has been another busy year for the Committee given the high level of strategic progress made as well as monitoring the Group's response to the global inflationary pressures and associated interest rate increases.

DEAR SHAREHOLDER

On behalf of the Audit Committee (the Committee), I am pleased to present our report for the 2022 financial year.

The Committee has reviewed the contents of the FY22 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, with the wider economy enduring global inflationary pressures and associated interest rate increases. Nevertheless, HSS achieved another year of strong results, responding to these challenges effectively and executing three core strategic components: firstly, the formal creation of HSS ProService Limited and HSS Hire Ireland Limited, both of which are now separate legal entities within the HSS Group; secondly, improvements to HSS Pro, which is a self-serve platform designed for large customers and is a key interface to Brenda, our technology platform; and thirdly, the expansion of our data-driven central sales team in Manchester. The Committee also continued to fulfil its core areas of responsibility.

Core activities

The Committee met seven times in FY22. Two of the seven meetings were held in person and five conducted via videoconference. All members attended the FY22 meetings.

The Committee's core activities during FY22 included, and will include in FY23:

- 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.

Ad hoc activities

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

- detailed review and challenge to ensure robustness of going concern modelling throughout the year (see next pages);
- reviewing and confirming the Company's capacity to pay an interim and final dividend;
- monitoring the inflationary pressures and the impact on our colleagues;
- reviewing the work carried out investigating stock losses and, where appropriate, improving operational processes and subsequent recovery via customer charges;
- ensuring improved coordination between the internal and external auditors (e.g. improved stock count planning);
- reviewing and monitoring agreed implementation actions on cyber security, including ISO 27001 accreditation;
- monitoring the implementation and effectiveness of the Satalia (third party route optimisation) transport software; and
- reviewing the accounting treatment following the Group's restructure with the legal creation of HSS ProService Limited and HSS Hire Ireland Limited in the Republic of Ireland.

External financial reporting

The Committee is responsible for monitoring and reviewing the Financial Statements and reviewing compliance with legal, regulatory and statutory requirements, giving 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 a continued focus on the appropriateness of estimates and judgements as well as the following significant areas:

- hire stock existence and valuation;
- non-hire fixed assets review;
- cash generating unit review;
- carrying value of goodwill and other intangible and tangible assets;
- revenue recognition – cut-off, sales rebate and credit note provisions;
- debtor recoverability;
- share option schemes and management incentives generally;
- management assessment of going concern;
- ESG factors;
- exceptional items;
- IFRS 16 Leases; and
- prior period restatement

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 on the next page:

AUDIT COMMITTEE REPORT CONTINUED

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.

Non-hire fixed assets review
As part of internal restructuring within the Group, an asset verification exercise was carried out on our non-hire fixed assets. As a result, a number of assets greater than ten years old were identified that were no longer in the Group. These assets have been disposed in FY22 with an accelerated depreciation charge of £0.5m. The Committee reviewed the rationale, approach, results and processes and satisfied itself with the accounting treatment, disclosures and ongoing control improvements.

Cash generating unit (CGU) review
Following the internal restructure and the legal creation and operational separation of HSS Hire Ireland Limited in the Republic of Ireland, the Group revised its CGUs. The HSS Core CGU was subdivided into HSS Core UK and HSS Core Ireland and the goodwill allocated based on each CGU's value in use.

The Committee concluded the three (2021: two) CGUs: HSS Core UK, HSS Core Ireland and HSS Power was appropriate and the goodwill allocated was in line with IAS 36.

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, a review was carried out which confirmed there was no impairment required, and the Committee concluded a full impairment review was not required. However, a full review was performed at the year end date.

The Group's methodology has been consistent with that used in FY21 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. 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 FY22 results. Following these reviews, the Committee has concluded that the procedures, controls and provisions are adequate.

Debtor recoverability
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 risk weighting applied to historical loss rates to reflect the uncertain economic climate. The Committee also reviewed the disclosures made in this regard and concluded these were complete and accurate.

Share option schemes and management incentives generally
During the year the Group made a restricted stock grant to certain senior managers. The 2019 option-based long-term incentive scheme partially vested, with the award of shares being subject to a two-year holding period (refer to the Directors' Remuneration Report on pages 53 to 55 for further details).

The Value Creation Plan (VCP) is a key area of judgement and is explained further on page 72. All the facts and circumstances were reviewed in considering whether a VCP provision was required at 31 December 2022.

The Committee concluded the accounting and disclosures made with regard to all incentive schemes are appropriate.

Management assessment of going concern
Once again, the Committee has spent a significant amount of time in FY22 reviewing and challenging the Group's forecasts and advising the Board on going concern throughout the year, particularly when approving the Half-Year interim Financial Statements and entity statutory accounts.

As at 31 December 2022, the Group's financing arrangements include a fully drawn senior finance facility of £70.0m, an undrawn revolving credit facility of £19.0m and undrawn overdraft facilities of £6.0m. Cash at the balance sheet date was £47.7m providing liquidity headroom of £72.7m (2021: £65.5m). 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 57% and 99% headroom against these covenants respectively (2021: 44% and 49%).

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 the possible changes in trading performance in an uncertain market environment. The Group's base case for the 12 months to 27 April 2024 assumes a step change in growth through the effective execution of the Board approved strategic initiatives.

The Board has considered various downside scenarios including a 'reasonable worst case' driven by macroeconomic downturn reducing demand and leading to volume decline, strategic initiatives delivering lower than forecast growth and an increase in debtor days. This reasonable worst-case scenario has been modelled with mitigating actions and 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.

ESG factors
As is noted below, the Committee reviewed the Group's position on the risk presented by ESG factors generally, but also regarding financial reporting matters. This included input into the Group's published ESG Impact Report. ESG is covered in more detail on pages 20 to 22.

Exceptional items
The Committee reviewed with management the expenses classified as exceptional during the year. Exceptional items principally related to costs associated with the Group's restructure and strategy refresh. The Committee concluded that, given the size and nature of these items, and the associated disclosures in the notes to the Financial Statements, the approach adopted in respect of exceptional items is appropriate.

IFRS 16 Leases
IFRS 16 is a complicated standard and HSS has a number of leases creating material positions on the balance sheet. The Committee has reviewed the Group's accounting and disclosures related to IFRS 16.

Prior period restatement
Following a review of the accounting treatment of hire equipment subsequently financed by hire purchase agreements, a reclassification i) from Right of Use assets to Property, Plant and Equipment and ii) lease liabilities to borrowings has taken place.

AUDIT COMMITTEE REPORT CONTINUED

There is no impact on the Group's income statement, reserves or net assets. More detail is covered in note 4(z) to the Financial Statements.

The Committee engaged with BDO on the disclosure requirements and were satisfied with the revision.

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 four years (including FY22). 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 18 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 HSS Hire Group plc, for seven 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 31 December 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 financial statements review and full-year FY22 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 and noted ongoing improvements compared with prior financial years. 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 FY22, BDO provided non-audit-related services to the Group; these totalled £57,144 representing 5.8% of the total fees payable to BDO. The non-audit fees relate to reviewing the interim financial reporting and the annual lender reporting. 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 FY22, together with a summary of the principal risks facing the Group, is provided on pages 36 to 41.

> Risk management is a critical part of the Group's control environment, and this is actively owned and managed by the Executive Management Team.

During FY22, 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 as the 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. Although there were no new risks identified, the Committee kept itself abreast of developments in the macroeconomic climate, particularly the inflationary pressures, and supported the focus on its impact on HSS colleagues.

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 FY23.

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 operating and 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 47). 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

26 April 2023

INTRODUCTION TO THE DIRECTORS' REMUNERATION REPORT

AMANDA BURTON
CHAIR OF THE REMUNERATION COMMITTEE

ROLES AND RESPONSIBILITIES

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

Its key responsibilities include:

- determining the Company's policy on remuneration for Executive Directors and the wider leadership team to support sustainable growth; and
- ensuring the Company complies with disclosure requirements of the QCA Code.

DEAR SHAREHOLDER

I am pleased to present, on behalf of the Board, our Directors' Remuneration Report for the 2022 financial year, which comprises two sections:

- This annual statement
- The Annual Report on Remuneration, which provides details of the amounts earned by Directors in respect of FY22

Our Directors' Remuneration Policy was approved as part of an advisory vote on the 2021 Directors' Remuneration Report at the June 2022 AGM. The Policy is set out in our 2021 Directors' Remuneration Report.

Similar to last year, the Directors' Remuneration Report is subject to an advisory vote at the June 2023 AGM. The Committee believes the advisory vote provides a greater degree of accountability and provides shareholders a say on executive pay.

FY22 salary increase

Executive Directors received a 3% salary increase effective from 1 July 2022, in line with the average increase for the wider workforce. The Non-Executive Directors also received a 3% fee increase.

FY22 performance and variable pay outcome

The FY22 annual bonus was subject to Adjusted EBITA (50%), core hire rental revenue growth (20%), the reduction of overdue debt (20%) and the reduction of RIDDORs (10%). Furthermore, payment of any bonus was subject to the achievement of a threshold Adjusted EBITA target.

FY22 EBITA performance exceeded the threshold performance target and the FY22 annual bonus was 37%. Further details are set out on page 54.

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

No long-term incentive awards were capable of vesting in respect of FY22.

Reward for FY23

Executive Director salaries

In line with the salary review timetable for all other employees, the Executive Directors' salaries will be reviewed during June 2023, with any changes taking effect from 1 July 2023. Any increase is expected to be modest and will be at most 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, total revenue, core hire rental revenue, the reduction in overdue debt and delivery of agreed ESG performance targets, including a reduction in accidents.

The Executive Directors currently participate in a Value Creation Plan (VCP) and therefore will not be granted any long-term incentive arrangements during FY23.

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.

All colleagues with a full-time equivalent salary of £35,000 or less were automatically eligible for a 3% increase effective from 1 July 2022. The average increase for colleagues with a full-time equivalent salary above £35,000 was 3% (with the individual increases varying taking into account performance).

We are acutely aware of global inflationary pressures and, as a business, we are committed to ensuring that support is provided to our colleagues where the economic burden is seen to be most challenging. Colleagues with a full-time equivalent salary of £35,000 or less received one-off payments of £400 and £350 in May 2022 and October 2022 respectively.

We continue to develop our colleague wellbeing agenda across our three core pillars: Mental, Physical and Financial. During FY22 we launched our WeCare Health solution, providing colleagues and their families with access to a range of support across a spectrum of wellbeing, including access to counselling, physical fitness schemes and stopping smoking support.

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 2023 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

26 April 2023

DIRECTORS' REMUNERATION REPORT

ANNUAL REPORT ON REMUNERATION

Single figure table

The following table sets out total remuneration for each Director in respect of FY22 and FY21.

	Salary and fees		Benefits[1]		Pension		Annual bonus		Total remuneration	
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
	FY22	FY21	**FY22**	FY21	**FY22**	FY21	**FY22**	FY21	**FY22**	FY21
Executive Directors										
Steve Ashmore	**380**	371	**3**	3	**31**	31	**142**	371	**556**	776
Paul Quested	**274**	268	**16**	17	**24**	24	**102**	268	**416**	578
Non-Executive Directors										
Alan Peterson OBE	**155**	152	**–**	–	**–**	–	**–**	–	**155**	152
Amanda Burton	**52**	51	**–**	–	**–**	–	**–**	–	**52**	51
Douglas Robertson	**52**	51	**–**	–	**–**	–	**–**	–	**52**	51
Thomas Sweet-Escott[2]	**40**	40	**–**	–	**–**	–	**–**	–	**40**	40

1 The taxable value of benefits received in the year, which are principally medical insurance and company car allowance.
2 Thomas Sweet-Escott's fee is paid directly to Exponent.
3 Steve Ashmore's salary was increased by 3% from £375k to £386k with effect from 1 July 2022. Paul Quested's salary was increased by 3% from £270k to £278k with effect from 1 July 2022.

FY22 annual bonus

The maximum annual bonus opportunity for FY22 was maintained at 100% of salary. The bonus was set subject to Adjusted EBITA (50%), core hire rental revenue growth (20%), the reduction of overdue debt (20%) and the reduction of RIDDORs (10%). These bonus measures reflect the KPIs of the business and support the strategy of growth, profit improvement and our continued focus on health and safety.

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

The following table sets out the bonuses earned by the Executive Directors for FY22 and how this reflects performance for the year against targets.

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 EBITA	50%	£31.0m	£34.0m	£37.0m	£33.4m	22%
Core hire rental revenue growth	20%	£153.7m	£156.8m	£160m	£151.7m	0%
Overdue debt	20%	£15.7m	£13.9m	£12m	£15.7m	5%
Number of RIDDORs	10%	N/A	5	4	1	10%
Total	100%					37%

1 Subject to achieving a threshold Adjusted EBITA target of £31.0m.

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

DIRECTORS' REMUNERATION REPORT CONTINUED

Existing Schemes Award
As disclosed in last year's Directors' Remuneration Report, the Executive Directors were granted one-off awards under an Existing Schemes Award Plan on 25 February 2021. The awards vested and were paid during FY23 and therefore details will be disclosed in next year's Directors' Remuneration Report.

