2016

Lakehouse plc
Annual Report

Lakehouse plc

Who we are

Lakehouse is an asset and energy support services group. We make a difference to people's lives by constructing, improving, maintaining and providing regulated and legislated services to homes, schools, public and commercial buildings.

About us

Lakehouse was founded in 1988 and we are headquartered in Romford, Essex. The Group employs over 2,000 people through 33 offices across the UK.

Lakehouse listed on the Main Market of the London Stock Exchange in March 2015.

For up to date news and further information visit:
www.lakehouse.co.uk

2016 highlights

Operational highlights

- Review of strategy and operations complete
- Compliance, Energy Services and Construction well established, excellent businesses with a clear vision
- New management in Property Services and problem externals departments closed
- Some project timing in Compliance and Construction
- Pricing stabilised in Energy Services; focus on mobilising smart metering

Financial highlights

Underlying[2] revenue
£305.8m

Revenue
£333.8m

Underlying EBITA[1]
£10.9m

Underlying EBITA[1] margin
3.6%

Underlying[2] profit before tax
£9.9m

Operating loss
£(31.7)m

Loss before tax
£(33.3)m

Underlying[2] basic EPS
5.2p

Basic EPS
(18.6)p

Net debt
£(20.6)m

Full year dividend
1.5p

1. EBITA is earnings before interest, tax and amortisation of acquisition intangibles. Underlying EBITA is defined as operating profit before deduction of Exceptional and Other Items, as outlined in Note 7 and on the face of the Statement of Comprehensive Income. Underlying EBITA is the same as 'Operating profit before Exceptional and Other Items' on the face of the Statement of Comprehensive Income, but used as terminology in light of being a key performance measurement for management in the Group.

2. As set out in the Statement of Comprehensive Income, other underlying numbers are stated before deduction of Exceptional and Other Items, as outlined in Note 7 and on the face of the Statement of Comprehensive Income. Underlying profit after tax and underlying earnings per share are net of an imputed tax charge. Underlying revenue represents revenue for the Group before Exceptional and Other Items.

Strategic review

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Lakehouse at a glance

Our long term approach is reflected in the quality of our work and in the strength and depth of the relationships we develop; with our clients, customers, communities, financial partners, people, shareholders and suppliers, and across the social housing, public buildings, education and energy services markets.

Compliance

K&T Heating Part of the Lakehouse Group	A provider of gas servicing, maintenance and installations in southern England
AaronServices Part of the Lakehouse Group	A provider of gas servicing, maintenance and installations in central England
SureMaintenance Part of the Lakehouse Group	A provider of gas servicing, maintenance and installations in northern England
AlliedProtection Part of the Lakehouse Group	Specialists in fire safety, servicing and planned works
H_2ONationwide Part of the Lakehouse Group	A water and air hygiene specialist
PrecisionLifts Part of the Lakehouse Group	A lift installation and maintenance company

Energy Services

Everwarm Part of the Lakehouse Group	A leading energy services provider
OrchardEnergy Part of the Lakehouse Group	A leading UK energy broker and energy management services provider
Providor Part of the Lakehouse Group	One of the UK's leading smart metering specialists

Property Services

Foster Part of the Lakehouse Group	A housing services specialist providing construction, renovation and maintenance
Lakehouse	Providing planned and responsive maintenance for social housing clients

Construction

Lakehouse	Offering refurbishment and small to medium-sized public building works, predominantly for local authority clients in the education sector

Our four divisions

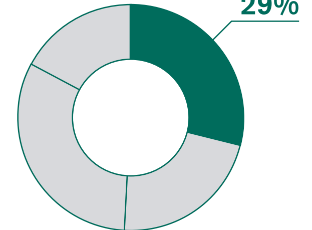
Compliance

Compliance comprises planned and responsive maintenance, installation and repair services to local authority and housing association clients in the areas of gas, fire and electrical, water and air hygiene and lifts. These services cover clients' social housing and public building assets. We also provide a small but growing proportion of these services to industrial and commercial customers.

Key business drivers

- Regulatory requirements
- Client requirements for multiple service lines
- Mix of work (service, maintenance and project)
- Seasonal influences in gas and lift markets
- Reliability and performance of service
- Productivity and manpower efficiency

2016 Underlying revenue **£91.0m** **29%**



Energy Services

Energy Services provides a range of energy efficiency measures to primarily social housing and private homes, including insulation, heating systems and renewable technologies. The division also uses these services to deliver carbon emissions savings for energy companies, enabling them to meet their legislative targets. In addition, the division offers smart metering services and energy brokerage to customers throughout the UK.

Key business drivers

- Fuel poverty
- Understanding subsidy regimes
- Compliance with claims submission process
- Scheduling of manpower, especially smart metering
- Responsiveness to market changes and opportunities
- Client service

2016 Underlying revenue **£67.4m** **22%**

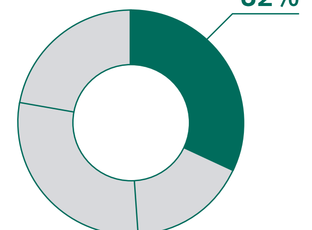
Property Services

Formerly called 'Regeneration', the division is focused on planned and responsive maintenance services for social housing. The significant part of our services is project managing delivery and ongoing resident liaison in delivering planned services such as new kitchens, bathrooms, roofs and windows. We contract with customers predominantly under framework agreements, where the number of suppliers will vary from one to a small group.

Key business drivers

- Client budgets
- Framework awards
- Numerical position on framework
- Contract settlements and claims
- Mix of work (internals vs externals)
- Delivery method (direct vs subcontract)
- Range of specialist services
- Operational performance

2016 Underlying revenue **£98.1m** **32%**



Construction

Construction offers refurbishment and small to medium-sized public building works, predominantly for local authority clients. The division focuses on clients in the education sector, although it also delivers some works to a range of other public buildings.

Key business drivers

- Ability to be selective in taking work
- Long term frameworks
- Service and delivery quality (via supply chain)
- Control over project management
- Track record over a number of years for high quality service

2016 Underlying revenue **£52.1m** **17%**

Executive Chairman's statement

Introduction

I was appointed to the Board in July 2016, following the earlier departure of a number of Executive and Non-Executive Directors and with the business facing a number of operational challenges. Since my appointment, I have looked to structure the business so as to continue delivering a quality service to our clients whilst building a platform for more consistent performance and sustainable growth. I am pleased to report that the management of the Group has embraced the changes implemented and I believe that the market outlook for the range of services the Group provides is strong.

It would be remiss of me not to pay tribute to Steve Rawlings, the founder of Lakehouse, who sadly passed away in July 2016. Steve was the architect for the great progress achieved by Lakehouse in its formative years. I should also like to thank those Directors since departed from the Board for their contribution to the Group during a difficult period.

My initial focus has been on reviewing the strategy of the Group and stabilising operational performance with a view to improvement and controlling costs at every level. We are focusing the businesses on markets where we can operate effectively and creating an environment where entrepreneurship is allowed to prosper. Importantly, I believe a small central function is right for a group like Lakehouse, where we rely on our leaders in the Group's divisions to take decisions and drive the business forward on a day to day basis.

Our decision to withdraw from self-delivered externals work within Property Services was clear, as we had fallen short operationally at a number of levels. Following this restructuring, I felt that renaming what was known as the 'Regeneration' division as 'Property Services' better reflected the services we will be offering moving forward. We have brought in new management who understand the core risks in this market, from pricing, through operational management to controls and processes and they are doing an excellent job in returning Property Services to an acceptable level of performance. This will, however, take time and we took a very cautious approach to bidding for new work in the second half of the year in this division as we sought to stabilise operations. We are therefore setting modest expectations in the near term.

We are fortunate that the other three divisions, Compliance, Energy Services and Construction, have excellent business models, underpinned by strong and experienced management and with a strong pipeline of opportunity.

Whilst the Group's order book has declined from £595m to £543m this principally reflects our focus on managing risk within Property Services. Our value of frameworks, however, increased from £1.3bn to £1.6bn which we expect to provide a strong workflow in the future.

Trading performance

The trading performance for the year was disappointing with underlying EBITA of £10.9m (2015: £22.2m) on underlying revenues of £305.8m (2015: £336.6m, which includes £28.4m of revenues from businesses being exited, which are reported within Other Items in the 2016 accounts). Reported total Group statutory revenues were £333.8m (2015: £340.2m) with an operating loss of £31.7m (2015: £4.6m profit), reflecting a number of significant one-off cost items in the year.

Businesses acquired since IPO have been integrated well and contributed £60.0m of revenues and £5.5m of underlying EBITA year on year. This includes the results of Aaron Heating Services and Precision Lift Services which were acquired towards the start of this financial year for a total consideration of £16.8m.

As part of the operational review, the Board took the decision that it was not sustainable to continue with the provision of directly delivered externals work within the Property Services division and this business is being exited. The £6.6m of pre-tax contract losses from this business are significant and reported within other items in the 2016 accounts. The comparative figure of £2.5m for FY15 relates to the previous exit from our former Development business.

We also felt it important to highlight the significant £2.5m investment we have made in smart metering within Energy Services, predominantly training its workforce to the highest standard of regulation. We see our smart metering business providing significant growth opportunities in the medium term.

Inevitably with the level of change we have experienced this year, we have seen one-off events that led to £3.1m of net Exceptional Items. We also recognised a £19.2m impairment against goodwill and intangible assets, predominantly in relation to the Property Services business, in light of its financial performance.

I have stressed to the team that the new year marks a transition from the old world to the new and I want us to now look forward collectively with confidence in the future.

Lakehouse has undergone a number of changes during 2016 and I am pleased that we have come out of a very challenging period as a strong and focused Group. I have stressed to the Group's leadership that our overriding objective has to be to deliver on our promises, financially as a public listed company, but without compromising on protecting our employees or falling short in levels of customer service. If we do this, it will give our invested stakeholders – clients, customers, communities, financial partners, people, shareholders and suppliers – the confidence to support the Group and participate in its future growth and success.

The Group has a cohesive structure, with leading positions in key markets, based on delivering a core range of services where there is sustainable demand.

Strategy

Lakehouse has an established strategy and although FY16 has been challenging for the Group, significant elements of our strategy have been very successful and I am satisfied that the future strategy for the Group will be one based on evolution rather than radical change. However, it is critical that everyone within our business appreciates the importance of delivering on our promises as without this passion and commitment, any strategy counts for nothing.

I have been particularly pleased with the performance of the businesses we have brought into the Group through acquisition which, with our existing operations, have allowed us to build market leading Compliance and Energy Services divisions. The services offered by these businesses are complementary and offer considerable growth potential through increased penetration of our extensive client base together with the geographic opportunities offered by a national footprint.

In our Construction division, we have a business that is very focused on its core education and public buildings markets and is highly experienced in delivery. This means that we can earn excellent returns on capital, whilst remaining cost competitive for clients.

It is important that we deliver on the strategy for these three divisions as much of the narrative concerning the Group in the past year has surrounded Property Services. This division has had its historical issues but under new and capable management and with modest expectations for growth, I am confident we can focus on the improvements in operational delivery that will allow this business to thrive in the future and deliver value for all stakeholders.

The Group has a cohesive structure, with leading positions in key markets, based on delivering a core range of services where there is sustainable demand. We will look to build on these strengths in developing the Group moving forward.

Dividend

The Board is looking to adopt a progressive dividend policy which recognises shareholder need whilst retaining sufficient capital for future growth. The Board proposes a final dividend of 0.5 pence per share for the year which, subject to shareholder approval, will be paid on 6 April 2017 to shareholders on the register at 10 March 2017. This represents a total dividend of 1.5 pence per share for the year (2015: 1.9 pence).

People

We continue to invest in our people, giving them the skills they need to deliver for our clients and advance their own careers. Without doubt this has been a difficult period for all stakeholders and I want to thank everyone in Lakehouse for their hard work, commitment and contribution in difficult circumstances.

Outlook

The Board has now been settled and management has taken action to address the problems faced by Property Services, which will comprise a far smaller part of the Group in the future. The Board looks forward to working together with its staff and wider stakeholders to build on the significant potential we have across the Group to deliver future growth and returns for our investors.

Bob Holt
Executive Chairman
23 January 2017

Market overview

We operate in attractive markets with long term sustainable fundamentals, which offer us considerable potential to expand in the coming years.

Our markets

Our divisions serve predominantly public sector customers in the social housing, public buildings and education markets, along with a broad mix of customers within Energy Services. We are also increasingly serving customers in the industrial and commercial market on a selective basis.

Our markets and primary customers are:

- **Compliance:** social housing providers and some industrial and commercial customers, with an increasingly national footprint, leveraging the strong market presence of our Gas Compliance businesses in the south, centre and north of England
- **Energy Services:** private and social housing providers, public and commercial building owners, the 'Big Six' and key independent energy utility companies and the Scottish Government, as well as customers nationwide for domestic smart meters and industrial and commercial energy brokerage
- **Property Services:** social housing providers, which are mainly local authorities and housing associations, focused on London, the South East, East Anglia and the East Midlands
- **Construction:** education customers predominantly in London and the South East, as well as the Ministry of Defence and other public buildings

As well as working with clients to deliver energy efficient services to their customers, Everwarm uses these services to deliver carbon emissions savings for energy companies, enabling them to meet their legislative targets.

What drives our markets?

A number of important factors create demand for our services.

Customers must comply with regulations

We help many of our customers to meet their legal or regulatory obligations. Compliance services are usually mandatory and driven by regulation or legislation. This creates predictable demand for these services, which allows us to plan and invest.

Customers have environmental targets

Energy providers are obliged to fund energy efficiency measures under the Government's Energy Company Obligation ('ECO') policy. There are also important funding schemes, such as the Home Energy Efficiency Programme for Scotland, a key policy programme of the Scottish Government. Improvements to energy efficiency are an important Government objective, with legal climate change targets and political pressures surrounding a reduction in fuel poverty. Our Energy Services division provides energy efficiency measures to help customers improve their properties' environmental performance, installs smart meters to enable customers to monitor consumption, advises customers on energy efficiency and helps customers buy energy at the lowest price.

Growing demand for education

The growing population has created considerable unmet demand for primary school places, which will lead to an increasing shortage of secondary school places as children grow. Nationally, an additional 730,000 school places are needed by 2020, equivalent to more than 2,000 schools (source: The School Places Challenge, 2016), with our core markets in London, the East and the South East making up more than half of this total. This will naturally extend into future demand in the Secondary and Higher Education systems.

A growing crisis in social housing

A recent Government report indicated that more than 2.3m families are living in fuel poverty in England. Furthermore, the increasing unaffordability of private housing is creating huge demand for social housing, with a recent report by the House of Lords Economic Affairs Committee suggesting that a further 300,000 homes need to be built nationally every year. This has led to significant pressures among social housing providers in turning around void properties and ensuring existing properties are maintained to a high standard, which in turn creates demand for our services.

Market outlook

Customers must comply with regulations

We expect a continued increase in demand from our client base for our services, driven by regulation and legislation. We have a strong market position in the Compliance and Energy sectors, with significant opportunity for growth of both adjacent services and geographic markets.

Customers have environmental targets

We have seen pressures within the Energy market, particularly in light of changes following the 2015 General Election. This impacted margins, in light of lower subsidy prices received for every tonne of carbon claimed, which were felt in the final quarter of the year to 30 September 2015 and had a consequential impact on the first three quarters of the year to 30 September 2016. More positively, we were pleased to note the Government's renewed commitment to its 2050 decarbonisation targets and appreciate that whilst decarbonisation of energy generation is proceeding well, the country is lagging behind in improving the housing stock to a necessary standard. We are seeing a stabilisation of carbon pricing at the present time and were pleased to note that, in November 2015, the Government announced that from April 2017 the scheme will be replaced with a new supplier obligation to reduce carbon emissions and focus on fuel poverty, to run for a five-year period. We await the outcome of the current consultation on this scheme with interest and cautious optimism. The UK smart meter rollout has commenced and it is apparent that this is a complex service that only a few players, such as Providor, can provide on a national basis.

Growing demand for education

The pressure on school places provides strong predictability of demand in this market, which allows us to plan well into the long term. We have found short term disruption in light of a change in client preference for procurement from a single stage to two stages, but believe this will reduce our risk profile in the long run, as it removes some of the uncertainty hitherto experienced in the bidding process.

Our Compliance division has a strong market position, with significant opportunity for growth of both adjacent services and geographic markets.

A growing crisis in social housing

Notwithstanding pressures of demand for social housing, we are operating against a backdrop of active cost reductions taking place within client organisations, resulting in part from a requirement for social landlords to reduce rents by 1% per annum over the next four years. This is creating significant holes in housing funding models, when compared to Consumer Price Inflation and has caused some clients to review their budgets. Over the long term, we see those pressures leading to an inevitable demand for our services. In the near term, we are focusing our work on areas with greater levels of predictability and clients with whom we feel we can work well and earn an acceptable rate of return. Our ability to deliver energy efficiency funding is a particular differentiator as clients seek ways of maintaining and improving their housing stock.

Business model

We have built a group that is focused on delivering a comprehensive and high quality service in the sustainable target markets of social housing, public buildings, education and energy services.

How we do business

A comprehensive and high quality service offering

This approach means that many clients view us as their provider of choice. We achieve high customer satisfaction levels, which reinforces our reputation and brand, and helps us to win work with new and existing clients. Our breadth of services strengthens our position, allowing us to cross-sell and meet a growing number of our clients' challenges. This is attractive to them, as they look to increase efficiency by rationalising their supply chains and rely on fewer providers for more services.

Methods of assessment:

Return on capital

Risk management

Cash conversion

Future visibility

Careful selection of who we work with

We start by prioritising our opportunities, based on their risk, returns and strategic fit. Our strong customer relationships and market intelligence are critical, enabling us to understand our clients' challenges and requirements, which are crucial to a successful tender. This process however only gets us so far in public tendering, as we have to understand whether we can offer the service to the required standard and at a price that is both competitive and offers an acceptable rate of return.

Differentiation through our service offering

Many businesses in our sector will talk of client relationships and adding value, as do we. We are different as we benefit from being able to offer a wide range of services and geographic spread. This presents more opportunities to us, so we can be selective about what we bid for and only pursue tenders where we believe we have a better chance of winning and delivering the work successfully.

We rely on our supply chain to deliver a number of our services and for high quality materials. We build long term relationships with them, paying to terms, so they deliver consistently and benefit from our growth. A reliable supply chain is key to achieving high levels of customer service.

Investing in our growth strategy

The outcomes we aim to generate

Organic and acquired growth

With a broad service offering and extensive geographic coverage, we seek to grow organically, as each new contract award provides a case study for the next opportunity. We have acquired businesses that reinforce our ability to grow organically, by improving our service offering, customer base or geographical footprint. We will, however, only acquire where we can improve the business. After an exceptional period of acquisitive growth, acquisitions are now a lower priority for the Group.

Shared stakeholder value

Clients – high quality service, delivered with greater efficiency, which enables them to meet their legal, regulatory and environmental obligations.

Clients' customers – safe and well maintained homes and buildings, which improve their quality of life.

Communities – increased employment and skills and improved community infrastructure.

Financial Partners – responsible business management, with an understanding of risk versus returns.

People – interesting and challenging careers, in a growing business that offers them the chance to develop and reach their potential.

Shareholders – growing revenue and profits, enabling us to pay a progressive dividend while retaining funds to invest for future growth.

Suppliers – the potential to grow their business, by developing a strong relationship with an expanding Group.

Do business the right way

Our clients and their customers are at the core of everything we do. Even in the most challenging trading circumstances, we ensure we work in the right way by focusing on quality of service and delivery. An in-depth knowledge of our clients' challenges helps us to anticipate and respond to their requirements, improve our services and increase our chances of securing contract renewals and extensions.

Focus on operational excellence

By focusing on risks and winning contracts with appropriate returns, we aim to deliver our business profitably. Each business is assessed on its return on trading capital employed and this informs our decision making in where we seek to grow. This approach means that getting paid on time is as important as the level of profitability on each contract and enables us to work with clients on terms that benefit each party.

We look to improve continually both our service and our efficiency by investing in systems, training, development and safety.

Our challenges have served to make us stronger and we are focused on operational excellence, not only in the provision of service to clients and customers, but in commercial management and financial discipline.

Our strategy

Our strategy is based on evolution, rather than radical change. Key to implementation is a recognition of the importance of delivering on our promises.

Although the year to 30 September 2016 has been challenging for the Group, significant elements of our strategy have been very successful and we believe we have built a comprehensive business, with market-leading positions in key growth markets.

Our strategy will remain focused on organic growth, seeking to increase the services sold to existing clients, winning new clients and expanding geographic coverage. We will seek to do so principally on an organic basis and only consider acquisitions where they complement our existing portfolio.

We are comfortable with and confident in the delivery model for Compliance, Energy Services and Construction. However, the self-delivery model in our closed 'externals' departments within Property Services has resulted in significant losses and we will pursue a far more rigid risk-based delivery model in the division in the future.

Our strategy is oriented around three stages:

Developing key markets

Focused divisions

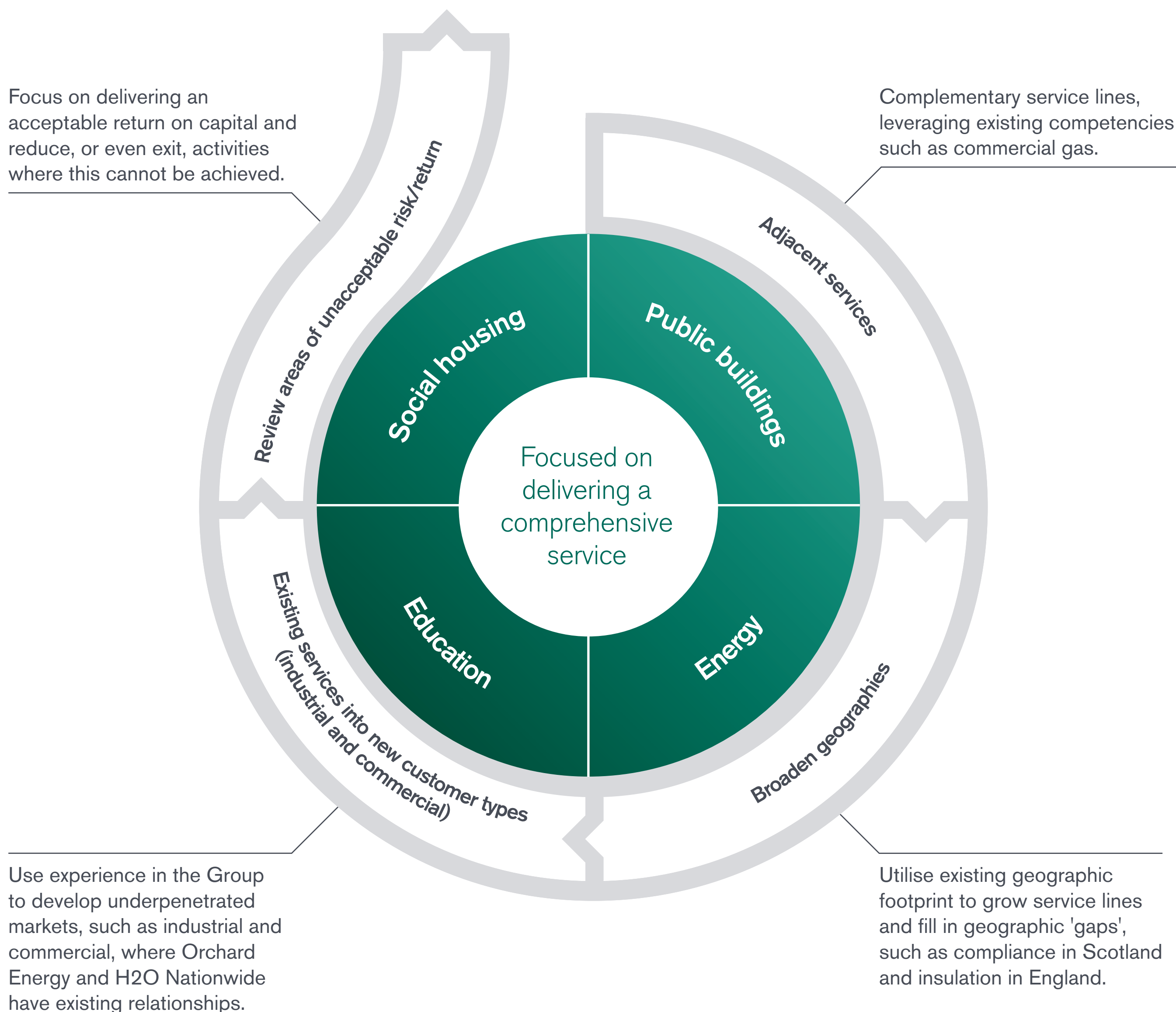
Working together

Prendergast School, a two-form entry primary school in Lewisham, South London, was built by Lakehouse and opened its doors in 2016 to its first two Reception and Year One classes.

Our strategy will remain focused on organic growth, seeking to increase the services sold to existing clients, winning new clients and expanding geographic coverage.

Developing key markets

Our business model is focused on delivering a comprehensive service in sustainable target markets of social housing, public buildings, education and energy services. We have significant opportunities for organic growth in the existing business model.



Our strategy continued

Focused divisions

We have four divisions, each with differing strategic dynamics:

Strategic advantages

- This is a legislation-driven market, where compliance and performance is of paramount importance to clients, so barriers to entry are high
- We have a market leading Gas business, with an increasingly national geographic footprint
- Our other Compliance businesses in fire, water and air hygiene and lifts are well established in their markets with long term client relationships
- The combined Compliance offering allows us to provide a comprehensive service to clients

Strategy

- Secure long term contracts with public sector clients
- Secure predictable service and repair work and market upgrade project work
- Geographic expansion — for all services
- Expand core services among existing clients into related areas where we have expertise
- Cross-sell into other Group customers
- Adjacent services, such as commercial gas

Strategic advantages

- Comprehensive Energy Services offering that allows housing providers and building occupants to save the amount of energy they consume (energy efficiency), monitor energy usage (smart meters), become more efficient in energy consumption (energy advisory) and secure energy supply on the best terms (brokerage)
- Market leading energy efficiency business with strong levels of understanding of energy subsidy regime
- Strong customer relations, which lead to us being seen as a key partner and to repeat work
- Carbon agreements with customers allow us to offer funding to housing providers and building occupants
- Fuel poverty remains an important political consideration, allied to legal carbon reduction targets for Government through to 2050

Strategy

- Geographical expansion into new areas, backed by a strong track record to allow us to win work
- Capitalise on opportunities that will arise as a result of the transition to the new Energy Company Obligation regime in 2018–2022
- Use our scale and breadth to anticipate and adapt to developments in the energy market
- Capitalise on the success of our leading role in the Scottish Government's flagship HEEPS fuel poverty programme through expanding similar services elsewhere
- Consolidate our position as a leading provider of smart meter installation services
- Longer term move into an asset compliance and ownership model, especially in metering

Strategic advantages

- Geographic strength in our core markets of East Anglia and the South East
- Service levels and quality of delivery remain high
- Adaptable model that allows us to utilise wider Group services to provide a comprehensive offering to clients

Strategy

- Focus on operational performance
- Bid only on a selective basis and only with a core group of clients
- Rigorous focus on risk vs return
- Cost management and operating efficiencies to improve margins

Strategic advantages

- Highly reputable — we are known for successful and reliable project management, with delivery on time and to budget, both for bespoke and often complex projects
- Longstanding relationships, built over a number of years — we have 29 framework contracts and our relationships and reputation are key to securing work
- Experienced team of talented employees, used to working in occupied premises
- Strong pipeline of work, arising from an increased demand for school places

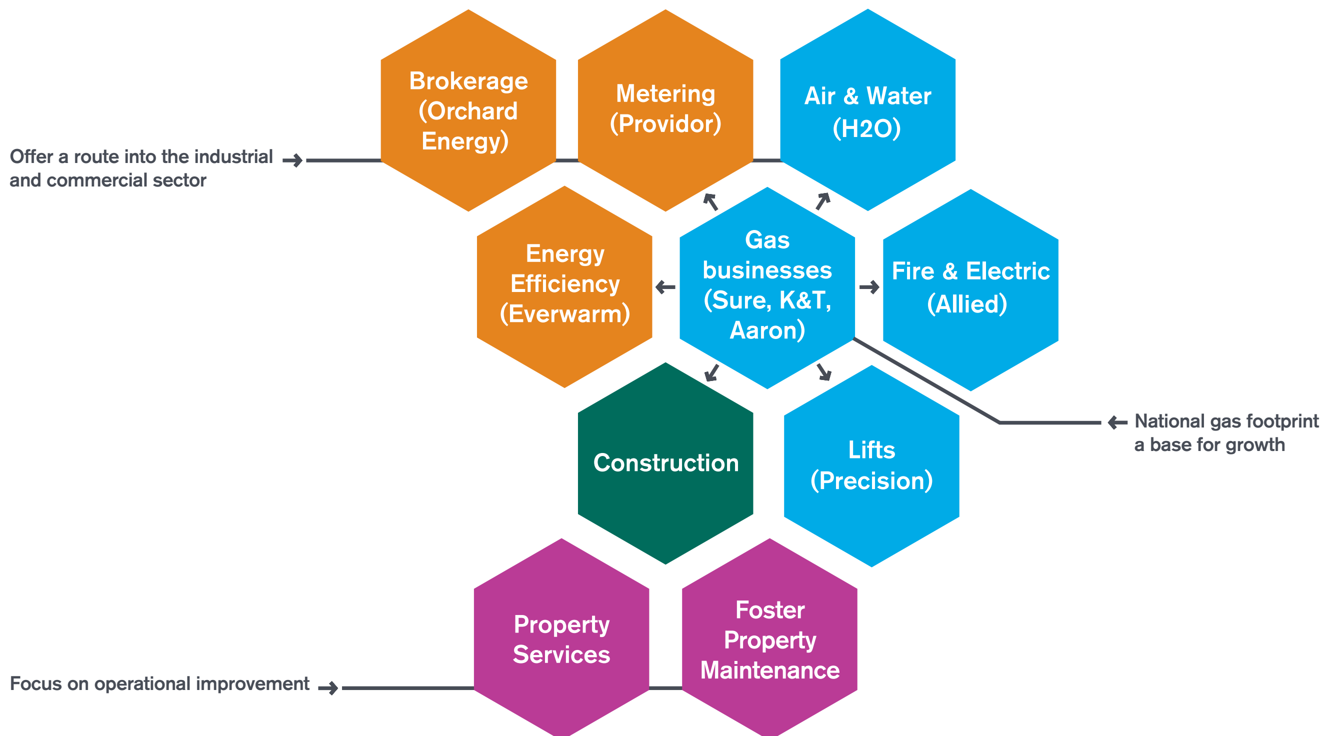
Strategy

- The education market provides a considerable opportunity — we work predominantly with primary schools, so there is natural growth into Secondary and Higher Education
- We have expertise in wider public buildings, such as defence and fire establishments, in which we will retain an active part
- Growth west and north into adjacent geographic territories

Working together

In bringing together our markets and divisions, we have talked of cross-selling and have had considerable success in this regard. This, however, underplays the Group structure we have created as we work together at an inter- and intradivisional level.

Each part of the Group has an important part to play in the whole and each business therefore has an ability to support sister companies in pursuing growth among existing clients.



We have been able to capitalise on the cross-selling opportunities across the Group, expanding services to existing customers and pushing into new geographies.

Key performance indicators

We use the following key performance indicators to monitor the progression of the Group's strategy.

Financial indicators

Revenue

We operate primarily under service and construction contracts, recognising revenue when we can reliably estimate a contract's outcome and by reference to the stage of completion of the work.

Relevance to strategy

The level of revenue demonstrates our ability to grow the Group, both through organic growth and carefully targeted acquisitions.

Performance

Underlying revenue decreased by 9.2% to £305.8m (2015: £336.6m), reflecting £28.4m of revenues reported within underlying items in 2015, from the directly delivered "externals" departments being exited and reported within Other Items in 2016, together with a wider decline in Property Services. Acquisitions made in the past 18 months however contributed an estimated additional £60.0m in revenues year on year.

Underlying revenue decrease

9.2%

Underlying EBITA

EBITA is earnings before amortisation of acquisition intangibles, interest, tax and discontinued activities. Underlying EBITA is stated before Exceptional and Other Items.

Relevance to strategy

The increase or decrease in underlying EBITA demonstrates our ability to grow our profitability and to expand our margins.

Performance

Underlying EBITA fell by 50.9% to £10.9m (2015: £22.2m), reflecting the profit of £2.4m made in 2015 from businesses being exited and reported in Other Items in 2016, together with a wider decline in Property Services and the impact of a year on year reduction in carbon pricing for energy efficiency measures. This was offset in part by a £5.5m contribution from acquisitions. The underlying EBITA margin decreased to 3.6% (2015: 6.6%), reflecting a change in business mix and reduction in energy subsidies.

Underlying EBITA decrease

50.9%

Order book

The order book is our contracted revenues, together with prospective revenues from the frameworks we are on, where our experience of customers deploying their confirmed budgets means our revenue from the framework is predictable.

Relevance to strategy

The order book measures our success at securing the long term contracts and frameworks we bid for and make our future revenue more predictable.

Performance

The order book decreased from £595m at the start of the year to £543m at 30 September 2016, principally reflecting the greater caution in bidding within our Property Services Division.

We currently have 87% visibility for the year to 30 September 2017 (like for like prior year: 77%).

Order book at 30 September 2016

£543m

Underlying operating cash conversion

Underlying operating cash conversion is operating cash flow, plus the cash impact of Exceptional and Other Items (discussed further in Notes 7 and 33), as a percentage of underlying EBITA.

Relevance to strategy

A high level of underlying operating cash conversion demonstrates the quality of the profits we earn, as well as our ability to generate funds for reinvesting in our growth and paying dividends to shareholders.

Performance

Underlying operating cash conversion in the year was strong, at 121% (2015: 115%). Cash conversion on a statutory basis was an outflow of 171% (2015: inflow of 97%).

We continue to target average cash conversion of 80% over the long term.

Underlying operating cash conversion

121%

Non-financial indicators

Accident Incident Rate (AIR)

The AIR is the total number of specified injuries, seven-day reportable injuries and reportable cases of ill health, multiplied by 100,000 and divided by the average number of employees, including subcontractors, within the Group.

Relevance to strategy

Working in a safe environment allows our people to focus on delivering great service to our customers. Protecting our people also supports employee engagement and retention.

Performance

The AIR improved to 85.66, compared with 98.62 in 2015, and remains substantially below our target of 151.

Accident Incident Rate (AIR)

85.66

Management retention rate

The management retention rate provides a measure for us to assess our ability to retain employees who occupy a 'leadership role'. This is represented by a simple statistic – for example, a retention rate of 80% would indicate that we retained 80% of our leadership team between 1 October 2015 to 30 September 2016. This is based on weighted average. Employee data from acquisitions is included as they become part of the Lakehouse Group.

Relevance to strategy

Our ability to deliver great service and to grow our business ultimately depends on retaining our key people.

Performance

The management retention rate for the year was 69% (2015: 88%), which is below our target of 85%. This reflects the restructuring carried out in the year and, on a voluntary basis, retention was 87%.

Management retention rate

69%

Carbon usage

We calculate our carbon footprint by considering energy use across the Group, including our vehicle fleet (both business and privately owned).

Relevance to strategy

Our customers, particularly in the public sector, want to engage responsible suppliers. Managing our environmental impact is therefore important for our ability to win work, as well as being socially responsible and more cost efficient for us.

Performance

Our carbon usage was 8,951 tonnes of CO_2, a rise of 67.3% on the 5,350 tonnes usage in 2015. This is equivalent to 26.8 tonnes per £million of revenue.

The year on year comparison is not like for like, as we have included a number of new acquisitions for the first time and they did not capture this type of information prior to our ownership.

We continue to aim to decrease our overall carbon emissions relative to revenue by 2% per annum.

Carbon usage

8,951 tonnes

Operational review

Our Compliance, Energy Services and Construction divisions are all excellent businesses that have performed very well in difficult circumstances.

Financial performance

Underlying revenue was 9.2% lower at £305.8m (2015: £336.6m) and underlying EBITA declined by 50.9% to £10.9m from £22.2m in the prior year, representing a margin of 3.6% (2015: 6.6%). The self-delivered externals businesses being exited, which are reported in Other Items in FY16, made a £2.4m profit on revenues of £28.4m for the comparative period in FY15, when they were included within the underlying results. The decline in underlying EBITA over and above this reflected an £8.4m fall in Property Services, together with the £3.0m year on year impact from a reduction in carbon pricing for energy efficiency measures. The results included a full year contribution from Orchard Energy (acquired in July 2015) and Sure Maintenance (acquired in September 2015), together with 11 months from Aaron Heating Services and nine months from Precision Lift Services. Year on year, the full year impact of these acquisitions contributed an estimated £60.0m in revenues and £5.5m of underlying EBITA.

Statutory revenue was 1.9% lower at £333.8m (2015: £340.2m). Operating losses were £31.7m (2015: £4.6m operating profit), after Exceptional and Other Items, being Other Items of £9.1m (2015: £2.5m), net Exceptional Items of £3.1m (collectively totalling £12.2m), impairment of goodwill and intangible assets acquired of £19.2m (2015: £nil) and amortisation of acquisition intangibles of £11.2m (2015: £6.5m), which are discussed further in the Financial Review below and Note 7.