Payments made to former Directors and payments for loss of office during FY22
There were no payments made to former Directors and no payments made for loss of office during FY22.

Directors' share interests
The Chief Executive Officer 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 35% of annual salary. Since joining the Group in August 2016, Paul Quested has built his shareholding in the Company to 10% of annual salary.

The interests of the Directors and their connected persons in the Company's ordinary shares as at 31 December 2022 were as follows:

	Shares owned outright as at 31 December 2022
Executive Directors[1]	
Steve Ashmore	1,068,560
Paul Quested	219,916
Non-Executive Directors	
Alan Peterson OBE	2,408,955
Amanda Burton	110,118
Douglas Robertson	29,362

1 Restricted share awards were granted to the Executive Directors and the wider leadership team on 2 July 2020. Subsequent to the year end, the Executive Directors participation in the Existing Schemes Award Plan resulted in their entitlement to the restricted share awards lapsing.

As at 26 April 2023, the Company has not been advised of any changes to the interests of the Directors and their connected persons as set out in the table above.

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

Statement of voting at last AGM
The following table sets out actual voting in respect of the resolution to approve the Directors' Remuneration Report.

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Directors' Remuneration Report (2022 AGM)	498,872,882	98.11%	9,629,976	1.89%	256,716

Advisers to the Remuneration Committee
During FY22, 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 26 April 2023 and signed on its behalf by:

Amanda Burton
Chair of the Remuneration Committee

26 April 2023

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:

Information	Location within Annual Report
Dividends	**Chairman's Statement (page 9)**
Directors' powers	**Page 56**
Directors' indemnities	**Page 56**
Statement on disclosure of information to the auditor	**Corporate Governance (page 49)**
Greenhouse gas emissions	**ESG section (pages 22 and 27)**
Political donations and expenditure	**Page 56**
Financial instruments	**Page 56**
Events and developments impacting the Company	**Page 56**
Acquisition of own shares	**Page 56**
Equality and diversity	**Page 56**
Employee engagement	**Pages 33 and 35**
Impact of change of control/takeover bid	**Page 56**
Directors' interests	**Directors' Remuneration Report (page 55)**
Share capital	**Note 24 to the Financial Statements (page 108)**
Restrictions on share transfers	**Page 57**
Significant shareholders	**Relations with shareholders (page 48)**
Shares related to employee share schemes	**Page 57**
Voting rights and restrictions	**Page 57**
Agreements between holders of securities	**Page 57**
QCA Corporate Governance Code	**Page 42**
Risk management and Principal risks and uncertainties	**Pages 37 to 41**
Matters of strategic importance	**Page 14**

DIRECTORS' POWERS

At the AGM to be held on 21 June 2023, shareholders will be asked to renew the Directors' power to allot shares, grant rights to subscribe for or convert any security into shares or buy back shares in the Company and to renew the disapplication of pre-emption rights.

DIRECTORS' INDEMNITIES

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

POLITICAL DONATIONS AND EXPENDITURE

At the AGM held on 21 June 2022, 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 FY22 year (FY21: £nil).

FINANCIAL INSTRUMENTS

Information on the Group's financial risk management objectives and policies and the exposure of the Group to market risk, credit risk, liquidity risk and cash flow risk is provided in note 26 to the Financial Statements.

EVENTS AND DEVELOPMENTS IMPACTING THE COMPANY

The likely future developments of the Company and Group are referred to in the Chief Executive Officer's Statement on page 12 in the Strategic Report.

ACQUISITION OF OWN SHARES

At the AGM held on 21 June 2022, the Company was authorised to make market purchases of up to 105,748,193 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 2023 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, with a target of 25% female workforce by 2025. Maintaining awareness of diversity and having respect for all forms part of our colleague training.

The Group's policy is to recruit based on competence, experience and skills. No candidates, 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, through initiatives such as our Internal Women's Networking Group, and campaigns around International Women's Day and Pride amongst others, as well as ensuring equal opportunities for all colleagues. We encourage colleagues to reach their full potential through open dialogue to calibrate performance and identify and implement additional training needs.

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 33 to 35.

IMPACT OF CHANGE OF CONTROL/ TAKEOVER BID

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

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

Funding agreement	Summary of change of control provision
Senior finance facility	Following a change of control, the Group would be required to offer to repay the outstanding sums, including an amount to cover accrued and unpaid interest 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.
Hire purchase arrangements (from various finance providers)	Certain of the Group's hire purchase arrangements have conditions where a change of control could lead to early repayment.

DIRECTORS' REPORT AND OTHER STATUTORY DISCLOSURES CONTINUED

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

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

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

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

As a result, by virtue of Exponent's 33.43% 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 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 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 56 to 57 was approved by the Board of Directors on 26 April 2023 and is signed on its behalf by:

Steve Ashmore
Director

26 April 2023

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 UK adopted 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 31 December 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 31 December 2022 which comprise 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 the Group's strategic initiatives and sensitivity of the Group's trading performance to the ongoing inflationary pressures within the wider economy and the uncertain market environment.
- Review of the forecasts and challenge of the key assumptions against prior year, the current economic environment and our knowledge of the business and its sector;
- Challenge of the appropriateness of the reasonably possible downside scenarios, including a "reasonable worst case", 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 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HSS HIRE GROUP PLC CONTINUED

OVERVIEW

Coverage	92% (2021: 91%) of Group profit before tax 100% (2021: 91%) of Group revenue 91% (2021: 96%) of Group total assets

		31 December 2022	01 January 2022
Key audit matters	**Hire stock**	✓	✓
	Leases – IFRS 16	×	✓
	Revenue recognition	✓	✓
	Leases – IFRS 16 is no longer considered to be a key audit matter as a result of a reduction in lease modifications and cessations.		

Materiality	*Group financial statements as a whole* £1.2m (2021: £1.2m) based on 6% of adjusted earnings before tax, exceptional items and amortisation of customer relationships and brands (2021: 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, we considered to be significant components of the Group due to their size or their risk characteristics. These along with the parent company were subject to a full scope audit.

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 Note 4f Accounting policies: Property, plant and equipment, and Note 15 Property, plant and equipment.	Hire stock represents a very large number of assets, numbering over 1 million. Assets are initially recorded in the hire stock listing per Spanner (the in-house hire management application), and then inserted into the fixed asset register once matched to purchase invoice. The accounting records combine the records of these listings. The reconciliation of hire stock balances between fixed asset registers, the hire stock listing per the hire management application and the general ledger is considered complex due to the existence of reconciling items. Due to the complexities involved we consider 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 performed a 3-way reconciliation between the hire stock listing, the fixed asset registers and the accounting records; – For the reconciling items we have confirmed the reasonableness of the methodology applied by management by agreeing a sample of entries to supporting documentation and reperformed calculations where necessary. **Key observations:** Through the performance of these procedures, we found the judgements made in reconciling hire stock and the calculation of reconciling items to be reasonable.

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
Revenue recognition Refer to Note 4a Revenue recognition and Note 5 Segment reporting.	There is a risk that adjustments made to revenue in respect of rebates payable to customers are omitted or incorrectly calculated which could result in material errors. 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 those systems and the accounting records. – For a sample of customer rebate accruals we have recalculated the rebate accrual by confirming the rebate calculation is consistent with the rebate agreement and sales value per the front of house system. – For significant customer rebates in the current and prior year we have compared the rebate accrual at year end against expectations and investigated the reason for any significant variances. Our expectations were developed by consideration of prior year balances and sales values in the prior and current year. **Key observations** Based on our audit procedures, we consider that the calculations for revenue rebates 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	
	2022 £m	2021 £m	2022 £m	2021 £m
Materiality	1.2	1.2	1.1	1.1
Basis for determining materiality	6% of adjusted profit before tax, being profit before tax, exceptional items and amortisation of customer relationships and brands	4% of adjusted earnings before interest tax and amortisation (EBITA)	90% of group materiality	90% of group materiality
Rationale for the benchmark applied	We considered adjusted profit before tax to be the most appropriate measure for the basis of materiality given it is a key performance indicator for the Group and we believe this more appropriately reflects the Group's underlying performance. Adjustments are detailed in note 32 to the financial statements.	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 and we believe this more appropriately reflects the Group's underlying performance. Adjustments are detailed in note 32 to the financial statements.	We used our judgement to allocate materiality, including taking account of aggregation risk.	We used our judgement to allocate materiality, including taking account of aggregation risk.
Performance materiality	0.8	0.7	0.7	0.7
Basis for determining performance materiality	65% of materiality.	60% of materiality.	65% of materiality.	60% of materiality.
Rationale for the percentage applied for performance 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.			

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HSS HIRE GROUP PLC CONTINUED

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, based on a percentage of 75% (2021: 27% 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 £123k to £1,080k (2021: £315k to £1,063k). In the audit of each component, we further applied performance materiality levels of 65-80% (2021: 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 £48k (2021: £36k). 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:

Non-compliance with laws and regulations

Based on:
- Our understanding of the Group and the industry in which it operates;
- Discussion with management and those charged with governance (Audit Committee); and
- Obtaining an understanding of the Group's policies and procedures regarding compliance with laws and regulations.

The Group is subject to laws and regulations where the consequence of non-compliance could have a material effect on the amounts or disclosures in the financial statements, for example through the imposition of fines or litigations. We identified such laws and regulations to be:

- UK adopted international accounting standards
- Companies Act 2006
- Corporate and VAT legislation
- Employment Taxes
- Health and safety legislation
- Bribery Act 2010
- AIM Rules for companies
- QCA Corporate governance code
- National minimum wage
- Hydrocarbon Oil Duties Act 1979–more specifically as varied by the Finance Act 2020 in relation to sales of "Red Diesel".
- Construction Industry Scheme (CIS)

Our procedures in respect of the above included:
- Review of minutes of meeting of those charged with governance for any instances of non-compliance with laws and regulations;
- Review of correspondence with regulatory and tax authorities for any instances of non-compliance with laws and regulations;
- Review of financial statement disclosures and agreeing to supporting documentation;
- Involvement of tax specialists in the audit; and
- Review of legal expenditure accounts to understand the nature of expenditure incurred.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HSS HIRE GROUP PLC CONTINUED

Fraud

We assessed the susceptibility of the financial statements to material misstatement, including fraud. Our risk assessment procedures included:

- Enquiry with management and those charged with governance (being the Audit Committee), internal audit regarding any known or suspected instances of fraud;
- Obtaining an understanding of the Group's policies and procedures relating to:
  - Detecting and responding to the risks of fraud; and
  - Internal controls established to mitigate risks related to fraud.
- Review of minutes of meeting of those charged with governance for any known or suspected instances of fraud;
- Discussion amongst the engagement team as to how and where fraud might occur in the financial statements;
- Performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud; and
- Considering remuneration incentive schemes and performance targets and the related financial statement areas impacted by these.

Based on our risk assessment, we considered the areas most susceptible to fraud through inappropriate calculation or omission of revenue rebates or through inappropriate journals entries.