Underlying profit before tax was £9.9m, down 54.2% (2015: £21.6m), and underlying profit after tax was £8.2m (2015: £17.5m), resulting in underlying basic earnings per share of 5.2 pence (2015: 13.7 pence). Loss before tax was £33.3m (2015: profit before tax £3.2m) and loss after tax was £29.3m (2015: profit after tax £2.4m), resulting in basic losses per share of 18.6 pence (2015: earnings of 1.9 pence).

Looking forward

During the final quarter of the year the Group had a successful period of contract awards. In our Energy Services and Compliance businesses we secured recurring revenues of £15m per annum and our contracting businesses were awarded £20m of new work. We are pleased to have visibility over 87% of forecast revenues for the current year (as at November 2016), compared to 77% at the same point in FY16.

The Group's order book stood at £543m at 30 September 2016, a 9% reduction on the prior year of £595m, which principally reflects our focus on managing risk within Property Services. Our value of frameworks, however, increased from £1.3bn to £1.6bn which, with a sales pipeline of £3.2bn (2015: £2.8bn), we expect to provide a strong workflow in the future.

As we discuss below, our Compliance, Energy Services and Construction divisions are all excellent businesses that have performed very well in difficult circumstances. We are confident that under new leadership, improved operational disciplines and selective bidding, the Property Services business will recover and prosper.

The Board recognises the Group has performed below investor expectations this year; however, our managers and staff have continued to listen to clients, win work, deliver excellent service and pay our supply chain promptly. This shows the resilience of the Group and the Board would like to register its thanks to staff, clients, suppliers and our financial partners for their ongoing support and commitment in the year.

Compliance

(29% of Group underlying revenue)

Compliance: year ending 30 September	2016	2015	Change
Revenue (£m)	**91.0**	36.6	148.5%
Underlying EBITA (£m)	**6.2**	4.5	36.8%
Underlying EBITA margin	**6.8%**	12.3%	-550ppt

The Compliance division comprises planned and responsive maintenance, installation and repair services predominantly to local authority and housing association clients, in the areas of gas, fire and electrical, water and air hygiene and lifts. These services cover clients' social housing and public building assets, as well as industrial and commercial properties. The division is seeing the benefits of a wider pool of clients and mandatory services that provide significant future opportunities.

Overall, revenue increased by 149% to £91.0m (2015: £36.6m), with the contribution from acquisitions an estimated £56.1m. EBITA increased 37% to £6.2m (2015: £4.5m), resulting in an underlying EBITA margin of 6.8%, down by 550ppt, reflecting the expected mix impact from our new acquisitions and unexpected performance challenges in our Allied Protection (fire) business, discussed further below. We expanded our Gas Compliance services with the acquisitions of Sure Maintenance in September 2015 and Aaron Heating Services in November 2015. Precision Lift Services was acquired in December 2015 to complete the range of services offered by the division. Integration is a key focus of the Group and the acquired businesses are all performing well, contributing approximately £4.2m of EBITA year on year. We are seeing the benefit of operational improvements and procurement savings in the enlarged division, which we expect will see margins improve towards our long term target of high single to low double digit percentages.

Gas Compliance

The three Gas Compliance businesses (Sure, Aaron and K&T) make up some three-quarters of the division and had a strong year, albeit with differing characteristics. K&T has historically operated within the dense metropolitan areas of London, while Sure and Aaron worked in the wider geographic regions of the North West and East Anglia respectively. K&T has enjoyed higher margins as a result of higher engineer efficiency and procurement leverage, which we have carried over into Sure and Aaron with considerable success during 2016. We have seen an improvement in margins during the year in both businesses, arising mainly from procurement savings; keener materials pricing has also allowed us to secure profitable work that these businesses would have historically struggled to win.

We are seeing the benefits of the extensive geography served by the three Gas Compliance businesses and expect future growth to come from filling in territorial gaps and providing adjacent services to clients. We also anticipate future margin improvement through better fleet utilisation, benchmarking engineer performance and seeking to provide a best in class service.

During the year, Gas Compliance secured a number of notable wins. These included gas servicing and maintenance for Brighton and Hove City Council over five years to September 2020; gas servicing and maintenance and a separate heating installation contract for Havebury Housing Partnership over three years to May 2019; and mechanical and electrical maintenance over three years for the Salvation Army. We also resecured a key contract installation and maintenance framework for Flagship Housing (to 2018).

Operational review continued

Compliance continued

Other Compliance

Our other Compliance businesses represent the balance of the division and comprise Allied Protection (fire), H2O Nationwide (air & water) and Precision Lift Services (lifts).

H2O Nationwide performed very well as we succeeded in developing a social housing client base, which was core to our strategy on acquiring the business. During the year, H2O Nationwide won a key framework for the South East Consortium which enabled it to secure works for social housing client Moat Homes; we also secured a three-year water hygiene monitoring contract for the London Borough of Redbridge in the period. H2O Nationwide has historically been focused on industrial and commercial clients and management performed extremely well in mobilising the new social housing contracts, whilst preserving client service.

Precision Lift Services made a slow start under our ownership as a small number of new key contracts were delayed but the business saw significant improvement towards the end of the year as these contracts were brought on and mobilised. Precision Lift Services was successful in securing contracts with Brentwood Borough Council, the London Borough of Wandsworth, South Essex Homes and Southend Borough Council during the year. We remain optimistic with regards to the future opportunities for this business.

Allied Protection had a poor year, with a £2m adverse movement in profits. This was largely due to the non-repeat of significant volumes of project work delivered in 2015 as two key clients unexpectedly withdrew budgets. We saw some recovery in this work towards the end of the year, albeit less than expected and, in the absence of sufficient volume, margins were very weak. Given the nature of the work involved, our service and repair business has historically been operated at a lower margin and a focus on operational improvement saw a pleasing improvement in the year. We tend to secure project work where the Group has a long term service and repair contract, so this is an important development for Allied's future. We were successful in securing several key contracts including a five-year emergency lighting and fire alarm testing contract for London Borough of Hammersmith and Fulham, a six-year contract for Guinness Partnership Ltd providing fire safety equipment and maintenance and a contract providing door set installation for Canterbury City Council over three years to January 2018. These contracts both provide scale for further margin improvement and opportunity to build the projects pipeline among a broader base of major clients.

The other Compliance businesses have significant opportunities to cross-sell within the client base of our Gas Compliance companies and we saw considerable success to that effect during the year including a five-year fire alarm and emergency lighting system for the London Borough of Kensington Chelsea and fire compartmentation works for Wandle Housing, both K&T Heating clients. In addition K&T Heating introduced H2O Nationwide and Lakehouse to Arun District Council, resulting in successful tenders for works including a renewables and roofing scheme and plant room Legionella testing. Precision Lift Services is already carrying out projects for Notting Hill Housing and London Borough of Tower Hamlets, both existing clients of K&T Heating and Allied Protection. Additionally the other Compliance businesses are beginning to secure a broader geographic client base, with Allied winning a five-year £1m contract with Accord Housing (Nottingham) and H2O securing a four-year contract with Alliance Homes via the West Works framework.

Looking forward

Compliance now includes 108 frameworks, up considerably from 56 at 30 September 2015, with an aggregate potential value of £447m (30 September 2015: £88m). The Compliance divisional board is now well established and we believe we have created a market leading business, offering a range of specialist services which frequently have important regulatory drivers for the Group's clients. This is an area where the Group has considerable expertise and capability and, with the benefits of increasing scale and broadening range of complementary and adjacent services, the Board expects the Compliance division to deliver attractive returns, relative to the Group average, over time.

Improved margins, increased geographic opportunities and better procurement leverage has seen our Gas Compliance businesses perform well this year.

Energy Services

(22% of Group underlying revenue)

Energy Services: year ending 30 September	2016	2015	Change
Revenue (£m)	**67.4**	68.0	-0.9%
Underlying EBITA (£m)	**8.0**	9.6	-16.1%
Underlying EBITA margin	**11.9%**	14.1%	-220ppt

Energy Services provides a range of energy efficiency services for social housing and private homes through its Everwarm subsidiary. Everwarm also uses these services to deliver carbon emissions savings for energy companies, enabling them to meet their legislative targets. In addition, the division offers renewable technologies, smart metering services through Providor and energy brokerage and consultancy through Orchard Energy, to customers throughout the UK.

Revenue decreased by 0.9% to £67.4m (2015: £68.0m), with the year on year benefit of the Orchard Energy acquisition approximately £3.9m. EBITA decreased by 16.1% to £8.0m (2015: £9.6m), with Orchard Energy acquisition contributing approximately £1.3m year on year. This resulted in an underlying EBITA margin of 11.9%, which was 220ppt lower than last year, the major factor being the impact of carbon pricing as discussed below. In addition, we closed the Energy South business during the year, which was managed by the Property Services team, but reported segmentally as part of Energy Services in 2015 when we reported revenues of £7.3m and profits of £1.1m within underlying items.

Everwarm

We saw, as expected, 2016 evolving as a transitional year prior to the new Energy Company Obligation ('ECO') policy commencement in April 2017. As the current ECO policy moved into its final phase we saw a stabilisation in carbon prices, with the results and margins in Everwarm in line with management expectations and resulting in a £3.0m decrease in underlying EBITA year on year.

The Group holds a one-third share in the Warmworks joint venture, along with Changeworks and the Energy Saving Trust. Warmworks operates the HEEPS programme, which is now fully mobilised and performing very well. We discussed at the half year that whilst volumes have been growing steadily within Warmworks, referrals to Everwarm were behind expectations. These pleasingly picked up during the second half and we expect further improvement in 2017.

Providor Metering

We were delighted to announce in August 2016 the award of a £37m contract with Scottish Power for the installation of domestic smart meters across Northern Scotland, Wales and North West England. The Group expects to install more than 450,000 meters over the course of the contract's five-year term. We have also secured smart meter contracts with Utilita, Ovo and E, the former two also mobilising during the year. Total mobilisation costs of £2.5m have been reported as an Other Item in the consolidated statement of comprehensive income, as highlighted in August. This has been a complicated logistics process and the Providor team has done a terrific job in achieving above average levels of operational performance under our new contracts.

Disappointingly, Providor's major customer acquired two of its competitors during the year, bringing this capability in house. This led to the unexpected cancellation of anticipated work, with the most profitable activities moving first. We have taken a provision against our exit from those activities and other non-profitable work streams within Exceptional and Other Items, discussed in the Financial Review and Note 7.

In light of such a rapid transformation for Providor, the Group expects FY17 to be one of consolidation for its metering activities as we seek to deliver top quartile performance for our clients on our smart metering contracts. The Group remains encouraged by demand in the metering market and expects this to increase as the challenges faced by utility companies intensify.

Orchard Energy

Orchard Energy, our energy procurement and advisory services business, had an excellent year with monthly contract brokerage signings exceeding £0.7m per month on average during the second half of the year. We continue to grow these activities, in addition to our advisory and water utility services offerings, which we expect to help drive growth in 2017, along with geographic opportunities.

Divisional contract position

In addition to the wins in Providor and Orchard discussed above, Energy Services was awarded places on frameworks during the year including the provision of energy efficiency measures for the London Housing Consortium and energy saving measures and insulation systems for Luton Borough Council (both to 2020). Other notable wins in the year include a four-year framework with the Scottish Government to provide non-domestic energy works to December 2019, a solid wall project for Fife Council (Kirkcaldy) and bathroom replacement works for Aberdeenshire.

Operational review continued

Energy Services continued

Looking forward

Energy Services is now on 36 frameworks, up from 32 at 30 September 2015, with an aggregate value of £427m (30 September 2015: £294m).

As previously reported, in relation to bidding insulation contracts, the energy efficiency sector is exceptionally complex. Everwarm has class-leading levels of compliance in submitting claims, which is fundamental to earning an adequate return, an understanding which we do not see among all market participants. Notwithstanding a slow pace of evolution, we continue to believe that the English market represents a significant future opportunity for the division, given the Group's long standing customer relationships and experience in delivering these services, not least the Scottish Government's Home Energy Efficiency Programme for Scotland ('HEEPS').

Energy Services delivers specialist works and has high levels of expertise in complex markets and should, over time, deliver a consistently high return. Given the transitional nature of the market and mobilisation of smart metering services, we expect 2017 to be one of consolidation for the division. We remain optimistic about the future prospects for Energy Services and expect opportunities to arise from the new ECO transitional period, prior to the full programme in 2018, together with the deregulation of the water market from April 2017. This, with our continuing involvement in the UK domestic smart meter installation programme, underpins a sizeable proportion of divisional revenue growth from 2018.

In partnership with Camden Council, Lakehouse was appointed to install external wall insulation to a 21-storey high rise in Denton, the seventh most deprived area in Camden where more than 9% of households suffer from fuel poverty. The work is predicted to save up to 30% of the energy in each home, making them more energy efficient and supporting the UK's commitment to reduce its carbon footprint.

Property Services

(32% of Group underlying revenue)

Property Services: year ending 30 September	2016	2015	Change
Revenue (£m)	**98.1**	161.7	-39.3%
Underlying EBITA (£m)	**0.8**	10.5	-92.6%
Underlying EBITA margin	**0.8%**	6.5%	-570ppt

Property Services provides planned and responsive maintenance services for social housing clients, which are mainly local authorities and housing associations. The Division operates through two businesses:

- Lakehouse Property Services (formerly Regeneration South): operates in London and the South East
- Foster Property Maintenance ('Foster' – formerly Regeneration East): operates in East Anglia

At the half year, we highlighted operational challenges in our directly delivered externals business managing growth in this work, in particular inventory, staff and site contractors. This business comprised two departments – Roofing and Energy South (managed by the Lakehouse Property Services team, but reported in 2015 segmentally as part of Energy Services). In May 2016, we instigated an operational improvement programme, focused on managing a balanced position of risk and return on capital. The conclusion was to close both departments as the risks of delivering this work directly were too great and, following the operational review, it was determined by the Board to exit these operations. The total losses on the contracts within these businesses are expected to amount to £6.6m pre-tax (on revenues of £25.3m), which have been excluded from the underlying result and reported as Other Items.

Property Services revenue was £98.1m in the year, down £63.6m (39.3%). Businesses being exited and reported within Other Items in 2016 recorded revenues of £21.1m within underlying revenues in the comparative period. Underlying EBITA declined by £9.7m (92.6%) to £0.8m, resulting in an underlying EBITA margin of 0.8%, which was 570ppt lower than last year. Businesses being exited in 2016 made profits of £1.3m in the comparative period, where they were reported within the underlying results. The balance of £8.4m related to a deterioration in both performance and the trading environment during the year.

As reported in February 2016, the 1% rent cap imposed on social landlords has had a significant impact on our market as clients sought to cut costs in response. This has taken a number of forms – some budgets simply were cut, procurement under frameworks was delayed and certain clients sought to fragment frameworks in the expectation that multiple suppliers on individual lots would improve competitiveness. We have responded to this change in market dynamics by challenging the return on capital at a client level and withdrawing from contracts that are not economic. We have also taken the opportunity to review our staff base, particularly in parts of the business where performance was not adequate. With new leadership in this division and a focus on those relationships where we can earn an acceptable return, we expect to move forward as a smaller, leaner and more focused business.

Lakehouse Property Services

As a result of difficult market conditions, as well as the previously reported operational issues, Lakehouse Property Services has had an exceptionally difficult year. The Board has taken action to address this by withdrawing from some activities and restructuring the cost base. The focus of the businesses is to deliver high levels of client service whilst ensuring returns are acceptable through strong operational management and we are very encouraged by the approach taken by the new management team.

The major contributors to the reduction in revenues and margins in the year arose from the previously announced cessation of the Hackney contract in 2015, together with lower revenues from Camden. Camden re-procured its planned maintenance framework in multiple lots during the year, seeking cost savings by directly managing a wide and diverse supply chain themselves. We were successful in securing positions on half of the lots but future work will be subject to successfully tendering individual works; when seeking to participate, we will ensure this offers an adequate balance of risk and return for the business.

Notwithstanding a reduction in bidding activity in the year, Lakehouse Property Services nevertheless had a number of good wins, including a place on Fusion 21's national kitchen and bathroom installation works framework to March 2020 and places on the major works framework for the London Boroughs of Southwark (until 2019), Newham (until 2021) and Barking and Dagenham (until 2021) and separate internal and external frameworks for the Vale of Aylesbury Housing Trust. We also won a significant number of contracts including fire safety works for the London Borough of Ealing, two one-year contracts with Wandsworth Council for window and roof renewals and an external refurbishment contract for two social housing blocks with Portsmouth City Council.

Foster

Foster has faced very different challenges from Lakehouse Property Services this year. Operational performance and client service remained good through the year and Foster was successful in resecuring its position on the key Eastern Procurement framework for responsive repairs and voids to May 2020, planned internal works to September 2019 and roofing works to May 2020, which was important for its future prospects. However, a number of Eastern Procurement members drastically cut or withdrew budgets and the mix of remaining work resulted in Foster seeing a significant fall in profitability during the year.

Whilst it was important for Foster to resecure its place on the Eastern Procurement framework for planned maintenance throughout the East Anglia region, the management team undertook an active drive to diversify the service offering to existing and new clients in the region. Refurbishing student accommodation has been, and continues to be, a productive work stream, with future works at the University of East Anglia being negotiated off the back of the scheme undertaken this year. Similar works have been undertaken in Cambridge this year at Tripos Court for Flagship Housing Association on behalf of Cambridge University. There are a large number of military bases in the region that will provide future opportunities, such as Bodney Army Camp where we won a programme of major upgrading works in the year and will continue to be targeted.

Foster sought also to grow into the Midlands and to expand its responsive maintenance business. Neither performed as we had hoped, mainly due to a lack of scale. Recognising this at an early stage, we reorganised the Midlands business by absorbing ongoing contracts into existing departments and have become more selective in bidding within the region. We are reviewing all commercial options to improve returns from responsive maintenance.

During the year Foster Property Services was awarded places on ten important frameworks, including Efficiency East Midlands (to February 2020), South East Consortium (to 2020), Fusion 21 and the United Lincolnshire NHS trust (to 2018). In addition, Foster secured several significant works contracts including Central Bedfordshire's kitchen and bathroom refurbishment programme and the design and construction of the Wade House housing block for Havebury Housing Partnership.

As part of the operational review of Property Services during the year, we identified a number of areas for potential improvement in Foster, especially with regard to materials and cash management. We also concluded there was a need to simplify the management structure and now have a smaller, ambitious team to take the business forward.

Property Services continued

Foster continued

We conducted a review of the value of capitalised goodwill attaching to Foster at year end. In light of current trading performance and the rebasing of the profitability achievable on key frameworks, such as the Eastern Procurement framework, we concluded that the forecast level of profitability in this business does not support continued recognition of the goodwill balance. We therefore wrote down the entire goodwill balance of £17.4m, details of which are outlined below in the Financial Review and Notes 7 and 14.

Looking forward

We are being highly selective in taking on further work in Property Services, which is evidenced in the reduction in the Group's total order book. Property Services is now on 71 frameworks, up against 53 at 30 September 2015 but with an aggregate value of £370m (down against 30 September 2015: £540m).

With the significant number of challenges and management changes within the year it is reassuring that we have managed to secure positions on some key frameworks within our core operating regions providing future opportunities with clients who have money to spend. Our new management teams are focused on building on Lakehouse's reputation for winning and delivering works successfully for our clients and managing an adequate balance of risk and return. Property Services is a division which, under the right leadership, provides the Group with strong customer relationships and good forward visibility on revenues. Looking forward, the Board believes that this is a business which, under new management, strong operational control and selective bidding, should be capable of delivering a consistent mid to high single digit return.

Construction

(17% of Group underlying revenue)

Construction: year ending 30 September	2016	2015	Change
Revenue (£m)	**52.1**	73.4	-29.1%
Underlying EBITA (£m)	**3.6**	4.8	-25.5%
Underlying EBITA margin	**6.9%**	6.6%	30ppt

Construction is a public buildings services business that delivers extension, refurbishment, rationalisation and new build works, primarily in the education market, with a particular focus on schools.

Revenue decreased by 29.1% to £52.1m (2015: £73.4m). EBITA decreased by 25.5% to £3.6m (2015: £4.8m). This resulted in an underlying EBITA margin of 6.9%, which was 30ppt higher than in the prior year, reflecting an improved contract mix and tight commercial management of our contracts.

We discussed at the half year that factors under the control of our clients had caused a reduction in revenues and this had a similar impact for the full year. The principal cause has been a move from single stage to two stage procurement. The difference between the two contractual structures means that we will be awarded a contract but can then face a significant period before mobilising as a result of the need to address a number of project considerations, which can include planning, review of design/affordability and project-specific matters such as rights of way, land purchase and environmental factors. This is good from a risk management perspective, but very frustrating when reporting performance as we saw 17 projects delayed by these factors. We estimate that this directly reduced our revenues by one third in the year, with a consequential impact on EBITA and cash. These projects are all live or will be mobilised in the first half of the new financial year and, as a consequence, we head into 2017 with a very strong order book.

We remain excited about the prospects for Construction in a market with strong underlying growth fundamentals.

The Construction team has a disciplined approach to bidding and contract management, with a strong and long-serving workforce who have an excellent grasp of commercial considerations on their projects. This allowed us to earn excellent margins of 6.9% on our contracts during the year and to see few of the commercial disputes that we have experienced in Property Services.

In light of the opportunities that have presented themselves, our typical project range has moved upwards in the year, with works secured having an average value of £3.5m to £4.0m (2015: £2.5m to £3.0m). We had significant success in securing major frameworks in the year, including Essex County Council's four-year school expansion programme to April 2020 and Kent County Council's education, public buildings and commercial framework to September 2019. Key contract wins in the year included:

- Orchardside School Enfield – design and construct of a new specialist £7.5m teaching facility for challenged pupils
- Brentside High School – design and construct of a new £8.6m classroom block and dining facility procured under the LCP framework
- Gloucester Archive Building – design and construct of a new £2.0m bespoke archiving facility for the local authority
- Isleworth & Syon School – design and construct of a new £5.2m teaching block and science laboratories for Hounslow Council
- Lindon Farm – design and construct of a £4.2m living accommodation block for adults with autism for Surrey County Council

Looking forward

The number of frameworks declined to 29 from 40 as at 30 September 2015, reflecting our plans as we sought to focus on key clients where we can build predictability into the business model and to bid selectively on projects where we can earn an adequate return on capital. The frameworks had an aggregate value of £353m (30 September 2015: £420m), representing a 16% higher average value per framework. These frameworks provide more than enough opportunity for the Construction division to continue to grow, whilst maintaining an acceptable rate of return. We remain excited about the prospects for Construction in a market with strong underlying growth fundamentals.

Lakehouse finished work on the new Harold Hill Library in the London Borough of Havering mid 2016, delivering considerably improved facilities, including 19 new public access PCs, a self-service booking station for the public PCs and a meeting room available for hire, seating approximately 50 people, with a smart TV.

Financial review

The Operational Review provides a detailed overview of our trading performance during the year. This Financial Review therefore covers other aspects of the statement of comprehensive income, statement of financial position and statement of cash flows.

Trading overview

Group underlying revenue in the year decreased by 9.2% to £305.8m (2015: £336.6m), principally reflecting the year on year impact of businesses being exited and the wider decline in Property Services, partially offset by the impact of acquisitions. Underlying EBITA decreased to £10.9m (2015: £22.2m). We exclude Exceptional and Other Items in calculating underlying EBITA to provide a more appropriate view of underlying operating performance. Underlying EBITA margins fell to 3.6% in the year against 6.6% in FY15. The decline in underlying EBITA reflected a £9.7m fall in Property Services (discussed in the Property Services review above), together with the £3.0m year on year impact from a reduction in carbon pricing for energy efficiency measures. As discussed in the Operational Review above, the results for the year included a full year contribution from acquisitions of an estimated £60.0m in revenues and £5.5m of underlying EBITA.

Operating expenses increased 37.1% to £32.6m in the year (2015: £23.7m) reflecting the new businesses acquired in the past 18 months. Central costs increased by 6.5% to £7.7m (2015: £7.2m), reflecting the full year costs of being a listed company, together with higher costs associated with the infrastructure required to accommodate recent acquisitions. As part of the operational review conducted in May 2016, we concluded that a number of services historically delivered centrally would be best managed at a divisional level. This led to more than 100 staff either being redeployed or exiting the Group, as we seek to maintain a lean central structure going forward.

We reported an operating loss of £31.7m (2015: profit of £4.6m) in light of the charges for Exceptional and Other Items discussed below. The loss after tax was £29.3m (2015: profit of £2.4m).

As part of the operating review conducted in May 2016, we concluded that a number of services historically delivered centrally would be best managed at a divisional level.

Exceptional and Other Items, including amortisation of acquisition intangibles

Exceptional and Other Items in the year reduced the Group's profit before tax by £43.2m (2015: £18.4m) and related to the following items:

	2016 £m	2015 £m
Contract losses on businesses being exited	6.6	2.5
Smart metering mobilisation costs	2.5	—
Total Other Items	**9.1**	**2.5**
Exceptional Items:		
Acquisition costs	0.6	0.8
Contract costs	—	2.9
Impairment of receivables	2.6	—
Restructuring and EGM costs	2.5	0.8
IPO costs	—	4.1
Total exceptional costs	5.7	8.6
Release of deferred consideration	(2.6)	—
Total net Exceptional Items	**3.1**	**8.6**
Impairment of goodwill and intangible assets acquired	19.2	—
Amortisation of acquisition intangible assets	11.2	6.5
	42.6	17.6
Unamortised financing costs included in finance expense	—	0.4
Unwinding discount of deferred consideration	0.6	0.4
Total Exceptional and Other Items	**43.2**	**18.4**

Contract losses on businesses being exited

At the half year, we highlighted operational challenges in our directly delivered externals business within Property Services managing growth in this work, in particular inventory, staff and site contractors. This business comprised two departments – Roofing and Energy South (managed by the Lakehouse Property Services team, but reported in 2015 segmentally as part of Energy Services). In May 2016, we instigated an operational improvement programme, focused on managing a balanced position of risk and return on capital. The conclusion was to close both departments as the risks of delivering this work directly were too great and, following the operational review, it was determined by the Board to exit these operations. The total losses on the contracts within these businesses are expected to amount to £6.6m pre-tax (on revenues of £25.3m), which have been excluded from the underlying result and reported as Other Items. These activities made a £2.4m profit on revenues of £28.4m in 2015, when they were included within the underlying results.

The comparative figure for 2015 of £2.5m represented further costs incurred on certain legacy contracts of our now ceased social housing development business (reported under the Construction division).

Smart metering mobilisation costs

The Group made encouraging progress within Providor (acquired in May 2015) in mobilising its domestic smart meter installation programme with Scottish Power and other leading utilities. Engineer efficiency is a key performance indicator in this activity and we have seen steady improvement each month, since mobilisation in July 2016. The £2.5m cost incurred in the year (on revenues of £2.8m) was in line with the expectations set out in August 2016 and represented costs associated with training and retaining engineers in Providor, along with mobilisation complexities associated with planning work, documenting installations, inventory management and systems development. We remain confident of the future prospects for this business.

Exceptional Items

Acquisition costs comprise legal, professional and other expenditure in relation to acquisition activity during the year and amounted to £0.6m (2015: £0.8m). Contract costs, which were £nil in FY16 (2015: £2.9m), represented exceptional remediation expenses associated with the resolution of historic matters on a specific contract in 2015 ('The Contract').

Impairment of receivables of £2.6m (2015: £nil) reflects the provision taken against receivables in relation to a small number of contract settlements on which there is a range of possible outcomes for the Group in terms of both cash flow and impact on the income statement. This predominantly relates to a sum receivable within Property Services relating to The Contract, discussed above. This is a matter that has been ongoing since 2014 and does not reflect underlying trading in the year. A small element related to the withdrawal from industrial and commercial metering activities, discussed above in the Energy Services operational review. The provisions were made in line with the Group's accounting policy for receivables, but highlighted as an Exceptional Item in light of their unusual nature. Management will continue to seek a full and advantageous settlement for the Group.

We incurred a £2.5m charge in relation to restructuring and EGM costs in the year. In May 2016, we indicated an operational improvement programme would be initiated by the Board to focus initially on the Property Services division, in which we made significant progress during the second half of the year. The Group recorded a £1.0m exceptional cost to cover the costs of redundancy for over 100 staff associated with this exercise, which included the rationalisation of certain central functions. There has also been a great deal of change at Board level this year and the Group took a charge of £1.5m associated with the departure of former Directors, the two Extraordinary General Meetings held during the year and other one-off expenses. The prior year item of £0.8m related to the write-off of certain fixed assets and legal fees in relation to reshaping the Group structure.

Release of deferred consideration of £2.6m (2015: £nil) represented the renegotiation of sums due to the former owners of H2O Nationwide Limited (£0.6m) and no further sums being due to the former owners of Providor Limited (£1.5m) and Sure Maintenance Limited (£0.5m), in light of the requisite performance conditions under the sale and purchase agreement not being met.

IPO costs of £nil (2015: £4.1m) comprised legal, professional and incidental expenditure incurred in relation to the IPO in March 2015.

Impairment of goodwill and intangible assets acquired

Impairment of goodwill and intangible assets acquired was £19.2m for the year (2015: £nil) relating predominantly to the write-down of £17.4m of goodwill in relation to Foster. The impairment of Foster reflected the reduced actual and expected performance of this business, discussed above in the Property Services operational review. The £1.8m balance related to value attaching to the contract with a major industrial and commercial customer in Providor, which cancelled work unexpectedly during the year. Although we succeeded in replacing these revenues with the Scottish Power contract, accounting standards require us to review carrying values based on the historic customer base alone. Accordingly, this is not necessarily indicative of management expectations of the prospects for Providor.

Amortisation of acquisition intangibles was £11.2m (2015: £6.5m), with the increase reflecting a full year impact of Providor, Orchard Energy and Sure Maintenance together with the acquisitions of Aaron Heating Services and Precision Lift Services during the year.

Financial review continued

Accelerated amortisation of financing costs
Finance costs of £nil (2015: £0.4m) represented the write-off of unamortised costs on the term loan we replaced with a new revolving credit facility in December 2014, ahead of the IPO.

Unwinding discount of deferred consideration
Unwinding discount of deferred consideration reflects the present value of deferred sums, discounted at a post-tax rate of 8.5%, due on outstanding payments for acquisitions.

All items discussed above in relation to 'Exceptional and Other Items' are considered non-trading because they are not part of the underlying trading of the Group and in the case of Exceptional Items, impairment of goodwill and accelerated amortisation of finance costs are not expected to recur year to year. Contract losses on businesses being exited relate to businesses that have been closed and smart metering mobilisation costs reflect the one-off nature of mobilising our new domestic smart metering programme, which we expect will carry on into the first half of the year to 30 September 2017.

Finance expense
The total finance expense for the year represented the interest charged on our debt facilities (net of finance income), together with the amortisation of debt raising costs, which totalled £1.0m (2015: £0.6m).

The total finance expense of £1.6m included the unwinding of discounts on deferred consideration figure of £0.6m (2015: £0.4m), discussed above and treated as a non-operating item.

Tax
The tax charge on underlying profit before tax of £9.9m was £1.7m, representing an effective rate of 17.3%, which compares with the statutory corporation tax rate of 20%. The difference was due to prior year tax adjustments.

The effective tax rate on the statutory loss before tax for the year was 12.1% which is lower than the UK statutory corporation tax rate of 20% due to a combination of permanent differences together with the enacted reductions in the UK corporation tax rate and prior year credits. The increase in permanent differences from £2.0m to £15.2m is due to a non-deductible impairment of goodwill relating to Foster Property Maintenance of £17.4m and non-taxable income of £2.6m relating to a release of deferred consideration.

Our net cash tax payment for the year was £0.3m for continuing operations (2015: a statutory credit of £2.7m), reflecting carried forward tax losses. During the year, the Group has received the anticipated cash tax refund from HMRC which formed the corporation tax receivable on the 30 September 2015 balance sheet. The Group has also made tax payments on account during the year. As these payments on account are no longer expected to be required as the Group has generated a tax loss, this has resulted in a net receivable with regard to corporation tax as at 30 September 2016.

The net deferred tax asset as at 30 September 2016 was £0.2m (2015: liability of £1.9m), with the movement mainly relating to acquisition intangibles, where a credit of £3.1m to the P&L was offset by an additional £1.5m deferred tax liability in relation to the acquisition intangibles of Aaron Heating Services and Precision Lift Services.

In the year, the Group has increased its gross tax losses but, due to a reduction in the UK's corporation tax rate, the carried forward tax credit reduced from £3.1m to £2.6m. The carried forward tax losses mainly arose on the exercise of share options at the time of the IPO and were eligible for Group tax relief. The credits to set up the deferred tax asset arising on these tax losses were recognised in equity and, as such, the tax charges and credits relating to the utilisation of these will also be recognised in equity. Therefore, this should not impact the Group's effective tax rate. The remaining tax credit relates to four Group companies and may be utilised over a period of greater than one financial year.

The Group has recognised a deferred tax asset arising on tax losses of £2.6m on the basis of a combination of taxable temporary differences (£0.1m) and forecast taxable profits (£2.5m) which is consistent with the Board's anticipation of improving profitability as outlined above.

Year ending 30 September	**2016 £m**	2015 £m
Underlying EBITA	**10.9**	22.2
Less:		
Exceptional and Other Items	**(42.6)**	(17.6)
Finance expense	**(1.6)**	(1.4)
Tax	**4.0**	(0.8)
(Loss)/profit for the year attributable to the equity holders of the Group	**(29.3)**	2.4

Earnings per share
Underlying basic earnings per share were 5.2 pence (2015: 13.7 pence), based on underlying earnings of £8.2m (2015: £17.5m). Underlying earnings are stated after adding back £37.4m of Exceptional and Other Items (after tax).

Our statutory losses for the year were £29.3m (2015: statutory earnings of £2.4m). Based on the weighted average number of shares in issue during the year of 157.5m, this resulted in basic losses per share of 18.6 pence (2015: basic earnings per share of 1.9 pence).

Further details are contained in Note 13.

Dividend
The Board has proposed a final dividend for the year of 0.5 pence per share, which is in addition to the interim dividend of 1.0 pence paid in the year. This represents a total dividend payable for the year of 1.5 pence (2015: 1.9 pence).

Subject to approval at the AGM, the final dividend will be paid on 6 April 2017 to shareholders on the register at the close of business on 10 March 2017.

Cash flow performance

Our underlying operating cash flow for the year was an inflow of £13.2m (2015: £25.6m), reflecting a strong underlying cash conversion of 121% (2015: 115%). We calculate underlying operating cash conversion as cash generated from operations, excluding the cash impact of Exceptional and Other Items, divided by underlying EBITA. We believe this measure provides a consistent basis for comparing cash generation consistently over time. On a statutory basis, we saw an operating cash outflow of £3.0m (2015: inflow of £19.1m), representing an outflow of 171% (2015: inflow of 97%).

As we highlighted at the half year, the timing of revenues, method of contract delivery and customer contractual terms can all have an impact on working capital and, consequently, cash conversion.

Generally, as revenues rise under a packaged subcontractor model, there is a cash benefit, as we are paid more quickly by our clients than we pay our supply chain (referred to as 'net negative work in progress'); conversely, as revenues fall, we may find payments to subcontractors do not fall in proportion to lower revenues, resulting in negative work in progress turning positive and a cash outflow. We therefore felt the cash impact of the poor performance in Property Services and contract delays in Construction during the year and whilst the former is likely to be permanent, we expect the delays in Construction to be temporary and so see some recovery as revenues pick up. We have also seen increased financial and resourcing pressure faced by clients, making it harder to reach reasonable account settlements. After an operating outflow of £11.4m (outflow of £8.7m after taking account of the cash impact of Exceptional and Other Items) in the first half of the year, we saw a strong cash performance across every division in the second half, with the net operating outflow reducing to £3.0m for the full year and an underlying inflow of £13.2m after taking account of the cash impact of Exceptional and Other Items.

After factoring in the matters highlighted above, together with the impact of the Exceptional and Other Items in the statement of financial position at the year end, we expect to continue to target an average annual operating cash conversion of 80% over the long term.

Net debt

Our net debt balance stood at £20.6m at 30 September 2016 (2015: net cash of £6.6m). This increase reflected, predominantly, payments for acquisitions of £17.7m, the £1.1m owed to the former owner of our Manor Road housing development (discussed in provisions below) and £4.6m in respect of the dividends paid during the year. The balance was accounted for predominantly by a £3.0m net operating cash outflow, which included a £16.2m cash cost of Exceptional Items, discussed further in Note 33.

Banking arrangements

We had drawn £21m under our revolving credit facility at the year end. At the date of issuing this report we had drawn £28m, reflecting our normal winter working capital requirements.

Royal Bank of Scotland ('RBS') remains very supportive of the Group and, to show our commitment to managing our banking arrangements within our means and also to reduce the cost of non-utilisation fees, we requested that RBS reduce our Revolving Credit Facility ('RCF') to £40m and further reduce the facility to £35m in April 2017. We agreed this formally in a variation to our RCF in January 2017, which included a revision to our banking covenants reflecting the lower earnings expectations of the Group, but at a higher rate of interest. We retain a £5m overdraft facility.

These revised arrangements provide the Group with funding support that will ensure the Group is able to plan for future growth, particularly in bidding with confidence on new contracts.

Balance sheet

The principal items in our balance sheet are goodwill, intangible assets and working capital.

	30 September 2016 £m	30 September 2015 £m
Goodwill and intangibles	**69.3**	83.5
Tangible and other fixed assets	**4.7**	4.2
Total non-current	**74.0**	87.7
Current assets	**75.7**	85.9
(Debt)/cash	**(0.3)**	6.5
Current liabilities	**(68.4)**	(84.2)
Net current assets	**7.0**	8.2
Non-current liabilities	**(9.7)**	(10.1)
Debt	**(20.3)**	(0.3)
Net assets	**51.0**	85.5
Net current assets (excluding cash)	**7.3**	1.7
Net negative work in progress (packaged subcontractors)	**(12.0)**	(18.0)

The principal movement in net assets reflected a reduction of £14.2m in goodwill and intangibles, reflecting £11.2m in amortisation of acquisition intangibles and £19.2m in impairment charges, discussed above and in Notes 7, 14 and 15, offset in part by £15.0m of additional acquired goodwill and intangibles relating to acquisitions made in the year, discussed in Note 34.

Net current assets (excluding cash) rose to £7.3m (30 September 2015: £1.7m). The acquisitions of Aaron Heating Services and Precision Lift Services contributed £2.3m, with the balance of the increase relating predominantly to a £6.0m reduction in net negative work in progress relating to packaged subcontractors to £12.0m (30 September 2015: £18.0m). This arose from a reduction in revenues in our Property Services business and the timing of projects in Construction, both of which employ packaged subcontractor models and are in line with the trends highlighted at the half year.

Deferred consideration on acquisitions is analysed overleaf.

Financial review continued

Provisions

Provisions as at 30 September 2016 stood at £4.9m (30 September 2015: £6.4m). During the year, we utilised £3.2m of provisions in line with our expectations, with £1.1m due to the former owner of the land at our Manor Road housing development, £1.5m in relation to specific costs of The Contract (discussed in Exceptional Items above) and £0.6m of Other Items. We provided a further £0.8m in relation to specific risks and also recognised £0.9m as part of fair value accounting on acquisitions for potential risks and liabilities.

Further details are set out in Note 24.

Acquisitions

The Group made two acquisitions in the year:

- Aaron Heating Services (November 2015): gross consideration of £9.2m, comprising £2.6m of net assets (including cash of £0.3m), £3.0m of acquired intangibles (net of deferred tax) and £3.6m of goodwill
- Precision Lift Services (December 2015): gross consideration of £7.5m, comprising £0.7m of net assets (including cash of £0.5m), £3.2m of acquired intangibles (net of deferred tax) and £3.6m of goodwill

Further details are set out in Note 34.

Deferred consideration

A number of the acquisitions made by the Group in recent years incorporate deferred consideration as part of the transaction terms, some of which depend on the performance of the businesses post-completion.

The table below shows the movement in the total discounted deferred consideration payable and the amount outstanding at the year end.

Acquired business	At 30 September 2015 (£m)	Payments in year (£m)	Additions, including discount unwind (£m)	Release of deferred consideration (£m)	**At 30 September 2016 (£m)**	Expected payment date
Allied Protection	3.3	(3.0)	—	—	**0.3**	Nov 2016
H2O Nationwide	2.3	(0.4)	—	(0.6)	**1.3**	Oct 2016/Nov 2017
Providor	1.5	—	—	(1.5)	**—**	n/a
Orchard Energy	1.6	—	0.6	—	**2.2**	Dec 2017
Sure Maintenance	0.5	—	—	(0.5)	**—**	n/a
Aaron Heating Services	—	(1.4)	2.4	—	**1.0**	Dec 2017
Precision Lift Services	—	—	1.1	—	**1.1**	Dec 2018
	9.2	(4.8)	4.1	(2.6)	**5.9**	

Risks

The Board considers strategic, financial and operational risks and identifies actions to mitigate those risks. Key risks and their mitigation are disclosed on pages 30 to 33.

As we discussed above in Exceptional Items, we provided against certain receivables under the Group's accounting policy. We are pursuing legal avenues with regard to full recovery in relation to these matters, but consider it important to maintain a prudent basis of accounting.

We are conscious that unbilled balances represent a significant risk in our industry and we conducted a thorough review of recoverability at the year end, providing against uncertain items where necessary.

We continue to manage a number of potential risks and uncertainties, including claims and disputes, which are common to other similar businesses which could have a material impact on short and longer term performance. The Board remains focused on the outcome of a number of contract settlements on which there is a range of outcomes for the Group in terms of both cash flow and impact on the statement of comprehensive income.

Going concern statement

The Directors acknowledge the Financial Reporting Council's 'Going Concern and Liquidity Risk: Guidance for Directors of UK Companies' issued in October 2009. The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Review as referred to on pages 1 to 38. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review, as part of the Strategic Review, on pages 24 to 29. In addition, Note 31 to the consolidated financial statements within the 2016 Annual Report includes details of the Group's approach to financial risk management, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk. In assessing the Group's ability to continue as a going concern, the Board reviews and approves the annual budget and three year plan, particularly for the following 16 months, including forecasts of cash flows, borrowing requirements and covenant headroom. The Board reviews the Group's sources of available funds and the level of headroom available against its committed borrowing facilities and associated covenants. The Group's financial forecasts, taking into account possible sensitivities in trading performance, indicate that the Group will be able to operate within the level of its committed borrowing facilities and within the requirements of the associated covenants for the foreseeable future. RBS remains very supportive of the Group and, to show commitment to managing our banking arrangements within our means and also reduce the cost of non-utilisation fees, we requested that RBS reduce our RCF to £40m and further reduce the facility to £35m in April 2017. We agreed this formally in a variation to our RCF in January 2017, which included a revision to our banking covenants reflecting the lower earnings expectations of the Group, but at a higher rate of interest. The facility will mature in December 2018, albeit RBS has the option to extend this to December 2019. The Directors have a reasonable expectation that the Group has adequate resources to continue its operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Annual Report and Accounts.

Viability statement

The Directors have considered section C.2.2 of the 2014 Corporate Governance Code and, taking account of the Group's current position, prospects and principal risks, confirm they have a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, over the three-year period to 30 September 2019. A three-year period is considered appropriate in light of the lifecycle of the Group's order book, beyond which management has less visibility. This assessment was performed alongside the Group's consideration of principal risks and annual three-year financial planning process.

The Group performs a series of risk reviews during the year, managed through a Risk Committee and included in monthly operational reviews conducted with each division; the outcome is presented to the Audit Committee twice annually for review and challenge. This ensures that all matters of significance are considered and key risks brought to the attention of the Board.

The Group's three year financial plan ('Plan') is built on a bottom-up basis by business and segment and utilises the data provided in the Group's order book, framework contracts and opportunity pipeline. The Plan is reviewed in detail with each division through a series of reviews and tested for a range of sensitivities, which quantify the principal risks facing the business, including contract losses, financial shortfalls and increased working capital demands. Management considers such risks insofar as they possess or can determine the information to do so, and there will always be an element of inherent uncertainty, particularly as regard matters outside their direct control, such as Government policy, client procurement policies and potential claims and disputes brought against the Group by others. Sensitivities are also tested against available banking facilities to ensure sufficient headroom and remaining compliant with banking covenants. In this assessment, we assumed RBS agrees to a renewal of our banking facilities in December 2018.

Outlook

The Board has now been settled and management have taken action to address the problems faced by Property Services, which will comprise a small part of the Group moving forward. The Board looks forward to working together with its staff and wider stakeholders to build on the significant potential we have across the Group to deliver future growth and returns for our investors.

Bob Holt
Executive Chairman
23 January 2017

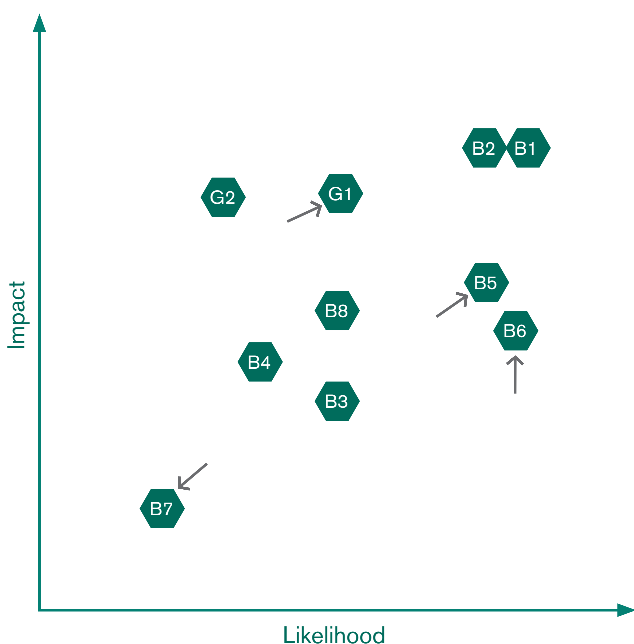
Principal risks and uncertainties

We have a detailed and comprehensive risk management process, covering all aspects of business and operational risk.

A key focus of our strategy is to reduce risk and build a sustainable and profitable business, with predictable revenues and increasing margins.

We constantly review our control and monitoring processes and our systems and work closely with our clients to understand how our marketplace is changing and how it is likely to change in the future.

The table herewith details the main risks we currently face, their potential impact on our business and how we mitigate them. The heat map sets out each risk's potential impact on our business prior to mitigation, its likelihood of occurring and the change in these factors during the year.



"B" items represent business risks

"G" items represent general corporate risks

More information about how we manage risk can be found in the Corporate Governance Report on pages 42 to 46.

Risk

B1 Trading environment with the public sector

The public sector and regulated industries provide some 95% of our revenue, so our business is heavily dependent on policies and programmes adopted by UK, Scottish and local Governments. In particular, Energy Services may be susceptible to changes in Government policy and Property Services and Construction susceptible to client procurement trends.

B2 Client actions

Revenue and profitability in parts of our business may be impacted by the way we interact with our clients, importantly in the event of litigation.

B3 Tendering for new work

We compete for work by tendering or negotiating directly with our customers. We are reliant upon our credibility as an organisation, so our reputation, experience, accreditations, pricing and relationships all affect our ability to win work. We compete with local and international companies, some of which could have greater resources and capabilities.

B4 Revenue recognition

In our industry, the valuation and recognition of revenue requires significant judgement by management. Our Construction division operates under long term fixed-price contracts and our Property Services division recognises revenue based on a valuation of the work in progress, with reference to a contracted schedule of rates. The valuation of revenue includes the determination of estimated costs to complete, amount of margin to be recognised and percentage of completion of work in progress.

Explanation of risk	Mitigation
We have previously described two risks, in Government policy and trends in client procurement, but feel they should be viewed together as under current Government austerity, the risks are now broader for all service providers to the public sector. Significant changes to policy, particularly in Energy Services where we have seen considerable change in recent years, could have a material impact on our results. Policy however extends beyond legislation into client procurement methods and available budgets.	Our recent acquisitions have enabled us to increase our business diversity and focus our efforts on those markets where we feel there is the opportunity of earning a more predictable return. We recognise the importance of operational delivery in giving confidence to clients and maintain high standards of service that allow us to set ourselves apart. We have also continued to invest in business development, through talented senior managers and experienced local leaders, aimed at building sustainable relationships with clients and securing long term contracts.
Beyond changes in procurement trends, we are experiencing the knock-on effects of challenges faced by our clients and feel this needs to be highlighted as a new risk. This includes the sudden withdrawal of confirmed budgets, changes in client staffing leading to alterations in priorities and difficulties in settling disputes and accounts for payment. We continue to manage a number of potential risks and uncertainties, including claims and disputes which are common to other similar businesses which could have a material impact on short and longer term performance. The Board remains focused on the outcome of a number of contract settlements on which there is a range of outcomes for the Group in terms of both cash flow and impact on the Statement of Comprehensive Income.	We recognise the challenges faced by our clients and seek to work with those where we can deliver a high standard of service, whilst generating a reasonable return on capital. We are proactive in seeking affordable solutions to budget challenges that help us to ensure our clients deliver the services expected of them. We have reviewed our internal operational procedures in the year to ensure that we present commercial settlements to an acceptable standard to make it easier for clients to work with us. In preparing our annual accounts, we have taken a view on the financial risk of pending claims and disputes and seek to provide in full for potential shortfalls, whilst pursuing all claims in full, such that we have a collectively balanced position of risk across all such matters.
If we do not compete effectively we may not win enough work or retain existing contracts, affecting our revenues, profits and cash.	Our commitment to health and safety, a responsible business model and our focus on operational delivery are key to ensuring we submit high quality scores in our bid submissions. We have an experienced internal bidding function, so we can submit the best possible bids and maximise our chance of success. In the year, we reorganised bidding at a divisional level to ensure there is a coordinated approach with local operations, which is necessary for the credibility of our submissions and a focus on bidding strategically. We listen to our clients and offer solutions that suit their needs, meaning we can be directly selected under existing frameworks or we can negotiate work that they are not required to put out to tender.
We have multiple contracts that are the subject of such judgement and an error could lead to a material misstatement of both revenue and profit. In particular 'unbilled' sums sitting on the Statement of Financial Position reflect amounts that are as yet to reach a point of invoice and involve the highest levels of judgement.	Each contract is staffed by a proven team of operators, partnered by experienced quantity surveyors who follow a set of clear and specific guidelines on contract valuations. We have submitted these teams to increased levels of scrutiny during the year as a result of performance concerns in Property Services and sought to refresh the talent in the team where necessary. Our principal focus is to ensure our Statement of Financial Position reflects a realistic assessment of recoverable sums when considered in light of the risks faced.

Principal risks and uncertainties continued

Risk	Explanation of risk
B5 Poor operational delivery Poor operational delivery could lead to a local loss in trust and reputation with a client or customer, or financial loss in the event of a disputed contract settlement. A material loss of service or event could result in the loss of a framework.	Poor operational performance leads to reputational loss and weaker financial performance.
B6 People The success of our business depends on recruiting, retaining, motivating and developing the right people at all levels of our organisation.	If we do not have enough suitably skilled, experienced and engaged people we may not be able to deliver the service quality we have promised to our clients and customers or grow our business as quickly as we had planned.
B7 Acquisition selection and integration Growth through acquisition in order to gain critical mass has been an important part of our strategy. We need to ensure that the acquisition selection process satisfies the needs of the business and that the companies selected fit the desired criteria.	The consequence of a poor selection process could create friction within the management structure, poor integration and ultimately an acquired business which does not fit nor deliver on its anticipated potential for the Group, leading to a financial shortfall.
B8 Major health and safety incident We provide our services in a range of potentially high risk environments: working in homes, public buildings, at height, with water, lifts, electrical and gas services and lone operatives in vans.	There is potential for a major health and safety incident within the environment in which we work which could have significant impact on a person or people either directly, indirectly or not involved with the works we are undertaking. We could incur reputational loss or civil and criminal costs due to a health and safety incident.
G1 Financial liquidity We rely on the continued support of our financial partners to ensure we have the necessary funds to trade on a day-to-day basis and pursue the Group's growth strategy. We have periods in the year where there is a peak in working capital needs, predominantly around the timing of work instructed by our clients and arising from the circumstances of our contracts, which require short term funding.	Were funding support to be withdrawn, we could face cash shortfalls and a limitation of our ability to grow in the immediate term and ultimately, an inability to settle our liabilities as they fell due if we could not secure funding from alternative sources. This risk would be exacerbated by poor financial performance of the Group. If we were unable to provide financial bonds, we would be limited in our ability to tender for new work.
G2 ICT failure Our business is 24/7 and relies on a robust ICT infrastructure and service.	An ICT failure could cause business interruption or loss of services which could impact local delivery and our reputation and ultimately have financial consequences.

Mitigation

We mitigate this risk by having qualified, trained people, managers and operatives who are experienced in their roles. We closely monitor quality, progress and service using industry standard products and are generating divisional KPIs to benchmark similar services. We have accredited processes and systems which are audited both internally and externally and reported to the accountable management teams. We have a robust approach to risk management from project level to Board, providing support and scrutiny to mitigate the risk. We have regular project audits and support visits by trained staff. Where we use supply chain partners we work with the teams, monitoring performance ensuring rapid resolution of issues as they arise.

This has worked well within Compliance, Energy Services and Construction during the year, but performance within Property Services has fallen short. We have addressed this by closing activities that present an unacceptable level of risk and brought in new management to improve standards.

We invest significant resources in developing our managers and training our employees. We work hard to make Lakehouse a Group that people want to be part of, with a positive culture and opportunities to develop and learn. For the good of all staff, it is important that we concentrate on those businesses that perform well, as well as those that perform poorly, which may mean we reorganise resources accordingly.

We have an Employee Representative Council with members elected from all parts of the Group, ensuring that all of our people have a voice. We are constantly assessing our training needs, listening to staff and developing innovative solutions such as our in-house online training products. We actively seek out rising stars in the business and recognise and celebrate achievement.

We recognise that bringing new businesses together involves different cultures and business dynamics and it is important that every business feels valued and supported equally. We bring senior management teams together in divisional boards and have devolved activities during the year that were previously managed centrally. Empowering our businesses without central interference but under a common Governance structure, will allow them to focus on what made them successful in the first place.

We are likely to reduce our levels of acquisition activity in the future, but this remains an important area, particularly post-acquisition integration.

Health and safety is managed throughout the business and the Accident Incident Rate is an important Group KPI. We have a health and safety culture which is owned by the Managing Directors of the divisions.

Each division has a dedicated health and safety team who have an open remit to attend any site at any time to offer support or audit. We have a robust UKAS-accredited health and safety management system which is administered by an independent centralised team. We have mandatory training standards driven by job roles with a centralised training team who monitor and maintain training standards and are seeking to improve accessibility to training through the Group's learning management system.

Health and safety strategy is set by the Safety Core Group which is attended by all Managing Directors, local health & safety leaders and an Executive Director.

We maintain excellent relationships with our bankers, maintaining regular dialogue on matters pertaining to trading and risk in the Group. We maintain a strict internal review process on covenant compliance to ensure we remain in line with the requirements of our banking documents. An important part of our relationship is that we borrow money responsibly and in January 2017, we agreed formally a reduction in our facility, from £45m to £40m and further reduction to £35m in April 2017. Our going concern review and viability statement were both prepared on the basis of this level of funding, along with the assumption of renewal when the facility term ends in December 2018.

We maintain contact with a number of bonds providers to ensure we are in a position to satisfy the contractual needs of clients.

We maintain a Group ICT strategy which is designed to support the existing business needs and provide an ICT infrastructure which is fit for purpose. We invest in resource and technology to ensure that the business is protected, such as back-up and disaster recovery processes to ensure minimum disruption. We have business continuity processes for a range of events and we audit these processes.

Resources, relationships and sustainability

We seek to invest in our business and people, building a reputation as a responsible and trustworthy partner.

Lakehouse has a responsible business strategy, which covers how we invest in our people, support local economies through our customer and supplier relationships, develop our communities and champion environmental sustainability. This reflects our belief that fully investing in a responsible business model and targeting economic, social and environmental change helps to differentiate us in increasingly competitive markets.

Workplace

Health and safety

Protecting the health and safety of our people, customers, suppliers and members of the public adjacent to our sites is the core priority for the Board. We report our Accident Incident Rate in our monthly board meetings and Group performance remains better than the sector average, with an Accident Incident Rate of 85.66, compared with 98.62 last year and a target of 151.

We have a training programme called the Lakehouse Health and Safety Legacy, which we believe exceeds standards common to the industry and is essential for all employees. We also make this training available to some of our contractors and their employees, at a subsidised rate.

In 2015, we formed a Group Safety, Health and Environment ('SHE') network, to share best practice and introduce improvements and risk reduction plans across the business. This powerful network is making a difference at the front line. It has improved compliance with our training requirements and is bringing a consistent Group-wide approach to audit.

Our health and safety champions coordinate employee consultations and communication across the Group. They use forums such as our intranet 'Lakehouse World' and our SHE network to discuss safety strategy, review health and safety projects and reflect on industry and regulatory changes. Our champions have been instrumental in raising the profile of health and safety and making sure it is part of the Group's DNA.

Recruitment and retention

The labour market, particularly among service and installation engineers, makes recruitment and retention an important area for us. We are addressing this in a number of ways, including a graduate recruitment programme which targets people who can grow with us. We have also put career structures in place and identified successors for key roles, so people can see how they can develop within the Group. We are particularly proud of our track record in training gas engineers.

We monitor our performance through our management retention rate. This was 69% for the year, against 88% in the prior year and a target of 85%. This has been a year of substantial change for the Group and we have had to address performance shortfalls in Property Services in particular. This has led to colleagues regrettably leaving the Group, but importantly new colleagues joining us as we seek to grow our businesses in Compliance, Energy Services and Construction. Underlying voluntary retention was 87%.

We have an increasing proportion of directly employed engineers working in the Group and have had to adapt our human resources support structure accordingly, particularly to reflect the dynamic of single workers in vans and operating in private residences.

Our culture

Our culture is evolving. A number of very successful businesses have joined the Group and in order for all colleagues to feel part of the whole, we have had to adapt our approach. The original Lakehouse business has provided undue focus for the Group causing some frustration, especially in light of performance concerns in the directly delivered 'externals' activities within Property Services, which were legacy Lakehouse activities.

Our culture in the future will be aligned to our strategy, which is rooted in keeping our promises, financially to our stakeholders and operationally to our customers. We will be entrepreneurial in seeking to grow and develop the business, collaborative in working together across businesses and supportive of colleagues.

We are not 'corporate' but we maintain the highest standards of Governance and adopt a zero tolerance policy towards any misconduct.

Our people remain the Group's most valuable asset and the Board wishes to reiterate its thanks and appreciation for their dedication and commitment to maintaining the highest standards of client service during the year.

Training and development

Our investment in training and development incorporates all types of professional skills. We actively encourage our employees to propose their own ideas for personal development. Training is a core element of our success, particularly with the responsibilities entrusted to us in keeping our customers safe. We invest in our people at all levels and are especially proud of the 54 colleagues we employed as apprentices during the year.

We recognise that it is difficult to manage training with the pressures of the day job and have invested in our Group Learning Management System ('LMS') during the year, which will facilitate remote learning and make it easier for staff to complete the necessary training obligations. LMS is set up to ensure our people continue to be trained to a high standard, especially in health and safety. As an online system, it allows us to deliver training efficiently, saving considerable amounts of our people's time, and to monitor their compliance. We have seen considerable success in rolling out this system during the year with interactions increasing as LMS becomes a fundamental learning delivery platform. We have plans in place for new courses in early 2017, which will extend our learning offering to the Group in areas such as data protection, equal opportunities, driver awareness and new starter induction.

Diversity

We value diversity and recognise the benefits that people of different genders and backgrounds can bring. Our approach is to ensure that all our people have equal opportunities to advance their careers within the Group.

The table below analyses our employees by gender:

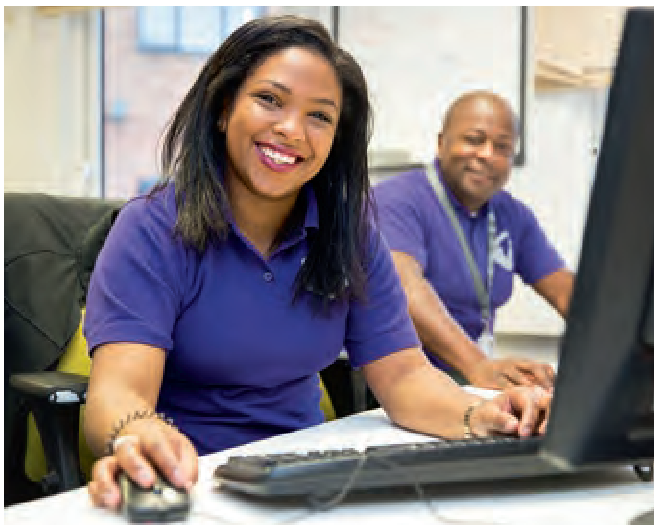
	At 30 September 2016		At 30 September 2015	
	Male	**Female**	Male	Female
Board	**6**	**—**	6	1
Leadership team	**90**	**25**	95	30
Employees	**1,701**	**445**	1,355	422
Total	**1,797**	**470**	1,456	453

Employee representation

Lakehouse has an Employee Representative Council ('ERC') made up of elected employees from across the Group. Its main aims are to encourage employee engagement and involvement, gather views and comments so that employees have a say on Company policies, provide feedback on the services we provide and give employees the opportunity to influence the future direction of Lakehouse. The contribution and advice of ERC was very important as we reduced the size of the workforce in Property Services and head office during the year. Beyond this key role, the ERC took part in a wide range of initiatives during the year, oriented around communications and employee benefits.

Human rights

We are committed to protecting the rights of our people and those who come into contact with our business. To support this commitment, we have policies covering key areas such as grievances, harassment and bullying at work, equal opportunities and dignity, professional conduct and behaviour, anti-corruption and whistleblowing.



It is Lakehouse's policy to promote an environment free from discrimination, where everyone will receive equal treatment. As part of its commitment to equal opportunities, Lakehouse believes that its male and female workers should receive equal pay for the same or similar work.

We are committed to protecting the rights of our people and those who come into contact with our business.

Resources, relationships and sustainability continued

Marketplace

We believe that strong relationships with our customers, suppliers and subcontractors are vital for creating a long term, sustainable business which also supports our local economies. A key part of this is understanding our clients' and suppliers' priorities and areas of focus. We therefore work hard to ensure that our relationships are transparent and beneficial for everyone. We do this by mapping the different types of communication and interaction involved in our service, so we can establish new and better ways to deliver and make a bigger impact on people's lives.

Clients

Our success depends on our ability to consistently satisfy our clients and their customers. This helps us to retain contracts at retendering stage, to cross-sell additional services and to attract new clients. We also track our success with pre-qualifications and tenders by business. This shows the quality of our tenders and our understanding of our customers' needs. In the year, we achieved a 42% success rate across our businesses, compared to 47% in 2015, which reflected a strategic approach to bidding work with clients and in services and markets where we could make an acceptable rate of return.

Lakehouse Resident Liaison Officers, working across our Property Services and Energy Services divisions, are committed to providing an excellent level of service, facilitating the smooth running of projects by building and maintaining positive relationships between the residents, tradesmen, client representatives and the site team.

Supply chain

Our supply chain is crucial to our business. Construction and Property Services both deliver certain services through subcontractors and we also rely on merchants and manufacturers for high quality materials, which enable us to meet our commitments to our customers.

Our Procurement team enables us to purchase efficiently, cost effectively and ethically, looking to achieve best value in all situations. In the year, we devolved procurement to each division, to ensure the function had closer alignment to the needs of operational colleagues. This is supported by a more focused Group function responsible for securing the best Group-wide deals, managing fleets and maintaining overall standards. Central procurement works across the Group to target cost reduction, improve service levels and manage our supply chain, taking advantage of the combined purchasing power of the Group. All of our companies are now included in Group-wide procurement activities and we are negotiating further purchasing agreements as part of our procurement strategy.

The procurement team's work with our supply chain to improve pricing, reduce waste and enhance relationships has been recently recognised by reaching the finals of both the Chartered Institute of Procurement and Supply Awards and the Supply Chain Excellence Awards.

Meetings involving procurement staff and key supply chain partners from across the Group are held regularly to ensure the current strategy meets the requirements of the Group and to highlight early, potential pricing or supply issues which could have a negative effect.

Strong relationships with our customers, suppliers and subcontractors are vital for creating a long term, sustainable business.

We measure environmental risks and opportunities across the Group, backed up by training, awareness and support.

Procurement is also used to have a positive influence and to help small and local businesses to grow. We are particularly proud of the contribution being made through our Warmworks Joint Venture, which manages the HEEPS programme for Scottish Government. This includes fair payment terms, free or subsidised training, ensuring the procurement process is locally accessible and encouraging innovation in our supply chain. In addition, we consider social, environmental and economic challenges when deciding what and where to buy.

Brands

Lakehouse has a well-respected and long-established brand, based on our reputation for service. The companies we acquire also typically have strong brands in their markets, built on their established expertise and local standing.

We retain the acquired company's name and add the Lakehouse Group moniker and logo for consistency of presentation.

Community

We are dedicated to creating desirable, successful and cohesive communities. This means playing our part in making them sustainable places to live and work. Our work in the community falls into the following areas:

Education and young people: we offer mentoring programmes and education partnerships, working strategically with local schools to provide support and increase young people's educational aspirations and skills.

Employment and skills: we provide apprenticeships and employment and skills development for residents in our communities.

Social impact and community infrastructure: we champion and support resident and community-led initiatives that tackle key social issues, such as crime, anti-social behaviour, digital and financial inclusion, and health and wellbeing.

Being deeply involved in our communities has always been fundamental to how we operate. Some of our local authority customers require us to deliver social value through our contracts with them — such as committing to job creation or apprenticeships. We take the same approach in every area we work in. Our Corporate Responsibility Manager, aided by our network of community development champions around the business, helps us to put our communities at the centre of our services both to the public and private sectors. Our champions coordinate connections between our communities and our operational teams, who deliver our day-to-day services. This creates local accountability for delivering social value through our projects.

In addition, we encourage all our employees to donate their time and expertise during work hours, to tackle local social issues. We aim to ensure that all volunteering is focused on our key community development themes.

We are committed to investing in our employees, championing training and development in the workplace and helping employees and those new to the workplace progress their careers in line with our business goals.

Resources, relationships and sustainability continued

Environment

A key part of our business strategy is to consider, manage and measure the way our work streams can affect the natural environment. We therefore monitor potential environmental impacts, promote environmental awareness to employees and reduce risks where possible. We measure environmental risks and opportunities across the Group, backed up by training, awareness and support. We aim to identify any potential risks as a preventative measure and to control our impact on the environments in which we work.

Our key environmental areas of focus are energy efficiency, carbon management and waste diversion. We monitor all of these aspects, analyse the results and set targets to ensure continual improvement. Supporting this is our environmental management system, which we communicate to all employees.

Group energy consumption

With our Energy Management System, we monitor energy use on a monthly basis and assess the results in both kWh and CO_2. We review this in our monthly Board meetings and set energy targets and objectives to reduce our overall energy consumption.

Although our carbon emissions rose to 8,951 in 2016 from 5,350 in 2015, this reflects the growth of the Group through acquisitions that did not track such information. As a result, like for like analysis is not yet possible. We expect to deliver consistent improvements in our environmental performance in future years.

Waste management

Waste management is vital for ensuring we do not negatively affect the environment. We aim to divert at least 90% of waste from landfill and therefore recycle as much as possible. We ensure we use licensed waste removal companies, who divert high percentage levels of waste from landfill.

This year we have achieved an average recycling and diversion from landfill rate of 96%, maintaining our performance from last year.

Systems based solutions such as our Impact Response operating system mean that we can optimise and streamline operations across businesses and divisions, pushing improvements where there is an advantage to do so.

Leadership and governance

The Board's role in being a responsible business

The Board is directly responsible for implementing our responsible business agenda. This includes:

- Ensuring our wider responsibilities are understood within Lakehouse and in the marketplace
- Conveying how a responsible approach adds long term value to our business
- Actively demonstrating a commitment to responsible business practice by creating and championing a responsible business culture
- Regularly reviewing our short and long term commitments

Systems governance

We have continued to invest in systems development during the year, with all bar Sure Maintenance now on our Navision financial platform. This provides an important framework for financial control, consistency of presenting financial information and a future opportunity to improve efficiencies.

Our Impact Response operating system continues for responsive maintenance services in Allied Protection, Foster and Everwarm and we are focusing on driving improvement between these three businesses through shared learning, before deciding on the future direction of our systems needs.

Return on capital

In order to maintain client service, we have to earn an adequate return on capital. As we have seen from the performance of Property Services, when the two do not go hand in hand, we are placed in a position of having to make negative decisions for both staff and clients alike.

We have determined that an acceptable threshold return on capital is 50%, with a target of 100%. We were pleased to see both Compliance and Construction both exceed target and Energy Services exceeded threshold during the year, with a steady improvement shown month on month.

The teams are now understanding the importance of return on capital, which is directly linked to cash management, particularly aged debt and unbilled items. This is discussed further in the Financial Review on pages 24 to 29.

The Strategic Review set out on pages 1 to 38 was approved by the Board of Directors on 23 January 2017 and signed on its behalf by.

By order of the Board

Jeremy Simpson
Chief Financial Officer
23 January 2017

Executive Chairman's introduction to Corporate Governance

Bob Holt
Executive Chairman

Dear Shareholder,

The Directors and I recognise good Governance is fundamental to effective management of the business and delivery of long term shareholder value.

The Board is committed to ensuring that a strong Governance framework operates throughout the Group since this provides an essential foundation on which to build the future success of the Group. Responsibility for good Governance lies with the Board. The Board recognise the importance of setting the right tone at the top of the organisation in order to guide our people's behaviour and ensure that we live by and demonstrate the right values across the Group. Our Code of Conduct is readily accessible to all staff to support their day-to-day activities. We demand the highest professional standards from all our people all of the time and we have a zero tolerance approach to breaches of the Code of Conduct.

Composition of the Board

The Corporate Governance Report sets out the Board's approach to maintaining a sound framework for the control and management of the Group that is appropriate for a company of our size and circumstances. The Report provides details of the Governance structure, including the role and structure of the Board and the key Board roles and responsibilities, including that of the Executive Chairman and the Senior Independent Director. The Report also provides details of the three Committees, Audit, Nomination and Remuneration, which assist the Board in performing its oversight function.

The Board of Directors comprises three Executive Directors and two Non-Executive Directors. Biographical details of all the current Directors are set out on pages 40 to 41. In accordance with the UK Corporate Governance Code, the Directors will stand for re-election at the Annual General Meeting on 31 March 2017.

Shareholders will be aware there have been a number of changes to the composition and membership of the Board during the year. Details of the individuals who served as Directors during the year to 30 September 2016 and changes to the composition of the Board that occurred during the year are set out in the Directors' Report on page 70.

Having gone through a period of change during the course of the year, the focus of the Board will be directed upon addressing the operational performance of the business and restoring shareholder value over the short term.

Bob Holt
Executive Chairman
23 January 2017

Board of Directors

Bob Holt OBE
Executive Chairman

Appointment
Bob was appointed as a Director and Executive Chairman of Lakehouse plc in July 2016.

Committee membership
Member of the Nomination Committee.

Key strengths
Bob is an experienced manager and developer of service businesses. In a career in the service sector spanning over 35 years he has an extensive track record of growing businesses and turning around underperforming companies. Bob provides experienced executive leadership to navigate the business through challenging market conditions whilst setting a clear strategic direction for the Group for the medium term.

Experience, skills and qualifications
Bob is chairman of Mears Group PLC, a company in which he acquired a controlling interest in 1996. Mears Group floated on AIM in 1996 and moved to the Main Market in 2008. As well as his continued involvement with Mears Group, Bob also currently serves as non-executive chairman of DX (Group) Limited and Totally plc. Bob was awarded an OBE in January 2016.

Jeremy Simpson
Chief Financial Officer

Appointment
Jeremy joined Lakehouse in April 2014 as Chief Financial Officer.

Committee membership
None.

Key strengths
Jeremy has broad finance experience and has held senior financial positions with a number of other public companies.

Experience, skills and qualifications
Prior to joining Lakehouse, Jeremy was Group Corporate Development Director and UK Finance Director at Shanks Group plc between 2011 and 2014. Prior to that Jeremy held a number of senior roles at Hunting plc, Avery Dennison and Smiths Group. Jeremy is a qualified chartered accountant, having trained at Ernst & Young LLP. Jeremy is a trustee and treasurer of the single parent charity, Gingerbread.

Michael McMahon
Executive Director and Managing Director – Energy Services

Appointment
Michael joined the Group in April 2014 following its acquisition of Everwarm.

Committee membership
None.

Key strengths
Michael has significant experience in the Energy Services sector and was a founding director of Everwarm.

Experience, skills and qualifications
Michael has responsibility for the operational performance of the Group. Michael has significant experience in the Energy Services sector and was a founding director of Everwarm in 2011, which grew to become a profitable company with turnover of over £45.0m by the time of its acquisition by Lakehouse in April 2014. Prior to founding Everwarm, Michael was Group Operations Director at Eaga plc, leaving it shortly before it was acquired by Carillion plc.

Robert Legget
Senior Independent Director

Appointment
Robert was appointed to the Board of Lakehouse in April 2016.

Committee membership
Chairman of the Nomination Committee, Interim Chairman of the Audit Committee and a member of the Remuneration Committee.

Key strengths
Robert has extensive business and finance experience.

Experience, skills and qualifications
Robert co-founded Progressive Value Management Limited in 2000 and is Chairman. Progressive Value Management specialises in creating value and liquidity for institutional investors from illiquid holdings in underperforming companies. In this role he has had significant engagement with public company boards. Robert was formerly a director of Quayle Munro Holdings plc and Foreign & Colonial Private Equity Trust plc. Robert is a member of the Institute of Chartered Accountants of Scotland.