Our procedures in respect of the above included:

- For revenue rebates – see Key audit matter above.
- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation;
- Involvement of forensic specialists in the audit to assist in identifying areas at risk of fraud;

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members who were all deemed to have appropriate competence and capabilities and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

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

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

USE OF OUR REPORT

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

Sophia Michael (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
26 April 2023

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

CONSOLIDATED INCOME STATEMENT
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December 2022 Underlying £000s	Year ended 31 December 2022 Exceptional items (note 7) £000s	Year ended 31 December 2022 Total £000s	Year ended 1 January 2022 Underlying £000s	Year ended 1 January 2022 Exceptional items (note 7) £000s	Year ended 1 January 2022 Total £000s
Revenue	5	332,777	–	332,777	303,269	–	303,269
Cost of sales		(164,647)	–	(164,647)	(146,271)	–	(146,271)
Gross profit		168,130	–	168,130	156,998	–	156,998
Distribution costs		(30,325)	–	(30,325)	(21,915)	–	(21,915)
Administrative expenses		(109,554)	(2,774)	(112,328)	(108,368)	7,933	(100,435)
Impairment loss on trade receivables and contract assets	18	(1,667)	–	(1,667)	(1,835)	–	(1,835)
Other operating income	6	8	539	547	1,602	106	1,708
Operating profit		26,592	(2,235)	24,357	26,482	8,039	34,521
Financial expense	8	(7,650)	(176)	(7,826)	(18,510)	(9,945)	(28,455)
Profit before tax		18,942	(2,411)	16,531	7,972	(1,906)	6,066
Income tax credit	12	3,946	–	3,946	1,239		1,239
Profit from continuing operations		22,888	(2,411)	20,477	9,211	(1,906)	7,305
Profit on disposal of discontinued operations		–	–	–	–	41,242	41,242
Profit from discontinued operations, net of tax		–	–	–	–	5,179	5,179
Profit for the financial period		22,888	(2,411)	20,477	9,211	44,515	53,726
Alternative performance measures £000s							
Adjusted EBITDA	32			71,572			69,777
Adjusted EBITA	32			31,965			31,657
Adjusted profit before tax	32			20,966			10,731
Earnings per share (pence)							
Adjusted basic earnings per share	13			2.41			1.25
Adjusted diluted earnings per share	13			2.34			1.22
Basic earnings per share	13			2.90			1.05
Diluted earnings per share	13			2.83			1.02

The notes on pages 70 to 116 form part of these Financial Statements

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2022

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Profit for the financial period	**20,477**	53,726
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**332**	(720)
Foreign currency disposal as part of business divestiture (note 28)	**–**	(49)
Other comprehensive gain/(loss) for the period, net of tax	**332**	(769)
Total comprehensive profit for the period	**20,809**	52,957
Attributable to owners of the Group	**20,809**	52,957

The notes on pages 70 to 116 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December 2022 £000s	As restated[1] Year ended 1 January 2022 £000s
ASSETS			
Non-current assets			
Intangible assets	14	**147,867**	147,648
Property, plant and equipment			
Hire equipment	15	**73,613**	63,123
Non-hire equipment	15	**14,162**	15,605
Right of use assets			
Hire equipment	16	**2,736**	1,860
Non-hire equipment	16	**49,077**	55,329
Deferred tax asset	23	**7,515**	2,404
		294,970	285,969
Current assets			
Inventories	17	**3,779**	2,682
Trade and other receivables	18	**86,068**	78,680
Cash and cash equivalents		**47,709**	42,269
		137,556	123,631
Total assets		**432,526**	409,600

	Note	Year ended 31 December 2022 £000s	As restated[1] Year ended 1 January 2022 £000s
EQUITY			
Share capital	24	**7,050**	7,050
Share premium	24	**45,552**	45,552
Foreign exchange translation reserve		**(422)**	(754)
Other reserves		**97,780**	97,780
Retained earnings		**32,503**	12,273
Total equity		**182,463**	161,901
LIABILITIES			
Current liabilities			
Trade and other payables	19	**88,302**	78,704
Lease liabilities	20	**13,182**	14,052
Borrowings	21	**5,168**	5,258
Provisions	22	**4,258**	4,713
Current tax liability		**290**	293
		111,200	103,020
Non-current liabilities			
Lease liabilities	20	**43,110**	47,413
Borrowings	21	**78,591**	78,008
Provisions	22	**17,045**	19,110
Deferred tax liabilities	23	**117**	148
		138,863	144,679
Total liabilities		**250,063**	247,699
Total equity and liabilities		**432,526**	409,600

1 Details of the nature and impact of the restatement are provided in note 4(z).

The notes on pages 70 to 116 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 26 April 2023 and were signed on its behalf by:

Paul Quested
Director

26 April 2023

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2022

	Share capital £000s	Share premium £000s	Warrant reserve £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Retained earnings £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 disposal as part of business divestiture (note 28)	–	–	–	–	(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**
Profits for the period	**–**	**–**	**–**	**–**	**–**	**20,477**	**20,477**
Foreign currency translation differences arising on consolidation of foreign operations	**–**	**–**	**–**	**–**	**332**	**–**	**332**
Total comprehensive profit for the period	**–**	**–**	**–**	**–**	**332**	**20,477**	**20,809**
Transactions with owners recorded directly in equity:							
Dividends paid	**–**	**–**	**–**	**–**	**–**	**(1,198)**	**(1,198)**
Share-based payment charge	**–**	**–**	**–**	**–**	**–**	**951**	**951**
As at 31 December 2022	**7,050**	**45,552**	**–**	**97,780**	**(422)**	**32,503**	**182,463**

The notes on pages 70 to 116 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	Year ended 31 December 2022 £000s	As restated[1] Year ended 1 January 2022 £000s
Profit for the financial period		**20,477**	53,726
Adjustments for:			
– Tax		**(3,946)**	(1,156)
– Profit on disposal of discontinued operations	28	**–**	(41,242)
– Amortisation	9	**5,314**	5,310
– Depreciation	9	**35,494**	36,128
– Accelerated depreciation relating to hire stock customer losses and hire stock write-offs	9	**3,951**	3,761
– Impairment of property, plant and equipment and right of use assets	9	**–**	497
– Loss on disposal of property, plant and equipment and right of use assets	9	**486**	2
– Lease disposals	20	**(324)**	(6,222)
– Loss on disposal of intangibles		**59**	311
– Capital element of receipts from net investment in sublease		**255**	–
– Share-based payment charge	25	**951**	1,374
– Foreign exchange loss/(gain) on operating activities		**35**	(506)
– Finance expense	8,28	**7,826**	28,527
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		**(1,097)**	252
– Trade and other receivables		**(6,616)**	(6,999)
– Trade and other payables		**9,472**	23,671
– Provisions		**268**	(8,401)
Net cash flows from operating activities before purchase of hire equipment		**72,605**	89,033

1 Details of the nature and impact of the restatement are provided in note 4(z).

	Note	Year ended 31 December 2022 £000s	As restated[1] Year ended 1 January 2022 £000s
Net cash flows from operating activities before purchase of hire equipment		**72,605**	89,033
Purchase of hire equipment		**(24,538)**	(17,468)
Cash generated from operating activities		**48,067**	71,565
Interest paid		**(6,836)**	(26,628)
Income tax repaid		**(2,220)**	(779)
Net cash generated from operating activities		**39,011**	44,158
Cash flows from investing activities			
Proceeds on disposal of business, net of cash disposed of	28	**–**	62,813
Proceeds on disposal of assets as part of business divestiture	28	**–**	526
Purchases of non-hire property, plant, equipment and software	14, 15	**(10,571)**	(6,651)
Net cash (used in)/generated from investing activities		**(10,571)**	56,688
Cash flows from financing activities			
Dividends paid		**(1,181)**	–
Facility arrangement fees		**(35)**	(1,946)
Proceeds from capital raise net of share issue costs paid		**–**	(1,471)
Proceeds from borrowings (third parties)		**–**	70,000
Repayment of borrowings		**–**	(199,182)
Capital element of lease liability payments		**(15,140)**	(17,829)
Capital element of hire purchase arrangement payments		**(6,644)**	(5,722)
Net cash paid from financing activities		**(23,000)**	(156,250)
Net increase/(decrease) in cash		**5,440**	(55,304)
Cash at the start of the year		**42,269**	97,573
Cash at the end of the year		**47,709**	42,269

The notes on pages 70 to 116 form part of these Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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) and the Companies Act 2006.

The Directors have taken advantage of the option within Section 390 of the Companies Act 2006 to prepare their Financial Statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts cover the 52-week period from 2 January 2022 to 31 December 2022 (2021: 53-week period from 27 December 2020 to 1 January 2022).

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 HSS Hire Ireland Limited that is incorporated in the Republic of Ireland, which has the euro as its functional currency. All amounts have been rounded to the nearest thousand, unless otherwise indicated.

d) Basis of preparation
These Financial Statements have been prepared under the historical cost convention. The accounting policies set out below have been applied consistently to all periods presented in these Financial Statements.

e) Going concern
At 31 December 2022, the Group's financing arrangements consisted of a fully drawn senior finance facility of £70.0m, an undrawn revolving credit facility ("RCF") of £19.0m and undrawn overdraft facilities of £6.0m. Cash at the balance sheet date was £47.7m providing liquidity headroom of £72.7m (2021: £65.5m). Both the senior finance facility and RCF are subject to a net debt leverage and interest cover financial covenant tests each quarter. At the financial year-end the Group had 57% and 134% headroom against these covenants respectively (2021: 44% and 49%).

The Directors have prepared a going concern assessment up to 27 April 2024, which confirms that the Group is capable of continuing to operate within its existing facilities and can meet its covenant tests during that period. With regard to the assessment of going concern, Directors have reviewed the Group's cash flow forecasts, taking into account strategic initiatives and sensitivity analysis based on the possible changes in trading performance in an uncertain market environment. The Group's base case for the 12 months to 27 April 2024 assumes a step change in growth through the effective execution of the Board approved strategic initiatives.

The Board has considered various downside scenarios including a 'reasonable worst case' driven by macroeconomic downturn reducing demand and leading to volume decline, strategic initiatives delivering lower than forecast growth and an increase in debtor days. This reasonable worst case scenario has been modelled without mitigating actions and 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 38 to 41) 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 recognised in the income statement.

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 the income statement.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

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.

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 10 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 historical performance as well as referencing external information to arrive at these assumptions. Further details of the impairment reviews undertaken, assumptions and sensitivities are given in note 14.

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.

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.

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 is between 3.5% and 5.9% for vehicles and equipment for internal use and between 5.1% and 6.0% for property leases.

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.

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, Customer Distribution Centres (CDCs) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

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 believes 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 31 December 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.

Value creation plan

On 25 February 2021 a VCP award was granted to the Executive Directors and one senior manager. The VCP is triggered by an Exit Event (as defined in the rules of the scheme), with award value being calculated by reference to an increase in market value of the Group's equity.

The Directors and the Remuneration Committee have considered the likelihood of such an event being triggered prior to the lapsing of the VCP and, after weighing up all of the facts and circumstances that they were aware of as at 31 December 2022, deemed this improbable.

The Directors and the Remuneration Committee will continue to evaluate this position. As such facts and circumstances may evolve within a single reporting period that lead to the recognition of a VCP provision, which may be material in nature, in a subsequent period.

3. NEW ACCOUNTING STANDARDS, ACCOUNTING STANDARDS NOT YET EFFECTIVE AND CHANGES IN ACCOUNTING POLICY

Standards issued and effective beginning on or after 2022

The new standards, interpretations and amendments that are effective for the first time for the financial year beginning 31 December 2022 are detailed below:

- IAS 1 Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors (Amendment – Definition of Material);
- IFRS 3 Business Combinations (Amendment – Definition of Business);
- Annual Improvements to IFRS: 2018-2020 Cycle;
- IAS 37 Provisions, Contingent Liabilities and Contingent Assets (Amendment – Onerous Contracts – Cost of Fulfilling a Contract);
- IAS 16 Property, Plant and Equipment (Amendment – Proceeds before Intended Use); and
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS39, IFRS 7, IFRS 4 and IFRS 16.

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 standard:

- IFRS 17 Insurance Contracts;

4. ACCOUNTING POLICIES

a) Revenue recognition

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

The following 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:

Hire and rehire activities

Nature and timing of satisfaction of performance obligations, including significant payment terms

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.

Approach to revenue recognition

Revenue is recognised over time as the hire period progresses. The stand-alone selling price is determined based on the contracted prices at which the Group hires out the equipment under the specific contract with the customer and commences when the equipment is collected or has been delivered to a customer's premises and has been accepted by the customer. Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, contract corrections and any negotiated rebate, which are estimated based on historical data. For expected returns and contract corrections an estimate of the impact is treated as a correction to the asset's carrying value by deducting this from the amount recognised as a trade receivable. Rebates are recognised as a separate liability and included as a component of other creditors (see note 19). The Group reviews its estimate of all these items at each reporting date and updates the amounts of the reduction in the asset or the liability accordingly.

Resale and ancillary revenue to hire including fuel and consumables

Nature and timing of satisfaction of performance obligations, including significant payment terms

Customers obtain control of the goods at the point of collection or delivery and settle as above.

Approach to revenue recognition

Revenue is recognised when the goods are collected or have been delivered to a customer's premises and have been accepted by customers. Revenue is recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. Therefore, the amount of revenue recognised is adjusted for expected returns, contract corrections and any negotiated rebate, which are estimated based on historical data. For expected returns and contract corrections an estimate of the impact is treated as a correction to the asset's carrying value and deducted from the amount recognised as a trade receivable. Rebates are recognised as a separate liability and included as a component of other creditors (see note 19). The Group reviews its estimate of all these items at each reporting date and updates the amounts of the reduction in the asset or the liability accordingly.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

4. ACCOUNTING POLICIES CONTINUED

Damaged/lost hire stock compensation

Nature and timing of satisfaction of performance obligations, including significant payment terms

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.

Approach to revenue recognition

When the loss or damage is identified and quantified.

Ex-hire fleet asset sales

Nature and timing of satisfaction of performance obligations, including significant payment terms

Customers obtain control of the goods at the point of collection or delivery and settle as above.

Approach to revenue recognition

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

Nature and timing of satisfaction of performance obligations, including significant payment terms

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.

Approach to revenue recognition

Revenue is recognised when the training course or support service is provided to the customer.

b) Contract costs

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

c) Cost of sales, distribution costs and administrative expenses

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

d) Segment reporting

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

e) Foreign currency translation

Foreign currency transactions are translated into an entity's functional currency using the exchange rates prevailing at the dates of the transactions. 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 – over fifty years
- 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 2022 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 the income statement.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

4. ACCOUNTING POLICIES CONTINUED

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 10 years. Amortisation is charged to administrative expenses.