Andrew Harrison
Non-Executive Director

Appointment
Andrew was appointed to the Board as an Alternate Director in June 2016 and as a Director in July 2016.

Committee membership
Chairman of the Remuneration Committee and a member of the Audit and Nomination Committees.

Key strengths
Andrew has extensive business and legal experience.

Experience, skills and qualifications
Andrew is the founder and owner of the law firm, Tallar LLP and has more than 25 years' experience as a solicitor in private practice, specialising in company law. He has advised on a wide range of corporate transactions, including management buy-outs and buy-ins, corporate acquisitions and disposals and listed company takeovers. Andrew is a non-executive director of Victoria plc and Islandbridge Capital Limited. Andrew is an Executor and Trustee of the Estate of Steve Rawlings.

Simon Howell
Company Secretary

Appointment
Simon joined Lakehouse in June 2014 as Group Company Secretary.

Committee membership
n/a

Key strengths
Simon is an experienced company secretarial and legal professional, having held a number of such positions in quoted and private companies, including in the support services sector.

Experience, skills and qualifications
Simon was Company Secretary and Head of Legal at May Gurney Integrated Services plc between 2009 and 2013. Prior to joining May Gurney, Simon was Company Secretary of UBC Media Group plc between 2000 and 2009. Simon is a Fellow of the Institute of Chartered Secretaries and Administrators.

Corporate Governance report
The Governance structure

Leadership, strategy and development, controls, risk and values

Audit Committee

Interim Chairman
Robert Legget

Members
Andrew Harrison

Key responsibilities
Reviewing and monitoring the integrity of the Financial Statements.

Ensuring an effective system of internal controls is maintained.

Monitoring accounting policies.

More information
Audit Committee Report, pages 49 to 51.

Nomination Committee

Chairman
Robert Legget

Members
Andrew Harrison
Bob Holt

Key responsibilities
Providing a formal, rigorous and transparent procedure in respect of appointments to the Board.

Evaluating the structure, size and composition of the Board.

Reviewing leadership of the Group and giving consideration to succession planning.

More information
Nomination Committee Report, pages 47 to 48.

Remuneration Committee

Chairman
Andrew Harrison

Members
Robert Legget

Key responsibilities
Proposing the overarching principles, parameters and governance framework of the Group's remuneration policy.

Determining the remuneration and benefits packages of the Executive Directors.

More information
Remuneration Committee Report, pages 52 to 69.

Members
- Executive Chairman
- Chief Financial Officer
- Executive Director and Managing Director of Energy Services
- Managing Directors of Property Services, Compliance Services and Construction
- Company Secretary
- Group Commercial Director

Key responsibilities
Assist the Executive Chairman in the performance of his duties, including development and implementation of the strategic plan. Deal with all executive business of the Group not specifically reserved to the Board or its Committees, including operational management of the business and the implementation of appropriate systems and controls.

The role and structure of the Board

The Board is responsible for leading and controlling the Group and has overall authority for the management and conduct of the Group's business, strategy and development. The Board is also responsible for ensuring the maintenance of a sound system of internal controls and risk management (including financial, operational and compliance controls) and for reviewing the overall effectiveness of systems in place as well as for the approval of any changes to the capital, corporate and/or management structure of the Group.

The Board operates in accordance with the Company's Articles of Association and the Board's written 'Matters Reserved for the Board'. The Board has three formally constituted Committees, the Audit Committee, the Nomination Committee and the Remuneration Committee, each of which operates with defined terms of reference. The terms of reference of the three Committees are available on the Company's website.

The Matters Reserved for the Board are set out in written terms of reference and are available on the Company's website at **www.lakehouse.co.uk/investors/corporate-governance/board-and-committee-terms-reference**.

UK Corporate Governance Code 2014 – Compliance Statement

In September 2014, the Financial Reporting Council ('FRC') published an edition of the Corporate Governance Code (the 'Code') which is applicable for financial years beginning before 17 June 2016. The main principles of the Code provide the framework for the reporting model which we have used for the last two years.

Lakehouse plc has applied all the main principles of the Code for the year to 30 September 2016 and from that date to the date of the publication of this Annual Report save as noted below:

Code Provision A.2.1

Detail — requires that the roles of Chairman and Chief Executive should not be exercised by the same individual.

Explanation of non-compliance — in the period to 21July 2016 the Company was compliant with Provision A.2.1 of the Code. Bob Holt was appointed as Executive Chairman on 21 July 2016 and his appointment was confirmed by shareholders at a General Meeting of the Company on 9 August 2016. The Board believes that Bob Holt's expertise and background in the support services industry, in particular his knowledge, considerable experience and reputation in the sector and his track record of turning around under-performing companies, makes him highly qualified for the position of Executive Chairman as the Board seeks to restore value for shareholders.

Code Provision A.3.1

Detail — requires that the Chairman should, on appointment, meet the independence criteria in provision B.1.1.

Explanation of non-compliance — in the period to 8 March 2016 Stuart Black served as Executive Chairman and in that period the Company was not compliant with Provision A.3.1 of the Code. Bob Holt was appointed as Executive Chairman on 21 July 2016 and his appointment was confirmed by shareholders at a General Meeting of the Company on 9 August 2016. The Board has given due and careful consideration to any potential conflicts of interest that may arise as a consequence of Bob Holt undertaking the role whilst retaining his position as Non-Executive Chairman of Mears Group PLC and his directorship of other companies listed in the Annual Report. Although the Board recognises there may be occasions where such conflicts arise the Board believes that the number and extent of such conflicts is likely to be minimal as a consequence of there being limited overlap between the nature of the operations of Mears Group PLC and other companies listed in the Annual Report of which he is a director and the operations of Lakehouse. The Board is satisfied that the existing procedures and processes it has in place are sufficient to ensure that any such conflicts, should they arise, are appropriately managed.

Code Provision B.1.2

Detail — requires that a smaller company should have at least two independent non-executive directors.

Explanation of non-compliance — in the year to 30 September 2016 and in the period to 30 November 2016 the Company was compliant with Provision B.1.2 of the Code. As at the date of publication of the Annual Report the Board includes two Non-Executive Directors. The Non-Executive Director Andrew Harrison is an Executor and Trustee of the Estate of Steve Rawlings. Andrew Harrison is Chairman of the Remuneration Committee and a member of the Audit and Nomination Committee. It is the intention of the Board to seek to appoint an additional Non-Executive Director to the Board in due course.

Code Provisions B.6.1 and B.7.2

Detail — the Board did not undertake an annual evaluation of its own performance and that of its Committees and individual Directors.

Explanation of non-compliance — in view of the changes that occurred in the year in the composition and membership of the Board it was agreed to defer a planned internal evaluation by the Board of its own performance. During the coming year it is intended that an internal performance evaluation will be undertaken.

Corporate Governance report

The Board currently consists of three Executive Directors, including the Executive Chairman and two Non-Executive Directors.

The Board meets formally at least 10 times a year, with additional ad-hoc meetings called as and when circumstances require. There is an annual calendar of agenda items to ensure that all matters are given due consideration and are reviewed at the appropriate point in the financial calendar.

In the year to 30 September 2016 there were 11 scheduled Board meetings and a significant number of ad-hoc meetings. There were also a number of meetings of Board Committees.

The table below shows the Directors' attendance in the year at scheduled Board and Committee meetings they were eligible to attend:

Director	Board scheduled meetings	Audit	Remuneration	Nomination
Executive Directors				
Bob Holt[1]	2/2	—	—	—
Jeremy Simpson	11/11	—	—	—
Michael McMahon	10/11	—	—	—
Stuart Black[2]	7/7	—	—	—
Sean Birrane[3]	5/5	—	—	—
Non-Executive Directors				
Robert Legget[4]	6/6	2/2	4/4	1/1
Andrew Harrison[5]	2/2	1/1	2/2	—
Ric Piper[6]	6/6	—	—	1/1
Steve Rawlings[7]	3/4	0/1	1/2	0/1
Chris Geoghegan[8]	5/5	1/1	3/3	—
Jill Ainscough[9]	8/9	1/2	5/5	1/1
Johnathan Ford[10]	7/8	2/2	4/5	1/1

Notes

1. Bob Holt was appointed as a Director on 21 July 2016.
2. Stuart Black resigned as a Director on 21 April 2016.
3. Sean Birrane resigned as a Director on 8 March 2016.
4. Robert Legget was appointed as a Director on 18 April 2016.
5. Andrew Harrison was appointed as an Alternate Director on 3 June 2016 and appointed as a Director on 26 July 2016.
6. Ric Piper was appointed as a Director on 18 April 2016, resigned 30 November 2016.
7. Steve Rawlings was appointed as a Director on 18 April 2016, Mr Rawlings died on 23 July 2016.
8. Chris Geoghegan resigned as a Director on 18 April 2016.
9. Jill Ainscough resigned as a Director on 4 July 2016.
10. Johnathan Ford resigned as a Director on 20 June 2016.

All Directors are expected to attend all meetings of the Board and any Committees of which they are a member and are expected to devote sufficient time to the Company's affairs to fulfil their duties as Directors.

Key Board roles and responsibilities

Whilst the Code recommends that the role of Chairman and Chief Executive should not be performed by the same individual, the Board believes that Bob Holt's expertise and background in the support services industry, in particular his knowledge, considerable experience and reputation in the sector and his track record of turning around under-performing companies is of considerable benefit to the Group and makes him highly qualified for the position of Executive Chairman as the Board seeks to restore value for shareholders.

Senior Independent Director

The Code recommends that the Board of Directors of a company with a premium listing on the Official List should appoint one of the Non-Executive Directors to be the Senior Independent Director to act as a sounding board for the Chairman and to support him in the delivery of his objectives. The Senior Independent Director is also responsible for leading the Non-Executive Directors in monitoring and evaluating the performance of the Executive Chairman, leading on Corporate Governance issues and being available to shareholders if they have any concerns which contact through the normal channels of the Chairman or the Chief Financial Officer has failed to resolve or for which such communication is inappropriate. Robert Legget has been appointed as the Company's Senior Independent Non-Executive Director.

Audit Committee

The Audit Committee is comprised of the Non-Executive Directors. The Interim Chairman of the Audit Committee is Robert Legget, who was appointed on 20 June 2016.

The main roles and responsibilities of the Audit Committee are set out in written terms of reference and are available on the Company's website at **www.lakehouse.co.uk/investors/corporate-governance/board-and-committee-terms-reference**.

Details of the Audit Committee's activities can be found in the Audit Committee Report on pages 49 to 51.

The Remuneration Committee

The Remuneration Committee is comprised of the Non-Executive Directors. The Chairman of the Remuneration Committee is Andrew Harrison, who was appointed on 1 August 2016.

The main roles and responsibilities of the Remuneration Committee are set out in written terms of reference and are available on the Company's website at **www.lakehouse.co.uk/investors/corporate-governance/board-and-committee-terms-reference**.

Details of the Remuneration Committee's activities can be found in the Remuneration Committee Report on pages 52 to 69.

The Nomination Committee

The Nomination Committee is comprised of the Non-Executive Directors and the Executive Chairman. The Nomination Committee Chairman is Robert Legget, who was appointed on 22 July 2016.

The main roles and responsibilities of the Nomination Committee are set out in written terms of reference and are available on the Company's website at **www.lakehouse.co.uk/investors/corporate-governance/board-and-committee-terms-reference**.

Details of the Nomination Committee's activities can be found in the Nomination Committee Report on pages 47 to 48.

Balance and independence

In accordance with the main principle B.1 of the Code, the Board and its Committees have an appropriate balance of skills, experience and knowledge of the Group to enable them to discharge their respective duties and responsibilities effectively. The size and composition of the Company's Board is kept under review by the Nomination Committee and the Board to ensure an appropriate balance of skills and experience is maintained.

The Code recommends, in the case of a FTSE 350 company, that at least half the board of directors (excluding the Chairman) should comprise 'independent' non-executive directors. Where a company is outside the FTSE 350, the Code recommends that the Board of Directors comprise at least two 'independent' Non-Executive Directors. The Board comprises three Executive Directors, including the Executive Chairman and two Non-Executive Directors. The two Non-Executive Directors comprise Robert Legget, Senior Independent Director, and Andrew Harrison. The Non-Executive Director Andrew Harrison is an Executor and Trustee of the Estate of Steve Rawlings. It is the intention of the Board to seek to appoint an additional Non-Executive Director in due course.

Bob Holt was appointed as Executive Chairman on 21 July 2016 and his appointment was confirmed by shareholders at a General Meeting of the Company on 9 August 2016. The Board has given due and careful consideration to any potential conflict of interest that may arise as a consequence of Bob Holt undertaking the role whilst retaining his position as Non-Executive Chairman of Mears Group PLC and his directorships of other companies listed in the Annual Report. Although the Board recognises there may be occasions where such conflicts arise the Board believes that the number and extent of such conflicts is likely to be minimal as a consequence of there being limited overlap between the nature of the operations of Mears Group PLC and other companies of which he is a director and the operations of Lakehouse. The Board is satisfied that the existing procedures and processes it has in place are sufficient to ensure that any such conflicts, should they arise, are appropriately managed.

Commitment

The terms of appointment of the Non-Executive Directors specify the amount of time they are expected to devote to the Company's business. They are currently expected to commit to a minimum of two days per month, which is calculated based on the time required to prepare for and attend Board and Committee meetings and additional duties such as attendance at the AGM and meetings with shareholders.

Length of appointment

Non-Executive Directors are appointed for terms of three years, which may be renewed, subject to the particular Director being re-elected by shareholders, for up to a normal maximum of three terms (nine years).

Conflicts of interest

The Company's Articles of Association set out the policy for dealing with Directors' conflicts of interest and are in line with the Companies Act 2006. The Board has a formal system in place for Directors to declare conflicts of interest and for such conflicts to be considered for authorisation.

Training and development

Upon their appointment all Directors received an induction programme arranged by the Company Secretary, including meetings with key members of senior management in order to familiarise themselves with the Group.

Information and support

To enable the Board to function effectively and to assist the Directors in discharging their responsibilities, full and timely access is given to all relevant information to the Board. In the case of Board meetings this consists of a formal agenda and a comprehensive set of papers, including regular business progress reports. An established procedure is in place to ensure that such information is provided to Directors in a timely manner in advance of meetings. Specific business-related presentations are given by senior management when appropriate.

The Company Secretary works closely with the Chairman and the chairmen of the Board Committees to ensure that Board procedures, including setting agendas and the timely distribution of papers, are complied with and that there are good communication flows between the Board and its Committees, and between senior management and Non-Executive Directors. The Company Secretary is also available to all Directors to provide advice and support, including facilitating induction programmes. All Directors are able to take independent professional advice at the Company's expense in the furtherance of their duties where considered necessary.

Corporate Governance report

Re-election of Directors

In accordance with the UK Corporate Governance Code, all the Directors will stand for re-election at the Annual General Meeting on 31 March 2017. The Board recommends that all the Directors be re-elected.

Whistleblowing

The Company has established procedures by which employees may, in confidence, raise concerns relating to some danger, fraud, or other illegal or unethical conduct in the workplace. The whistleblowing policy applies to all employees of the Group, and also consultants, casual workers and agency workers. The Audit Committee is responsible for monitoring the Group's whistleblowing arrangements and the policy is reviewed periodically by the Board.

Dialogue with shareholders

In the year to 30 September 2016 the Executive Directors and members of the Board have met and had dialogue with a large number of shareholders and investors.

The Company aims to maintain an active dialogue with key stakeholders, including institutional investors, to discuss issues relating to the performance of the Group, including strategy and new developments. As indicated above, the Senior Independent Director is available to discuss any matter shareholders might wish to raise and attends meetings with investors as required.

The Company's website includes a specific investor relations section containing all RNS announcements, share price information, annual documents available for download and similar materials.

Constructive use of the Annual General Meeting

The Company's Annual General Meeting will take place on 31 March 2017 at the offices of Eversheds LLP, 1 Wood Street, London EC2V 7WS. A separate notice convening the Annual General Meeting is being sent out with this Report and financial statements. Separate votes are held for each proposed resolution. At the Annual General Meeting, after the formal business has been concluded, the Chairman will welcome questions from shareholders. All Directors attend the meeting, at which they have the opportunity to meet with shareholders. Details of the resolutions to be proposed at the Annual General Meeting on 31 March 2017 and an explanation of the items of special business can be found in the circular that contains the notice convening the Annual General Meeting.

Approved by order of the Board

Bob Holt
Executive Chairman
23 January 2017

Corporate Governance report

Nomination Committee report

Robert Legget
Chairman of the Nomination Committee

Dear Shareholder,

On behalf of the Board it is my pleasure to present the Nomination Committee Report for the year to 30 September 2016, having been appointed as Chairman of the Nomination Committee on 22 July 2016.

Key responsibilities

The key responsibilities of the Nomination Committee are to:

- Review the structure, size and composition of the Board, including the skills, knowledge, experience and diversity of Directors
- Give full consideration to succession planning for Directors and other senior executives
- Keep under review the leadership needs of the organisation
- Identify and nominate for the approval of the Board candidates to fill Board vacancies

The terms of reference of the Nomination Committee are available to view at **www.lakehouse.co.uk/investors/corporate-governance/board-and-committee-terms-reference**.

Membership of the Nomination Committee and attendance during the year

The Nomination Committee comprises the Non-Executive Directors of the Company and the Executive Chairman. Robert Legget, Andrew Harrison and Bob Holt are the current members of the Committee.

The other members of the Committee who served during the year were Ric Piper (who served as the Chairman of the Nomination Committee from 19 April 2016 to 22 July 2016), Chris Geoghegan (who served as the Chairman of the Committee to 19 April 2016), Jill Ainscough, Stuart Black, Johnathan Ford and Steve Rawlings.

On 8 March 2016 the Company announced the resignation of Sean Birrane as Chief Executive Officer and as a Director of the Company with effect from 14 March 2016. Stuart Black moved from his role as Executive Chairman to become Chief Executive Officer and Chris Geoghegan, the Senior Independent Non-Executive Director became Non-Executive Chairman of the Company. On 9 March 2016 the Company announced it had received a notice from shareholders representing more than 5% of the share capital of the Company requisitioning a general meeting and proposing resolutions that the three current Non-Executive Directors of the Company be removed to be replaced by Steve Rawlings, Ric Piper and Robert Legget.

On 18 April 2016 Chris Geoghegan resigned from the Board with immediate effect and Steve Rawlings, Ric Piper and Robert Legget were appointed to the Board as Non-Executive Directors, Ric Piper was appointed as Chairman and Robert Legget as Senior Independent Director. Stuart Black resigned as Chief Executive Officer on 21 April 2016.

Steve Rawlings appointed Andrew Harrison as his Alternate Director on 3 June 2016.

On 20 June 2016 Johnathan Ford resigned as a Non-Executive Director and on 4 July 2016 Jill Ainscough announced her resignation from the Board with immediate effect.

The Company announced the appointment on 21 July 2016 of Bob Holt as Executive Chairman of the Company and that Ric Piper would step down as Non-Executive Chairman but would remain as a Non-Executive Director of the Company. Bob Holt's appointment as Executive Chairman was approved by shareholders at a general meeting of the Company on 9 August 2016.

The Non-Executive Director of the Company, Steve Rawlings, died on 23 July 2016. On 26 July 2016 the Company announced the appointment of Andrew Harrison as a Non-Executive Director of the Company.

Attendance table

	Committee meetings attended	Committee meetings eligible to attend
Robert Legget, Chairman[1]	1	1
Ric Piper[2]	1	1
Steve Rawlings[3]	0	1
Johnathan Ford[4]	1	1
Jill Ainscough[5]	1	1
Chris Geoghegan[6]	0	0
Stuart Black[7]	0	0
Bob Holt[8]	0	0
Andrew Harrison[9]	0	0

1. Robert Legget was appointed as a member of the Nomination Committee on 19 April 2016 and as Chairman of the Nomination Committee on 22 July 2016.
2. Ric Piper was appointed as Chairman of the Nomination Committee on 19 April 2016 and resigned from the Nomination Committee on 22 July 2016.
3. Steve Rawlings was appointed as a member of the Nomination Committee on 19 April 2016. Mr Rawlings died on 23 July 2016.
4. Johnathan Ford resigned as a member of the Nomination Committee on 20 June 2016.
5. Jill Ainscough resigned as a member of the Nomination Committee on 4 July 2016.
6. Chris Geoghegan resigned as Chairman and as a member of the Nomination Committee on 18 April 2016.
7. Stuart Black resigned as a member of the Nomination Committee on 20 April 2016.
8. Bob Holt was appointed as a member of the Nomination Committee on 22 July 2016.
9. Andrew Harrison was appointed as a member of the Nomination Committee on 26 July 2016.

The Board acknowledges that diversity extends beyond the boardroom and supports the management efforts to build a diverse organisation. The Board believes in promoting diversity at all levels of the organisation. 20.7% of Lakehouse employees are women. At present 20.7% of our senior management team are female. When considering the optimum composition of the Board, it is believed all appointments should be made on merit, whilst ensuring an appropriate balance of skills and experience within the Board.

Action plan for 2016/17

During the year the Board gave consideration to the induction programme for new Directors. In view of the changes to the composition and membership of the Board that occurred in the year the decision was taken to defer a planned Board performance evaluation. In accordance with the UK Corporate Governance Code, it is intended the Board will undertake such a performance review in 2017.

In order to maintain an appropriate balance of Executive and Non-Executive Directors, Directors will seek to strengthen the Board with the appointment of an additional Non-Executive Director in due course.

Approved on behalf of the Board by:

Robert Legget
Chairman of the Nomination Committee
23 January 2017

Corporate Governance report
Audit Committee report

Robert Legget
Interim Chairman of the Audit Committee

Dear Shareholder,

It is my pleasure to present the Audit Committee Report for the year ended 30 September 2016. I was appointed as Interim Chairman of the Audit Committee on 20 June 2016, succeeding Johnathan Ford as Audit Committee Chairman.

Committee meetings

The Committee met three times during the year. The meetings are attended by Committee members and, by invitation, the Chief Financial Officer, senior management and representatives from the external and internal auditors. Once a year, the Committee meets separately with the external auditor without management being present.

Roles and responsibilities

The primary function of the Audit Committee is to assist the Board in discharging its responsibilities with regard to financial reporting and the external and internal controls, including:

- Reviewing and monitoring the integrity of the Group's annual and interim financial statements, and accompanying reports to shareholders and Corporate Governance statements
- Reporting to the Board on the appropriateness of the accounting policies and practices
- In conjunction with the Board, reviewing and monitoring the effectiveness of the Group's internal control and risk management systems, including reviewing the process for identifying, assessing and reporting all key risks (see the Principal Risks and Uncertainties Review on pages 30 to 33)
- Reviewing the effectiveness of the Group's internal audit process and approving the forward audit plan
- To make recommendations to the Board in relation to the appointment and removal of the external auditor and to approve their remuneration and terms of engagement
- To review and monitor the external auditor's independence, objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- Reviewing and monitoring the extent of the non-audit work undertaken by the Group's external auditor, taking into account relevant professional and regulatory requirements
- Reviewing the adequacy and effectiveness of the whistleblowing and anti-bribery policy and procedures

The Committee's terms of reference are available to view at **www.lakehouse.co.uk/investors/corporate-governance/board-and-committee-terms-reference**.

The Committee is comprised of financially literate members with the requisite ability and experience to enable the Committee to discharge its responsibilities. Robert Legget and Andrew Harrison are the current members of the Committee. The Chairman of the Audit Committee, Robert Legget, is a member of the Institute of Chartered Accountants of Scotland. Johnathan Ford (who served as Chairman of the Audit Committee to 20 June 2016) also had recent relevant financial experience. The other members of the Committee who served during the year were Steve Rawlings, Chris Geoghegan and Jill Ainscough.

Activities of the Committee

During the course of the year the Committee undertook the following:

- Reviewed and discussed with the external auditor the key accounting considerations and judgements reflected in the Group's results for the six-month period ended 31 March 2016
- Reviewed and agreed the external auditor's audit plan in advance of their audit for the year ended 30 September 2016
- Discussed the report received from the external auditor regarding their audit in respect of the year ended 30 September 2016, which includes comments on their findings on internal control and a statement on their independence and objectivity
- Received the reports from the internal auditor covering various aspects of the Group's operations, controls and procedures and agreed actions for management to take to address any findings
- Commissioned and received a report from the internal auditor covering improving the Group's planning and forecasting capabilities
- Reviewed and approved the non-audit assignments undertaken by the external auditor in the year to 30 September 2016
- Reviewed, together with the Board, the Principal Risks and Uncertainties Review

Corporate Governance report

Audit Committee report continued

Significant accounting matters

The significant issues and accounting judgements considered by the Committee and discussed with the external auditor during the year were:

- Revenue recognition, specifically the timing of when to recognise revenue, given both the length of contracts and any future contractual obligations
- Accounting for contract work in progress, which is linked to the judgements taken around revenue recognition on contracts
- The fair value accounting treatment of acquisitions, specifically focused on the valuation of identified intangible assets and the valuation of contingent consideration of previously acquired entities
- Consideration of the impairment of goodwill, other intangibles and investment balances
- Contract disputes and the provisions taken against receivables in a small number of contractual settlements on which there are a range of possible outcomes for the Group in terms of both cash flow and the impact on the income statement
- Impairment of goodwill and intangible assets, and in particular the impairment assessment of the goodwill attributable to the Foster acquisition and Providor and the Provider customer intangible asset
- The calculation and disclosure of Exceptional and Other Items, which include exceptional costs that are not expected to recur; the valuation and completeness of material liabilities and losses from activities from which the Company is exiting

The Committee is satisfied that the judgements made are reasonable and appropriate disclosures have been included in the accounts.

External auditor

The Group's external auditor is Deloitte LLP. Deloitte was first appointed as auditor to Lakehouse Holdings Limited in 2014 following an external audit tender and subsequently to Lakehouse plc in March 2015. Deloitte is subject to annual reappointment by shareholders.

The Board is very aware that the effectiveness and independence of the external auditor is central to ensuring the integrity of the Group's published financial information. During the year the Audit Committee took the following steps to ensure that auditor independence was not compromised:

- The Committee annually reviews the Company's relationship with its auditor and assesses the level of controls and procedures in place to ensure the required level of independence and that the Company has an objective and professional relationship with Deloitte
- The external auditor may also provide tax advisory services in respect of acquisitions, given its knowledge of the Group's activities in the year to 30 September 2016. Such non-audit services are however assessed on a case-by-case basis to ensure the best placed adviser is retained. The Audit Committee monitors the application of the Group's policy in this regard and keeps the policy under review
- The Audit Committee reviews all fees paid for the audit and all non-audit fees with a view to assessing the reasonableness of fees, and any independence issues that may have arisen or may potentially arise in the future. From 1 October 2016 the external auditor provided no further tax advisory services in line with the requirements of the new Ethical Standards for public interest entities
- The external auditor's report to the Directors and the Audit Committee confirming their independence in accordance with Auditing Standards. In addition, the Auditing Practices Board Ethical Standard 3 requires audit partner rotation every five years for listed companies. The current audit partner (Paul Schofield) was appointed for the year ended 30 September 2014
- In order to meet the requirements set by the UK Corporate Governance Code, the Competition and Markets Authority and the European Commission the Company will hold an audit tender at the latest after the current external auditor has been in place for a period of 10 years

Non-audit services

The Audit Committee has adopted a formal policy Governing the engagement of the auditor to provide non-audit services. This policy describes the circumstances in which the auditor may be engaged to undertake non-audit work for the Group. The Committee recognises that the auditor may be best placed to undertake certain non-audit work and engagements for non-audit services that are not prohibited. These are subject to formal review by the Audit Committee based on the level of fees involved. Following the adoption by the UK Financial Reporting Council of certain parts of the EU Regulation and Directive on Audit Reform that governs permissible non-audit services provided by the auditor, the external auditor may not be in a position to provide such non-audit work in future.

In the year to 30 September 2016, audit fees totalled £324,000 and non-audit fees totalled £70,000. Non-audit fees represented 18% of the total fees paid to the external audit of £394,000. Non-audit fees in the year to 30 September 2016 are detailed in the following table:

Nature of service	£'000
Audit-related assurance services (including interim profits verification)	22
Tax compliance and advice	48
Total non-audit services	70

Risk management and internal controls

The Audit Committee is responsible for monitoring the financial reporting process and for reviewing the effectiveness of the Group's system of internal controls. The system of internal controls is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and the Board can only provide reasonable and not absolute assurance against material misstatement or loss. The Board has established a clear organisational structure with defined authority levels. The day-to-day running of the Group's business is delegated to the Executive Directors of the Group, who meet with both operational and finance management in each business area on a monthly basis. Key financial and operational measurements are reported on a monthly basis and are measured against both budget and reforecasts.

The Group maintains a Group risk register and risk registers for each business within the Group which outline the key risks faced by the Group, including their impact and likelihood and relevant mitigation controls and actions. The Group and business risk registers are reviewed and updated by management on a semi-annual basis to ensure the key strategic, operational, financial and accounting risks are captured and prioritised and to identify the risk management activities for each risk. The risk registers for each business area are used to update the Group risk register and a summary of the key risks are presented to the Audit Committee semi-annually.

The risks and uncertainties which are judged currently to have the most significant impact on the Group's long term performance and prospects are set out on pages 30 to 33.

Internal audit

Internal audit plays an important role in assessing the effectiveness of internal controls by a programme of reviews of key business risks across the Group. RSM acts as internal auditor to the Company. Internal audit are in regular dialogue with the Chief Financial Officer and Group Financial Controller. Where control deficiencies are noted, the internal auditor will perform follow-up reviews.

During the year the Audit Committee approved an internal audit plan for 2016 and met regularly with RSM to review and progress the Group's internal audit plan. The Audit Committee will continue to monitor the effectiveness of internal audit plans in accordance with the Group's ongoing requirements.

Membership of the Audit Committee

The Audit Committee comprises the Non-Executive Directors of the Company. The Audit Committee is chaired by Robert Legget, who has recent and relevant financial experience. He is a member of the Institute of Chartered Accountants of Scotland. Johnathan Ford, who served as Chairman of the Audit Committee to 20 June 2016, also had recent and relevant financial experience.

Attendance table

	Committee meetings attended	Committee meetings eligible to attend
Robert Legget[1]	2	2
Andrew Harrison[2]	1	1
Steve Rawlings[3]	0	1
Johnathan Ford[4]	2	2
Chris Geoghegan[5]	1	1
Jill Ainscough[6]	1	2

1. Robert Legget was appointed as a member of the Audit Committee on 18 April 2016 and appointed as Interim Chairman of the Audit Committee on 20 June 2016.
2. Andrew Harrison was appointed as a member of the Audit Committee on 26 July 2016.
3. Steve Rawlings was appointed as a member of the Audit Committee on 18 April 2016. Mr Rawlings died on 23 July 2016.
4. Johnathan Ford resigned as Chairman of the Audit Committee and a member of the Committee on 20 June 2016.
5. Chris Geoghegan resigned as a member of the Audit Committee on 18 April 2016.
6. Jill Ainscough resigned as a member of the Audit Committee on 4 July 2016.

Following the year end, the Committee has met to approve the Group's Annual Report and Financial Statements.

Robert Legget
Interim Chairman of the Audit Committee
23 January 2017

Directors' remuneration report

Remuneration Committee Chairman's annual statement

Andrew Harrison
Chairman of the Remuneration Committee

Dear Shareholder,

This is the Directors' Remuneration Report for the year to 30 September 2016, which I make having been appointed as Chairman of the Remuneration Committee on 1 August 2016.

The report is in two sections: the Annual Report on Remuneration and the Directors' Remuneration Policy Report.

The Annual Report on Remuneration on pages 53 to 60 provides details of each Director's pay and benefits in the year to 30 September 2016 and how the Directors' Remuneration Policy will apply for the year commencing 1 October 2016. The Annual Report on Remuneration will be subject to a non-binding vote at the next Annual General Meeting due to be held on 31 March 2017.

The Directors' Remuneration Policy Report on pages 61 to 69 sets out the pay and benefits policy that was approved by shareholders at a general meeting held on 9 August 2016. We do not propose to change it for 2017. Accordingly, shareholders will not be asked to vote on the policy at the Annual General Meeting.

Objectives of the remuneration policy

The Remuneration Committee tries to ensure that a Director's remuneration encourages, reinforces and rewards the growth of shareholder value and promotes the long term success of the Company. The Directors' Remuneration Policy for Executive Directors is intended to support the business needs of the Company and to ensure it has the ability to attract, motivate and retain senior leaders of a high calibre, remains competitive and provides appropriate incentive for good performance. The Executive Directors' remuneration should also:

- Align executives with the best interests of the Company's shareholders and other relevant stakeholders through a significant weighting on performance-related pay
- Be consistent with regulatory and Corporate Governance requirements
- Be straightforward and transparent and support the delivery of strategic objectives
- Be consistent with the Group's risk policies and systems to guard against inappropriate risk taking

Review of 2016

Lakehouse had a disappointing year and significantly under-performed against market expectations. This led to Board changes, which have been well publicised. As a consequence, termination payments were paid to Stuart Black and Sean Birrane, a new non-executive team was appointed and Bob Holt was appointed as Executive Chairman in July 2016.

The Board recommended (and the shareholders approved) a remuneration package for Bob Holt. A Special Incentive Award Plan, which rewards Bob Holt if the share price rises over the next two years, was approved by shareholders at a General Meeting on 9 August 2016.

In addition, the shareholders approved a change to the Directors' Remuneration Policy.

Outlook for 2017

For the current financial year to 30 September 2017 the Remuneration Committee is proposing the following elements for the remuneration of Executive Directors:

- No increase in annual salary is being awarded to the Executive Directors in their current roles for the new financial year. There has been no base salary increase for the wider employee population either
- The annual bonus potential for Executive Directors remains unchanged. They may earn up to a maximum of 100% of base salary dependent on key financial performance indicators. These are clear financial targets based on the achievement of adjusted profit and return of capital measures. The Committee is satisfied that these are challenging and, in order for the maximum bonus to be earned, will demonstrate significant improvement in the profit performance of the business
- It is intended that PSP awards in 2016/17 will be made on a similar basis to the 2015/16 awards, with Michael McMahon and Jeremy Simpson receiving the equivalent of 100% of their salary

Approved on behalf of the Board by:

Andrew Harrison
Chairman of the Remuneration Committee
23 January 2017

Directors' remuneration report

Annual report on remuneration

Certain details set out on pages 53 to 60 of this report have been audited by Deloitte LLP.

This section of the Directors' Remuneration Report sets out details of the remuneration the Executive and Non-Executive Directors received during the financial year ended 30 September 2016 and details of how we intend to implement the remuneration policy in the forthcoming year. The Annual Report on Remuneration will, together with the annual statement of the Chairman of the Remuneration Committee on page 52, be proposed for a single advisory vote by shareholders at the forthcoming Annual General Meeting to be held on 31 March 2017.

Single total figures of remuneration (audited information)

The tables below report the total remuneration received in respect of qualifying services by each Director during the year.

2016	Total salary and fees[1] £'000	Taxable benefits[2] £'000	Annual bonus[3] £'000	Long Term Incentive[4] £'000	Pensions related benefits £'000	Total £'000
Executive Directors						
Bob Holt[5]	13	—	—	—	—	13
Jeremy Simpson	260	16	nil	n/a	47	323
Michael McMahon	200	19	nil	n/a	30	249
Stuart Black[6]	158	12	nil	n/a	33	203
Sean Birrane[7]	150	16	nil	n/a	40	206
Non-Executive Directors						
Robert Legget[8]	23	—	—	—	—	23
Andrew Harrison[9]	8	—	—	—	—	8
Ric Piper[10]	125	—	—	—	—	125
Steve Rawlings[11]	11	—	—	—	—	11
Chris Geoghegan[12]	43	—	—	—	—	43
Jill Ainscough[13]	37	—	—	—	—	37
Johnathan Ford[14]	37	—	—	—	—	37

Notes:

1. Total salary and fees — the amount of salary/fees received in the year.
2. Taxable benefits — the taxable value of benefits received in the year (i.e. car allowance and private medical insurance).
3. Annual bonus — the cash value of the bonus earned in respect of the year. A description of performance against the objectives which applied for the year are set out on page 55.
4. Long Term Incentive — There were no long term incentive awards with performance periods vesting in the respective years.
5. Bob Holt was appointed to the Board as Executive Chairman on 21 July 2016.
6. Stuart Black served as Executive Chairman to 8 March 2016 and as Chief Executive Officer from 8 March 2016 to 21 April 2016. Stuart Black resigned as a Director on 21 April 2016.
7. Sean Birrane served as Chief Executive Officer to 8 March 2016. Sean Birrane resigned as a Director on 14 March 2016.
8. Robert Legget was appointed as a Director on 18 April 2016.
9. Andrew Harrison was appointed as an Alternate Director 3 June 2016 and appointed as a Director 26 July 2016.
10. Ric Piper was appointed as a Director on 18 April 2016 and resigned as a Director on 30 November 2016. Ric Piper served as Non-Executive Chairman from 18 April 2016 to 21 July 2016.
11. Steve Rawlings was appointed as a Director on 18 April 2016. Mr Rawlings died 23 July 2016.
12. Chris Geoghegan was Senior Non-Executive Director of the Company to 8 March 2016 and served as Non-Executive Chairman from 8 March 2016 to 18 April 2016. Chris Geoghegan resigned as a Director on 18 April 2016.
13. Jill Ainscough resigned as a Director on 4 July 2016.
14. Johnathan Ford resigned as a Director on 20 June 2016.

Single total figures of remuneration (audited information) continued

2015	Total salary and fees[1] £'000	Taxable benefits[2] £'000	Annual bonus[3] £'000	Long Term Incentive[4] £'000	Pensions related benefits £'000	Total £'000
Executive Directors						
Bob Holt	—	—	—	—	—	—
Jeremy Simpson	218	14	245	n/a	24	501
Michael McMahon	177	8	nil	n/a	29	214
Stuart Black	250	8	nil	n/a	17	275
Sean Birrane	246	20	25	n/a	25	316
Non-Executive Directors						
Robert Legget	—	—	—	—	—	—
Andrew Harrison	—	—	—	—	—	—
Ric Piper	—	—	—	—	—	—
Steve Rawlings	—	—	—	—	—	—
Chris Geoghegan	25	—	—	—	—	25
Jill Ainscough	25	—	—	—	—	25
Johnathan Ford	25	—	—	—	—	25

Payments for loss of office

Sean Birrane ceased to be a Director of the Company on 14 March 2016. After ceasing to be a Director but while remaining an employee of the Company between 14 March and 4 September 2016, Sean Birrane received remuneration payments of £161,706 in accordance with his service agreement dated 18 March 2015. These payments comprised salary and car allowance. The Company made a termination payment to Sean Birrane of £163,432. This comprised a lump sum payment in lieu of notice in accordance with the terms of his service agreement.

Stuart Black ceased to be a Director of the Company on 21 April 2016 after giving notice of his resignation. After ceasing to be a Director but while remaining an employee of the Company in the period to 30 June 2016, Stuart Black received remuneration payments of £80,208 in accordance with his service agreement dated 8 March 2016. These payments comprised salary, cash payment in lieu of pension contributions and car allowance. The Company agreed to make Stuart Black a termination payment of £236,914. This comprised a payment in lieu of six months' notice calculated in accordance with the terms of Stuart Black's service agreement dated 8 March 2016. This payment was payable in two tranches in July and October 2016.

Non-Executive Directors who departed during the year were paid fees up to the date of cessation and received a payment of one month notice in accordance with the terms of their service agreement.

Total salaries and fees

For the year ended 30 September 2016 (audited information)

Bob Holt is engaged by the Company to act as Executive Chairman and was paid full time for a period of one month from 22 July to 21 August 2016 and thereafter was paid for three days service a week on the basis of an annual salary of £75,000. In addition Bob Holt is available to provide consultancy services to the Company and other Group companies on the basis of a daily fee for such consultancy services at £1,595 plus VAT. Such services are provided for two days per week over 47 weeks at a total cost of £150,000 p.a. resulting in a consultancy fee of £25,000 for the 2016 financial year.

Stuart Black was engaged by the Company to act as Executive Chairman for three days a week from 1 October 2015 to 8 March 2016 and from 8 March 2016 to 21 April 2016 as Chief Executive Officer.

The fees paid to Chris Geoghegan in the year to 30 September 2016 reflect the additional role undertaken in the period as Non-Executive Chairman from 8 March 2016 to 18 April 2016.

The fees paid to Ric Piper in the year to 30 September 2016 reflect the additional role undertaken in the period as Non-Executive Chairman from 18 April 2016 to 21 July 2016. Ric Piper continued to be paid at the rate of £100,000 p.a. in the period from 21 July 2016 to 30 November 2016.

For the year ended 30 September 2017 (unaudited information)

It is intended there will be no increase in Executive Director salaries awarded for 2016/17 for their current roles. This is in line with no increase in base salary for the wider employee population. The fees for Non-Executive Directors for their current roles are expected to remain at the same level as 2015/16.

Annual bonus

For the year ended 30 September 2016 (audited information)

An annual bonus plan operated for the financial year to 30 September 2016 which was based on EBITA targets (representing 80% of the maximum opportunity) and individual objectives (representing 20% of the maximum opportunity). No bonuses became payable in respect of the 2015/16 financial year.

For the year ended 30 September 2017 (unaudited information)

The Committee has agreed that the metrics used to determine the annual bonus for 2016/17 remain unchanged and the maximum bonus opportunity will remain at 100% of base salary. The bonus will be subject to stretching targets. The Committee believes that the targets for the financial measures for the forthcoming financial year are commercially sensitive and that to disclose them may damage the Company's competitive position. Targets will be published retrospectively in next year's Directors' Remuneration Report or at such point that the Remuneration Committee considers that the performance targets are no longer commercially sensitive.

Long term incentive vesting (audited information)

There were no long term incentive awards capable of vesting in 2015/16.

Long term incentive awards granted in 2015/16 (audited information)

Special Incentive Award Plan ('SIAP') approved by shareholders at a General Meeting held on 9 August 2016

The performance measures and targets for the SIAP award granted in the year ended 30 September 2016 are as follows:

	Shares awarded	Performance metrics	Vesting period
Bob Holt	2,307,692[1]	The performance condition is measured over a performance period beginning on the date on which Bob Holt is appointed as Executive Chairman of the Company and ending on the earlier of 31 January 2019 or the date of announcement of the results for the financial year ending 30 September 2018. Performance is based on absolute total shareholder return ('Absolute TSR') (calculated as the aggregate of the share price on the last dealing day of the performance period plus the value of any dividends paid during the two consecutive financial years of the Company commencing on 1 October 2016). The same performance target shall apply to all awards made under the SIAP. The multiplier applying to the award shall be as follows: ▪ If Absolute TSR is less than 58.57 pence, the multiplier shall be zero ▪ If Absolute TSR is equal to 58.57 pence, the multiplier shall be 0.6 ▪ If Absolute TSR is equal to 78.48 pence, the multiplier shall be 1.3 ▪ If Absolute TSR is greater than 58.57 pence but less than 78.48 pence, the multiplier shall be determined on a straight line basis between 0.6 and 1.3 ▪ If Absolute TSR is equal to or greater than 98.4 pence, the multiplier shall be 2 ▪ If Absolute TSR is greater than 78.48 pence but less than 98.4 pence, the multiplier shall be determined on a straight line basis between 1.3 and 2 The number of shares in respect of which the award may ultimately be exercised will be dependent upon the extent to which the performance conditions set out in the plan are satisfied but in all circumstances cannot exceed 4,615,384 shares.	The award will normally become capable of exercise on the day after the first to occur of (i) 31 January 2019 or (ii) the date that the audited financial results for the financial year ended 30 September 2018 are published ('Vesting Date') and will cease to be capable of exercise (and lapse) on the day immediately before the second anniversary of such Vesting Date.

1. An option over 2,307,692 shares was granted on 31 August 2016. The share price on date of grant was 39.5 pence. The exercise price of the options is £nil.

Directors' remuneration report
Annual report on remuneration continued

Long-term incentive awards granted in 2015/16 (audited information) continued
Performance Share Plan

The performance measures and targets for the PSP awards granted in the year ended 30 September 2016 are as follows:

	Basis of award granted	Shares awarded	Face value of award[1]	Percentage vesting for threshold performance	Vesting period
Michael McMahon[2]	100% of salary	220,580	£200,000	25%	EPS performance measured over the three years ended 30 September 2018. TSR performance measured over three years commencing on 1 October 2015. Awards will vest to participants on 31 December 2018.
Jeremy Simpson[2]	100% of salary	286,754	£260,000	25%	
Stuart Black[3]	100% of salary	253,667	£230,000	25%	
Sean Birrane[3]	100% of salary	330,870	£300,000	25%	

Notes

1. Face value based on a share price of 90.67p being the share price on the date of grant, 15 December 2015.
2. With respect to the award granted to Jeremy Simpson, no consideration is payable in order to exercise the awards set out above. In relation to the award granted to Michael McMahon, an exercise price of 10p per share (being the nominal value of an ordinary share in the capital of the Company) is payable in order to exercise such award. In normal circumstances each award will not be capable of being exercised prior to the vesting date.
3. PSP awards to Stuart Black and Sean Birrane lapsed on the date they ceased to be employees of the Company.

The PSP award was granted on 15 December 2015 in the form of nil-cost options to Jeremy Simpson and in the form of options with an exercise price of 10p to Michael McMahon and is subject to two performance conditions, relative total shareholder return and EPS growth.

Description	Weighting	Target
Earnings per share	66.7%	Earnings per share ('EPS')[1]
Total shareholder return	33.3%	Relative total shareholder return ('TSR')[2]

Notes

1. The EPS measure, which accounts for 66.7% of the award, is based on EPS compound annual growth as measured by comparing EPS relative to growth in the Retail Price Index over a three-year performance period to 30 September 2018. None of the award will vest if compound annual growth in EPS is less than the Retail Prices Index in the period plus 4% p.a., 25% will vest for RPI+4% p.a. growth and 100% will vest for RPI+12% p.a. growth or better.
2. The TSR target measures the Company's total shareholder return performance over a three-year performance period commencing on the date of Admission ('TSR Performance Period') relative to the constituents of the FTSE All-Share Business Support Services and of the FTSE All-Share Heavy Construction subsectors (excluding any company which is in the FTSE 100 Index) (the 'Comparator Group'). For a ranking below median, none of the element of the award will vest. For a median ranking 25% of this element of the award will vest, rising on a straight line basis to full vesting of this element for a ranking at or above upper quartile.

In addition, SIP awards were granted to Executive Directors and these are disclosed in the summary of share awards section overleaf.

Other directorships

The Executive Chairman, Bob Holt, is also a director of Mears Group PLC, Totally plc and DX (Group) Limited. These appointments were held prior to Bob Holt joining the Company.

A summary of SIAP, PSP and SIP share awards granted (audited information)

The table below sets out details of the Executive Directors' outstanding option awards under the SIAP, PSP and SIP plans.

Name of Director	Scheme	Number of options at 1 October 2015	Granted during the period	Lapsed during the period	Exercised during the period	Number of options at 30 September 2016	Date from which exercisable	Expiry date
Bob Holt	SIAP[1]	—	2,307,692	—	—	2,307,692	(Note 1)	(Note 1)
	Total	**—**	**2,307,692**	**—**	**—**	**2,307,692**		
Michael McMahon	PSP[2]	224,719	—	—	—	224,719	23 March 2018	23 March 2025
	PSP[2]	—	220,580	—	—	220,580	31 December 2018	31 December 2026
	SIP[3]	199	17	—	—	216		
	Total	**224,918**	**220,597**	**—**	**—**	**445,515**		
Jeremy Simpson	PSP[2]	292,134	—	—	—	292,134	23 March 2018	23 March 2025
	PSP[2]	—	286,754	—	—	286,754	31 December 2018	31 December 2026
	SIP[3]	199	17	—	—	216		
	Total	**292,333**	**286,771**	**—**	**—**	**579,104**		
Stuart Black[4]	PSP[2]	258,426	—	258,426	—	0	23 March 2018	23 March 2025
	PSP[2]	—	253,667	253,667	—	0	31 December 2018	31 December 2026
	SIP[3]	199	17	216	—	0		
	Total	**258,625**	**253,684**	**512,309**	**—**	**0**		
Sean Birrane[4]	PSP[2]	337,078	—	337,078	—	0	23 March 2018	23 March 2025
	PSP[2]	—	330,870	330,870	—	0	31 December 2018	31 December 2026
	SIP[3]	199	17	216	—	0		
	Total	**337,277**	**330,887**	**668,164**	**—**	**0**		

Notes

1. In relation to the SIAP award granted to Bob Holt no consideration is payable in order to exercise the award as set out above. The award will normally become capable of exercise on the day after the first to occur of (i) 31 January 2019 or (ii) the date that the audited financial results for the financial year ended 30 September 2018 are published ('Vesting Date') and will cease to be capable of exercise (and lapse) on the day immediately before the second anniversary of such Vesting Date. If the maximum performance is achieved under the SIAP award Bob Holt will be entitled to acquire 4,615,384 shares.
2. In relation to the PSP award granted to Jeremy Simpson no consideration is payable in order to exercise the awards set out above. In relation to the award granted to Michael McMahon, an exercise price of 10p per share (being the nominal value of an ordinary share in the capital of the Company) is payable in order to exercise such award. In normal circumstances each award will not be capable of being exercised prior to the vesting date.
3. On 2 April 2015 each of the Executive Directors were granted an award over 199 ordinary shares of the Company under the terms of the Lakehouse plc Share Incentive Plan ('SIP'). In each case the award was made as an award of free shares by Yorkshire Building Society in its capacity as the trustee of the SIP. In accordance with the rules of the SIP, no consideration was payable for the award of free shares granted to them. In the year to 30 September 2016 an additional award of 17 shares was made to Jeremy Simpson and Michael McMahon following the reinvestment of the Company's 2015 final dividend and 2016 interim dividend.
4. The options held by Stuart Black and Sean Birrane lapsed on them ceasing to be an employee of the Company.

Statement of Directors' shareholding and share interests (audited information)

Directors' interests in shares of the Company (audited information)

The table below sets out the Directors' share interests in the ordinary shares of the Company as at 30 September 2016 for those Directors who held office in the year:

	Beneficial/ non-beneficial	At 1 October 2015 (or date of appointment)	Movement in year	At 30 September 2016	At 30 September 2016 Percentage
Michael McMahon	Beneficial	7,892,460	71,430	**7,963,890**	**5.06%**
Jeremy Simpson	Beneficial	271,616	70,990	**342,606**	**0.22%**
Steve Rawlings	Beneficial	24,409,196	—	**24,409,196**	**15.50%**
Stuart Black	Beneficial	5,463,684	71,430	**5,535,114**	**3.51%**
Sean Birrane	Beneficial	4,734,684	71,430	**4,806,114**	**3.05%**
Chris Geoghegan	Beneficial	56,179	—	**56,179**	**0.04%**
Johnathan Ford	Beneficial	33,707	50,000	**83,707**	**0.05%**

The Remuneration Committee has approved share ownership guidelines whereby Executive Directors are expected to accumulate and maintain a holding of ordinary shares in the Company equivalent to not less than 200% of salary.

Michael McMahon, Jeremy Simpson, Stuart Black, Sean Birrane and the Estate of Steve Rawlings' shares in the Company are subject to an orderly market arrangement with the Company's broker, expiring on the day after publication of the Company's pre-close trading statement in connection with publication of the Company's interim results for the six-month period ending 31 March 2017.

Non-Executive Directors' interest in shares of the Company

Non-Executive Directors	As at 30 September 2016
Robert Legget	—
Andrew Harrison	—

Implementation of policy in 2015/16

The following table summarises how remuneration arrangements will be operated from 2015/16.

Salary and benefits

It is intended there will be no increase in Executive Directors' salaries awarded for 2016/17 for their current roles. This is in line with no increase in base salary for the wider employee population.

The table below sets out the annual salary of each of the Executive Directors in the year to 30 September 2016 and the proposed 2016/17 salary for each for their current roles.

	2015/16 salary	2016/17 salary	% change
Bob Holt	£75,000	£75,000	0%
Michael McMahon	£200,000	£200,000	0%
Jeremy Simpson	£260,000	£260,000	0%

In addition to a salary of £75,000, Bob Holt is available to provide consultancy services to the Company and other Group companies. These services are provided by a consultancy company of which Bob Holt is a shareholder. Such services are provided for two days per week over 47 weeks per year at a total cost of £150,000 p.a. (plus VAT).

Benefits paid to Michael McMahon and Jeremy Simpson include car allowance, private healthcare and life assurance. Company contributions to the Executive Directors' retirement benefits remain at a rate equivalent to 15% of salary. In the year to 30 September 2016 the Board agreed that Executive Directors and other senior employees may elect to receive the retirement benefit as an additional salary payment in lieu.

Annual bonus

The maximum opportunity for Michael McMahon and Jeremy Simpson will be 100% of salary.

The performance measures in respect of the 2016/17 bonus will be based on:

EBITA	80%
Individual objectives	20%

The detail of targets for the forthcoming year is commercially sensitive. However, the Committee will aim to provide appropriate explanation of bonus outcomes following the end of the bonus year. Recovery and withholding provisions apply to the 2016/17 bonus.

PSP

It is intended that Executive Directors will receive PSP awards in 2016/17 with a face value of 100% of base salary. Awards will vest in three years' time subject to performance targets being met and continued employment. For the 2016/17 awards, 66.7% will be subject to earnings per share growth targets and 33.3% subject to a relative TSR condition against target as set out below.

Earnings per share ('EPS') target

The EPS measure, which accounts for 66.7% of the award, is based on EPS compound annual growth as measured by comparing EPS relative to growth in the Retail Price Index over a three-year performance period to 30 September 2019. None of the award will vest if compound annual growth in EPS is less than the Retail Prices Index in the period plus 4%, 25% will vest for RPI+4% growth and 100% will vest for RPI+12% p.a. growth or better.

Relative total shareholder return ('TSR') target

The TSR target will measure the Company's total shareholder return performance over a three-year performance period commencing on the date of grant ('TSR Performance Period') relative to the constituents of the FTSE All-Share Business Support Services and of the FTSE All-Share Heavy Construction subsectors (excluding any company which is in the FTSE 100 Index) (the 'Comparator Group'). For a ranking below median, none of the element of the award will vest. For a median ranking 25% of this element of the award will vest, rising on a straight line basis to full vesting of this element for a ranking at or above upper quartile.

Non-Executive Directors (unaudited)

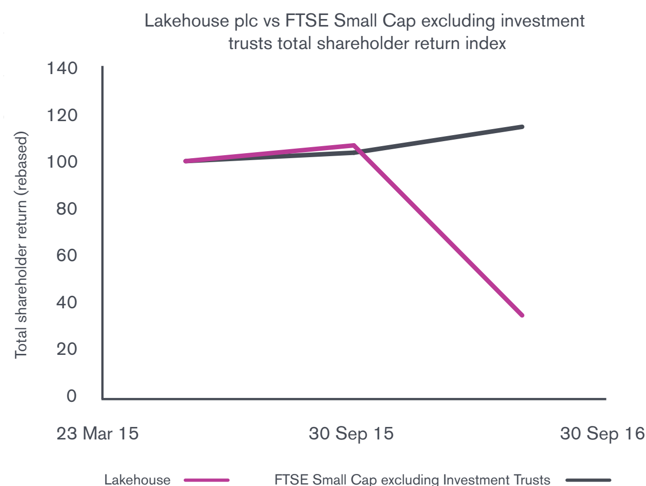
The current fees payable to the Non-Executive Directors are as follows:

Role	Fee
Basic fee for Non-Executive Directors	£40,000
Additional fee for Senior Independent Director	£5,000
Additional fee for chairing of Board Committees	£5,000

No increase in fees payable to Non-Executive Directors was awarded for 2016/17.

Performance graph and table (unaudited)

The chart opposite illustrates Lakehouse plc's TSR performance against the FTSE Small Cap index (excluding investment trusts). This index was chosen as Lakehouse is a constituent of the index.



Note

This graph shows the value, by 30 September 2016, of £100 invested in Lakehouse plc at the start of the day on 23 March 2015, compared with that of £100 invested in the FTSE Small Cap excluding investment trusts.

The table below shows the single figure values for the Executive Chairman over the last two financial years together with bonus and LTIP vesting percentages. There was no bonus awarded to the Executive Chairman in 2015/16 and there have been no option awards capable of vesting in either of the years being reported.

(For the year ended 30 September)	2015	2016
Single total figure	n/a	**£13,000**
% bonus payable	n/a	**0**
% SIAP vesting	n/a	**0**

Shareholder dilution

In accordance with the investor guidelines and the rules of the Company's share schemes, the Company can issue a maximum of 10% of its issued share capital in a rolling 10-year period to employees to satisfy vesting under all its share plans. In addition, of this 10% the Company can issue 5% to satisfy awards under discretionary or Executive plans such as the Performance Share Plan. Lakehouse operates all its share plans within these guidelines.

Percentage change in remuneration of the Executive Chairman (unaudited)

The table below illustrates the percentage change in salary, benefits and annual bonus for the Executive Chairman as against all other employees.

	% change in base salary	% change in benefits	% change in annual bonus
Executive Chairman appointed 21 July 2016	No increase for 2015/16	n/a	n/a
All employees	0	0	0

Note

The change in base salary for employees represents the average increase implemented as part of the Company’s annual pay review in September 2016.

Relative importance of spend on pay (unaudited information)

The table below illustrates the year on year change in the total remuneration costs for all employees against the Company’s key performance metric of EBITA.

	2016 £m	2015 £m	% change
Total remuneration	**85.83**	58.24	47.4
EBITA	**10.91**	22.22	(50.9)
Distributions to shareholders by way of dividend	**4.57**	0	—

Details of the Remuneration Committee, advisers to the Committee and their fees (unaudited information)

The Remuneration Committee is responsible for reviewing and making recommendations to the Board regarding the remuneration policy of the Group and for reviewing compliance against the policy. The Remuneration Committee comprises the Non-Executive Directors of the Company. Andrew Harrison and Robert Legget are the current members of the Committee. The Chairman of the Remuneration Committee is Andrew Harrison. Robert Legget was Interim Chairman of the Remuneration Committee from 4 July 2016 to 1 August 2016.

The other members of the Remuneration Committee who served during the year are Jill Ainscough (who served as Chair of the Remuneration Committee from 1 October 2015 to 4 July 2016), Johnathan Ford, Chris Geoghegan and Steve Rawlings.

The Executive Chairman and other senior executives attend meetings of the Remuneration Committee by invitation. The Company Secretary acts as the Committee’s secretary. No individual is present when their own remuneration is being determined.

The terms of reference of the Remuneration Committee are available to view at **www.lakehouse.co.uk/investors/corporate-governance/board-and-committee-terms-reference**.

During the year New Bridge Street acted for the Committee as their advisers. NBS received fees of £43,131 for advice to the Committee on a time and materials basis. NBS is a member of the Remuneration Consultants Group and complies with its Code of Conduct. The Committee is satisfied that the advice it has received has been objective and independent.

Details of attendance at meetings of the Committee are set out in the table below:

	Committee meetings attended	Committee meetings eligible to attend
Andrew Harrison, Chairman[1]	2	2
Robert Legget[2]	4	4
Steve Rawlings[3]	1	2
Jill Ainscough[4]	5	5
Johnathan Ford[5]	4	5
Chris Geoghegan[6]	3	3

1. Andrew Harrison was appointed as a member of the Remuneration Committee on 26 July 2016 and as Chairman of the Remuneration Committee on 1 August 2016.
2. Robert Legget was appointed as a member of the Remuneration Committee on 19 April 2016 and was Interim Chairman of the Remuneration Committee from 4 July 2016 to 1 August 2016.
3. Steve Rawlings was appointed as a member of the Remuneration Committee on 19 April 2016. Mr Rawlings died on 23 July 2016.
4. Jill Ainscough resigned as Chair and as a member of the Remuneration Committee on 4 July 2016.
5. Johnathan Ford resigned as a member of the Remuneration Committee on 20 June 2016.
6. Chris Geoghegan resigned as a member of the Remuneration Committee on 18 April 2016.

Statement of voting at general meeting (unaudited information)

At the Annual General Meeting held on 5 February 2016 the Annual Report on Remuneration received the following votes from shareholders:

Annual Report on Remuneration	Total number of shares	% of votes cast
For	90,244,563	68.18
Against	42,122,563	31.82
Total shares cast (for and against)	132,367,126	
Votes withheld	10,408	
Total votes (including withheld votes)	132,377,534	

At the General Meeting held on 9 August 2016 the Directors’ Remuneration Policy received the following votes from shareholders:

Directors’ Remuneration Policy	Total number of shares	% of votes cast
For	83,008,013	98.99
Against	850,696	1.01
Total shares cast (for and against)	83,858,709	
Votes withheld	650	
Total votes (including withheld votes)	83,859,359	

Andrew Harrison
Chairman of the Remuneration Committee
23 January 2017

Directors' remuneration report
Directors' remuneration policy report

This part of the Directors' Remuneration Report sets out the Remuneration Policy of the Company. The remuneration policy was put to a binding shareholder vote at the General Meeting of the Company on 9 August 2016. No changes have been made to the policy since this approval. It is currently proposed that the policy will apply for a three-year period following approval.

The table below and accompanying notes summarises the key elements of the Directors' Remuneration Policy.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Base salary			
A competitive base salary is essential to recruit and retain Executives. Reflects an individual's experience, role, competency and performance.	Salaries are paid monthly. They are normally reviewed annually and fixed for 12 months commencing 1 October. Decisions on changes to salaries are influenced by a variety of factors including: ▪ The commercial need to do so ▪ The role, experience, responsibility and performance (of both the individual and Company) ▪ Increases applied to the broader workforce ▪ Periodic benchmarking of similar roles in broadly similar UK-listed companies and companies of a similar size ▪ Bob Holt is permitted to provide consultancy services to the Company and other Group companies in relation to advice about the turnaround management strategy of the Group	The general policy is to pay around mid-market levels with annual increases typically in line with the wider workforce. There is no obligation on the Company to award an annual salary increase and any base salary increases awarded will be at the Company's discretion. Increases beyond those granted to the workforce may be awarded in certain circumstances, such as where there is a change in the individual's responsibility or where the salary set at initial appointment was below the level expected once the individual gains further experience. An above market positioning may be appropriate in exceptional circumstances to reflect the criticality of the role and experience and performance of the individual.	No formal metrics apply, although individual and Company performance is taken into account when determining any annual increase.
Benefits			
The Company offers competitive and cost-effective benefits to help recruit and retain Executives. Certain benefits such as medical cover are provided to minimise disruption to the day-to-day operation of the business.	Benefits include, but are not limited to, the provision of a company car (or cash allowance in lieu), fuel, life assurance and family private medical cover. Relocation or other related expenses may be offered, as required. Executive Directors may participate in the all-employee HMRC-approved Sharesave ('SAYE' scheme), Share Incentive Plan ('SIP') and Company Share Option Plan ('CSOP').	The cost of providing market competitive benefits may vary from year to year depending on the cost to the Company from third-party providers. Participation in HMRC-approved plans will be subject to the individual limits as prescribed by HMRC at the time of grant.	No performance metrics apply.

Directors' remuneration report

Directors' remuneration policy report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Retirement benefits			
To provide a market-competitive, cost-effective contribution towards post retirement benefits.	The Company may provide a contribution to a personal or company-operated defined contribution pension plan or a cash allowance in lieu of pension.	The Company's contribution to defined contribution plans or salary supplement in lieu of pension may be made up to the value of 15% of salary.	No performance metrics apply.
Annual bonus			
To motivate Executives and incentivise the achievement of annual financial and/or strategic targets. Bonus deferral in shares provides a retention element and extra alignment with shareholders.	Bonus payments are determined by the Committee after the year end, based on performance against the targets set. Targets are reviewed annually at the start of the financial year. At least half of any bonus is payable in cash and the remainder is deferred into shares for up to three years under the Deferred Share Bonus Plan. Deferred Share Bonus Plan awards are not subject to any further performance criteria. Bonus payments in respect of the financial year 2015/16 onwards and Deferred Share Bonus Plan awards granted from 2015/16 can be clawed back or reduced if the Committee determines within three years of the payment or grant date that there has been a material misstatement of financial results, a miscalculation in the grant or assessment of performance conditions or where serious misconduct has been discovered. An additional payment (in the form of cash or shares) may be made in respect of shares that vest to reflect the value of dividends that would have been paid on those shares during the vesting period.	The maximum opportunity under the annual bonus scheme is 100% of salary.	The bonus may be based on the achievement of an appropriate mix of challenging financial, strategic or individual targets. Financial measures which will typically account for the majority of the bonus opportunity may include measures such as (Group or business unit) profit or cash flow taking into account the strategic objectives of the business from time to time. For financial metrics, a range of targets is set by the Committee, taking into account factors such as the business outlook for the year. The level of payment for achieving threshold performance may vary depending on the financial measure chosen, with pay-outs from 0%. Full vesting requires outperformance of objectives. Individual measures may include health and safety performance, order book and strategic initiatives or any other appropriate objective aligned with the key short term priorities of the Group. Where possible a performance range will be set, although this will depend on the measure chosen. The detail of the measures, targets and weightings may be varied by the Committee year on year based on the Company's strategic goals[1]. The specific performance metrics to be used are commercially sensitive and disclosure of actual performance metrics will be made retrospectively (year on year) when bonuses are awarded.

Annual bonus performance metrics

1. The annual bonus measures are reviewed annually and reflect the key financial, strategic and operational priorities of the Group. Stretching financial targets are set by the Committee by taking account of the Company's business plan and external expectations for the next 12 months.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Performance Share Plan			
The PSP incentivises the Executive Directors and selected employees to achieve demanding financial and superior long term shareholder returns. Retains key Executives over the medium term. Aligns the interests of the Executives and shareholders through the requirement to build up a substantial shareholding.	Awards are granted annually in the form of either nominal or nil-cost options under the Performance Share Plan and vest after three years. Stretching performance conditions measured over a period of three years determine the extent to which awards vest. Quantum is reviewed annually (subject to the PSP individual limit) taking into account matters such as market practice, overall remuneration, the performance of the Company and the Executive being made the award. Vested awards may be clawed back and subsisting awards may be reduced if within three years of vesting there has been a material misstatement of financial results, a miscalculation in the grant or assessment of performance conditions or where serious misconduct has been discovered. Dividends payable during the vesting period may accrue on vested shares.	The maximum annual award under the PSP that may be granted to an individual in any financial year is 150% of salary.	The exercise of awards is conditional upon the achievement of one or more challenging performance targets set by the Remuneration Committee at the time of grant and measured over a three-year period. Measures may include: The Company's total shareholder return ('TSR') performance over a three-year performance period compared to a comparator Group determined at grant. For a ranking below median, none of this part of the award will vest; for a median ranking, 25% vests; and 100% vesting for upper quartile performance or better. For performance between median and upper quartile, the award vests on a straight line basis. For this part of the award, no vesting can occur unless the Committee considers that the underlying financial performance of the Company has been satisfactory. A sliding scale of earnings per share ('EPS') growth targets. None of this part of the award shall vest if growth is below a threshold level of growth; 25% vests for achieving the threshold level; and full vesting for achieving the maximum performance target or better. For performance between these points, vesting is on a straight line basis. In determining the target range for any financial measures that may apply, the Committee ensures they are challenging by taking into account current and anticipated trading conditions, the long term business plan and external expectations while remaining motivational for management. TSR and EPS or financial metric performance periods will usually commence from the start of the financial year in which the award is made. The Committee retains the flexibility to vary the mix of metrics for each year's award in light of the business priorities at the time. The Committee may introduce other measures either to support or in place of TSR and EPS which support the long term business strategy.[2]

Performance Share Plan metrics

2. Relative TSR provides a measure of the long term success of the Company relative to appropriate peer comparators. EPS growth is a measure of the overall profitability of the business for investors over the long term and therefore helps align the interests of management with shareholders. If the Committee decides to choose alternative measures, they will be selected to ensure that they incentivise Executive Directors to deliver long term sustainable returns for our shareholders.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Special Incentive Award Plan			
To provide alignment with the short term interests of shareholders in relation to restoring value over the period to January 2019. To retain the services of the Executive Chairman and to incentivise other Executive Directors, if appropriate, selected at the discretion of the Remuneration Committee.	Only Directors of the Company may be granted awards under the SIAP and no individual may be granted more than one award under the SIAP. Awards will take the form of nil-cost options and no award may be granted on or after the first anniversary of the date of adoption of the SIAP. Awards will vest subject to performance and may only be exercised after the day immediately following the end of the performance period. The performance period ends on the earlier of 31 January 2019 or the date of publication of the results announcement for the 2018/19 financial year. Dividends will not accrue on vested shares but will be taken into account when assessing the performance condition.	Bob Holt may not be granted an award in excess of 2,307,692 Lakehouse Shares under the SIAP. Any other Director may not be granted an award which has an aggregate market value in excess of £675,000 (measured at the date of grant of the award concerned). The number of shares in respect of which an award may be exercised shall be determined by a multiplier based on absolute TSR performance. The multiplier is capped at 2.	The performance condition is measured over a performance period beginning on the date on which Bob Holt is appointed as Executive Chairman on the Company and ending on the earlier of 31 January 2019 or the date of announcement of the results for the financial year ending 30 September 2018. Performance is based on absolute total shareholder return ('Absolute TSR') (calculated as aggregate of the share price on the last dealing day of the performance period plus the value of any dividends paid during the two consecutive financial years of the Company commencing on 1 October 2016). The same performance target shall apply to all awards made under the SIAP. The multiplier applying to the award shall be as follows: If Absolute TSR is less than 58.87 pence, the multiplier shall be zero If Absolute TSR is equal to 58.57 pence, the multiplier shall be 0.6 If Absolute TSR is equal to 78.48 pence, the multiplier shall be 1.3 If Absolute TSR is greater than 58.57 pence but less than 78.48 pence, the multiplier shall be determined on a straight line basis between 0.6 and 1.3 If Absolute TSR is equal to or greater than 98.4 pence, the multiplier shall be 2 If Absolute TSR is greater than 78.48 pence but less than 98.4 pence, the multiplier shall be determined on a straight line basis between 1.3 and 2 Notwithstanding the determination of the multiplier, in the event that the Company undertakes a variation of share capital at any time during the performance period, which in the opinion of the Committee materially affects the share price, the Committee may, in its sole discretion, reduce the multiplier to such level (including to zero) as it deems appropriate. If any event occurs which causes the Remuneration Committee reasonably to consider that a different or an amended condition would be a fairer measure of performance, the Remuneration Committee may, acting fairly and reasonably, amend the performance condition in such manner as it deems appropriate provided that any such amended condition is not materially less challenging to achieve than the original performance condition would have been to achieve prior to such amendment.[3]

Special Incentive Plan metrics

3. Absolute TSR provides direct alignment with shareholders' interests through share price growth and return of cash through dividends.

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Non-Executive Directors' fees			
To attract and retain high quality and experienced Non-Executive Directors.	The fees of the Non-Executive Directors are determined by a subcommittee of the Board comprising the Executive Chairman and other Executive Directors. Fees are reviewed periodically. Non-Executive Directors receive a fee for carrying out their duties, together with additional fees for those who chair the primary Board Committees, the Senior Independent Director and the Deputy Chairman. The level of fees of the Non-Executive Directors reflects the time commitment and responsibility of their respective roles. Their fees are reviewed from time to time against broadly similar UK-listed companies and companies of a similar size. Non-Executive Directors do not participate in any incentive arrangements and they do not receive a pension contribution. Non-Executives do not receive any benefits but they may be reimbursed for the grossed-up cost of travel, overnight accommodation or other reasonable expenses incurred in carrying out their duties which are deemed taxable by HMRC.	The Company's Articles of Association set an aggregate fee level of £500,000 p.a.	No performance metrics apply.
Share ownership policy			
To align interests of management and shareholders and promote a long term approach to performance and risk management.	Executive Directors are expected to build up a shareholding in the Company equal to at least 200% of salary. Only shares owned outright by Executive Directors (or connected persons) are included in the guideline. The Committee will review progress annually with an expectation that Executive Directors will make progress towards the achievement of the shareholding policy guideline each year. At its discretion and where appropriate the Committee may permit the sale of shares by an Executive Director with a shareholding in the Company of less than 200% of salary.	Not applicable.	No performance metrics apply.

Incentive plan discretions

The Committee will operate the annual bonus plan, the Deferred Share Bonus Plan, the Performance Share Plan, the Special Incentive Award Plan and the HMRC-approved share schemes according to their respective rules and the policy set out above. The Committee, consistent with market practice, retains discretion over a number of areas relating to the operation and administration of these plans. These include, but are not limited to, the following:

— Who participates in the plan

— The timing of grant and/or payment

— The size of an award and/or a payment

— The choice of performance measures and targets for each incentive plan in accordance with the policy set out above and the rules of each plan (including, for example, the treatment of delisted companies for the purpose of the TSR comparator Group and any adjustments required to EPS to make it a fairer measure of performance)

— The ability to vary any performance conditions if circumstances occur which cause the Remuneration Committee to determine that the original conditions have ceased to be appropriate provided that any change is fair and reasonable and in the Committee's opinion, not materially less difficult to satisfy than the original condition

— Discretion relating to the measurement of performance in the event of a change of control or reconstruction

— Determination of a good leaver (in addition to any specified categories) for incentive plan purposes based on the rules of each plan and the appropriate treatment under the plan rules

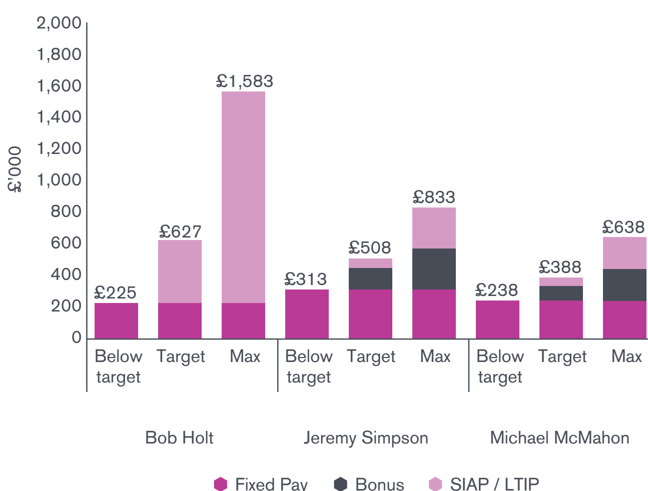
Any use of the above discretions would, where relevant, be explained in the Annual Report on Remuneration and may, as appropriate, be the subject of consultation with the Company's major shareholders.