Software development costs

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

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

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

Other intangible assets

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

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

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

Testing for impairment

For the purpose of impairment testing, all assets, including goodwill, acquired in a business combination are allocated to one or more of the cash generating units (CGUs) that are expected to benefit from the synergies of the combination. A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGUs. The carrying value of a CGU is compared to its recoverable amount, which is the higher of its value in use and the fair value less costs of disposal.

i) Derivative financial instruments

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

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

Cash flow hedges

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

4. ACCOUNTING POLICIES CONTINUED

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 18). 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 the income statement if subsequently recovered. The creation and release of bad debt provisions are charged or credited to administrative expenses in the income statement and movements in the credit note provision are charged or credited to revenue. If material, the impairment loss is disclosed on the face of the income statement.

Where the Group considers it virtually certain that an element of the credit note provision will give rise to a reimbursement from a supplier a reimbursement asset is recognised and included in other debtors. The profit and loss impact of any movements in the reimbursement asset is recognised net of the corresponding movement in the credit note provision and included in revenue.

l) Cash

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

m) Trade and other payables

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

n) Borrowings

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

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

o) Provisions

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

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

Onerous property costs

Provisions have been made for onerous property costs (excluding lease costs) on non-trading stores, Customer 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. 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.

Onerous contract provisions

Contracts are considered to be onerous when cash is paid to a third party but the Group derives no economic benefit. Further details of the assumptions and sensitivities are given in note 22.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

4. ACCOUNTING POLICIES CONTINUED

p) Share capital and reserves

Ordinary shares

The Group's ordinary shares are classified as equity instruments. Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity, net of any tax effects.

Retained earnings/accumulated deficit

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

Foreign exchange reserve

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

Merger reserve

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

Warrant reserve

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

Cash flow hedging reserve

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

q) Finance income and expense

Finance income comprises interest receivable on cash balances.

Finance expense comprises interest payable on borrowings, interest payable on lease liabilities and hire purchase arrangements, amortisation and write-off of debt issuance costs and the unwinding of the discount on non-current provisions. Interest is recognised in the income statement 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 the income statement over the period of the borrowings on an effective interest basis. The finance element of lease payments is charged to the income statement over the lease period.

r) Current and deferred income tax

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

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

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

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

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

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

s) Employee benefits

Short-term employee benefits

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

Pension obligations

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

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: (i) when the Group can no longer withdraw the offer of those benefits; and (ii) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

4. ACCOUNTING POLICIES CONTINUED

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.

In addition, the Group operates certain cash-settled share-based payment schemes, the fair value of which are measured initially and remeasured at each reporting date up to and including the settlement date. The fair value is expensed over the period until the vesting date with recognition of a corresponding liability, the approach used to account for vesting conditions when measuring equity-settled transactions also applies to cash-settled transactions.

t) Leases

Upon the Group entering a lease, 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 the transition date.

Where control of assets is obtained prior to entering a lease or hire purchase agreement the asset is recognised in property, plant and equipment at the date where control is obtained. Upon entering a lease or hire purchase agreement an assessment of whether the IFRS 15 conditions of sale and leaseback are met is undertaken. Where it is concluded that these conditions are met the assets is transferred to ROU assets and the related liabilities included in lease liabilities. Where it is concluded that these conditions are not met the asset remains in property, plant and equipment and the corresponding liability is presented in Borrowings.

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. During the year no amounts relating to qualifying rent concessions were recognised in the income statement (2021: £0.2m).

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

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 restatement

The Group has identified the need to make a correction to the balance sheets at 1 January 2022 and 26 December 2020 where hire equipment subsequently financed by hire purchase agreements had been reclassed to Property, Plant and Equipment from Right of Use assets. This reclassification includes the corresponding adjustment between lease liabilities and borrowings.

There is no impact on income statement, net assets or reserves as a result of this restatement.

To correct the presentation of these balances in the prior year, the Group has restated the balance sheet and associated note disclosures as at 1 January 2022.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

4. ACCOUNTING POLICIES CONTINUED

The impact on the 1 January 2022 balance sheet is set out below:

	1 January 2022 £000s	Adjustments £000s	1 January 2022 (Restated) £000s
Non-current assets:			
Property, plant and equipment – Hire equipment	**44,332**	**18,791**	**63,123**
Right of use assets – Hire equipment	**20,651**	**(18,791)**	**1,860**
Current liabilities:			
Lease liabilities	**19,310**	**(5,258)**	**14,052**
Borrowings	**–**	**5,258**	**5,258**
Non-current liabilities:			
Lease liabilities	**57,255**	**(9,842)**	**47,413**
Borrowings	**68,166**	**9,842**	**78,008**

The impact on the 26 December 2020 balance sheet is set out below:

	26 December 2020 £000s	Adjustments £000s	26 December 2020 (Restated) £000s
Non-current assets:			
Property, plant and equipment – Hire equipment	50,429	19,133	69,562
Right of use assets – Hire equipment	20,576	(19,133)	1,443
Current liabilities:			
Lease liabilities	23,395	(4,989)	18,406
Borrowings	15,000	4,989	19,989
Non-current liabilities:			
Lease liabilities	66,177	(8,769)	57,408
Borrowings	179,099	8,769	187,868

A full Statement of Financial Position as at 26 December 2020 has not been presented in accordance with IAS 1 Presentation of Financial Statements given the limited number of line items affected.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 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, power generation together with directly related revenue such as resale (fuel and other consumables), transport and other ancillary revenues.

Services comprise the Group's HSS OneCall rehire business and HSS Training. HSS OneCall provides customers with a single point of contact for the hire of products that are not typically held within HSS's fleet and are obtained from approved third party partners; HSS Training provides customers with specialist safety training across a wide range of products and sectors.

Contribution is defined as segment operating profit before branch and selling costs, central costs, depreciation, amortisation and exceptional items.

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 (2021: no customer was more than 10%).

	Year ended 31 December 2022			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	206,175	126,602	–	332,777
Contribution	138,439	19,271	–	157,710
Branch and selling costs			(53,612)	(53,612)
Central costs			(32,526)	(32,526)
Adjusted EBITDA				71,572
Less: Exceptional items			(2,235)	(2,235)
Less: Depreciation and amortisation	(22,998)	(359)	(21,623)	(44,980)
Operating profit				24,357
Net finance expenses				(7,826)
Profit before tax				16,531
Income tax				3,946
Profit for the financial period				20,477

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

5. SEGMENT REPORTING CONTINUED

	Year ended 31 December 2022			
	Rental (and related revenue) £000s	**Services £000s**	**Central £000s**	**Total £000s**
Additions to non-current assets				
Property, plant and equipment	**30,436**	**49**	**5,461**	**35,935**
Right of use assets	**2,220**	**521**	**7,672**	**10,413**
Intangibles	**3,052**	**35**	**2,505**	**5,592**
Non-current assets net book value				
Property, plant and equipment	**73,613**	**138**	**14,024**	**87,775**
Right of use assets	**2,736**	**614**	**48,463**	**51,813**
Intangibles	**145,430**	**67**	**2,370**	**147,867**
Deferred tax assets			**7,515**	**7,515**
Current assets			**137,556**	**137,556**
Current liabilities			**(111,200)**	**(111,200)**
Non-current liabilities			**(138,863)**	**(138,863)**
				182,463

	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 charge				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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

5. SEGMENT REPORTING CONTINUED

	As restated[1] 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	25,815	16	2,750	28,581
Right of use assets	1,301	56	6,826	8,183
Intangibles	2,928	39	1,361	4,328
Non-current assets net book value				
Property, plant and equipment	63,123	129	15,476	78,728
Right of use assets	1,860	384	54,945	57,189
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

1 Details of the nature and impact of the restatement are given in note 4z.

6. OTHER OPERATING INCOME

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
COVID 19 Government grant income: Job retention schemes	**–**	232
Insurance proceeds (net of fees)	**–**	1,203
Sub-lease rental and service charge income	**547**	273
	547	1,708

During the year, the Group received sub-let rental income of £0.5m (2021: £0.3m) on vacant properties.

During the prior 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 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

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 31 December 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 31 December 2022 £000s
Onerous property costs	112	(539)	26	(401)
Costs relating to restructure	3,182	–	–	3,182
Onerous contract	(520)	–	150	(370)
Total	**2,774**	**(539)**	**176**	**2,411**

During the year ended 1 January 2022, the Group recognised exceptional costs analysed 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)

Exceptional items incurred in 2022 and 2021

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 £0.4m has been recognised in 2022 (2021: £7.9m). In the current year this relates primarily to sublet rental income received where properties have been sublet; amounts from sublet rental income have been included in other operating income. In the prior year this credit mainly related to the release of lease liabilities, onerous property cost and dilapidations provisions on surrender of properties following the branch closures.

Costs related to restructure

Following the changes made to our operating network in Q4 2020 and the roll-out of HSS ProPOS in Q1 2021, the Group completed the legal separation of HSS ProService in July 2022. Following this legal separation, a detailed strategy refresh was undertaken working with third party advisors to develop the growth plans for HSS ProService and evaluate opportunities to create greater shareholder value. Fees incurred relating to the restructure and strategy refresh in the year ended 31 December 2022 amount to £3.2m (2021: £0.6m).

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 early 2018 (note 22). The liability at the balance sheet date is £9.8m (2021: £13.5m). The discount rate used to calculate the present value of the provision is the five-year UK gilt rate of 3.62% (2021: 0.81%). Application of the new discount rate at the balance sheet date resulted in a credit to the income statement of £0.5m (2021: £0.3m), recognised as exceptional in line with the original provision. An interest charge (discount unwind) of £0.15m (2021: £0.01m) was recognised through exceptional finance costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

7. EXCEPTIONAL ITEMS CONTINUED

Exceptional items incurred in 2021 only

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. Costs that related specifically to the capital raise were deducted from the net proceeds and included in the share premium account.

Costs expensed on refinancing

In October 2021, following the sale of All Seasons Hire Limited (see business divestitures below and note 28) 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 £70.0m 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.

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 2021:

Laois Hire Services Limited

Laois Hire Services 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.

8. FINANCE EXPENSE

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Senior finance facility	**3,041**	12,653
Senior finance facility prepayment penalties (note 7)	**–**	6,430
Debt issue costs	**473**	1,896
Lease liabilities and hire purchase arrangements	**3,908**	3,950
Interest unwind on discounted provisions	**150**	15
Revolving credit facility	**–**	58
Interest on financial instruments	**–**	–
Bank loans and overdrafts	**254**	153
Accelerated amortisation of debt issue costs (note 7)	**–**	3,300
	7,826	28,455

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

9. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Amortisation of intangible assets (see below for details)	**5,373**	5,175
Depreciation (see below for details)	**39,608**	38,120
Operating lease rentals:		
– land and buildings	**136**	–
– motor vehicles and equipment for internal use	**1,740**	984
– hire stock	**175**	662
Write-off inventory (note 17)	**–**	256
Sublease rental income (note 6)	**(547)**	(273)
Foreign currency translation gains	**(147)**	(81)
COVID-19 Government grant income (note 6)	**–**	(232)
Business interruption insurance proceeds (note 6)	**–**	(1,203)

	£000s	£000s
Auditors' remuneration		
– audit of Group and Company Financial Statements	**148**	148
– audit of subsidiary Financial Statements	**773**	712
– other audit related assurance services	**57**	39
	978	899

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

9. OPERATING PROFIT CONTINUED

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

	Year ended 31 December 2022			As restated[1] Year ended 1 January 2022		
Amounts charged in respect of depreciation	**Property, plant and equipment £000s**	**Right of use assets £000s**	**Total £000s**	Property, plant and equipment £000s	Right of use assets £000s	Total £000s
Depreciation (note 15,16)	**20,588**	**14,906**	**35,494**	20,376	15,752	36,128
Accelerated depreciation relating to hire stock customer losses and hire stock write offs (note 15,16)	**3,497**	**454**	**3,951**	3,799	205	4,004
Loss on disposal of other assets (note 15,16)	**619**	**413**	**1,032**	91	997	1,088
Impairments (note 15,16)	**–**	**–**	**–**	264	233	497
Total depreciation per notes	**24,704**	**15,773**	**40,477**	24,530	17,187	41,717
Less profit on surrender of leases	**(546)**	**(324)**	**(870)**	(1,086)	–	(1,086)
Disposal of assets as part of business divestiture (note 28)	**–**	**–**	**–**	(243)	–	(243)
Depreciation per consolidated statement of cash flows	**24,158**	**15,449**	**39,607**	23,201	17,187	40,388
Less depreciation and loss on disposal on discontinued operations	**–**	**–**	**–**	(1,466)	(370)	(1,836)
Less exceptional disposals net of lease surrenders	**–**	**–**	**–**	–	(432)	(432)
Depreciation as reported on a continuing operations basis	**24,158**	**15,449**	**39,607**	21,735	16,385	38,120

1 Details of the nature and impact of the restatement are given in note 4z.

Amounts charged in respect of amortisation	**Year ended 31 December 2022 £000s**	Year ended 1 January 2022 £000s
Amortisation of intangible assets (note 14)	**5,314**	5,310
Write-offs (note 14)	**59**	–
Less amortisation relating to discontinued operations (note 28)	**–**	(135)
Amortisation as reported on a continuing operations basis	**5,373**	5,175

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

10. EMPLOYEES

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

	Year ended 31 December 2022 Number	Year ended 1 January 2022 Number
Distribution	**386**	403
Hire stock and inventory maintenance	**237**	251
Sales and administration	**1,414**	1,394
	2,037	2,048
Discontinued operations	**–**	(145)
	2,037	1,903

The aggregate remuneration costs of these employees were as follows:

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Wages and salaries	**73,729**	71,696
Social security costs	**7,721**	7,101
Pension costs	**2,176**	1,942
Share-based payment expense	**951**	1,374
	84,577	82,113
Discontinued operations	**–**	(3,383)
	84,577	78,730

During the year, remuneration costs of £2.4m (2021: £1.8m) were capitalised as software development and infleeting of hire equipment costs. These amounts have been included in the disclosures above.