Legacy arrangements

For the avoidance of doubt, any remuneration or for loss of office payments that are not in line with this policy may be made if the terms were agreed before the approval of this policy. In addition, authority is given to the Company to honour any commitments entered into at a time when the relevant employee was not a Director of the Company.

Illustrations of application of remuneration policy

The Lakehouse remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of short term and long term goals that are aligned with the Company's key strategic objectives and the creation of sustainable returns to shareholders.



The Committee has considered the potential amount payable to Executive Directors in different performance scenarios and is comfortable that the amounts payable are appropriate in the context of the performance delivered and the value added for shareholders.

Notes

The chart above assumes Jeremy Simpson and Michael McMahon participate in the PSP and Bob Holt participates in the SIAP.

Below target: Values are for fixed pay only. We have assumed £225,000 for Bob Holt (with no pension or benefits) and salaries of £260,000 for Jeremy Simpson and £200,000 for Michael McMahon (plus 15% pension and the value of benefits for Jeremy Simpson and Michael McMahon).

Target: For Jeremy Simpson and Michael McMahon, we have assumed fixed pay as above, bonus based on 50% of salary payout and PSP vesting at 25%. For Bob Holt, we have assumed participation in the SIAP only, being an award over 2,307,692 Lakehouse shares with a multiplier of 0.6.

Maximum: For Jeremy Simpson and Michael McMahon, we have assumed fixed pay as above, full bonus and 100% PSP vesting. For Bob Holt, we have assumed participation in the SIAP only, being an award over 2,307,692 Lakehouse shares with a multiplier of two.

The above does not take into account any increase in the price of Lakehouse shares.

Approach to recruitment remuneration

The section below sets out the Remuneration Committee's approach to the recruitment remuneration of Executive Directors.

In setting the remuneration for a new Executive Director, the Remuneration Committee will take into account the calibre of the individual, market data and the remuneration arrangements for current Directors. The remuneration package for a new Director will be set in accordance with the Company's approved policy.

Fixed pay

Salary levels for Executive Directors will be set in accordance with the Company's policy, taking into account the experience and calibre of the individual and his or her existing remuneration package. Where it is appropriate to offer a lower salary initially (for either an internal or external recruit), a series of increases to the desired salary positioning may be made over subsequent years subject to individual performance and development in the role. Benefits will generally be provided in line with those offered to other Executive Directors, with relocation or other expenses provided for if necessary.

Variable pay

The structure of variable pay — the annual bonus, PSP and SIAP participation — will be in accordance with the Company's approved policy detailed above. The maximum opportunities are 100% of salary bonus, performance shares with a face value of 150% of salary and a SIAP award over 2,307,692 Lakehouse shares for Bob Holt and a SIAP Award over £675,000 worth of Lakehouse shares for Executive Directors of the Company other than Bob Holt (in each case, with a potential multiplier of up to two times). Different performance measures may be set initially for the annual bonus, taking into account the responsibilities of the individual, and the point in the financial year that he or she joined the Board.

Buy-out awards

In the case of an external hire, if it is necessary to buy-out incentive pay or benefit arrangements which would be forfeited on leaving the previous employer, this would be provided for taking into account the form (cash or shares), timing and expected value (i.e. likelihood of meeting any existing performance criteria) of the remuneration being forfeited. The principle will be that any replacement awards will be of broadly comparable value to what the Executive has left behind. Replacement share awards, if used, may be granted using the Company's existing share plans to the extent possible, although awards may also be granted outside of these schemes if necessary and as permitted under the LSE Listing Rules (9.4.2).

In the case of an internal hire/promotion, any legacy variable pay awarded in relation to the previous role will be allowed to pay out according to its terms of grant. Similarly, if an Executive Director is appointed following a merger or acquisition of another company, any legacy pay arrangements may be honoured.

Fees for Non-Executive Directors will be set in line with the approved policy.

Service contracts and letters of appointment

The table below summarises the service contracts of the Executive Directors and Non-Executive Directors.

Name	Date of contract/letter of appointment	Notice period by Company	Notice period by Director
Executive Director			
Bob Holt	21 July 2016	6 months	6 months
Michael McMahon	17 February 2015	12 months	6 months
Jeremy Simpson	17 February 2015	12 months	6 months
Non-Executive Director			
Robert Legget	19 April 2016	1 month	1 month
Andrew Harrison	26 July 2016	1 month	1 month

The section below sets out the Remuneration Committee's approach to service contracts and policy on termination payments.

Bob Holt

Bob Holt has entered into a service agreement under which he is employed as a Director and Executive Chairman. Bob Holt does not receive any pension or other benefits under his service agreement and he is not eligible for any annual incentive award. Bob Holt is also available to provide consultancy services to the Company and other Group companies. These services will be provided by a consultancy company of which he is a shareholder.

Bob Holt's service agreement may be terminated by either party giving to each other six months' notice. His service agreement may be terminated immediately if he commits any material or continued breach or gross misconduct. The Company may, at its discretion, terminate Bob Holt's service agreement by paying him six months' salary in lieu of notice. The payment may, at the Company's discretion, be paid in equal monthly instalments. Where it elects to pay in instalments, the Company may reduce any instalment by the amount that Bob Holt has earned or is expected to earn in the six month period following termination. As Bob Holt already has a number of other outside interests, only replacement income that he earns from his employment with the Company may be offset against instalments and not income he would have received in any other event.

The consultancy agreement under which Bob Holt's consultancy services will be provided may be terminated by either party giving to each other six months' notice. The Company may terminate the consultancy agreement immediately in the event of a serious or continuing breach. The Company may, at its discretion, terminate the consultancy agreement under which Bob Holt's consultancy services will be provided by paying his consultancy company an amount equal to the minimum daily fees that would be received by the consultancy company during the notice period. The payments may, at the Company's discretion, be paid in equal monthly instalments and may be reduced by other replacement fees earned by the consultancy company during the six months following termination.

Service contracts and letters of appointment continued

Other Executive Directors

Under their service agreements, 12 months' notice of termination of employment is required by the Company and six months by the Executive Director. The Executive Chairman's service agreement will be terminable by either party on six months' notice. The Company's policy for any new Executive Directors is that 12 months' notice of termination of employment is required by the Company and at least up to 12 months (but no less than six months) is required by the Executive Director.

The Company may terminate an Executive Directors' employment immediately by paying an amount in lieu of notice equal to base salary, employer pension contributions and the cost of benefits for the unexpired period of notice. The Company may pay statutory claims. Reasonable costs of legal expenses incurred by the Director may be reimbursed by the Company by making direct payment to the professional adviser.

For existing Executive Directors, the payment at the Company's discretion may be paid in two equal instalments, the first within 28 days of written notice and the second after six months. In the case of new Executive Directors the Company's policy is that such payments may be in equal monthly instalments over the unexpired period of notice. If the payment is paid in instalments, the remaining payment(s) may at the discretion of the Company be reduced by the amount the Executive has earned or is expected to receive in the 12 months following termination. In the case of the Executive Chairman who works three days per week, only replacement earnings from his employment with the Company are set off against PILON instalments and not any other income that he may have received in any event.

Service agreements will be terminable with immediate effect without notice in certain circumstances, including where the Executive Director commits any material or continued breach of the service agreement or in the case of gross misconduct.

Treatment of bonus and PSP awards

There is no entitlement to cash bonus paid (or associated deferred shares) following notice of termination by either the employee or Company on cessation of employment and 'bad leavers' will not receive any bonus in such circumstances. However, where the individual is considered a 'good leaver' (in the event of death, injury, ill health, disability, retirement with the agreement of his employer, sale of employing company or business out of the Group or for any other reason at the discretion of the Committee), the Company's normal policy is that a performance-related bonus will be payable at the normal time on the proportion of the bonus year for which the individual was employed. Any bonus earned in the year of cessation shall be paid in cash.

Any outstanding share awards held by a departing Director will be treated in accordance with the relevant plan rules. The default treatment under the Deferred Share Bonus Plan and Performance Share Plan is that any outstanding awards will lapse on cessation of employment.

However, in certain prescribed 'good leaver' circumstances (as set out earlier) and in any other circumstances at the discretion of the Committee:

- Deferred Share Bonus Plan awards will become exercisable at cessation or such later date (up to the original vesting date). Awards will be pro-rated for time unless, at the Committee's discretion, it decides to pro rate to a lesser extent or not at all
- PSP awards will continue to be held post cessation and will vest at the normal vesting date unless the Committee determines that they may vest earlier, from the date of cessation. In either case, the number of awards capable of being exercised will be determined by reference to the satisfaction of performance criteria and reduced pro-rata for time (unless the Committee determines that pro-rating should apply to a lesser extent or not at all)
- Treatment of SIAP awards

If an award holder ceases to be employed within the Group prior to the vesting date by reason of his death, injury, ill health or disability (evidenced to the satisfaction of the Remuneration Committee), redundancy or upon the sale or transfer out of the Group of the Company or undertaking employing him or in any other circumstances determined to be good leaver circumstances at the discretion of the Remuneration Committee ('good leaver circumstances'), then the SIAP award holder will be entitled to retain his award following the cessation of his employment. In these circumstances, the retained award will ordinarily be capable of exercise at any time during the period of 12 months following the vesting date and, to the extent not exercised by the end of this period, will lapse. In such a case, the number of Lakehouse shares over which the award may ultimately be exercised shall be determined by reference to the extent to which the performance condition is satisfied at the end of the performance period and by pro-rating down the number of Lakehouse shares in respect of which the award is capable of exercise (determined in accordance with the performance condition) to reflect the part of the vesting period (being the period commencing on the date of grant of the award and ending on the vesting date relating to such award ('vesting period')) which has elapsed up to and including the date of the cessation of employment, unless the Remuneration Committee exercises its discretion so that no such pro-rating should apply to the award in question or that pro-rating should be applied to some lesser extent.

If an award holder ceases to be employed within the Group before the vesting date, in any circumstances other than those described as good leaver circumstances above, his award shall lapse immediately and in full on the date of cessation of employment.

If an award holder ceases to be employed within the Group on or after the vesting date of the award for any reason, his award will normally be capable of exercise for a period of 12 months following the cessation of employment, unless it lapses earlier under some other provision of the SIAP.

Awards shall become capable of exercise earlier than the Vesting Date in the event of a takeover of the Company, a scheme of arrangement under Part 26 of the Companies Act 2006 relating to the Company being sanctioned by the court or the voluntary winding up of the Company (each a 'Corporate Event'). In any such case, the number of Lakehouse shares over which an award may be exercised will normally also be pro-rated down to reflect the amount of the vesting period that has elapsed prior to the relevant Corporate Event. However, the Remuneration Committee has a discretion to ignore such prescribed pro-rating of the Lakehouse shares over which an award may be exercised, or to pro-rate to such lesser extent as it may decide.

Non-Executive Directors

All Non-Executive Directors have letters of appointment with the Company for an initial period of three years, subject to annual reappointment at the AGM. Appointments are terminable by either party on one month's written notice. The appointment letters for the Non-Executive Directors provide that no compensation is payable on termination, other than accrued fees and expenses.

All Executive Directors' service agreements and Non-Executive Directors' letters of appointment are available for inspection at the Company's registered office at 1 King George Close, Romford, Essex RM7 7LS.

Remuneration in the wider Group

Throughout the Group, base salary and benefit levels are set taking into account prevailing market conditions. Differences between Executive Director pay policy and other employee terms reflect the seniority of the individuals and the nature of responsibilities. The key difference in policy is that for Executive Directors a greater proportion of total remuneration is based on performance-related incentives. The Committee has oversight of incentive plans operated throughout the Group. The long term incentive arrangements for the senior management immediately below Board level align with the long term interests of the business and, where appropriate, objectives may be tailored to individual business areas.

When setting the policy for the remuneration of the Executive Directors, the Committee has regard to the pay and employment conditions of employees within the Group. However, the Committee does not use comparison metrics or consult directly with employees when formulating the remuneration policy for Executive Directors. The Committee reviews salary increases and pay conditions within the business as a whole to provide context for decisions in respect of Executive Directors.

Shareholder engagement

We are committed to active engagement with our shareholders. As and when necessary, the Committee will consult with leading shareholders prior to any material change in the way we operate the Directors' Remuneration Policy or when a new policy is being proposed.

Directors' report

The Directors present their Annual Report and the audited Financial Statements for the Group for the year ended 30 September 2016. The Directors' Report comprises pages 70 to 71 and the sections of the Annual Report incorporated by reference are set out below which, taken together, contain the information to be included in the Annual Report, where applicable, under Listing Rule 9.8.4.

Board membership	pages 40 and 41
Dividends	page 70
Directors' long term incentives	page 57
Corporate Governance Report	pages 42 to 51
Future developments of the business of the Group	Our strategy (pages 10 to 13)
Employee equality, diversity and involvement	page 71
Post balance sheet events	page 115
Information to the independent auditor	page 71
Subsidiaries	page 102

General information

The Company was incorporated as a public company limited by shares in England and Wales on 28 January 2015 with registered number 9411297. It is domiciled in the UK. The Company is premium listed on the London Stock Exchange. The Company's registered address is 1 King George Close, Romford, Essex RM7 7LS.

Share capital

Details of the Company's share capital are set out on page 107.

Employee share schemes

Details of the Company's employee share schemes are set out on pages 107 to 109.

Results and dividends

The results for the year are set out in the Consolidated statement of comprehensive income on page 82. The Directors recommend the payment of a final dividend of 0.5 pence per share on 6 April 2017 subject to approval at the Annual General Meeting on 31 March 2017 with a record date of 10 March 2017.

Directors and Directors' interests

The present membership of the Board is set out on pages 40 and 41, which includes brief biographical details. In line with current practice, all of the Directors will retire and, being eligible, offer themselves for re-election at the AGM on 31 March 2017.

The individuals listed below served as Directors of the Company in the year to 30 September 2016. Changes to the membership of the Board in the year to 30 September 2016 and in the period to the date of publication of the Annual Report and Financial Statements are as follows:

Jill Ainscough	Resigned 4 July 2016
Sean Birrane[1]	Resigned 14 March 2016
Stuart Black[2]	Resigned 21 April 2016
Johnathan Ford	Resigned 20 June 2016
Chris Geoghegan[3]	Resigned 18 April 2016
Andrew Harrison	Appointed as an Alternate Director 3 June 2016, appointed as a Director 26 July 2016
Bob Holt[4]	Appointed 21 July 2016
Robert Legget	Appointed 18 April 2016
Michael McMahon	
Ric Piper[5]	Appointed 18 April 2016, resigned 30 November 2016
Steve Rawlings	Appointed 18 April 2016, died 23 July 2016
Jeremy Simpson	

Notes

1. Sean Birrane served as Chief Executive Officer to 8 March 2016.
2. Stuart Black served as Executive Chairman to 8 March 2016 and as Chief Executive Officer from 8 March 2016 to 21 April 2016.
3. Chris Geoghegan was senior Non-Executive Director of the Company from 1 October 2015 to 8 March 2016 and Non-Executive Chairman from 8 March 2016 to 18 April 2016.
4. Bob Holt was appointed as Executive Chairman on 21 July 2016.
5. Ric Piper served as Non-Executive Chairman from 18 April 2016 to 21 July 2016.

The remuneration of the individuals who served as Directors of the Company in the year is set out in the Report on Directors' Remuneration on pages 53 to 60. Details of the current Directors' service contracts and letters of appointment and interests in the share capital of the Company are shown in the Report on Directors' Remuneration on pages 53 to 60.

Substantial interests

As at 19 January 2017, the following interests in 3% or more of the Company's ordinary share capital had been notified to the Company:

	Number of shares	Percentage held (%)
Estate of Steve Rawlings	24,409,196	15.50
Michael McMahon	7,963,890	5.06
Nortrust Nominees Limited	7,644,505	4.85
Paul King	5,951,840	3.78
Stuart Black	5,535,114	3.51
BBHISL Nominees Limited	5,337,929	3.39
Securities Services Nominees Limited	5,000,000	3.17
Kennedy Saunders	4,955,836	3.15
Sean Birrane	4,806,114	3.05
Lydia Graham	4,720,950	3.00

Directors' indemnity

The Company's Articles of Association provide, subject to the provisions of UK legislation, an indemnity for Directors and officers of the Company and the Group in respect of liabilities they may incur in the discharge of their duties or in the exercise of their powers, including any liability relating to the defence of any proceedings brought against them which relate to anything done or omitted, or alleged to have been done or omitted, by them as officers or employees of the Company and the Group.

Directors' and officers' liability insurance cover is in place in respect of all the Company's Directors.

Directors' powers

As set out in the Company's Articles of Association, the business of the Company is managed by the Board who may exercise all powers of the Company.

Our people

The Group's policy is to consider all job applications on a fair basis free from discrimination in relation to age, sex, race, ethnicity, religion, sexual orientation or disability not related to job performance. Every consideration is given to applications for employment from disabled persons, where the requirement of the job may be adequately covered by a disabled person. Where existing employees become disabled, it is the Group's policy wherever practicable to provide continuing employment under normal terms and conditions and to provide training and career development wherever appropriate.

The Group places considerable value on the involvement of its employees and encourages the development of employee involvement in each of its operating companies through formal and informal meetings. It is the Group's policy to ensure that all employees are made aware of significant matters affecting the performance of the Group through the operation of employee forums, information bulletins, informal meetings, team briefings, internal newsletters and the Group's website and intranet.

Key performance indicators

Details of the Group's key performance indicators can be found on pages 14 and 15.

Risks and uncertainties

Details of the risks and uncertainties faced by the Group can be found in the Strategic Review on pages 30 to 33.

Financial instruments

An explanation of the Group's treasury policies and existing financial instruments are set out in Note 31 of the Financial Statements.

Donations

The Group made charitable donations in the year of £36,000. Information on the Group's resources, relationships and sustainability are set out on pages 34 to 38. The Group made no political donations during the year.

Annual General Meeting

A separate notice convening the Annual General Meeting of the Company to be held at the offices of Eversheds LLP, One Wood Street, London EC2V 7WS on 31 March 2017 will be sent out with this Annual Report and Financial Statements.

Corporate Governance

The Company's statement on Corporate Governance can be found in the Corporate Governance Report on pages 39 to 46. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Independent auditors

The auditor, Deloitte LLP, have indicated their willingness under section 489 of the Companies Act 2006 to continue in office and a resolution that they be reappointed will be proposed at the Annual General Meeting.

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

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

By the order of the Board

Simon Howell
Company Secretary
23 January 2017

Directors' responsibilities

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 have prepared the Group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and Article 4 of the IAS Regulation and have also chosen to prepare the parent Company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. 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 Company and of the profit or loss of the Company for the period.

In preparing the parent Company 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 Financial Reporting Standard 101 Reduced Disclosure Framework has 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 Company will continue in business

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- Properly select and apply accounting policies
- Present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information
- Provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance
- Make an assessment of the Company's ability to continue as a going concern

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 the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' responsibility statement

We confirm that to the best of our knowledge:

- The financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole
- The Strategic Report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face
- The Annual Report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's performance, business model and strategy

This responsibility statement was approved by the Board of Directors on 23 January 2017 and is signed on its behalf by.

By order of the Board

Bob Holt
Executive Chairman

Jeremy Simpson
Chief Financial Officer

Independent auditor's report

To the members of Lakehouse plc

Opinion on financial statements of Lakehouse plc

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 30 September 2016 and of the group's loss for the year then ended
- The group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union
- The parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"
- The financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation

The financial statements that we have audited comprise:

- The Consolidated Statement of Comprehensive Income
- The Consolidated and Parent Company Statements of Financial Position
- The Consolidated Statement of Cash Flows
- The Consolidated and Parent Company Statements of Changes in Equity
- The related Notes 1 to 46

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Summary of our audit approach

Key risks	The key risks that we identified in the current year were: ▪ Long-term contract revenue recognition and valuation of contract work in progress ▪ Acquisition fair value accounting and contingent consideration ▪ Consideration of goodwill and intangible asset impairment ▪ Provisions for contract disputes
Materiality	The materiality that we used in the current year was £1 million which was determined based on a review of a number of the Group's financial metrics, including a number of its profit metrics and a consideration of its net assets.
Scoping	Full scope and specified audit procedures performed across the Group provided coverage of 96% of loss before tax, 92% of revenue and 92% of net assets. The remainder of the Group was subject to analytical review procedures.
Significant changes in our approach	The current year risk entitled "Acquisition fair value accounting and contingent consideration" has been adapted to reflect the acquisitions of Aaron and Precision. The Group reconstruction risk specific to the IPO in the prior year is no longer relevant for the current year and has been removed from our key risks.

Independent auditor's report continued

To the members of Lakehouse plc

Going concern and the directors' assessment of the principal risks that would threaten the solvency or liquidity of the group

As required by the Listing Rules we have reviewed the directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 2 to the financial statements and the directors' statement on the longer-term viability of the group contained within the strategic report on page 29.

We are required to state whether we have anything material to add or draw attention to in relation to:

- The directors' confirmation on page 29 that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity
- The disclosures on pages 30 to 33 that describe those risks and explain how they are being managed or mitigated
- The directors' statement in Note 2 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements
- The directors' explanation on page 29 as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The current year risk entitled "Acquisition fair value accounting and contingent consideration" has been adapted to reflect the acquisitions of Aaron and Precision in the current year and to incorporate our assessment of judgements required to be made in respect of the fair value of contingent consideration from previous acquisitions. There was also additional work to assess the goodwill and intangible asset impairments recorded by management.

The risk entitled 'Provisions for Contract Disputes' considers matters related to the legacy contract and customer issues described in the risk entitled 'Provisions for contract losses' in the prior year.

The Group reconstruction risk specific to the IPO in the prior year is no longer relevant for the current year and has been removed from our key risks.

Long term contract revenue recognition and valuation of contract work in progress

Risk description

The Group had total recognised revenue of £333.8 million during the year (2015: £340.2 million).

The Construction division, where the Group predominately operates under long-term fixed price contracts, had recognised revenue of £52.1 million (2015: £73.4 million). The Property Services (formerly Regeneration) division, where the Group recognises revenue based on a valuation of the work in progress with reference to a contracted schedule of rates, had recognised revenue of £98.1 million (2015: £161.7 million).

The recognition of revenue on long-term contracts and the valuation of contract work in progress requires significant judgement by management. This includes the determination of estimated costs to complete, amount of margin to be recognised and the percentage of completion of the work in progress.

Further detail on the Group's revenue recognition policy is set out within the significant accounting policies in Note 2 and the associated key judgements involved are set out in the critical accounting judgements and key sources of estimation uncertainty in Note 3 to the financial statements. This is outlined as a significant accounting matter also considered by the Audit Committee, as noted on page 50.

How the scope of our audit responded to the risk

We performed focused testing of long-term contracts in the Construction division and contract valuation reports in the Property Services division. We held discussions with operational management across the Group and reviewed underlying contracts to understand and challenge the nature of the revenue streams and the revenue recognition policies applied. Our work assessing and challenging the key judgements made by management included:

- Testing historic forecasting accuracy of estimating contract costs, to provide assurance over estimates made around costs to complete projects
- Reviewing and challenging changes to margin assumptions on contracts made from year to year with reference to actual 2016 results to assess that they reflect current views on the expected project outturn and aren't indicative of a heightened risk of the contract becoming loss-making
- Agreeing a sample of underlying costs incurred to third party invoices and quotes
- Discussing the contract valuation report assumptions with operational management and agreeing the valuation amounts through to the third party customer-approved valuations of the work in progress
- Agreeing margin recognised to date through to the contract valuation reports, challenging key assumptions used with the internal quantity surveyors, and agreeing future expected cost assumptions through to sub-contractor quotes and project budgets

Acquisition fair value accounting and contingent consideration

Risk description

The Group acquired 100% of the issued share capital of Aaron and Precision during the year for a total consideration of £16.7 million, including £3.3 million of contingent consideration.

The total fair value of the identifiable net assets acquired was £9.5 million, of which £7.7 million related to management's assessment of the fair value of the separately identifiable intangible assets acquired, excluding goodwill. Total goodwill recognised on these acquisitions was £7.3 million.

The total year-end provision for contingent consideration payable in respect of both current and prior year acquisitions is £4.2 million (2015: £6.7 million), which is after management's assessment of a reduction in fair value of £2.3 million. As described in Note 35, the total amount of contingent consideration payable could vary between £3.5 million and £6.5 million depending on the underlying trading performance of the associated businesses.

The valuation of the separately identified intangible assets and the contingent consideration required significant judgement and estimation, primarily around the cash flows assumed for the newly and historically acquired businesses, the customer retention rates applied and the discount rate used.

Details of these acquisitions are provided in the Strategic Review, on pages 1 to 38. Note 2 to the financial statements sets out the Group's accounting policy for business combinations and Note 3 discusses the critical accounting judgements and key sources of uncertainty in respect of the fair valuation of identifiable net assets acquired. Note 34 to the financial statements outlines details of the acquisitions and the key assumptions in determining fair value of the acquired intangible assets. This is outlined as a significant accounting matter also considered by the Audit Committee, as noted on page 50.

How the scope of our audit responded to the risk

We tested and challenged the fair valuation of the intangible assets and the contingent consideration. This included, but was not limited to:

- In conjunction with our valuation specialists, recalculating an appropriate discount rate with reference to market data and comparing that to the rate used by management
- Discussing the underlying business forecasts used with operational management at each business, challenging forecast cash flows and customer retention rates with reference to historical evidence of renewal and current sales to those customers
- Assessing and challenging the overall allocation between goodwill and intangible assets by validating the benefits associated with each acquisition through review of public announcements and discussion with senior management and comparing to the determined allocation to assess whether the nature of the acquisitions supported the quantum of the goodwill recognised
- Agreeing the underlying earn out calculations to the terms of the SPAs and challenging the assumptions made over the future expected earnings of the acquired businesses with contingent consideration amounts outstanding at year-end
- Agreeing any amendments to contingent consideration terms and conditions to correspondence with the relevant beneficiaries and lawyers, where relevant
- Validating earn out conditions not met to actual performance achieved
- In conjunction with our valuation specialists, ensuring the discount rate used for the contingent consideration net present value calculation was appropriate

Consideration of goodwill and intangible asset impairment

Risk description

At 30 September 2016 the Group had goodwill totalling £47.3 million (2015: £56.3 million) and intangible assets totalling £21.9 million (2015: £27.2 million), relating to the ten previous acquisitions made since 2011.

Goodwill was assessed for impairment by management using a discounted cash flow model to determine value in use. This involved the use of a number of key assumptions and judgements, including the forecast cash flows for the individual businesses, assumed margin levels post-integration with Lakehouse, a long-term growth rate and the discount rate applied. In the case of the impairment review for the Foster Property Maintenance business, management identified an impairment of goodwill of £17.4 million.

Intangibles assets were assessed for impairment where there existed indicators of impairment, such as the cessation of customer contracts that had been fair valued on acquisition or where the contract had been renewed at a lower level than previously valued. This involves both a judgemental qualitative and quantitative assessment of customer relationships and contracts, including forecast future cash flows and assumed margins from those customers. In the case of Providor management identified a £1.8 million impairment in respect of a customer contract intangible for a major metering customer.

Note 2 to the financial statements outlines the Group's accounting policy for testing goodwill for impairment on an annual basis and note 3 to the financial statements outlines the critical accounting judgements and key sources of estimation uncertainty relating to management's review of goodwill, tangible and intangible assets for impairment. Note 14 to the financial statements outlines the key assumptions relating to the goodwill impairment review performed. Note 15 to the financial statements outlines the nature of the intangible asset impairment. This is outlined as a significant accounting matter also considered by the Audit Committee, as noted on page 50.

How the scope of our audit responded to the risk

Our procedures for challenging management's methodology and assumptions for goodwill impairment included:

- Validating the integrity of the impairment models via reperformance of the calculations
- Performing sensitivity analysis to identify the assumptions which had the biggest impact on the discounted cash flow model
- Understanding the underlying process used to determine the risk adjusted cash flow projections and challenging them with reference to historical forecasts, actual performance and expected future changes to the business, including testing of the future order book
- Working with our valuation specialists to benchmark the discount rates and perpetuity growth rates applied to external macro-economic and market data
- Reviewing trading, including post period end trading, to verify that it supported the forecast cash flows used in the impairment testing
- Assessing the appropriateness of the disclosures included in the financial statements

Our procedures for assessing management's impairment assessment of intangible assets included:

- Detailed review and assessment of the underlying intangible assets in the context of business developments during the year and future expected performance of customer contracts and relationships
- Challenge of future forecast income from customer contracts and relationships with reference to actual results in 2016 to assess whether the recoverable amount exceeded the carrying value
- Assessing the appropriateness of the disclosures included in the financial statements

Provisions for contract disputes

Risk description 	The company continues to manage a number of potential risks and uncertainties, including customer and sub-contractor contractual claims and disputes which could have a material impact on short and longer term performance. At 30 September 2016 the Group recognised legal and other provisions of £4.9 million (2015: £5.3 million). In addition, total provisions of £2.6 million against contract receivables have been recognised in the year. Assessing the likely outcome of claims and disputes, including threatened and actual litigation, requires significant levels of judgement. Judgement is required in both the quantum of any provision to record but also in concluding on the nature of the associated disclosures to provide, including for risk items where no provision has been recognised. Pages 30 to 33 sets out details of the potential risks facing the business. Notes 7 and 24 to the financial statements provide details of amounts provided for in respect of legal and other provisions and specific contract receivables. This is outlined as a significant accounting matter also considered by the Audit Committee, as noted on page 50.
How the scope of our audit responded to the risk 	We held discussions with operational management responsible for managing these contracts as well as divisional management, group management and the board of directors in understanding and challenging the key judgements and estimations in the provisions recognised. We performed focused testing of each provision calculation and assessed each claim or dispute item. Our work assessing and challenging the key judgements made by management included: ▪ Discussing and challenging cost estimations with the quantity surveyors by comparing the costs incurred to date and assessing the key judgements in their determination of the expected costs to come where remediation work was being carried out or where valuations were yet to be agreed ▪ Agreeing amounts to third party documentation prepared by the quantity surveyors ▪ Reviewing customer and legal correspondence associated with disputes and claims ▪ Holding discussions with the Group's external legal counsel, where necessary ▪ Obtaining legal confirmations from the Group's lawyers dealing with the associated claims and disputes

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.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

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

Group materiality	£1 million (2015: £1 million).
Basis for determining materiality	Materiality was determined based on a review of a number of the Group's financial metrics, including a number of its profit metrics and a consideration of its net assets. The determined level of materiality represents approximately 9% of normalised loss before tax ("NLBT"), 3% of loss before tax ("LBT"), 2% of net assets and 0.3% of revenue. NLBT excludes the impact of the goodwill and intangible asset impairment along with the exceptional costs and income to reflect the underlying trading performance of the Group.

Rationale for the benchmark applied	Due to the significant change in the Group's performance from a PBT of £3.2 million in 2015 to a LBT of £33.3 million in 2016 and the volatility caused by both underlying and one-off non-recurring items, we considered a broader range of income statement metrics in the current year to determine an appropriate level of materiality. Whilst the Group has moved into a significantly loss-making position in the year, the overall size of the Group by revenue has remained broadly consistent (£333.8 million in 2016 versus £340.2 million in 2015) so this was also considered as a relevant benchmark, along with NLBT, LBT and EBITA. Profit-based metrics were considered appropriate benchmarks for determining materiality because the profit performance of the Group is the main item focused on by analysts and investors, as is typical for a listed company.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £20,000 (2015: £20,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level.

The group's accounting process is structured around local finance functions. Each local finance function reports into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our group audit scope primarily on a significant business in each of the four divisions (construction, compliance, energy and property services). All of these businesses were subject to a full audit performed by other Deloitte UK component audit teams. The Group audit team also performed the audit work on the main trading entity in the Group, Lakehouse Contracts Limited. This includes the entire construction division and the majority of the property services division. Audit work on the significant businesses in the compliance and energy services divisions, along with the remaining business in property services, was performed by UK component audit teams. We directed their audit work through issuance of referral instructions, regular status calls, site visits and a review of their final working papers.

In addition, two other businesses were subject to specific audit procedures on material account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those businesses. The specific audit procedures were performed by other Deloitte UK component audit teams. We directed and supervised their work in the same way as detailed above.

Our audit testing of full scope and specified balances accounted for 96% of the Group's normalised PBT, 92% of revenue and 92% of net assets.

The remaining entities were subject to analytical review by the Group team or other Deloitte UK component audit teams. These entities accounted for 4% of the Group's normalised PBT, 8% of revenue and 8% of net assets. Where newly acquired businesses were subject to analytical review work, in addition substantive work was performed on the opening balance sheets and acquisition fair value adjustments. Audit and analytical review work on these entities was performed at lower levels of materiality determined by reference to the relative scale of the entity concerned. These component materiality levels were between £400,000 and £700,000.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006
- 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
- 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report and the Directors' Report.

Independent auditor's report continued

To the members of Lakehouse plc

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

- We have not received all the information and explanations we require for our audit
- 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
- The parent company financial statements are not in agreement with the accounting records and returns

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration Report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- Materially inconsistent with the information in the audited financial statements
- Apparently materially incorrect based on, or materially inconsistent with, our knowledge of the group acquired in the course of performing our audit
- Otherwise misleading

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

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the group's and the parent company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Paul Schofield, FCA (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
Cambridge, United Kingdom
24 January 2017

Consolidated statement of comprehensive income

For the year ended 30 September 2016

	Notes	Underlying results before exceptional and other items 2016 £'000	Exceptional and other items (see Note 7) 2016 £'000	2016 £'000	Underlying results before exceptional and other items 2015 £'000	Exceptional and other items (see Note 7) 2015 £'000	2015 £'000
Revenue	4	305,787	28,051	333,838	336,633	3,565	340,198
Cost of sales		(265,724)	(34,335)	(300,059)	(290,671)	(6,089)	(296,760)
Gross profit		40,063	(6,284)	33,779	45,962	(2,524)	43,438
Other operating expenses		(29,691)	(2,865)	(32,556)	(23,738)	—	(23,738)
Share of results of joint venture	17	537	—	537	—	—	—
Operating profit before Exceptional and Other Items		10,909	(9,149)	1,760	22,224	(2,524)	19,700
Exceptional costs	7	—	(5,742)	(5,742)	—	(8,656)	(8,656)
Exceptional income	7	—	2,672	2,672	—	—	—
Impairment of goodwill and intangible assets acquired	7	—	(19,204)	(19,204)	—	—	—
Amortisation of acquisition intangibles	7	—	(11,156)	(11,156)	—	(6,465)	(6,465)
Operating (loss)/profit	4	10,909	(42,579)	(31,670)	22,224	(17,645)	4,579
Finance expense	8	(1,070)	(587)	(1,657)	(639)	(758)	(1,397)
Investment income	8	46	—	46	20	—	20
(Loss)/profit before tax	4	9,885	(43,166)	(33,281)	21,605	(18,403)	3,202
Taxation	11	(1,707)	5,720	4,013	(4,116)	3,300	(816)
(Loss)/profit for the year attributable to the equity holders of the Group		8,178	(37,446)	(29,268)	17,489	(15,103)	2,386
(Loss)/earnings per share							
Basic	13			(18.6p)			1.9p
Diluted	13			(18.6p)			1.7p
Underlying earnings per share							
Basic	13	5.2p			13.7p		
Diluted	13	5.1p			12.3p		

The accompanying notes are an integral part of this consolidated statement of comprehensive income.

Consolidated statement of financial position

At 30 September 2016

	Notes	2016 £'000	2015 £'000
Non-current assets			
Goodwill	14	**47,338**	56,267
Other intangible assets	15	**21,947**	27,199
Property, plant and equipment	16	**2,826**	3,126
Interests in joint venture	17	**537**	—
Trade and other receivables	20	**1,359**	1,131
		74,007	87,723
Current assets			
Inventories	18	**5,187**	4,635
Amounts due from customers under construction contracts	19	**3,161**	2,053
Trade and other receivables	20	**65,633**	77,538
Corporation tax receivable		**1,451**	1,683
Deferred tax asset	25	**229**	—
Cash and cash equivalents		**—**	6,934
		75,661	92,843
Total assets		**149,668**	180,566
Current liabilities			
Amounts due to customers under construction contracts	19	**690**	574
Trade and other payables	21	**65,801**	80,344
Loans and borrowings	22	**71**	—
Finance lease obligations	26	**222**	403
Provisions	24	**1,904**	3,279
		68,688	84,600
Net current assets		**6,973**	8,243
Non-current liabilities			
Trade and other payables	21	**6,236**	5,013
Loans and borrowings	22	**20,586**	—
Finance lease obligations	26	**164**	340
Provisions	24	**2,974**	3,170
Deferred tax liability	25	**—**	1,979
		29,960	10,502
Total liabilities		**98,648**	95,102
Net assets		**51,020**	85,464
Equity			
Called up share capital	27	**15,753**	15,753
Share premium account	29	**25,314**	25,314
Share-based payment reserve	28, 29	**776**	709
Own shares	29	**(290)**	(290)
Merger reserve	29	**20,067**	20,067
Retained earnings		**(10,600)**	23,911
Equity attributable to equity holders of the Company		**51,020**	85,464

The Financial Statements of Lakehouse plc (registered number 09411297) were approved by the Board of Directors and authorised for issue on 23 January 2017. They were signed on its behalf by:

J J C Simpson
Director

The accompanying notes are an integral part of this consolidated statement of financial position.