In the prior year agency staff costs of £1.9m were incorrectly included in wages and salaries. These have been removed in the above wages and salaries amount for 2021.

In the prior year remuneration costs of £1.8m were capitalised as software development and infleeting of hire equipment costs and incorrectly excluded from the amounts presented in 2021. These have been included in the 2021 amounts 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

10. EMPLOYEES CONTINUED

The aggregate remuneration costs of key management personnel were as follows:

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Wages and salaries	2,943	2,928
Employer's national insurance contributions and similar taxes	672	416
Bonus	827	1,841
Other pension costs	162	162
Share-based payment expense	1,202	877
Total charged to Consolidated income statement	5,806	6,224

11. DIRECTORS' REMUNERATION

The remuneration costs of the Group's Directors were:

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Aggregate emoluments	972	954
Bonus	244	639
Pension costs	55	55
Directors' emoluments	1,271	1,648
Share-based payment expense	229	278
Total charged to Consolidated income statement	1,500	1,926

Included above is the fee of £40,000 (2021: £40,000) for one Director (2021: one) that is paid to Exponent Private Equity LLP (note 29).

The remuneration of the highest paid Director was:

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Aggregate emoluments	383	374
Bonus	142	371
Pension costs	31	31
Directors' emoluments	556	776
Share-based payment expense	133	168
Total charged to Consolidated income statement	689	944

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

12. INCOME TAX CHARGE
(a) Analysis of tax credit in the year

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Current tax charge		
UK corporation tax on the result for the year	1,495	1,151
Adjustments in respect of prior years	(299)	(80)
Total current tax charge	1,196	1,071
Deferred tax credit for the year		
Deferred tax credit for the year	(5,493)	(2,319)
Deferred tax impact of change in tax rate	(40)	(117)
Adjustments in respect of prior years	391	126
Total deferred tax credit (see note 23)	(5,142)	(2,310)
Income tax credit	(3,946)	(1,239)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

12. INCOME TAX CHARGE CONTINUED

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

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

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Profit before tax	**16,531**	6,066
Profit before tax multiplied by the effective standard rate of corporation tax of 19% (2021: 19%)	**3,141**	1,153
Effects of:		
Unprovided deferred tax movements on short-term temporary differences and capital allowance timing differences	**(2,530)**	(2,958)
Adjustments in respect of prior years	**92**	46
Expenses not deductible for tax purposes	**1,096**	2,437
Recognition of brought forward tax losses	**(5,367)**	(2,000)
Utilisation of unrecognised tax losses brought forward	**(449)**	–
Foreign tax suffered	**111**	200
Impact of change in tax rate	**(40)**	(117)
Income tax credit	**(3,946)**	(1,239)

The charge of £1.1m (2021: £2.4m) arising in respect of expenses not deductible is mainly attributable to costs associated with share options awarded to some employees, the Group exiting property leases and removing dormant entities from the Group structure. This amount has decreased in the current year due to the lower level of properties exited during the year. The credit of £5.4m (2021: £2.0m) arises from the recognition of a deferred tax asset in respect of prior period losses not previously recognised. Based upon forecasts, the Group considers the recognition criteria in IAS 12 have been met.

(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.

At 31 December 2022 the Group had an unrecognised deferred tax asset relating to losses of £13.1m (2021 (restated): £21m). The gross balance at 31 December 2022 was £52.3m (2021 (restated): £84.0m).

At 31 December 2022 the Group also had an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £9.8m (2021: £15.2m). The gross balance at 31 December 2022 was £39.4m (2021 (restated): £60.0m).

The gross balances as at 1 January 2022 on unrecognised temporary differences temporary differences on plant and equipment, intangible assets and provisions have been restated to decrease by £20.0m due to input errors in the preparation of the FY21 financial statements.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

13. EARNINGS PER SHARE

Basic earnings per share calculated on a continuing operations basis:

	Profit after tax from continuing operations £000s	Weighted average number of shares 000s	Earnings per share from continuing operations pence
Year ended 31 December 2022	**20,477**	**704,988**	**2.90**
Year ended 1 January 2022	7,305	696,821	1.05

Basic earnings 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 per share calculated on a continuing operations basis:

	Profit after tax from continuing operations £000s	Diluted weighted average number of shares 000s	Earnings per share from continuing operations pence
Year ended 31 December 2022	**20,477**	**723,950**	**2.83**
Year ended 1 January 2022	7,305	714,816	1.02

Diluted earnings per share is calculated using the profit 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) and restricted stock grants, as disclosed in note 25.

All of the Group's potentially dilutive equity derivative securities were dilutive for the purpose of diluted earnings per share in both 2022 and 2021.

The following is a reconciliation between the basic earnings per share and the adjusted basic earnings per share on a continuing operations basis:

	Year ended 31 December 2022 pence	Year ended 1 January 2022 pence
Basic earnings per share	**2.90**	1.05
Add back:		
Exceptional items per share[1]	**0.34**	0.27
Amortisation of customer relationships and brands per share[2]	**0.29**	0.40
Tax credit per share	**(0.56)**	(0.18)
Charge:		
Tax charge at prevailing rate	**(0.56)**	(0.29)
Adjusted basic earnings per share	**2.41**	1.25

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 of customer relationships and brands per share is calculated as the amortisation charge on customer relationships and brands divided by the weighted average number of shares in issue through the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

13. EARNINGS PER SHARE CONTINUED
The following is a reconciliation between the diluted earnings per share and the adjusted diluted earnings per share on a continuing operations basis:

	Year ended 31 December 2022 pence	Year ended 1 January 2022 pence
Diluted earnings per share	**2.83**	1.02
Add back:		
Adjustment to basic earnings per share for the impact of dilutive securities		
Exceptional items per share[1]	**0.33**	0.27
Amortisation of customer relationships and brands per share[2]	**0.28**	0.39
Tax credit per share	**(0.55)**	(0.17)
Charge:		
Tax charge at prevailing rate	**(0.55)**	(0.29)
Adjusted diluted earnings per share	**2.34**	1.22

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 of customer relationships and brands per share is calculated as the amortisation charge on customer relationships and brands 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 is as follows:

	Year ended 31 December 2022 Weighted average number of shares 000s	Year ended 1 January 2022 Weighted average number of shares 000s
Basic	**704,988**	696,821
LTIP share options (note 25)	**3,843**	8,296
Restricted stock grant (note 25)	**15,036**	8,988
CSOP options (note 25)	**83**	711
Diluted	**723,950**	714,816

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

14. INTANGIBLE ASSETS

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 2 January 2022	**115,855**	**25,400**	**22,590**	**31,856**	**195,701**
Additions	**–**	**–**	**–**	**5,592**	**5,592**
Disposals[1]	**–**	**–**	**(5)**	**(4,684)**	**(4,689)**
At 31 December 2022	**115,855**	**25,400**	**22,585**	**32,764**	**196,604**
Amortisation					
At 2 January 2022	**–**	**23,301**	**298**	**24,454**	**48,053**
Charge for the year	**–**	**1,990**	**34**	**3,290**	**5,314**
Disposals[1]	**–**	**–**	**(5)**	**(4,625)**	**(4,630)**
At 31 December 2022	**–**	**25,291**	**327**	**23,119**	**48,737**
Net book value					
At 31 December 2022	**115,855**	**109**	**22,258**	**9,645**	**147,867**

1 As part of the internal legal restructuring an asset verification exercise was conducted. As a result, intangible assets, with a gross book value of £4.6m and accumulated depreciation of £4.6m, have been disposed during the year.

	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 28)	(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 year	–	2,675	84	2,551	5,310
Disposals	–	–	–	(52)	(52)
Business disposal (note 28)	–	(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

14. INTANGIBLE ASSETS CONTINUED

Analysis of goodwill, indefinite life brands, other brands and customer relationships by cash generating unit:

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core – UK	**102,292**	**21,900**	**–**	**–**	**124,192**
HSS Core – Ireland	**7,510**	**–**	**–**	**–**	**7,510**
HSS Power	**6,053**	**–**	**358**	**109**	**6,520**
At 31 December 2022	**115,855**	**21,900**	**358**	**109**	**138,222**

	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
HSS Power	6,053	–	392	199	6,644
At 1 January 2022	115,855	21,900	392	2,099	140,246

The remaining life of intangible assets other than goodwill and indefinite life brands is between nil and 12 years (2021: nil and 13 years). For the purpose of calculating Adjusted EBITDA and Adjusted EBITA, amortisation, is calculated as the total of the amortisation charge for the year and the loss on disposal of intangible assets. For the purpose of calculating Adjusted profit before tax, amortisation of customer relationships and brands is calculated as the total amortisation charge for the year and the loss on disposal of customer relationships and brands.

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.

The Group has three (2021: two) cash generating units (CGUs): HSS Core UK, HSS Core Ireland and HSS Power.

During the year, the Group completed a restructure which included the legal creation of HSS Hire Ireland Limited in the Republic of Ireland. Following this restructure, the HSS Core CGU was subdivided into HSS Core UK and HSS Core Ireland and in line with IAS 36, the goodwill allocated based on each CGU's value in use (VIU).

The recoverable amounts of the goodwill and indefinite life brands, which are allocated to CGUs, are estimated from VIU calculations which model pre-tax cash flows for the next five years (2021: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

14. INTANGIBLE ASSETS CONTINUED

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

- Cash flows were derived based on the budget for 2023 and model of the business for the following two years (to the end of 2025).
- 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 (2021: 2.0%).
- A pre-tax discount rate of 12.2% (2021: 9.44%), 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 31 December 2022 for any of the CGUs. The Directors carried out sensitivity analysis on various inputs to the models, including growth rates and discount rates, which did not result in an impairment charge for any 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 UK (the larger CGU) at 31 December 2022, the headroom between VIU and carrying value of the related assets was £229.5m. The Directors' sensitivity analysis, with regard to HSS Core UK, shows that an increase in the discount rate to 22.2% or a reduction in the long-term growth rate to a decline of 14.5% would eliminate the headroom shown. Furthermore, the Directors' sensitivity analysis shows that no impairment would be required to the HSS Core UK CGU until the actual EBITDA was 26.6% lower than forecast. In addition, the Directors have assessed the combined impact of the long-term growth rate falling to zero and an increase in the discount rate of 1% to 13.2%. This shows that the headroom drops to £139.1m for HSS Core UK.

In respect of HSS Power (the smallest CGU) at 31 December 2022, the headroom between VIU and carrying value of the related assets was £8.4m (2021: £30.9m). The Directors' sensitivity analysis, with regard to HSS Power, shows that an increase in the discount rate to 16.1% (2021: 24.1%) or a reduction in the long-term growth rate to a decline of 3.4% (2021: decline of 30.3%) would eliminate the headroom shown. Furthermore, the Directors' sensitivity analysis shows that no impairment would be required to the Power CGU until the actual EBITDA was 10.0% (2021: 29.8%) lower than forecast. In addition, the Directors have assessed the combined impact of the long-term growth rate falling to zero (2021: zero) and an increase in the discount rate of 1% to 13.2% (2021: 10.44%). This shows that the headroom drops to £2.4m (2021: £18.6m) for HSS Power.