Consolidated statement of changes in equity

For the year ended 30 September 2016

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Own shares £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2014	—	31,820	1,068	—	1	15,917	48,806
Profit for the period	—	—	—	—	—	2,386	2,386
Conversion of share options	—	628	(1,205)	—	—	1,205	628
Group restructuring	12,382	(32,448)	—	—	20,066	—	—
Issue of share capital	3,371	25,314	—	—	—	—	28,685
Share-based payment charge	—	—	846	—	—	—	846
Purchase of own shares	—	—	—	(290)	—	—	(290)
Current tax – Excess tax deductions related to share-based payments	—	—	—	—	—	2,506	2,506
Deferred tax	—	—	—	—	—	1,897	1,897
At 30 September 2015	15,753	25,314	709	(290)	20,067	23,911	85,464
Loss for the period	—	—	—	—	—	(29,268)	(29,268)
Dividends paid (Note 12)	—	—	—	—	—	(4,568)	(4,568)
Share-based payment charge	—	—	67	—	—	(67)	—
Current tax – Excess tax deductions related to share-based payments	—	—	—	—	—	(608)	(608)
At 30 September 2016	**15,753**	**25,314**	**776**	**(290)**	**20,067**	**(10,600)**	**51,020**

Consolidated statement of cash flows

For the year ended 30 September 2016

	Notes	2016 £'000	2015 £'000
Cash flows from operating activities			
Cash (used in)/generated from operations	33	**(3,014)**	19,099
Interest paid		**(808)**	(460)
Interest received		**46**	11
Taxation		**(268)**	(1,903)
Net cash (used in)/generated from operating activities		**(4,044)**	16,747
Cash flows from investing activities			
Purchase of shares in subsidiary, net of cash acquired		**(17,672)**	(29,745)
Purchase of property, plant and equipment		**(819)**	(1,169)
Purchase of intangible assets		**(291)**	(491)
Sale of property and equipment		**160**	328
Loan to associate		**(250)**	—
Disposal of subsidiary business		**—**	40
Net cash used in investing activities		**(18,872)**	(31,037)
Cash flows from financing activities			
Proceeds from issue of shares		**—**	30,000
Proceeds from issue of pre-existing shares		**—**	975
Dividend paid to shareholders		**(4,568)**	—
Proceeds from bank borrowings		**21,000**	—
Repayment of bank borrowings		**—**	(11,667)
Repayments to finance lease creditors		**(357)**	(237)
Purchase of own shares		**—**	(290)
Finance issue costs		**(164)**	(472)
Share issue costs paid		**—**	(1,315)
Net cash generated from financing activities		**15,911**	16,994
Net (decrease)/increase in cash and cash equivalents		**(7,005)**	2,704
Cash and cash equivalents at beginning of year		**6,934**	4,230
Cash and cash equivalents at end of year		**(71)**	6,934

The accompanying notes are an integral part of this consolidated statement of cash flows.

Notes to the consolidated financial statements

For the year ended 30 September 2016

General information

Lakehouse plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 1 King George Close, Romford, Essex RM7 7LS.

The consolidated Financial Statements are presented in Pounds Sterling because that is the currency of the primary economic environment in which the Group operates.

1. Basis of preparation

Basis of accounting

The Group's consolidated Financial Statements have been prepared and approved by the Directors in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union. The Financial Statements have been prepared on the historical cost basis. Historical cost is generally based on the fair value of the consideration given in exchange for goods and services. The principal accounting policies adopted are set out below.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Group's Financial Statements except as noted below.

Adoption of new and revised standards

The accounting policies adopted are consistent with those of the previous financial year except for the following new and revised Standards and Interpretations which have been adopted in the current year. Their adoption has not had any significant impact on the amounts reported in these Financial Statements.

- Amendments to IFRS 10, IFRS 12 and IAS 28 Investment entities
- Amendments to IAS 1 Disclosure Initiative
- Amendments to IAS 27 Equity Method in Separate Financial Statements
- Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortisation
- Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations
- Amendments to IAS 16 and IAS 41 Bearer Plants
- Amendments to IAS 19 Defined Benefit Plans: Employee Contributions

New standards and interpretations not applied

The International Accounting Standards Board and the International Financial Reporting Interpretations Committee (IFRIC) have issued the following standards and interpretations for annual periods beginning on or after the effective dates as noted below:

IAS/IFRS standards		Effective for accounting periods starting on or after
IFRS 9	Financial Instruments	1 January 2018[1]
IFRS 14	Regulatory Deferral Accounts	1 January 2016[1]
IFRS 15	Revenue from Contracts with Customers	1 January 2018[1]
IFRS 16 (issued on 13 January 2016)	Leases	1 January 2019[1]
Amendments to IAS 12 (issued on 19 January 2016)	Recognition of Deferred Tax Assets for Unrealised Losses	1 February 2017[1]
Amendments to IAS 7 (issued on 29 January 2016)	Disclosure Initiative	1 February 2017[1]
Amendments to IFRS 2 (issued on 20 June 2016)	Classification and Measurement of Share-based Payment Transactions	1 February 2017[1]
Amendments to IFRS 4 (issued on 12 September 2016)	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts	1 February 2017[1]

1. The mandatory adoption under EU adopting regulations has not yet been confirmed.

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods, except as noted below:

- IFRS 15 may have an impact on revenue recognition and related disclosures
- IFRS 16 will have a material impact on the reported assets, liabilities, Statement of Comprehensive Income and cash flows of the Group. Furthermore, extensive disclosure requirements will be required by IFRS 16

Beyond the information above, it is not practicable to provide a reasonable estimate of the effect of these standards until a detailed review has been completed.

2. Significant accounting policies

Basis of consolidation

The combined financial information incorporates the assets, liabilities, income and expenses of the Group. The financial information of the subsidiaries are prepared for the same financial reporting period as the Company. Where necessary, adjustments are made to the Financial Statements of subsidiaries to bring the accounting policies used into line with those used by the Group. Intercompany transactions, balances and unrealised gains and losses transitions between Group companies are eliminated on consolidation.

As a consolidated statement of comprehensive income is published, a separate profit and loss account for the parent Company is omitted from the Group Financial Statements by virtue of section 408 of the Companies Act 2006.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. The Directors regard the foreseeable future as no less than 12 months following publication of its annual Financial Statements, so in practical terms, 16 months from the statement of financial position date. The Directors have considered the Group's working capital forecasts and projections, taking account of reasonably possible changes in trading performance and the current state of its operating market, and are satisfied that the Group should be able to operate within the level of its current facilities and in compliance with the covenants arising from those facilities. Accordingly, they have adopted the going concern basis in preparing the financial information. Please see further information in the strategic report on page 29.

Operating segments

The Directors regard the Group's reportable segments of business to be Compliance, Energy Services, Property Services and Construction. Costs are allocated to the appropriate segment as they arise with central overheads apportioned on a reasonable basis. Operating segments are presented in a manner consistent with internal reporting; with inter-segment revenue and expenditure eliminated on consolidation.

Business combinations

Acquisitions of subsidiaries are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquired company and the equity interest issued by the Group in exchange for control of the acquired company. Acquisition-related costs are recognised as non-trading exceptional costs in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and liabilities assumed are recognised at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed. If, after reassessment the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the excess is recognised immediately in profit or loss as a bargain purchase gain.

When the consideration transferred by the Group in a business combination includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not re-measured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is re-measured at subsequent reporting dates in accordance with IAS 39 or IAS 37 as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Acquisition costs

Whilst the Group remains in its growth phase, management believes that acquisition costs are exceptional in nature and classifies them as such, so as not to distort presentation of the underlying performance of the Group.

Goodwill

Goodwill is initially recognised and measured as set out above.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which the goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

2. Significant accounting policies continued

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at cost less accumulated amortisation and accumulated impairment losses. Amortisation is recognised on a straight line basis over their useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. The estimated useful life for each asset type is set out below.

Computer software — Three years

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination and recognised separately from goodwill are initially recognised at their fair value at the acquisition date (which is regarded as their cost). Intangible assets are recognised if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using suitable valuation techniques.

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortisation and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

The estimated useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

Intangible asset	Useful economic life	Valuation method
Contracted customer order book	Remaining period of the contract	Expected cash flows receivable
Customer relationships	Six years	Expected cash flows receivable
Non-compete agreements	Five years	With or without method

De-recognition of intangible assets

An intangible asset is de-recognised on disposal, or when no future economic benefits are expected from use or disposal. The gain or loss from de-recognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset; is recognised in profit or loss when the asset is de-recognised.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is calculated so as to write off the cost of a tangible asset, less its estimated residual value, over the estimated useful economic life of that asset on the following bases:

Leasehold improvements	—	over the period of the lease
Plant and equipment	—	15% to 33% p.a. on a straight line basis
Fixtures and fittings	—	20% to 33% p.a. on a straight line basis
Motor vehicles	—	25% p.a. on a straight line basis

The estimated useful lives, residual values and depreciation methods are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease.

An item of property, plant and equipment is de-recognised upon disposal, or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Exceptional and Other Items

Items which are significant by their size and nature require separate disclosure and are reported separately in the Statement of Comprehensive Income.

In the event that material costs or losses are included as a consequence of undertaking a new activity within the Group, this may be highlighted as an other item reflecting its one off nature. This classification would apply until such reasonable time as the activity reached a stable operating phase.

Details of Exceptional and Other Items are explained in Note 7.

Contract losses on businesses being exited

Where a business activity is being exited and, due to legacy issues, losses are incurred in closing out contracts, management consider such losses should be highlighted separately as being unrelated to the ongoing activity of the Group as they would otherwise distort the underlying earnings. Revenue and costs associated with the business activity being exited are presented separately from the underlying results of the Group on the face of the statement of comprehensive income with further details provided in Note 7.

2. Significant accounting policies continued

Impairment of tangible and intangible assets excluding goodwill

At each statement of financial position date, the Group reviews the carrying amounts of tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Revenue

Revenue and profit are recognised as follows:

(a) Service contracts

Revenue is recognised when the outcome of a job or contract can be estimated reliably; revenue associated with the transaction is recognised by reference to the stage of completion of work at the statement of financial position date. The outcome of the transaction is deemed to be able to be estimated reliably when all of the following conditions are satisfied:

- The amount of revenue can be measured reliably
- It is probable that the economic benefits associated with the transaction will flow to the Group
- The costs incurred for the transaction and the costs to complete the transaction can be measured reliably

The Group has recognised revenue dependent on the nature of transactions in line with IAS 18 'Revenue'. There are a range of contractual arrangements that require consideration:

(i) Schedule of Rates ('SOR') contracts

SOR contracts are set based on predetermined rates for a list of services and duties required by the customer. The billing arrangements can range from an all-encompassing price for each direct works, including an element of local site overhead, central overhead and associated profit; to the price of the direct works alone, with (where relevant) a separately agreed annual fee for local site and central overheads. The quantum of work performed in each period is captured and valued either against the agreed contract terms or with reference to costs incurred to date as a percentage of total expected costs, and the resulting revenue is recognised.

(ii) Fixed price (or lump sum) service contracts

Certain contracts, in particular for gas servicing and maintenance, are procured on a fixed price basis. Revenue for maintenance/reactive activities is recognised on a straight line basis over the life of the contract. Revenue for servicing activities is recognised when the service is performed; however when it is impractical for the customer and householder to sign off every job sheet, revenue is recognised on a straight line basis. Where the contract contains servicing and maintenance/reactive elements and the revenue cannot be split reliably between each element of the contract, it is recognised on a basis that most closely reflects the phasing of the servicing provision. Costs are recognised as incurred.

(iii) Formula based income

When income is subject to formulaic valuation, revenue is recognised either when the valuation has been submitted to, and agreed by, the client; or where there are time constraints with the process for receiving agreement from the client, revenue can be recognised if prior experience shows that agreement will be received within one month of providing a valid submission and invoice.

(b) Construction contracts

Revenue arising from construction contracts is recognised in accordance with IAS 11 'Construction contracts'. When the outcome can be assessed reliably, contract revenue is recognised by reference to the stage of completion of the contract activity at the statement of financial position date. The stage of completion of the contract at the statement of financial position date is assessed with reference to the costs incurred to date as a percentage of the total expected costs.

2. Significant accounting policies continued

Revenue continued

(b) Construction contracts continued

Margin on contracts is calculated in accordance with accounting standards and industry practice. Industry practice is to assess the estimated final outcome of each contract and recognise the revenue and margin based upon the stage of completion of the contract at the statement of financial position date. The assessment of the final outcome of each contract is determined by regular review of the revenues and costs to complete that contract. Consistent contract review procedures are in place in respect of contract forecasting.

The gross amount receivable from customers for contract work is presented as an asset for all contracts in progress for which costs incurred, plus recognised profits (or less recognised losses), exceed progress billings.

The gross amount repayable to or paid in advance by customers for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses). Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

(c) Other income

(i) Contract variations

Margin associated with contract variations is only recognised when the outcome of the contract negotiations can be reliably estimated. Costs relating to contract variations are recognised as incurred. Revenue is recognised up to the level of the costs which are deemed to be recoverable under the contract.

(ii) Preliminaries income and pre-contract costs

All costs relating to pre-commencement and mobilisation are written off as they are incurred. However where there is a contracted element within the preliminaries income to cover such costs, revenue and margin can be recognised in line with the contractual terms.

In the event that mobilisation costs are incurred in a new and material activity, market and/or territory, such costs will be highlighted on the face of the Statement of Comprehensive Income, until such point as we achieve ‘business as usual’. This will typically be defined as the point at which we cease hiring a series of net new staff for the activity and reach a sustainable level of output from those staff we have trained.

(iii) Energy brokering services

Revenue associated with the provision of energy brokering services is provided in line with our performance obligations to the customer over the term of the energy agreement.

Employee benefits

Retirement benefit costs

The Group contributes to the personal pension plans of certain employees of the Group. The assets of these schemes are held in independently administered funds. The pension cost charged in the Financial Statements represents the contributions payable by the Group in accordance with IAS 19.

Share-based payments

The Company has issued equity-settled share-based awards and free shares to certain employees. The fair value of share-based awards with non-market performance conditions is determined at the date of the grant using a Black-Scholes model. The fair value of share-based awards with market-related performance conditions is determined at the date of grant using the Monte Carlo model. Share-based awards are recognised as expenses based on the Company’s estimate of the shares that will eventually vest, on a straight line basis over the vesting period, with a corresponding increase in the share option reserve.

At each statement of financial position date the Company revises its estimates of the number of options that are expected to vest based on service and non-market performance conditions. The amount expensed is adjusted over the vesting period for changes in the estimate of the number of shares that will eventually vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to equity reserves. Options with market-related performance conditions will vest based on total shareholder return against a selected group of quoted market comparators. Following the initial valuation, no adjustments are made in respect of market based conditions at the reporting date.

Employee Benefit Trust

The Company established an Employee Benefit Trust upon IPO, whose remit is to hold Lakehouse plc shares on behalf of its employees. The trust is wholly funded by the Group and although legally independent is deemed to be controlled by the Group as the trust relies on it for funding and the Company is able to remove and appoint the trustees. The assets and liabilities of the trust are therefore consolidated with those of the Group.

Finance income and costs

Interest receivable and payable on bank balances is credited or charged to the statement of comprehensive income as incurred.

Finance arrangement fees and issue costs are capitalised and netted off against borrowings. Construction borrowing costs are capitalised where the Group constructs qualifying assets. All other borrowing costs are written off to the statement of comprehensive income as incurred. Notional interest payable, representing the unwinding of the discount on long term liabilities, is charged to finance costs and recognised as an other item on the face of the statement of comprehensive income.

2. Significant accounting policies continued

Costs incurred in raising finance

Costs incurred in raising finance are capitalised and amortised through the Statement of Comprehensive Income over the term of the funding as a trading item. In the event that the associated finance product is refinanced prior to its expiring, the unamortised costs are treated as an other item on the face of the statement of comprehensive income, to the extent that they are replaced with fees and costs associated with raising the new finance.

Taxation

The tax expense represents the sum of the tax currently payable and deferred tax.

The current tax payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's asset for current tax is calculated using tax rates prevailing at the year end.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the Financial Statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the statement of financial position liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences; deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each statement of financial position date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted at the statement of financial position date. Deferred tax is charged or credited in the statement of comprehensive income, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. When current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Inventories

Inventories and work in progress, are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where appropriate, labour and overheads which have been incurred in bringing the inventories and work in progress to their present location and condition. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution. Provision is made, where appropriate, to reduce the value of inventory to its net realisable value.

Property in the course of development and completed units are stated at the lower of cost and net realisable value. Direct cost comprises the cost of land, raw materials and development costs but excludes indirect overheads.

Joint venture

Under IFRS 11 we account for joint ventures under the equity method of accounting. Loans receivable and investments in joint venture entities are reviewed for impairment at each year end.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event, and where it is probable that the Group will be required to settle that obligation and the amount can be reliably estimated. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the time value of money is material).

Contingent liabilities acquired in a business combination are initially valued at fair value at the acquisition date. At the end of subsequent reporting periods, such contingent liabilities are measured at the higher of the amount that would be recognised in accordance with IAS 37 and the amount initially recognised.

2. Significant accounting policies continued

Financial instruments

Financial assets and financial liabilities are recognised on the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument. The principal financial assets and liabilities of the Group are as follows:

(a) Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Trade receivables do not carry any interest and are stated at their initial value reduced by appropriate allowances for estimated irrecoverable amounts. Provisions against trade receivables and amounts recoverable on contracts are made when objective evidence is received that the Group will not be able to collect all amounts due to it in accordance with the original terms of those receivables. The amount of the write down is determined as the difference between the assets carrying amount and the present value of estimated future cash flows. Individually significant balances are reviewed separately for impairment based on the credit terms agreed with the customer. Other balances are reviewed in aggregate.

(b) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with a maturity of three months or less. Bank overdrafts are presented as current liabilities to the extent that there is no right of offset with cash balances.

(c) Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment. Any contingent consideration is recognised as an accrual at the acquisition date and is measured at the present value of the expected settlement using a pre-tax discount rate that reflects current market assessment of the time value of money. The increase in the accrual due to the passage of time is recognised as a non-trading interest expense. Any change to the value of contingent consideration identified within 12 months of the acquisition date is reflected in the original cost of the investment. Subsequent changes to the value of contingent consideration are reflected in the statement of comprehensive income.

The Company assesses investments for impairment whenever events or changes in circumstances indicate that the carrying value of an investment may have suffered an impairment loss. If any such indication exists, the Company makes an estimate of the recoverable amount. The recoverable amount is the higher of fair value less costs to sell and value in use. Value in use represents the discounted net present value of expected future cash flows. If the recoverable amount is less than the value of the investment, the investment is considered to be impaired and is written down to its recoverable amount, and an impairment loss is recognised immediately in the statement of comprehensive income of the Company.

(d) Trade and other payables

Trade and other payables are not interest bearing and are stated initially at fair value and subsequently held at amortised cost.

(e) Bank and other borrowings

Interest-bearing bank and other loans are recorded at the fair value of the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for at amortised cost and on an accruals basis in the statement of comprehensive income using the effective interest method. Interest is added to the carrying value of the instrument to the extent that they are not settled in the period in which they arise.

(f) Derivative financial instruments

Derivatives are initially recognised at fair value on the date that the contract is entered into and subsequently re-measured in future periods at their fair value. They are held at fair value through profit or loss and are re-measured at each reporting date with the movement being recognised in the statement of comprehensive income.

(g) Financial liabilities and equity

Financial liabilities and equity are classified according to the substance of the financial instrument's contractual obligations rather than the financial instrument's legal form. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(h) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Operating leases

Amounts due under operating leases are charged to the statement of comprehensive income in equal annual instalments over the period of the lease.

Finance leases

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs.

2. Significant accounting policies continued

Nature and purpose of each reserve in equity

Share capital is determined using the nominal value of shares that have been issued.

Share premium represents the difference between the nominal value of shares issued and the fair value of the total consideration receivable at the issue date.

Equity-settled share-based employee remuneration is credited to the share-based payment reserve until the related share options are exercised. Upon exercise the share-based payment reserve is transferred to retained earnings.

The merger reserve has been created in relation to the Group reorganisation under IFRS 3, in which Lakehouse plc replaced Lakehouse Holdings Limited as the Group's ultimate parent Company.

3. Critical accounting judgements and key sources of uncertainty

In the application of the Group's accounting policies, which are described in Note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amount of assets and liabilities that are not readily apparent from other sources. These estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or if the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that may have a significant risk of causing material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

(i) Fair value of identifiable net assets acquired

Upon acquisition of a business, its identifiable assets and liabilities are assessed to determine their fair value. The values attributed to assets and liabilities as part of this process are, where appropriate, based on management's experience and assessments including comparison to the carrying value of assets of a similar condition and age in the existing business.

The accounting for the acquisitions in the period and the comparative period involved identifying and determining the fair values to be assigned to the identifiable assets, liabilities and contingent liabilities acquired and the cost of acquisition. The determination of fair values involved some key judgements and estimates, particularly in relation to the fair value of work in progress, other intangibles and deferred consideration.

The key judgements and estimates made in determining the fair value of other intangibles were:

- An estimation of cash arising from future revenues and profit derived from the asset where this method is used to assess the fair value of the asset. The estimate will itself depend on key assumptions
- The appropriate discount factor to apply to cash flows to determine the net present value of the cash flows
- Identification of and judgements around the uncertainties of the valuation model and its sensitivity to error in its key assumptions

The key judgements and estimates made in determining the fair value of deferred consideration were:

- The appropriate discount factor
- An estimation of future revenues and profit of the related businesses which determine the amount of the future consideration to be paid
- Identification of and judgements around the uncertainties of the valuation model and its sensitivity to error in its key assumptions

(ii) Impairment of goodwill, tangible and intangible assets

The Group reviews the valuation of goodwill, other intangibles and tangible assets for impairment annually or if events and changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount is determined based on value-in-use. See Notes 14 and 15 for key assumptions used in performing these impairment reviews in the current year.

(iii) Fair valuation of contingent consideration payable on acquisitions

At the point of acquisition and at each subsequent period end, management determines the fair value of contingent consideration payable. This requires a number of judgements around:

- An appropriate discount rate to use
- An estimation of future profits of the related businesses, as it impacts the calculation of the contingent consideration set out in the sale and purchase agreement

Note 35 sets out further details of the range of potential estimation uncertainty that exists in respect of contingent consideration.

Critical accounting judgements

The following are the critical judgements, apart from those involving estimations (which are dealt with separately above), that the Directors have made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the Financial Statements.

(i) Revenue and profit recognition

Revenue is recognised based on the stage of completion of job or contract activity. Certain types of service provision pricing mechanisms require minimal judgement; however, service provision lump sum construction and construction-type contracts do require judgements and estimates to be made to determine the stage of completion and the expected outcome for the individual contract.

3. Critical accounting judgements and key sources of uncertainty continued

Critical accounting judgements continued

(ii) Valuation of accrued revenue and amounts recoverable under construction contracts

The key judgements and estimates in determining the recoverable amounts of accrued revenue arising from construction and non-construction contracts were:

- An estimation of work completed by subcontractors, as yet unbilled
- An estimation of costs to complete
- An estimation of remaining revenues

(iii) Valuation of contract disputes

We continue to manage a number of potential risks and uncertainties, including claims and disputes, which are common to other similar businesses which could have a material impact on short and longer term performance. The Board remains focused on the outcome of a number of contract settlements on which there is a range of outcomes for the Group in terms of both cash flow and impact on the Statement of Comprehensive Income.

In quantifying the likely out turn for the Group, the key judgements and estimates will typically include:

- An estimation of liability based on commercial and/or legal assessment
- Fair value assessment of Statement of Financial Position item
- A commercial assessment of potential further liabilities

These assessments include a degree of uncertainty and therefore if the key judgements change, further adjustments of recoverable amounts may be necessary.

4. Operating segments

The Group's chief operating decision maker is considered to be the Board of Directors. The Group's operating segments are determined with reference to the information provided to the Board of Directors in order for it to allocate the Group's resources and to monitor the performance of the Group.

The Board of Directors has determined an operating management structure aligned around the four core activities of the Group, with the following operating segments applicable:

- **Compliance:** focused on gas, fire, electrics, air and water and lift compliance activities, where we contract predominantly under framework agreements. Services comprise the following:
  - Installation, maintenance and repair-on-demand of gas appliances and central heating systems
  - Compliance services in the areas of fire protection and building electrics
  - Air and water hygiene solutions
  - Service, repair and installation of lifts
- **Energy Services:** we offer a range of services in the energy efficiency sector, including external, internal and cavity wall insulation, loft insulation, gas central heating and boiler upgrades. The services are offered under various energy saving initiatives including the Energy Company Obligation ("ECO") and the Scottish Government's HEEPS ("Home Energy Efficiency Programme for Scotland") Affordable Warmth programme. Clients include housing associations, social landlords, local authorities and private householders and we have trading relationships with the "big six" utility and other leading utility suppliers. We also provide renewable technologies, metering services and energy advisory and brokerage services to customers throughout the UK
- **Property Services:** formerly called "Regeneration" and focused on planned and responsive maintenance services for social housing. A significant part of our services is the project managing delivery and ongoing resident liaison in delivering planned services such as new kitchens, bathrooms, roofs and windows. The segment also has a small responsive maintenance business. We contract with customers predominantly under framework agreements, where the number of suppliers will vary from one to a small group. The segment formerly included a directly delivered 'externals' business that the Board decided to close in 2016
- **Construction:** focused on small to medium sized building projects, normally under framework agreements with an emphasis on the education sector. The business targets refurbishment projects for public buildings with a typical value of £3.5m to £4.0m and tends to avoid large scale building projects. The segment also formerly included a social housing development business, which we exited in 2015 and in relation to which, contract losses were disclosed separately so as not to distort the underlying trading position of the Group and the Construction segment

The accounting policies of the reportable segments are the same as those described in the accounting policies section.

All revenue and profit is derived from operations in the United Kingdom only.

The profit measure the Group used to evaluate performance is underlying EBITA. Underlying EBITA is defined as operating profit before deduction of Exceptional and Other Items, as outlined in Note 7 and on the face of the statement of comprehensive income.

The Group accounts for inter-segment trading on an arm's length basis. All inter-segment trading is eliminated on consolidation.

4. Operating segments continued

The following is an analysis of the Group's revenue and underlying EBITA by reportable segment:

	2016 £'000	2015 £'000
Revenue		
Compliance	91,023	36,625
Energy Services	67,436	68,047
Property Services	98,143	161,733
Construction	52,051	73,439
Total segment revenue	308,653	339,844
Inter-segment elimination	(2,866)	(3,211)
Total underlying revenue	305,787	336,633
Mobilisation of smart metering	2,803	—
Contract revenue on businesses being exited	25,248	3,565
Revenue from external customers	333,838	340,198

Intra segment trading comprises services provided by the Compliance segment for the Property Services segment and are charged at prevailing market prices.

Reconciliation of underlying EBITA to (loss)/profit before taxation

	2016 £'000	2015 £'000
Underlying EBITA by segment		
Compliance	6,169	4,509
Energy Services	8,026	9,570
Property Services	780	10,510
Construction	3,606	4,838
Central	(7,672)	(7,203)
Total underlying EBITA	10,909	22,224
Mobilisation of smart metering contracts	(2,493)	—
Contract losses on businesses being exited	(6,656)	(2,524)
Exceptional costs	(5,742)	(8,656)
Exceptional income	2,672	—
Impairment of goodwill and intangible assets acquired	(19,204)	—
Amortisation of acquisition intangibles	(11,156)	(6,465)
Operating (loss)/profit	(31,670)	4,579
Finance costs	(1,657)	(1,397)
Investment income	46	20
(Loss)/profit before taxation	(33,281)	3,202

The improvement to IFRS 8 issued in April 2009 clarified that a measure of segment assets should be disclosed only if that amount is regularly provided to the chief operating decision maker. Only the Group consolidated statement of financial position is regularly reviewed by the chief operating decision maker and consequently no segment assets or liabilities are disclosed here under IFRS 8.

None of the Group's major customers accounted for more than 10% of Group revenue for 2016 or 2015.

5. (Loss)/profit before taxation

(Loss)/profit on ordinary activities before taxation is stated after charging/(crediting):

	2016 £'000	2015 £'000
Amount of inventories recognised as an expense	63,258	42,984
Depreciation of property, plant and equipment		
– owned	1,222	786
– held under finance leases	371	231
Amortisation of intangible assets (Note 15)	11,508	6,841
Impairment of goodwill and intangible assets acquired (Note 14 and 15)	19,204	—
Staff costs (Note 9)	85,828	57,392
Equity-settled share-based payments (Note 9)	—	846
Operating lease rentals:		
– land and buildings	1,354	900
– other	2,276	1,140
Profit on disposal of property, plant and equipment	(95)	(99)

6. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2016 £'000	2015 £'000
Fees payable to the Company's auditor and their associates for audit services to the Group:		
– The audit of the Company's annual accounts	55	50
– The audit of the Company's subsidiaries	269	236
Total audit fees	324	286
Fees payable to the Company's auditor and their associates for other services to the Group:		
– Taxation compliance services	—	40
– Taxation advisory services (corporate tax and indirect tax)	48	226
– Other assurance services (interim review)	22	29
– Corporate finance services (IPO)	—	830
Total non-audit fees	70	1,125

Notes to the consolidated financial statements continued

For the year ended 30 September 2016

7. Exceptional and other items, including amortisation of acquisition intangibles

	2016 £'000	2015 £'000
Contract losses on businesses being exited	6,656	2,524
Smart metering mobilisation costs	2,493	—
Total 'Other Items'	9,149	2,524
Acquisition costs	642	803
Contract costs	—	2,891
Impairment of receivables	2,567	—
Restructuring	2,533	832
IPO costs	—	4,130
Total exceptional costs	5,742	8,656
Release of deferred consideration	(2,672)	—
Total exceptional costs, net of exceptional income	3,070	8,656
Impairment of goodwill and intangible assets acquired	19,204	—
Amortisation of acquisition intangible assets	11,156	6,465
	42,579	17,645
Unamortised financing costs included in finance expense	—	355
Unwinding discount of deferred consideration	587	403
Loss before taxation	43,166	18,403
Taxation	(5,720)	(3,300)
Loss after taxation	37,446	15,103

Exceptional and other items in the year reduced the Group's profit after tax by £37.5m and relate to the following items:

Contract losses on businesses being exited

At the half year, we highlighted operational challenges in our directly delivered externals business managing growth in this work, in particular inventory, staff and site contractors. This business comprised two departments – Roofing and Energy South (managed by the Lakehouse Property Services team, but reported in 2015 segmentally as part of Energy Services). In May 2016, we instigated an operational improvement programme, focused on managing a balanced position of risk and return on capital. The conclusion was to close both departments as the risks of delivering this work directly were too great and, following the operational review, it was determined by the Board to exit these operations. The total losses on the contracts within these businesses are expected to amount to £6.6m pre-tax (on revenues of £25.3m), which have been excluded from the underlying result and reported as Other Items. These activities made a £2.4m profit on revenues of £28.4m in 2015, when they were included within the underlying results. The comparative figure for 2015 was £2.5m, representing further costs incurred on certain legacy contracts of our now ceased social housing development business (reported under the Construction division).

Smart metering mobilisation costs

Smart metering mobilisation costs of £2.5m (revenue of £2.8m) (2015: £nil) represent costs associated with training and retaining engineers, along with mobilisation complexities to do with planning work, documenting installations, inventory management and systems development. These are very significant in the context of the profits of the Energy Division and are non-recurring costs to be incurred at the start of the contract, as such; they have been separately highlighted as an 'Other Item'.

Exceptional costs and income

Acquisition costs comprise legal, professional and other expenditure in relation to acquisition activity during the year and amounted to £0.6m (2015: £0.8m).

Contract costs of £nil (2015: £2.9m) relate to exceptional remediation expenses associated with the resolution of historic matters on a specific contract ('The Contract').

Impairment of receivables of £2.6m (2015: £nil) reflects the provision taken against receivables in relation to a small number of contract settlements on which there is a range of possible outcomes for the Group in terms of both cash flow and impact on the Statement of Comprehensive Income. This predominantly relates to a sum receivable within Property Services relating to The Contract, discussed above. This is a matter that has been ongoing since 2014 and does not reflect underlying trading in the year. A small element related to the withdrawal from industrial & commercial metering activities, discussed above in the Energy Services operational review. The provisions were made in line with the Group's accounting policy for receivables, but highlighted as an exceptional item in light of their unusual nature. Management will continue to seek a full and advantageous settlement for the Group.

We incurred a £2.5m charge in relation to restructuring and EGM costs in the year. In May 2016, we indicated an operational improvement programme would be initiated by the Board to focus initially on the Property Services Division, in which we made significant progress during the second half of the year. The Group recorded a £1.0m exceptional cost to cover the costs of redundancy for over 100 staff associated with this exercise, which included the rationalisation of certain central functions. There has also been a great deal of change at Board level this year and the Group took a charge of £1.5m associated with the departure of former directors, the two Extraordinary General Meetings held during the year and other one-off expenses. The prior year item of £0.8m related to the write-off of certain fixed assets and legal fees in relation to reshaping the Group structure.

IPO costs of £nil (2015: £4.1m) comprise legal, professional and incidental expenditure incurred in relation to the IPO.

Release of deferred consideration of (£2.6m) (2015: £nil) relates to the renegotiation of sums due to the former owners of H2O Nationwide Limited (£0.6m) and no further sums being due to the former owners of Providor Limited (£1.5m) and Sure Maintenance Limited (£0.5m), in light of the requisite performance conditions under the Sale and Purchase Agreement not being met.

7. Exceptional and other items, including amortisation of acquisition intangibles continued

Impairment of goodwill and intangible assets acquired

Impairment of goodwill and intangible assets acquired was £19.2m for the year (2015: £nil) relating to the write-off of £17.4m of goodwill in relation to Foster Property Maintenance Limited and £1.8m in relation to the contract a major industrial and commercial customer, previously recognised in acquisition intangibles associated with Providor Limited. Further background is provided in the Financial review in Notes 14 and 15.

Amortisation of acquisition intangibles

Amortisation of acquisition intangibles was £11.2m for the year (2015: £6.5m), with the increase reflecting a full year impact of H2O Nationwide, Providor, Orchard Energy and Sure Maintenance together with the acquisitions of Aaron Services and Precision Lift Services during the year.

Accelerated amortisation of financing costs

Finance costs of £nil (2015: £0.4m) represent the write off of unamortised costs on the term loan we replaced with a new revolving credit facility in December 2014, ahead of the IPO.

Unwinding discount of deferred consideration

Unwinding discount of deferred consideration reflects the present value of deferred sums. Contingent consideration is discounted at a post-tax rate of 8.5%, due on outstanding payments for acquisitions. Non-contingent deferred cash consideration is discounted at a post-tax rate of between 2% and 3%.

The costs discussed above are considered non-trading because they are not part of the underlying trading of the Group and in the case of exceptional items, impairment of goodwill and accelerated amortisation of finance costs are not expected to recur year to year. Contract losses on businesses being exited relates to departments that have been closed and in the case of smart metering mobilisation costs reflect the one off nature of mobilizing our new domestic smart metering programme.

Risk Management

We continue to manage a number of potential risks and uncertainties, including claims and disputes, which are common to other similar businesses which could have a material impact on short and longer term performance. The Board remains focused on the outcome of a number of contract settlements on which there is a range of outcomes for the Group in terms of both cash flow and impact on the Statement of Comprehensive Income.

In quantifying the likely out turn for the Group, the key judgements and estimates will typically include:

- An estimation of liability based on commercial and/or legal assessment
- Fair value assessment of a Statement of Financial Position item
- A commercial assessment of potential further liabilities

8. Investment income and expenditure

	2016 £'000	2015 £'000
Investment income		
Bank interest receivable	4	11
Fair value gain on interest rate hedge arrangement	—	9
Other interest receivable	42	—
	46	20
Finance expenses		
Interest payable on bank overdrafts and loans	(1,014)	(986)
Unwinding of discount on financial liabilities	(587)	(411)
Fair value loss on interest rate hedge arrangement	(42)	—
Other interest payable	(14)	—
	(1,657)	(1,397)

9. Information relating to employees

The average number of employees, including Directors, employed by the Group during the year was:

	2016 Number	2015 Number
Direct labour and contract management	1,393	1,022
Administration and support	1,003	853
	2,396	1,875

The aggregate remuneration was as follows:

	2016 £'000	2015 £'000
Wages and salaries	76,976	51,638
Social security	7,706	5,087
Pension costs — defined contribution plans	1,146	667
Equity-settled share-based payments	—	846
	85,828	58,238

10. Retirement benefit obligations

The Group contributes to the personal pension plans of certain employees of the Group and to a workplace pension scheme for other employes, in compliance with automatic enrolment legislation. The assets of these schemes are held in independently administered funds. The Group paid £1,146,000 in the year ended 30 September 2016 (2015: £667,000). At the reporting date, £165,970 of contributions was payable to the funds (2015: £88,505).