In respect of HSS Core Ireland at 31 December 2022, the headroom between VIU and carrying value of the related assets was £16.4m. The Directors' sensitivity analysis, with regard to HSS Core Ireland, shows that an increase in the discount rate to 21.8% or a reduction in the long-term growth rate to a decline of 13.8% would eliminate the headroom shown. Furthermore, the Directors' sensitivity analysis shows that no impairment would be required to the HSS Core Ireland CGU until the actual EBITDA was 18.3% lower than forecast. In addition, the Directors have assessed the combined impact of the long-term growth rate falling to zero and an increase in the discount rate of 1% to 13.2%. This shows that the headroom drops to £9.8m for HSS Core Ireland.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

15. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 2 January 2022	37,303	43,163	160,131	240,597
Transferred from right of use assets	–	–	283	283
Additions	4,919	592	30,435	35,946
Disposals[1]	(4,606)	(14,561)	(16,686)	(35,853)
Re-measurement	(2,497)	–	–	(2,497)
Foreign exchange differences	28	2	243	273
Transfer	(102)	–	102	–
At 31 December 2022	35,045	29,196	174,508	238,749
Accumulated depreciation				
At 2 January 2022	25,453	39,408	97,008	161,869
Transferred from right of use assets	–	–	261	261
Charge for the year	2,433	1,501	16,654	20,588
Disposals[1]	(3,927)	(14,621)	(13,189)	(31,737)
Foreign exchange differences	(2)	(5)	–	(7)
Transfers	–	(161)	161	–
At 31 December 2022	23,957	26,122	100,895	150,974
Net book value				
At 31 December 2022	11,088	3,074	73,613	87,775

1 As part of the internal legal restructuring an asset verification exercise was conducted. As a result, land and buildings and plant and machinery assets, with a net book value of £0.5m (£18.0m gross book value less £17.5m accumulated depreciation), have been disposed during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

15. PROPERTY, PLANT AND EQUIPMENT CONTINUED

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 27 December 2020 – as previously reported	58,419	55,315	149,534	263,268
Restatement[1]	–	–	28,550	28,550
At 27 December 2020 – as restated	58,419	55,315	178,084	291,818
Transferred from right of use assets – as previously reported	–	–	8,742	8,742
Restatement[1]	–	–	(8,519)	(8,519)
Transferred from right of use assets – as restated	–	–	223	223
Additions – as previously reported	2,011	755	18,558	21,324
Restatement[1]	–	–	7,257	7,257
Additions – as restated	2,011	755	25,815	28,581
Disposals – as previously reported	(22,394)	(11,193)	(16,515)	(50,102)
Restatement[1]	–	–	(831)	(831)
Disposals – as restated	(22,394)	(11,193)	(17,346)	(50,933)
Business disposal (note 28)	(702)	(1,683)	(26,064)	(28,449)
Foreign exchange differences	(31)	(31)	(581)	(643)
At 1 January 2022	37,303	43,163	160,131	240,597
Accumulated depreciation				
At 27 December 2020 – as previously reported	45,208	50,580	99,105	194,893
Restatement[1]	–	–	9,417	9,417
At 27 December 2020 – as restated	45,208	50,580	108,522	204,310
Transferred from right of use assets – as previously reported	–	–	5,200	5,200
Restatement[1]	–	–	(4,990)	(4,990)
Transferred from right of use assets – as restated	–	–	210	210
Charge for the year – as previously reported	2,543	1,710	12,482	16,735
Restatement[1]	–	–	3,641	3,641
Charge for the year – as restated	2,543	1,710	16,123	20,376
Impairment	264	–	–	264
Disposals – as previously reported	(22,325)	(11,171)	(13,145)	(46,641)
Restatement[1]	–	–	(402)	(402)
Disposals – as restated	(22,325)	(11,171)	(13,547)	(47,043)
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	97,008	161,869
Net book value				
At 1 January 2022	11,850	3,755	63,123	78,728

1 Details of the nature and impact of the restatement are given in note 4z.

The transferred from right of use category represents the acquisition of right of use assets at expiry of the lease in cases where the title is transferred to the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

16. RIGHT OF USE ASSETS

	Property £000s	Vehicles £000s	Equipment for internal use £000s	Equipment held for hire £000s	Total £000s
Cost					
At 2 January 2022	56,847	26,283	520	2,328	85,978
Additions	2,290	5,903	–	2,220	10,413
Transferred to property, plant and equipment	–	–	–	(293)	(293)
Disposals	(2,273)	(548)	–	(649)	(3,470)
Foreign exchange differences	31	(25)	–	–	6
At 31 December 2022	56,895	31,613	520	3,606	92,634
Accumulated depreciation					
At 2 January 2022	15,104	12,773	444	468	28,789
Transferred to property, plant and equipment	–	–	–	(271)	(271)
Charge for the period	7,458	6,522	58	868	14,906
Disposals	(2,022)	(386)	–	(195)	(2,603)
At 31 December 2022	20,540	18,909	502	870	40,821
Net book value					
At 31 December 2022	36,355	12,704	18	2,736	51,813

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

16. RIGHT OF USE ASSETS CONTINUED

	Property £000s	Vehicles £000s	Equipment for internal use £000s	Equipment held for hire £000s	Total £000s
Cost					
At 27 December 2020 – as previously reported	61,253	23,681	562	21,998	107,494
Restatement[1]	–	–	–	(20,497)	(20,497)
At 27 December 2020 – as restated	61,253	23,681	562	1,501	86,997
Additions – as previously reported	1,882	5,000	–	8,558	15,440
Restatement[1]	–	–	–	(7,257)	(7,257)
Additions – as restated	1,882	5,000	–	1,301	8,183
Re-measurements	3,407	128	(12)	–	3,523
Transfers to property, plant and equipment – as previously reported	–	–	–	(4,462)	(4,462)
Restatement[1]	–	–	–	4,297	4,297
Transfers to property, plant and equipment – as restated	–	–	–	(165)	(165)
Business disposal	(1,304)	(1,662)	(30)	–	(2,996)
Disposals – as previously reported	(8,755)	(859)	–	(755)	(10,369)
Restatement[1]	–	–	–	446	446
Disposals – as restated	(8,755)	(859)	–	(309)	(9,923)
Amount re-recognised on disposal of sublease	544	–	–	–	544
Foreign exchange differences	(180)	(5)	–	–	(185)
At 1 January 2022	56,847	26,283	520	2,328	85,978
Accumulated depreciation					
At 27 December 2020 – as previously reported	15,403	6,854	327	1,422	24,006
Restatement[1]	–	–	–	(1,364)	(1,364)
At 27 December 2020 – as restated	15,403	6,854	327	58	22,642
Transfers to property, plant and equipment – as previously reported	–	–	–	(920)	(920)
Restatement[1]	–	–	–	768	768
Transfers to property, plant and equipment – as restated	–	–	–	(152)	(152)
Charge for the period – as previously reported	7,840	7,099	147	4,307	19,393
Restatement[1]	–	–	–	(3,641)	(3,641)
Charge for the period – as restated	7,840	7,099	147	666	15,752
Impairments	233	–	–	–	233
Business disposal	(397)	(538)	(30)	–	(965)
Disposals – as previously reported	(7,975)	(642)	–	(121)	(8,738)
Restatement[1]	–	–	–	17	17
Disposals – as restated	(7,975)	(642)	–	(104)	(8,721)
At 1 January 2022	15,104	12,773	444	468	28,789
Net book value					
At 1 January 2022	41,743	13,510	76	1,860	57,189

1 Details of the nature and impact of the restatement are given in note 4z.

The transferred to property, plant and equipment category represents the acquisition of right of use assets at expiry of the lease in cases where the title is transferred to the Group.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

17. INVENTORIES

	31 December 2022 £000s	1 January 2022 £000s
Inventories	**3,045**	1,972
Inventory spares	**1,417**	1,310
Total inventories	**4,464**	3,282
Provision for impairment	**(685)**	(600)
Inventories	**3,779**	2,682

	31 December 2022 £000s	1 January 2022 £000s
Provision for impairment of inventories		
Balance at the beginning of the year	**600**	100
Additions	**171**	500
Utilisation	**(86)**	–
Balance at the end of the year	**685**	600

The cost of inventories recognised as an expense and included in cost of sales is £23.4m (2021: £25.5m) and includes the write-off of inventories to the value of £nil (2021: £0.3m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

18. TRADE AND OTHER RECEIVABLES

	31 December 2022				1 January 2022			
	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	77,308	(3,343)	(5,554)	68,411	73,873	(3,884)	(3,225)	66,764
Accrued income	10,543	(106)	–	10,437	4,165	(47)	–	4,118
Total trade receivables and contract assets	87,851	(3,449)	(5,554)	78,848	78,038	(3,931)	(3,225)	70,882
Net investment in sublease	712	–	–	712	961	–	–	961
Other debtors	3,493	–	–	3,493	1,282	–	–	1,282
Prepayments	3,015	–	–	3,015	5,555	–	–	5,555
Total trade and other receivables	95,071	(3,449)	(5,554)	86,068	85,836	(3,931)	(3,225)	78,680

Included in other debtors is £1.0m (2021: £nil) relating to tax receivables.

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

	31 December 2022 Provision for impairment £000s	31 December 2022 Provision for credit notes £000s	1 January 2022 Provision for impairment £000s	1 January 2022 Provision for credit notes £000s
Balance at the beginning of the period	(3,931)	(3,225)	(3,023)	(2,458)
Increase in provision	(1,667)	(6,278)	(1,835)	(3,746)
Utilisation	2,149	3,949	910	2,752
Business disposal (note 28)	–	–	17	227
Balance at the end of the period	(3,449)	(5,554)	(3,931)	(3,225)

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

31 December 2022	Current	0-60 days past due	61-365 days past due	1-2 years past due	Total
Trade receivables and contract assets	71,292	7,747	7,262	1,550	87,851
Expected loss rate	0.9%	2.8%	20.9%	69.4%	3.9%
Provision for impairment charge	638	218	1,517	1,076	3,449

1 January 2022	Current	0-60 days past due	61-365 days past due	1-2 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

Contract assets consist of accrued income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

18. TRADE AND OTHER RECEIVABLES CONTINUED

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 macroeconomic uncertainty leading to pressures on businesses facing staff and material shortages and, more latterly, increased inflation. At the balance sheet date, similar to 2021, 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 Group has applied an adjusted risk factor of 1.25x (2021: 1.50x) to reflect the increased risk of future insolvency. In so doing the provision has been increased by £0.7m (2021: £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 £3.1m (2021: £2.8m). Unless the counterparty is in liquidation, these amounts are still subject to enforcement actions.

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 10.2% of trade receivables and contract assets at 31 December 2022 (2021: 9.2%). A 0.5% increase in the combined provision rate would give rise to an increased provision of £0.4m (2021: £0.4m).

19. TRADE AND OTHER PAYABLES

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Current		
Trade payables	**41,693**	43,062
Other taxes and social security costs	**4,718**	5,175
Other creditors	**2,010**	1,308
Accrued interest on borrowings	**534**	271
Accruals	**38,689**	28,494
Deferred income	**658**	394
	88,302	78,704

20. LEASE LIABILITIES

	31 December 2022 £000s	As restated[1] 1 January 2022 £000s
Current		
Lease liabilities	**13,182**	14,052
Non-current		
Lease liabilities	**43,110**	47,413
	56,292	61,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

20. LEASE LIABILITIES CONTINUED

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

		31 December 2022	As restated[1] 1 January 2022
Equipment for hire	Fixed	**11.1 to 19.1%**	11.1 to 19.1%
Other	Fixed	**3.5 to 6.0%**	3.5 to 6.0%

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

	31 December 2022	As restated[1] 1 January 2022
Lease liabilities	**6.1%**	5.7%

The lease liability movements are detailed below:

	Property £000s	Vehicles £000s	Equipment for hire and internal use £000s	Total £000s
Lease liability movement				
At 2 January 2022	**44,879**	**14,247**	**2,339**	**61,465**
Additions	**2,290**	**5,903**	**2,090**	**10,283**
Discount unwind	**2,460**	**444**	**3**	**2,907**
Payments (including interest)	**(10,144)**	**(7,023)**	**(880)**	**(18,047)**
Disposals	**(217)**	**(107)**	**–**	**(324)**
Foreign exchange differences	**–**	**8**	**–**	**8**
At 31 December 2022	**39,268**	**13,472**	**3,552**	**56,292**

	Property £000s	Vehicles £000s	As restated[1] Equipment for hire and internal use £000s	As restated[1] Total £000s
Lease liability movement				
At 27 December 2020	57,181	16,861	1,771	75,813
Additions	1,981	5,029	1,418	8,428
Re-measurements	3,407	128	(13)	3,522
Discount unwind	2,805	535	5	3,345
Payments (including interest)	(13,209)	(7,012)	(842)	(21,063)
Disposals	(6,006)	(216)	–	(6,222)
Business disposal	(1,063)	(1,048)	–	(2,111)
Foreign exchange differences	(217)	(30)	–	(247)
At 1 January 2022	44,879	14,247	2,339	61,465

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

20. LEASE LIABILITIES CONTINUED

The Group's leases have the following maturity profile:

	31 December 2022 £000s	As restated[1] 1 January 2022 £000s
Less than one year	**16,227**	17,415
Two to five years	**36,798**	38,566
More than five years	**15,133**	19,353
	68,158	75,334
Less interest cash flows:	**(11,866)**	(13,869)
Total principal cash flows	**56,292**	61,465

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

	31 December 2022 £000s	As restated[1] 1 January 2022 £000s
Less than one year	**13,182**	14,052
Two to five years	**30,690**	31,575
More than five years	**12,420**	15,838
	56,292	61,465

1 Details of the nature and impact of the restatement are given in note 4z.

21. BORROWINGS

	31 December 2022 £000s	As restated[1] 1 January 2022 £000s
Current		
Hire purchase arrangements	**5,168**	5,258
Non-current		
Hire purchase arrangements	**9,978**	9,842
Senior finance facility	**68,613**	68,166
	78,591	78,008

The senior finance facility is stated net of transaction fees of £1.4m (2021: £1.8m) which are being amortised over the loan period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

21. BORROWINGS CONTINUED

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

	31 December 2022 £000s	1 January 2022 £000s
Hire purchase arrangements	15,146	15,100
Senior finance facility	70,000	70,000
Revolving credit facility	–	–
	85,146	85,100

The senior finance facility and revolving credit facility are secured over the assets of Hampshire TopCo Limited and Hero Acquisitions Limited and all of its subsidiaries. These subsidiaries comprise all of the trading activities of the Group. The £25.0m revolving credit facility includes a £6.0m overdraft facility and in 2021 also included a £1.8m guarantee arrangement to secure the Group's card-acquiring services provided by a third party, which concluded during 2022 (note 27).

The Group had undrawn committed borrowing facilities of £36.3m at 31 December 2022 (2021: £35.8m), including £11.3m (2021: £12.6m) of finance lines to fund hire fleet capital expenditure not yet utilised. Including net cash balances, the Group had access to £84.0m of combined liquidity from available cash and undrawn committed borrowing facilities at 31 December 2022 (2021: £78.1m).

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

			31 December 2022	1 January 2022
Hire purchase arrangements	Floating	percentage above NatWest base rate	2.3 to 2.9%	2.4 to 3.3%
Senior finance facility	Floating	percentage above SONIA	3.0%	3.0%
Revolving credit facility	Floating	percentage above SONIA	3.0%	3.0%

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

	31 December 2022	1 January 2022
Hire purchase arrangements	6.0%	2.7%
Senior finance facility	6.4%	3.0%
Revolving credit facility	6.4%	3.0%

Amounts under the revolving credit facility are typically drawn for a one to three month borrowing period, with the interest set for each borrowing period based upon SONIA and a fixed margin.

The Group's borrowings have the following maturity profile:

	31 December 2022		As restated[1] 1 January 2022	
	Hire purchase arrangements £000s	Borrowings £000s	Hire purchase arrangements £000s	Borrowings £000s
Less than one year	5,718	2,235	5,600	2,235
Two to five years	10,670	74,245	10,190	76,498
	16,388	76,480	15,790	78,733
Less interest cash flows:				
Hire purchase arrangements	(1,242)	–	(690)	–
Senior finance facility	–	(6,480)	–	(8,733)
Total principal cash flows	15,146	70,000	15,100	70,000

1 Details of the nature and impact of the restatement are given in note 4z.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

22. PROVISIONS

	Onerous property costs £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 2 January 2022	**186**	**10,174**	**13,463**	**23,823**
Additions	**–**	**4,430**	**–**	**4,430**
Utilised during the period	**(7)**	**(58)**	**(3,289)**	**(3,354)**
Unwind of provision	**1**	**113**	**–**	**114**
Impact of change in discount rate	**(6)**	**(2,822)**	**(368)**	**(3,196)**
Releases	**(57)**	**(467)**	**–**	**(524)**
Foreign exchange	**–**	**10**	**–**	**10**
At 31 December 2022	**117**	**11,380**	**9,806**	**21,303**
Of which:				
Current	**47**	**1,232**	**2,979**	**4,258**
Non-current	**70**	**10,148**	**6,827**	**17,045**
	117	**11,380**	**9,806**	**21,303**

	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 disposal (note 28)	–	(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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

22. PROVISIONS CONTINUED

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 £nil (2021: £0.1m) and the release of the provision of £0.1m (2021: £3.6m) have been treated as exceptional and are included in the property cost credit of £0.1m (2021: £3.0m) (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.

The liabilities, assessed on a property-by-property basis, are expected to arise over a period of up to four years (2021: five years) with the weighted average age of the onerous property costs being 2.73 years (2021: 3.30 years). The onerous property cost provision has been discounted at a rate of 3.62% (2021: 0.81%). Sensitivity analysis has not been conducted due to the immaterial nature of the remaining provision.

Dilapidations

An amount equal to the provision for dilapidation is recognised as part of the asset of the related property. The timing and amounts of future cash flows related to lease dilapidations are subject to uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and third party surveyors' reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change. The estimates used by management in the calculation of the provision take into consideration the location, size and age of the properties. The weighted average dilapidations provision at 31 December 2022 was £8.83 per square foot (psf) (2021: £7.53 psf). The increase is mainly due to a revision of the £ per square foot estimates in line with actual expenditure on the exit of properties. 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 possibly 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 31 December 2022 of £1.1m (2021: £1.5m).

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 3.62% and 3.70% respectively (2021 0.81% and 0.97% respectively). A 1% increase in both the discount rates at 31 December 2022 would decrease the dilapidations provision by £0.6m (2021: £0.6m). The inflation rate applied in the calculation of the dilapidations provision was 5% for year 1 and thereafter 2.5% (2021: 3% average was used). The Directors have noted the significant pressure on inflation towards the end of 2021 and especially in 2022 but the expectation is that inflation has now peaked and that it would gradually come down in 2023 with levels returning to around 2% again from 2024 onwards.

The aggregate movement in additions, releases and change in discount rate of £1.1m has generated £1.1m of asset additions, remeasurements and disposals.

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 31 December 2022 £9.8m is payable over the period to 2026 (2021: £13.5m) and £3.3m has been paid during the year (2021: £3.3m). The provision has been remeasured to present value by applying a discount rate of 3.62% (2021: 0.81%). A 1% increase in the discount rate at 31 December 2022 would decrease the provision by £0.2m (2021: £0.3m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

23. DEFERRED TAX

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

Deferred tax asset/(liability)	Tax losses £000s	Property, plant and equipment and other items £000s	Acquired intangible assets £000s	Total £000s
At 2 January 2022	**2,000**	**404**	**(148)**	**2,256**
Credit/(charge) to the income statement	**5,367**	**(256)**	**31**	**5,142**
At 31 December 2022	**7,367**	**148**	**(117)**	**7,398**

Deferred tax asset/(liability)	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 – discontinuing operations	–	–	(12)	(12)
Eliminated on disposal of business (note 28)	–	49	169	218
At 1 January 2022	2,000	404	(148)	2,256

Deferred tax assets have been recognised to the extent that management considers 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 Board approved budget and 3-year plan, as discussed in note 14. In the year ended 31 December 2022 a three-year (2021: one-year) recognition window has been applied. If this window were to be decreased to a period of one year, in line with the recognition window in the prior year, the deferred tax asset would decrease by £5.2m from £7.5m to £2.3m.

A deferred tax liability of £0.1m has been recognised on the net book value of acquired intangibles. This amount has not been offset against deferred tax assets elsewhere in the Group due to there being no legal right of offset in the relevant tax jurisdictions.

At 31 December 2022 £0.1m (2021: £0.1m) of the deferred tax liability is expected to crystallise after more than one year.

At 31 December 2022 the Group had an unrecognised deferred tax asset relating to losses of £13.1m (2021 (restated): £21.0m). The gross balance at 31 December 2022 was £52.3m (2021 (restated): £84.0m).

At 31 December 2022 the Group also had an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £9.8m (2021 (restated): £15.2m). The gross balance at 31 December 2022 was £39.4m (2021 (restated): £60.0m).

The gross balances as at 1 January 2022 on unrecognised temporary differences for losses and temporary differences on plant and equipment, intangible assets and provisions have been restated to decrease by £10.0m and £20.0m respectively due to input errors in the preparation of the FY21 financial statements.

Additionally, the unrecognised deferred tax assets for losses as at 01 Jan 2022 were restated to increase these by £3.1m to correct the substantively enacted rate that was used from 19% to 25%.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

24. SHARE CAPITAL

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 2 January 2022 and 31 December 2022	**704,987,954**	**7,050**	**45,552**

	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

25. SHARE-BASED PAYMENTS

The Group operates a number of share-based payment schemes as part of its reward and retention strategies. The key points of each of the Group's share schemes for grants up to 31 December 2022 are summarised below. All disclosure relates to both the Group and the Company.

Value Creation Plan

On 25 February 2021 a VCP award was granted to the Executive Directors and one senior manager. The VCP is triggered by an Exit Event (as defined in the rules of the scheme), with award value being calculated by reference to an increase in market value of the Group's equity.

The Directors and the Remuneration Committee have considered the likelihood of such an event being triggered prior to the lapsing of the VCP and, after weighing up all of the facts and circumstances that they were aware of as at 31 December 2022, deemed this improbable.

The Directors and the Remuneration Committee will continue to evaluate this position, as facts and circumstances may evolve within a single reporting period that lead to the recognition of a VCP provision, which may be material in nature, in a subsequent period.

Restricted stock grant

On 6 May 2022, 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.

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. During the year the LTIP options partially vested and 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 were due to 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 HM Revenue and Customs (HMRC). Each CSOP is subject to the same performance targets as apply to the nil-cost options part of the LTIP and will vest and be released at the same time as the nil-cost options. If a CSOP option is exercised as a gain, the number of shares that may be delivered under the associated LTIP award will be reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award delivered to the participant is not increased by the grant of the CSOP option.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

25. SHARE-BASED PAYMENTS CONTINUED

Market value options

During 2018, share awards (the 2018 Awards) were granted to eligible colleagues in the form of market value options (MVO) 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.

On the same date, tax-qualifying share options were granted as part of the market value option awards (CSOP options) via a Company Share Option Plan approved by 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.

The table below reconciles the options outstanding during the year ended 31 December 2022:

	LTIP Number	RSG Number	CSOP Number
Outstanding at 2 January 2022	**5,495,588**	**10,768,132**	**83,333**
Granted	**–**	**6,491,208**	**–**
Lapsed or cancelled	**(2,493,055)**	**–**	**–**
Cash settled	**–**	**–**	**–**
Outstanding at 31 December 2022	**3,002,533**	**17,259,340**	**83,333**
Weighted average remaining contractual life, years	**6.4**	**8.5**	**6.4**
Weighted average fair value of options granted, pence	**35.9**	**20.7**	**–**

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 total charge for the year relating to employee share-based payment plans during the year ended 31 December 2022 was £951,000 (2021: £1,374,000), all of which related to equity-settled share-based payment transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

26. FINANCIAL INSTRUMENTS

Financial risk management

The Group holds and uses financial instruments to finance its operations and to manage its interest rate and liquidity risks. The Group primarily finances its operations using share capital, revenue and borrowings.

The Group's activities expose it to a variety of financial risks. Risk management is carried out under policies approved by the Board of Directors. Financial risk management is carried out by the Chief Financial Officer under a policy approved by the Board. The Board approves written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and liquidity risk, and receives regular reports on such matters. The Group does not engage in trading or speculative activities using derivative financial instruments.

Market risk

Market risk is the risk of a change in market prices, such as foreign exchange rates and interest rates. They will affect the Group's income or the value of its holdings of financial instruments.

Interest rate risk

Interest rate risk is the risk of a change in the Group's cash flows due to a change in interest rates.

The Group 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 and revolving credit facility. The Directors continue to monitor developments in market interest rates on a regular basis. The effect of a 1% increase in interest rates on the Group's variable loans would lead to an increase in the interest charge of £0.8m (2021: £0.9m).

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 31 December 2022:

	Profit before tax		Equity	
Effect of:	**31 December 2022 £m**	1 January 2022 £m	**31 December 2022 £m**	1 January 2022 £m
100 basis points increase	**0.8**	0.9	**0.8**	0.9
200 basis points increase	**1.7**	1.7	**1.7**	1.7

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 revolving credit facility 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 subsidiary. Given the relatively small size of the Republic of Ireland operations compared with the Group, the Directors do not consider this to be a significant risk to the Group.

Credit risk

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

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

The Group has policies in place to manage potential credit risk from trade receivables. Customer credit terms are determined using independent rating 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 Group has entered into a credit insurance policy to cover potential losses from receivables with customers, this further mitigate the Group's exposure to credit risk. The Directors do not expect any significant losses of receivables that have not been provided for as shown in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED
FOR THE YEAR ENDED 31 DECEMBER 2022

26. FINANCIAL INSTRUMENTS CONTINUED

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 31 December 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 (2021: 3.0 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 4.0 times (2021: 4.0 times).

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

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, during recent years the Group conducted a capital raise, completed the strategic disposal of certain subsidiaries and renegotiated its debt structure including a senior finance facility and secured shorter-term bank borrowing through a revolving credit facility.

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.

27. COMMITMENTS AND CONTINGENCIES
The Group's future minimum sublease rental income expected to be received under non-cancellable operating leases is as follows:

Sublease rental income	31 December 2022 £000s	1 January 2022 £000s
Within one year	**531**	53
Between two and five years	**1,379**	69
After five years	**548**	–
	2,458	122

At 1 January 2022 the Group had issued a guarantee for £1.8m under the revolving credit facility to secure its card-acquiring arrangements. At 31 December 2022 no similar guarantee was in place.

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 £5.0m (2021: £12.7m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

28. 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 Services Limited

Laois Hire Services 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 Services Limited £000s	All Seasons Hire Limited £000s	Total £000s
Description of assets and liabilities			
Intangible assets (incl 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 reserve	(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**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

28. BUSINESS DISPOSALS CONTINUED

The table below shows the result of discontinued operations:

	1 January 2022 £000s
Result of discontinued operations	
Revenue	8,405
Net expenses other than finance costs, amortisation and depreciation	(1,100)
Amortisation	(135)
Depreciation	(1,836)
Finance costs	(72)
Taxation	(83)
Profit from discontinued operations, net of tax	5,179
Profit on disposal of discontinued operations	41,242
Profit for the period	46,421

For the year ended 1 January 2022 the revenue relating to Laois Hire Services Limited was £3.0m with a loss after tax of £0.2m. The revenue relating to All Seasons Hire Limited was £5.4m with a profit after tax of £5.4m.

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

	1 January 2022 £000s
Operating cash outflow	(644)
Cash outflow from investing activities	(15)
Cash outflow from financing activities	(397)

29. RELATED PARTY TRANSACTIONS

Ultimate parent entity

The Group is an associate of Exponent Private Equity LLP. During the year Exponent Private Equity LLP charged the Group fees of £40,000 (2021: £40,000) of which £40,000 was outstanding at 31 December 2022 (2021: £40,000).

Additionally, Exponent Private Equity LLP invests in businesses that the Group trades with. All transactions with these business are carried out on an arm's length basis and are immaterial to both parties.

Key management personnel

Related party transactions with key management personnel are disclosed in note 10.

30. DIVIDENDS

During the year an interim dividend of £1.2m was proposed and paid (2021: £nil).

Subsequent to the year end, on 26 April 2023, a final dividend of 0.37p per share was approved by the Board. This will be paid in cash during July 2023 and has an ex-dividend date of 8 June 2023.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

31. NOTE SUPPORTING THE STATEMENT OF CASH FLOWS

	At 2 January 2022 £000s	Cash flows £000s	Other non-cash movements £000s	At 31 December 2022 £000s
Cash	**42,269**	**5,440**	**–**	**47,709**
Non-current borrowings, excluding hire purchase arrangements[1]	**(68,166)**	**35**	**(482)**	**(68,613)**
Hire purchase arrangements, including interest[2]	**(15,100)**	**7,069**	**(7,116)**	**(15,147)**
Lease liabilities, including interest[3]	**(61,465)**	**18,588**	**(13,415)**	**(56,292)**
Total	**(102,462)**	**31,132**	**(21,013)**	**(92,343)**
Accrued interest on borrowings	**(271)**	**2,780**	**(3,042)**	**(533)**
Debt issue costs[1]	**(1,834)**	**(35)**	**482**	**(1,387)**
Net debt[4]	**(104,567)**	**33,877**	**(23,573)**	**(94,263)**

		As restated[5]			
	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, excluding hire purchase arrangements	(15,000)	15,000	–	–	–
Non-current borrowings, excluding hire purchase arrangements[1]	(179,099)	116,128	–	(5,195)	(68,166)
Hire purchase arrangements, including interest[2]	(13,758)	6,240	2,111	(9,693)	(15,100)
Lease liabilities, including interest[3]	(75,814)	21,398	–	(7,049)	(61,465)
Total	(186,098)	105,001	572	(21,937)	(102,462)
Accrued interest on borrowings	(3,442)	15,882	–	(12,711)	(271)
Debt issue costs[1]	(5,083)	(1,946)	–	5,195	(1,834)
Net debt[4]	(194,623)	118,937	572	(29,453)	(104,567)

1 Non-current borrowings, excluding hire purchase arrangements are stated net of debt issue costs.
2 Cash flows include interest payments of £0.4m (2021: £0.5m).
3 Cash flows include interest payments of £3.4m (2021: £3.6m).
4 HSS calculation of net debt includes accrued interest on borrowings and excludes deduction for debt issue costs.
5 Details of the nature and impact of the restatement are given in note 4z.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

32. ALTERNATIVE PERFORMANCE MEASURES

Earnings before interest, tax, depreciation and amortisation (EBITDA) and Adjusted EBITDA, earnings before interest, tax and amortisation (EBITA) and Adjusted EBITA and Adjusted profit before tax are alternative, 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.
– Adjusted profit before tax is defined by the Group as profit before tax, amortisation of customer relationships and brands related intangibles as well as exceptional items. The way the Group calculates Adjusted profit before tax has been modified from that included in the Financial Statements for the period ended 1 January 2022, to include amounts relating to amortisation of software. Comparative figures have been restated to reflect this change.

The Group discloses Adjusted EBITDA, Adjusted EBITA and Adjusted profit before tax 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, Adjusted EBITA and Adjusted profit before tax 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, Adjusted EBITA and Adjusted profit before tax provides useful information to users of the Financial Statements.

As these are non-IFRS measures, other entities may not calculate the measures in the same way and hence are not directly comparable.

Adjusted EBITDA is calculated as follows:

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Operating profit	**24,357**	34,521
Add: Depreciation (note 9)	**39,607**	38,120
Add: Amortisation of intangible assets (note 9)	**5,373**	5,175
EBITDA	**69,337**	77,816
Add: Exceptional items (note 7)	**2,235**	(8,039)
Adjusted EBITDA	**71,572**	69,777

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

32. ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Adjusted EBITA is calculated as follows:

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Operating profit	24,357	34,521
Add: Amortisation of intangible assets (note 9)	5,373	5,175
EBITA	29,730	39,696
Add: Exceptional items (note 7)	2,235	(8,039)
Adjusted EBITA	31,965	31,657

Adjusted profit before tax is calculated as follows:

	Year ended 31 December 2022 £000s	Year ended 1 January 2022 £000s
Profit before tax	16,531	6,066
Add: Amortisation of customer relationships and brands (note 14)	2,024	2,759
Profit before tax and amortisation of customer relationships and brands	18,555	8,825
Add: Exceptional items (finance and non-finance) (note 7)	2,411	1,906
Adjusted profit before tax	20,966	10,731

COMPANY STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED 31 DECEMBER 2022

	Note	31 December 2022 £000s	1 January 2022 £000s
ASSETS			
Non-current assets			
Investments	3	**284,792**	283,841
Current assets			
Other receivables	4	**498**	304
Cash		**13,610**	14,841
		14,108	15,145
Total assets		**298,900**	298,986

	Note	31 December 2022 £000s	1 January 2022 £000s
EQUITY			
Share capital	6	**7,050**	7,050
Share premium	6	**45,552**	45,552
Merger reserve		**97,716**	97,716
Retained surplus	7	**148,389**	148,508
Total equity		**298,707**	298,826
LIABILITIES			
Current liabilities			
Total liabilities		**193**	160
Total equity and liabilities		**298,900**	298,986

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

The Company made a post-tax profit for the year of £128,000 (2021: loss £15,000).

The notes on pages 119 to 121 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 26 April 2023 and were signed on its behalf by:

Paul Quested
Director

26 April 2023

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 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)
Transactions with owners recorded directly in equity:						
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
Profit for the year	**–**	**–**	**–**	**–**	**128**	**128**
Transactions with owners recorded directly in equity:						
Dividends paid	**–**	**–**	**–**	**–**	**(1,198)**	**(1,198)**
Share-based payments	**–**	**–**	**–**	**–**	**951**	**951**
At 31 December 2022	**7,050**	**45,552**	**–**	**97,716**	**148,389**	**298,707**

The notes on pages 119 to 121 form part of these Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 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 the 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), Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006.

Disclosure exemptions adopted

In preparing these Financial Statements the Company has taken advantage of all disclosure exemptions conferred by FRS 101. Therefore these Financial Statements do not include:

- certain comparative information as otherwise required by EU endorsed IFRS;
- certain disclosures regarding the Company's capital;
- a statement of cash flows;
- the effect of future accounting standards not yet adopted;
- the disclosure of the remuneration of key management personnel; or
- disclosure of related party transactions with other wholly owned members of the HSS Hire Group plc group of companies.

In addition, and in accordance with FRS 101, further disclosure exemptions have been adopted because equivalent disclosures are included in the Group's Consolidated Financial Statements. These Financial Statements do not include certain disclosures in respect of:

- share-based payments;
- financial instruments (other than certain disclosures required as a result of recording financial Instruments at fair value); or
- fair value measurement other than certain disclosures required as a result of recording financial instruments at fair value).

The Directors have taken advantage of the option within Section 390 of the Companies Act 2006 to prepare their Financial Statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts therefore cover the 52-week period from 2 January 2022 to 31 December 2022 (2021: 53-week period from 27 December 2020 to 1 January 2022).

The Company complies with the accounting policies defined in notes 1 to 4 to the Group Consolidated Financial Statements on pages 70 to 78 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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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 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 respective.

3. INVESTMENTS

	£000s
At 2 January 2022	283,841
Additions	951
At 31 December 2022	**284,792**

Additions comprise equity-settled share-based payment awards offered to employees in subsidiary companies of £1.0m.

At 31 December 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%
ABird Limited	Indirect	United Kingdom	Hire and equipment services	100%
Apex Generators Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Financing Limited	Indirect	United Kingdom	Dormant	100%
HSS Training Limited	Indirect	United Kingdom	Training services	100%
1st Collection Services Limited	Indirect	United Kingdom	Dormant	100%
HSS Hire Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Proservice Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Hire Ireland Limited	Indirect	Republic of Ireland	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, G2 5NW, Scotland.
– HSS Hire Ireland Limited, DAC Beachcroft, Three Haddington Buildings, Percy Place, Dublin 4, DO4 T253, Ireland.

Subsequent to the year end, on 17 January 2023, Hampshire Midco Limited, Hampshire Bidco Limited, HSS Hire Service Holdings Limited and HSS Financing Limited entered into members voluntary liquidation.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2022

4. OTHER RECEIVABLES

Current	31 December 2022 £000s	1 January 2022 £000s
Amounts due from Group undertakings	**475**	265
Prepayments	**23**	39
	498	304

Amounts due from Group undertakings are unsecured, interest free and repayable on demand.

5. OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	31 December 2022 £000s	1 January 2022 £000s
Accruals and deferred income	**177**	160
Other creditors	**16**	–
	193	160

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 auditor's 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 29 to the Consolidated Financial Statements.

9. FINANCIAL INSTRUMENTS

Details of the Group's financial instruments policies are set out in note 9 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 11.00 am on 21 June 2023 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 updates will be provided via the 'News and 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 Fraud 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.

ADDITIONAL INFORMATION CONTINUED

FINANCIAL CALENDAR

Annual General Meeting
21 June 2023

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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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
'B2B'	business-to-business
'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'	carbon reductions emissions
'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
'EU'	European Union
'Exponent'	the investment funds managed by Exponent Private Equity LLP or, when otherwise indicated or where the context otherwise requires, Exponent Private Equity LLP in its own right
'Exponent Shareholders'	Exponent Private Equity Partners GP II LP, Exponent Havana Co-Investment Partners GP Limited and Exponent Private Equity Founder Partner GP II Limited
'Group'	together, HSS Hire Group plc and its direct and indirect subsidiaries
'HSS'	the group of companies within the HSS Hire Group
'HSS Hire Group plc'	HSS Hire Group plc (company number 9378067) whose registered office is at Oakland House, Talbot Road, Manchester, M16 0PQ
'IFRS'	International Financial Reporting Standards, as adopted by the European Union
'initial public offering' or 'IPO'	the initial public offering and admission of the ordinary share capital of HSS Hire Group plc to the premium listing segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange's Main Market for listed securities under the ticker 'HSS' on 9 February 2015
'Ireland'	the Republic of Ireland
'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
'MVO'	Market value options. A share-based payment scheme designed to reward and retain eligible colleagues
'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), lease liabilities, hire purchase arrangements, drawings on the Revolving credit facility, any accrued interest on these items and any overdraft net of any cash in the Group
'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

DEFINITIONS AND GLOSSARY CONTINUED

'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 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 facility made available pursuant to the Revolving Credit Facility Agreement (£25.0m) dated 9 November 2021 which expires in 2025.
'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
'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
TUPE	Transfer of undertakings (protection of employment)
'UK'	the United Kingdom of Great Britain and Northern Ireland

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