Notes to the consolidated financial statements continued

For the year ended 30 September 2016

11. Tax on (loss)/profit on ordinary activities

	2016 £'000	2015 £'000
Current tax		
Current year	151	2,200
Current tax – prior year adjustment	(173)	(324)
Total current tax	(22)	1,876
Deferred tax (Note 25)	(3,991)	(1,060)
Total tax on (loss)/profit on ordinary activities	(4,013)	816

The tax assessed for the year is lower/higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2016 £'000	2015 £'000
(Loss)/profit before tax	(33,281)	3,202
Effective rate of corporation tax in the UK	20.00%	20.50%
(Loss)/profit before tax at the effective rate of corporation tax	(6,656)	657
Effects of:		
Expenses not deductible for tax purposes	3,043	419
Adjustment of deferred tax to closing tax rate	(268)	35
Current tax — prior year adjustment	(173)	(324)
Deferred tax — prior year adjustment	(154)	29
Deferred tax asset not recognised	195	—
Tax (credit)/charge for the year	(4,013)	816

In addition to the amounts charged to the consolidated statement of comprehensive income, the following amounts relating to tax have been recognised directly in equity:

	2016 £'000	2015 £'000
Current tax — excess deductions related to share-based payments on exercised options	—	2,506
Deferred tax (Note 25)	(608)	1,897
Changes in estimated excess tax deductions relating to share based payments	(608)	4,403

Factors that may affect future charges

The Finance (No 2) Act 2015, which provides for reductions in the main rate of corporation tax from 20% to 19% effective from 1 April 2017 and to 18% effective from 1 April 2020, was substantively enacted on 26 October 2015. Subsequently, the Finance Act 2016, which provides for a further reduction in the main rate of corporation tax to 17% effective from 1 April 2020, was substantively enacted on 6 September 2016. These rate reductions have been reflected in the calculation of deferred tax at the statement of financial position date.

The closing deferred tax asset at 30 September 2016 has been calculated at 17% reflecting the tax rate at which the deferred tax asset is expected to be utilised in future periods.

12. Dividends

The proposed final dividend for the year ended 30 September 2016 of 0.5 pence per share amounting to £0.8m and representing a total dividend of 1.5 pence for the full year (2015: 1.9 pence per share), will be paid on 6 April 2017 to the shareholders on the register at the close of business on 10 March 2017. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting and has not been included as a liability in these financial statements.

13. Earnings per share

The calculation of the basic and diluted earnings per share is based on the following data:

	2016 Number	2015 Number
Weighted average number of ordinary shares for the purposes of basic loss/earnings per share	157,527,103	127,776,310
Diluted		
Effect of dilutive potential ordinary shares:		
Share options	2,897,178	14,122,892
Weighted average number of ordinary shares for the purposes of diluted loss/earnings per share	160,424,281	141,899,202
(Loss)/earnings for the purpose of basic and diluted earnings per share being net profit attributable to the owners of the Company (£'000)	(29,268)	2,386
Basic (loss)/earnings per share	(18.6p)	1.9p
Diluted (loss)/earnings per share	(18.6p)	1.7p
Earnings for the purpose of underlying earnings per share being underlying net profit attributable to the owners of the Company (£'000)	8,178	17,489
Adjusted basic earnings per share	5.2p	13.7p
Adjusted diluted earnings per share	5.1p	12.3p

The number of shares in issue at 30 September 2016 was 157,527,103.

The weighted average number of Ordinary shares in issue during the year excludes those accounted for in the own shares reserve (Note 29).

14. Goodwill

	£'000
At 1 October 2015	56,267
Recognised on acquisition of Aaron Heating Services Limited (Note 34)	3,667
Recognised on acquisition of PLS Holdings Limited (Note 34)	3,626
Impairment of Foster Property Maintenance Limited	(17,421)
Adjustment to goodwill of Providor Limited	446
Adjustment to goodwill of Orchard (Holdings) UK Limited	602
Adjustment to goodwill of Sure Maintenance Group Limited	151
At 30 September 2016	**47,338**

Goodwill arising on consolidation represents the excess of the fair value of the consideration transferred over the fair value of the Group's share of the net assets of the acquired subsidiary at the date of acquisition.

The adjustments relating to businesses acquired in the previous year relate to finalisation of fair value accounting within 12 months of being acquired.

Goodwill is not amortised but is reviewed for impairment on an annual basis or more frequently if there is an indication that goodwill may be impaired. Goodwill acquired in a business combination is allocated to cash-generating units ('CGUs') according to the level at which management monitors that goodwill.

Goodwill is carried at cost less accumulated impairment losses.

The carrying value of goodwill is allocated to the following CGUs:

CGU	Segment	2016 £'000	2015 £'000
K&T Heating Services Limited	Compliance	**3,774**	3,774
Allied Protection Limited	Compliance	**3,717**	3,717
Foster Property Maintenance Limited	Property Services	**—**	17,421
Everwarm Ltd	Energy Services	**17,476**	17,476
H2O Nationwide Limited	Compliance	**2,209**	2,209
Providor Limited	Energy Services	**3,037**	2,591
Orchard (Holdings) UK Limited	Energy Services	**5,607**	5,005
Sure Maintenance Group Limited	Compliance	**4,225**	4,074
Aaron Heating Services Limited	Compliance	**3,667**	—
PLS Holdings Limited	Compliance	**3,626**	—
		47,338	56,267

An asset is impaired if its carrying value exceeds the unit's recoverable amount which is based upon value in use. At each reporting date impairment reviews are performed by comparing the carrying value of the CGU to its value in use. At 30 September 2016 the value in use for each CGU was calculated based upon the cash flow projections of the latest Board approved three-year forecasts together with a further two years estimated and an appropriate terminal value based on perpetuity. This is discussed further below.

Future budgeted and forecast profits are estimated by reference to detailed bottom-up budgeting process undertaken by the Group.

The estimated growth rates are based on past experience and knowledge of the individual sector's markets. The Directors believe that the Group's core markets of social housing, public buildings, education and energy services, underpinned by Government policy, will continue to present strong growth opportunities for the CGUs outlined above respectively. Management believe that future growth in these markets is underpinned by a number of factors including:

- A pipeline of new tenders
- Further opportunities to work with other Group companies
- Client demand for safe buildings
- Adjacent market opportunities

14. Goodwill continued

The assumptions used in the impairment reviews at 30 September 2016 are outlined below:

For years one to three the value in use calculation is based on the latest board approved three-year forecasts, which are adjusted for non-cash items. The growth rates applied in these first three years varies by business, but sit in a range between 1% and 29% for revenue growth. The growth rate applied to the cash flows in years four and five was 2% (2015: 2%). A terminal growth rate of 1% (2015: 1%) was applied. The pre-tax discount rate applied was 11.4% (2015: 10.3%), with the post-tax discount rate being 9.5% (2015: 8.5%). A sensitivity analysis has been completed; this was based on a reduction in revenue of 20% per year, a reduction in operating profit margin of between 1% and 3% and an increase in the discount rate of 1%. The directors consider that reasonably possible changes in the key assumptions would not cause the carrying amount to exceed its recoverable amount.

As outlined in our trading statement of 1 February 2016, the Group is operating against a backdrop of active cost reductions taking place within client organisations, resulting in part from a requirement for social landlords to reduce rents by 1% p.a. for the next four years. This was particularly felt within the Property Services division. Despite our success in securing positions on key frameworks, including resecuring Eastern Procurement, the expected level of tenders from these frameworks has not materialised at the rate previously expected. On reviewing the expected cash flows for Foster Property Maintenance, management concluded that they were not sufficient to maintain any Goodwill. There was no Goodwill elsewhere in the Property Services division.

Following a detailed review, and based on the latest board approved three-year forecasts (which assume modest revenue growth of approximately 1% per year and some marginal EBITA improvement) and a growth rate in EBITA of 1.5% in years four and five with a terminal growth rate of 0.75% the goodwill in Foster Property Maintenance was written off in the year, resulting in a charge of £17.4m; the determined remaining recoverable amount of CGU was £2.9m which was determined with reference to a 'value in use' basis. The pre-tax discount rate used was 12.5% (2015: 10.3%), reflecting the increased level of risk associated with the forecast trading position. A 100 basis point increase in the discount rate would reduce the value in use by 8%, whereas a 50 basis point adjustment to the years four to five growth rates or the terminal growth rate would have a 3% impact on the value in use.

15. Other intangible assets

		Acquisition intangibles			
	Computer software £'000	Contracted customer order book £'000	Customer relationships £'000	Non-compete agreements £'000	Total £'000
Cost					
At 1 October 2015	1,322	24,338	13,772	2,508	41,940
Recognised upon acquisition	—	2,212	4,588	950	7,750
Additions	291	—	—	—	291
Disposals	(2)	—	—	—	(2)
At 30 September 2016	**1,611**	**26,550**	**18,360**	**3,458**	**49,979**
Amortisation					
At 1 October 2015	702	9,818	4,045	176	14,741
Amortisation charge	352	6,616	3,663	877	11,508
Impairment	—	1,783	—	—	1,783
Disposals	—	—	—	—	—
At 30 September 2016	**1,054**	**18,217**	**7,708**	**1,053**	**28,032**
Carrying value					
At 30 September 2016	**557**	**8,333**	**10,652**	**2,405**	**21,947**
At 30 September 2015	620	14,520	9,727	2,332	27,199

15. Other intangible assets continued

Contracted customer order book

The value placed on the order book is based upon the cash flow projections over the contracts in place when a business is acquired. Due to uncertainties with trying to forecast revenues beyond the contract term, the Directors have valued contracts over the contractual term only. The value of the order book is amortised over the remaining life of each contract which typically range from one to five years.

As we outlined in our trading statement of 2 August 2016, the Group's former major metering customer, in the industrial and commercial sector, decided to take installation in house during the year, following a number of acquisitions among our competitors. The customer contract had been valued at £1.8m within the contracted customer order book in Providor Limited and in light of the customer's actions, this sum was impaired during the year, in light of no further cash flows being anticipated to arise from this arrangement.

Customer relationships

The value placed on the customer relationships are based upon the non-contractual expected cash inflows forecast on the base business over and above contracted revenues. The value of customer relationships is amortised over five years.

Non-compete agreement

The value placed on the non-compete agreements are based upon the non-compete clause and knowledge and know-how of the former owners of the acquired businesses. The value of non-compete is amortised over five years.

The annual post-tax discount rate employed in the calculation of the acquisition intangibles is 13.00% (2015: 13.00%) which is higher than the Group WACC used for impairment purposes to reflect the added risks associated with the valuation of an intangible asset in isolation from a business.

16. Property, plant and equipment

	Leasehold improvements £'000	Plant & equipment £'000	Fixtures and fittings £'000	Motor vehicles £'000	Total £'000
Cost					
At 1 October 2015	1,076	468	1,512	1,815	4,871
Acquisition in the year	125	254	138	18	535
Additions	211	128	364	116	819
Disposals	—	(1)	(32)	(442)	(475)
At 30 September 2016	**1,412**	**849**	**1,982**	**1,507**	**5,750**
Depreciation					
At 1 October 2015	219	189	730	607	1,745
Charge for the year	241	141	563	648	1,593
Disposals	—	(1)	(27)	(386)	(414)
At 30 September 2016	**460**	**329**	**1,266**	**869**	**2,924**
Net book value					
At 30 September 2016	**952**	**520**	**716**	**638**	**2,826**
At 30 September 2015	857	279	782	1,208	3,126

Included within the net book value of tangible fixed assets is £763,000 (2015: £837,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £371,000 (2015: £231,000).

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For the year ended 30 September 2016

17. Group entities
Subsidiaries

The Group's subsidiary undertakings are:

	Country of incorporation	Class of capital	%	Principal activity
Aaron Heating Services Limited	England	Ordinary	100	Intermediate holding company
Aaron Services Limited	England	Ordinary	100	Maintenance and installation of gas heating systems
Allied Protection Limited	England	Ordinary	100	Fire and electrical engineers
Bury Metering Services Limited	England	Ordinary	100	Non-trading
Everwarm Ltd	Scotland	Ordinary	100	Energy and insulation services
F J Jones Holdings Limited	England	Ordinary	100	Non-trading
F J Jones Heating Engineers Limited	England	Ordinary	100	Non-trading
Foster Property Maintenance Limited	England	Ordinary	100	Property maintenance
H2O Nationwide Limited	England	Ordinary	100	Air and water hygiene
K & T Heating Services Limited	England	Ordinary	100	Plumbing and heating engineers
Lakehouse Compliance Services Limited	England	Ordinary	100	Intermediate holding company
Lakehouse Construction Services Limited	England	Ordinary	100	Non-trading
Lakehouse Contracts Limited[2]	England	Ordinary	100	Construction and property services
Lakehouse Design and Build Limited	England	Ordinary	100	Construction
Lakehouse Energy Services Limited[2]	England	Ordinary	100	Intermediate holding company
Lakehouse Holdings Limited[1]	England	Ordinary	100	Intermediate holding company
Lakehouse Property Investments Limited[2]	England	Ordinary	100	Non-trading
Orchard Energy Limited	England	Ordinary	100	Energy procurement
Orchard (Holdings) UK Limited	England	Ordinary	100	Intermediate holding company
Orchard Utilities Limited	England	Ordinary	100	Non-trading
Orchard Water Limited	England	Ordinary	100	Non-trading
Precision Lift Services Limited	England	Ordinary	100	Lift installation, modernisation and maintenance services
PLS GRP Limited	England	Ordinary	100	Intermediate holding company
PLS Holdings Limited	England	Ordinary	100	Intermediate holding company
PLS Industries Limited	England	Ordinary	100	Non-trading
Providor Limited	England	Ordinary	100	Smart metering
Smart Metering Limited	England	Ordinary	100	Non-trading
Smart Metering Commercial Installations Limited	England	Ordinary	100	Non-trading
Smart Metering Domestic Installations Limited	England	Ordinary	100	Non-trading
Smart Metering Modules Limited	England	Ordinary	100	Non-trading
Speedfit Limited	England	Ordinary	100	Non-trading
Sure Maintenance Limited	England	Ordinary	100	Maintenance and installation of gas heating systems
Sure Maintenance Group Limited	England	Ordinary	100	Intermediate holding company

1 Directly held investment.
2 Investment held by Lakehouse Holdings Limited.

Joint ventures

The Group's joint ventures are:

	Country of incorporation	Class of capital	%	Principal activity
Warmworks Scotland LLP	Scotland	Ordinary	33.33	Energy and insulation services

17. Group entities continued

Joint ventures continued

Details of Warmworks

	2016 £'000	2015 £'000
Group share of profit of joint venture	537	—

Warmworks, a joint venture with Changeworks and the Energy Saving Trust, commenced trading in September 2015, the accumulated income of £537,000 until 30 September 2016 was recognised. Under IFRS 11, no share of the initial loss associated with the mobilisation costs (estimated at £165,000) was recognised in the prior year.

18. Inventories

	2016 £'000	2015 £'000
Raw materials and consumables	3,462	3,739
Other work in progress	1,725	896
	5,187	4,635

There are no inventories at 30 September 2016 or 30 September 2015 carried at fair value less costs to sell. The Directors consider that the replacement value of inventories is not materially different from their carrying value. There was no security held at any reporting date over inventory.

19. Amounts due from and to customers under construction contracts

	2016 £'000	2015 £'000
Contracts in progress at the reporting date:		
Contract costs incurred plus recognised profits less recognised losses to date	218,476	273,051
Less: progress billings	(216,005)	(271,572)
	2,471	1,479
Amounts due from construction contract customers	3,161	2,053
Amounts due to construction contract customers	(690)	(574)
	2,471	1,479

Details of retentions held by customers for performance under construction contracts are disclosed in Note 20. As at 30 September 2016 there were no advances received from customers for work performed under construction contracts (2015: £nil).

20. Trade and other receivables

	2016 £'000	2015 £'000
Current		
Trade receivables	24,259	35,114
Construction contract retentions receivable	3,139	3,489
Related party loans receivable	—	381
Social security and other taxes	665	379
Other receivables	6,000	4,323
Prepayments	2,283	2,011
Accrued income	29,287	31,841
	65,633	77,538
Non-current		
Construction contract retentions receivable	338	266
Related party loans receivable	150	150
Other receivables	871	715
	1,359	1,131

	2016 £'000	2015 £'000
Trade receivables		
Trade receivables not due	19,849	26,884
Trade receivables past due 1–30 days	2,280	5,230
Trade receivables past due 31–60 days	1,455	2,150
Trade receivables past due 61–90 days	336	705
Trade receivables past due over 90 days	1,144	1,122
Gross trade receivables	25,064	36,091
Provision for bad debt brought forward	(977)	(938)
Debtor provision recognised upon acquisition	(28)	(309)
Amounts written off receivables ledger	18	14
Debtor provision credited to profit or loss in the year	182	256
Provision for bad debt carried forward	(805)	(977)
Net trade receivables	24,259	35,114

The entire provision for bad debts of £805,000 (2015: £977,000) is past due over 90 days.

Included in related party loans receivable is an amount of £nil owed by La Maison Du Lac Limited to Lakehouse Contracts Limited (2015: £381,143). The loan is unsecured and interest free. Messrs S Rawlings, P King and P Broider are shareholders and directors of La Maison du Lac Limited. Steve Rawlings was appointed as a Director of Lakehouse plc on 18 April 2016. Steve Rawlings died on 23 July 2016.

20. Trade and other receivables continued

Included in related party loans receivable is an amount of £150,000 owed by the former owners of Everwarm (2015: £150,000).

The Directors consider that the carrying amount of trade receivables approximates to their fair value. Debts provided for and written off are determined on an individual basis and included in administrative expenses in the Financial Statements. The Group's maximum exposure on credit risk is fair value on trade receivables as presented above. The Group has no pledge as security on trade receivables.

At the end of the year no customers represented more than 5% of the total balance of trade receivables, (2015: £3,028,000 – one customer).

21. Trade and other payables

	2016 £'000	2015 £'000
Current		
Trade payables	23,810	30,459
Sub-contract retentions	4,343	3,830
Accruals	28,504	36,184
Deferred income	2,600	3,727
Social security and other taxes	6,092	5,656
Other payables	452	488
	65,801	80,344
Non-current		
Sub-contract retentions	421	282
Accruals	5,815	4,731
	6,236	5,013

The Directors consider that the carrying amount of trade payables approximates to their fair value for each reported period. Trade payables are non-interest bearing. Average settlement days are 34 days (2015: 38 days).

Included in accruals is deferred consideration arising from business combinations analysed as follows:

	2016 £'000	2015 £'000
Current	757	4,928
Non-current	5,155	4,293
	5,912	9,221

The fair value of deferred consideration has been assessed in accordance with the applicable sale and purchase agreements.

The non-current element of the expected settlement has been discounted using a post-tax discount rate of 2.68% (2015: 2.68%) that reflects the time value of money. £4,289,000 of the deferred consideration is contingent using a post-tax discount rate of 8.5%, which is reflective of the underlying risks associated with the business cash flows.

22. Borrowings

	2016 £'000	2015 £'000
Bank loans and credit facilities at amortised cost:		
Current	71	—
Non-current	20,586	—
	20,657	—
Maturity analysis of bank loans and credit facilities falling due:		
In one year or less, or on demand	71	—
Between one and two years	—	—
Between two and five years	20,586	—
After more than five years	—	—
	20,657	—

In December 2014, the Group renegotiated its bank facilities to provide an overdraft facility of £5m together with a Revolving Credit Facility ("RCF") of £30m, which was extended to £45m in December 2015. The Group agreed a variation to the RCF in January 2017 with Royal Bank of Scotland to reduce the RCF to £40m and further reduce the facility to £35m in April 2017. The variation to the RCF included a revision to the banking covenants, which reflect the lower earnings expectations of the Group, and a higher rate of interest.

23. Net debt

	2016 £'000	2015 £'000
(Overdraft)/cash and cash equivalents	(71)	6,934
Bank loans and credit facilities	(20,586)	—
Unamortised finance costs (included in other receivables)	414	418
Unamortised finance costs (included in borrowings)	—	—
Finance lease obligations	(386)	(743)
	(20,629)	6,609

24. Provisions

	Property development £'000	Legal and other £'000	Total £'000
At 1 October 2015	1,100	5,349	6,449
Identified on acquisition	—	762	762
Additional provision	—	885	885
Utilised in the year	(1,100)	(2,118)	(3,218)
At 30 September 2016	**—**	**4,878**	**4,878**
Current provisions	—	1,904	1,904
Non-current provisions	—	2,974	2,974

Property development

Property development costs represent sums due to the former owners of the land relating to the Manor Road housing development under the terms of the sale. This sum was paid in October 2015.

Legal and other

Other costs relate to property dilapidation obligations, potential contract settlement costs and other potential legal settlement costs. The largest figure relates to the potential contract settlement costs which have been made on management review of contractual obligations faced on legacy contracts and include The Contract costs referred to in Note 7. These are expected to result in an outflow of economic benefit over the next one to three years.

The Group continue to manage a number of potential risks and uncertainties, including claims and disputes, which are common to other similar businesses which could have a material impact on short and longer term performance. The Board remains focused on the outcome of a number of contract settlements on which there is a range of outcomes for the Group in terms of both cash flow and impact on the Statement of Comprehensive Income.

In quantifying the likely out turn for the Group, the key judgements and estimates will typically include:

- An estimation of liability based on commercial and/or legal assessment
- Fair value assessment of Statement of Financial Position item
- A commercial assessment of potential further liabilities

25. Deferred taxation

The following are the deferred tax assets/(liabilities) recognised by the Group and movements thereon during the period:

	Accelerated capital allowances £'000	Short term timing differences £'000	Share-based payments £'000	Acquisition intangibles £'000	Unutilised losses £'000	Total £'000
Asset/(provision) brought forward as at 1 October 2014	30	138	1,464	(3,445)	—	(1,813)
Acquired in the year	(45)	85	—	—	—	40
On intangible assets identified on acquisition	—	—	—	(3,163)	—	(3,163)
Credit/(charge) to profit or loss	8	16	(257)	1,293	—	1,060
(Charge)/credit to equity	—	—	(1,168)	—	3,065	1,897
(Provision)/asset brought forward as at 30 September 2015	(7)	239	39	(5,315)	3,065	(1,979)
Acquired in the year	78	205	—	—	—	283
On intangible assets identified on acquisition	—	—	—	(1,458)	—	(1,458)
Credit/(charge) to profit or loss	195	522	(3)	3,137	140	3,991
Charge to equity	—	—	—	—	(608)	(608)
Asset/(provision) carried forward as at 30 September 2016	**266**	**966**	**36**	**(3,636)**	**2,597**	**229**

25. Deferred taxation continued

There is a further deferred tax asset of £219k (£1,292k – gross) of short term timing differences that have not been recognised in Lakehouse plc entity, as it is not considered probable that there will be future tax profits in this entity.

	Accelerated capital allowances £'000	Short term timing differences £'000	Share-based payments £'000	Acquisition intangibles £'000	Unutilised losses £'000	Total £'000
At 30 September 2016						
Deferred tax asset element	**266**	**966**	**36**	**—**	**2,597**	**3,865**
Deferred tax liability element	**—**	**—**	**—**	**(3,636)**	**—**	**(3,636)**
Net deferred tax asset/(liability)	**266**	**966**	**36**	**(3,636)**	**2,597**	**229**
At 30 September 2015						
Deferred tax asset element	—	239	39	—	3,065	3,343
Deferred tax liability element	(7)	—	—	(5,315)	—	(5,322)
Net deferred tax (liability)/asset	(7)	239	39	(5,315)	3,065	(1,979)

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The analysis above shows the gross position on deferred tax which has been offset in the statement of financial position.

26. Finance lease obligations

These comprise legacy lease arrangements that were in place with an acquisition that occurred in 2011 and lease arrangements entered into by subsidiaries acquired in the year.

	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000
At 1 October 2015	884	(141)	743
New obligations	95	(11)	84
Repayments	(510)	69	(441)
At 30 September 2016	**469**	**(83)**	**386**

Future lease payments are due as follows:

	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000
Less than one year	271	(49)	222
Between two and five years	198	(34)	164
At 30 September 2016	**469**	**(83)**	**386**
Less than one year	471	(68)	403
Between two and five years	413	(73)	340
At 30 September 2015	884	(141)	743

27. Called up share capital

Allotted, called up and fully paid:

2016 Number	2015 Number		2016 £	2015 £
157,527,103	157,527,103	Ordinary shares of £0.10 each	15,752,710	15,752,710

Details of options granted under the Group's share scheme are contained in Note 28.

Voting rights

The holders of ordinary shares are entitled to receive notice of, attend or participate in any general meeting of the Company and to receive any notice of a written resolution proposed to be passed by the Company.

On a show of hands at a meeting the holders of any such shares shall be entitled to one vote for all such shares held.

On a poll at a meeting, for a written resolution, the holder of such shares shall be entitled to such number of votes as corresponds to the nominal value (in pence) or the relevant shares held.

28. Share-based payments

The Company has established a Share Incentive Plan (SIP), Sharesave Scheme (SAYE), Company Share Option Plan (CSOP), Performance Share Plan (PSP), Deferred Share Bonus Plan (DSBP) and a Special Incentive Award Plan (SIAP) in the year ended 30 September 2016.

The net charge recognised for share-based payments in the year was £nil (2015: £846,000).

Share Incentive Plan (SIP)

The SIP is an HMRC-approved scheme plan open to all UK employees at the date of the IPO, 23 March 2015. Each employee was given £200 of free shares; there were no performance conditions apart from remaining in employment for three years from the date of award. Shares totalling 325,842 were transferred directly to the SIP trust and on 29 April 2015, 236,213 shares allotted in relation to the initial award of shares under the SIP. No further awards have been made under the SIP.

Sharesave Scheme (SAYE)

The SAYE is open to all employees who satisfy certain criteria, particularly relating to period of employment. The exercise price is equal to the average of the closing quoted market price for the preceding three days less a discretionary discount approved by the Board of not less than 80% of the market value of a share. The scheme is for three years, during which the holder must remain in the employment of the Group, and the shares can be exercised within six months from the maturity of the scheme.

Company Share Option Plan (CSOP)

The CSOP is open to all employees at the discretion of the Remuneration Committee. The exercise price is equal to the average of the closing quoted market price at the date of grant. The vesting period is for three years, during which the holder must remain in the employment of the Group and is conditional on the achievement of a mix of market and non-market performance conditions from the date of granting the option to the date of potential exercise.

Performance Share Plan (PSP)

The PSP is open to certain employees at the discretion of the Remuneration Committee at a limit not exceeding 150% of the individual's base salary at the date of grant. The exercise price is £nil with the exception of the PSP award to Michael McMahon, which has an exercise price of 10 pence per share (being the nominal value of a share in the capital of the Company). The vesting period is for three years, during which the holder must remain in the employment of the Group and is conditional on the achievement of a mix of market and non-market performance conditions from the date of granting the option to the date of potential exercise.

Deferred Share Bonus Plan (DSBP)

The DSBP will be operated in conjunction with the Company's (and its subsidiaries') annual discretionary bonus arrangements from time to time and will provide a means by which a proportion of an employee's annual discretionary non-contractual bonus can be deferred. The number of shares placed under an award granted will be such number of shares as has a market value (measured at the grant date) as near to, but not exceeding, the amount of bonus that has been granted under such award. No award was made under the DSBP in the year.

Special Incentive Award Plan (SIAP)

Awards granted under the SIAP take the form of options to acquire Lakehouse Shares for nil consideration. The awards will have no beneficial tax status. Only employees who are also Directors of the Company may be granted an award under the SIAP. The Remuneration Committee will have absolute discretion to select the persons to whom awards may be granted and in determining the number of Lakehouse Shares to be subject to each award. One employee is currently participating in the SIAP.

Notes to the consolidated financial statements continued

For the year ended 30 September 2016

28. Share-based payments continued

	SIP	SAYE	CSOP	PSP	DSBP	SIAP
Number						
At 1 October 2015	236,213	1,853,785	536,653	1,687,521	—	—
Granted	—	—	794,088	1,691,607	—	4,615,385
Lapsed	(39,903)	(1,237,377)	—	—	—	—
Forfeited	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
At 30 September 2016	**196,310**	**616,408**	**1,330,741**	**3,379,128**	**—**	**4,615,385**
Weighted average exercise price (p)						
At 1 October 2015	0.00p	81.74p	93.17p	0.00p	—	—
Granted	—	—	90.67p	0.00p	—	0.00p
Lapsed	0.00p	81.74p	—	—	—	—
Forfeited	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Outstanding at 30 September 2016	**0.00p**	**81.74p**	**91.68p**	**0.00p**	**—**	**—**
Exercisable at 30 September 2016	**—**	**—**	**—**	**—**	**—**	**—**
Outstanding at 30 September 2015	0.00p	81.74p	93.17p	0.00p	—	—
Exercisable at 30 September 2015	—	—	—	—	—	—
Fair value of options granted						
Weighted fair value of one option	87.61p	24.9p	15.91p	64.65p	—	0.02p
Assumptions used in estimating the fair value						
Share price at date of grant	99.75p	95.50p	91.87p	89.38p	—	23.50p
Exercise price	—	81.74p	91.68p	0.00p	—	0.00p
Expected dividend yield	4.60%	2.69%	5.08%	5.11%	—	6.66%
Risk-free rate	1.21%	0.94%	1.41%	0.77%	—	0.13%
Expected volatility	40.37%	30.12%	30.06%	28.38%	—	42.17%
Expected life	3 years	3.25 years	3 years	3 years	—	2.36 years

In the year ended 30 September 2016, options were granted in December 2015 in respect of the PSP, CSOP and July 2016 in respect of the SIAP.

The weighted average remaining contractual life of outstanding options at 30 September 2016 was 2.6 years. The aggregate of the estimated fair values of options granted on the above dates was £3.0m.

The SIP and SAYE were valued using a Black-Scholes model and the CSOP and PSP a combination of Black-Scholes and Monte Carlo models, weighted according to the performance conditions of both.

28. Share-based payments continued

The inputs into the Black-Scholes model are as follows:

	2016	2015
Share price (p)	89.75	89.00–99.75
Exercise price (p)	0.00–90.67	0.00–93.17
Expected volatility (%)	23.1	30.1–40.4
Expected life (years)	3.00	3.00–3.25
Risk-free rate (%)	1.6	0.9–1.2
Expected dividends (%)	5.4	2.7–4.8

The inputs into the Monte Carlo model are as follows:

	2016	2015
Share price (p)	23.5–89.75	89.00–95.00
Exercise price (p)	0.00–90.67	0.00–93.17
Expected volatility (%)	23.1–42.2	33.7–40.4
Expected life (years)	2.36–3.00	3.00
Risk-free rate (%)	0.1–1.6	0.6–1.2
Expected dividends (%)	5.4–6.7	4.6–4.8

Expected volatility was based upon the historical volatility over the expected life of the schemes. The expected life is based upon scheme rules and reflect management's best estimates for the effects of non-transferability, exercise restrictions and behavioural considerations.

29. Reserves

Share premium reserve

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares, net of the direct costs associated with issuing those shares. Issue costs in relation to the issue of shares on IPO of £1,315,000 have been charged to the share premium account.

Merger reserve

On 23 March 2015 Lakehouse plc was listed on the premium listing segment of the Official List and trading on the Main Market of the London Stock Exchange. As part of a restructuring accompanying the Initial Public Offering ('IPO') of the Group on 23 March 2015, Lakehouse plc replaced Lakehouse Holdings Limited as the Group's ultimate parent company by way of a share exchange agreement. Under IFRS 3 this was accounted for as a group reconstruction under merger accounting. These consolidated Financial Statements have been prepared as a continuation of the existing Group.

Merger accounting principles for this combination gave rise to a merger reserve of £20,067,000.

Own shares reserve

At IPO, each employee was given £200 of free shares, to be held for their benefit in an Employee Benefit Trust. Shares totalling 325,842 were transferred directly to the Employee Benefit Trust on 23 March 2015. The own shares reserve at 30 September 2016 represents the cost of £325,842 (2015: £325,842) shares in Lakehouse plc, with a weighted average of 196,310 (2015: 169,187) shares during the year.

30. Guarantees and contingent liabilities

The Company and certain subsidiaries have, in the normal course of business, given guarantees and performance bonds relating to the Group's contracts totalling £9,561,513 (2015: £11,265,498). A subsidiary of the Group has provided a guarantee of £750,000 (2015: £750,000) to the Warmworks joint venture.

31. Financial instruments

Financial instruments comprise both financial assets and financial liabilities. The carrying value of these financial assets and liabilities are assumed to approximate their fair values.

The principal financial assets in the Group comprise trade, loans and other receivables, cash and cash equivalents, and investments in subsidiaries. The principal financial liabilities in the Group comprise borrowings which are categorised as debt at amortised cost, together with trade and other payables, other long term liabilities and provisions for liabilities, which are classified as other financial liabilities.

Financial risk management

The Group's objectives when managing finance and capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to any externally imposed capital requirements.

The main financial risks faced by the Group are liquidity risk, credit risk and market risk (which includes interest rate risk). Currently the Group only operates in the UK and only transacts in Sterling. It is therefore not exposed to any foreign currency exchange risk. The Board regularly reviews and agrees policies for managing each of these risks.

31. Financial instruments continued

Categories of financial instruments

Financial assets	Loans and receivables 2016 £'000	2015 £'000
Current financial assets		
Trade receivables, loans and other receivables	63,350	75,527
Cash and cash equivalents	—	6,934
Income tax receivable	1,451	1,683
Financial assets held at fair value through profit and loss		
Interest rate cap agreement	—	42
	64,801	84,186

Financial liabilities	Financial liabilities measured at amortised cost 2016 £'000	2015 £'000
Current financial liabilities		
Trade and other payables	63,201	76,617
Borrowings	71	—
Finance lease obligations	222	403
Total current financial liabilities	63,494	77,020
Non-current financial liabilities		
Trade and other payables	6,236	5,013
Borrowings	20,586	—
Finance lease obligations	164	340
Total non-current financial liabilities	26,986	5,353
	90,480	82,373

The Directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the Financial Statements approximate their fair values.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group does not enter into derivatives to manage its credit risk.

The maximum exposure to credit risk at the reporting date is represented by the carrying value of the financial assets in the statement of financial position. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

There has been a minimal history of bad debts as the majority of its sales are to local Government councils or housing trust partnerships and as a consequence the Directors do not consider that the Group has a material exposure to credit risk.

Market risk

As the Group only operates in the UK and only transacts in Sterling, the Group's activities expose it primarily to the financial risks of changes in interest rates only.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group's policy on liquidity is to ensure that there are sufficient committed borrowing facilities to meet the Group's long to medium term funding requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

A maturity analysis of bank borrowings at each period end is contained in Note 22.

(a) Interest rate of borrowings

The interest rate exposure of the Group's borrowings is shown below:

	2016 £'000	2015 £'000
Floating rate Sterling borrowings with uncapped interest rate	—	—
Floating rate Sterling borrowings with a capped interest rate	20,657	—

At 30 September 2016, the Group had the following interest rate caps in place:

- A cap of 2.5% on up to £10.0m of debt (2015: £6.7m), rising by £0.8m per quarter up to £12.5m on 30 June 2017, then to £15.0m on 29 December 2017 and expiring on 9 December 2018
- A cap of 2.00% on up to £5.0m of debt (2015: £8.3m), falling at a rate of £0.8m per quarter and expiring on 18 October 2017

(b) Interest rate risk

Due to the floating rate of interest on the Group's principal borrowings, the Group is exposed to interest rate risk, which is partially mitigated by financial instruments in place to cap the interest exposure.

(c) Interest rate sensitivity analysis

The Group's principal borrowings attract floating rate interest. On a weighted average of £24.6m of debt in the year, a half per cent increase in the floating interest rate would have been below the interest rate cap and increased annual interest payable by £123,000 (2015: £44,000). If the floating interest rate had increased to the capped rate, interest payable on the weighted average of £24.6m of debt would have increased by £431,000 (2015: £136,000).

32. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2016		2015	
	Land and buildings £'000	Other items £'000	Land and buildings £'000	Other items £'000
Within one year	1,000	1,916	913	1,246
Between two and five years	2,266	1,678	2,157	1,338
Over five years	333	—	224	—
	3,599	3,594	3,294	2,584

At 30 September 2016 the Company has no operating lease commitments (2015: £nil).

Operating lease payments represent rentals payable by the Group for its properties and equipment. For property, leases are negotiated for an average term of five years and rentals are fixed for an average of five years, with an option to extend for a further period at the then prevailing market rate. For equipment, leases are negotiated for a term of between three and four years and on completion the equipment is returned to the lessor.

33. Cash (used in)/generated from operations

	2016 £'000	2015 £'000
Operating (loss)/profit	(31,670)	4,579
Adjustments for:		
Depreciation	1,621	1,017
Amortisation of intangible assets	11,479	6,841
Impairment of goodwill and intangible assets acquired	19,204	—
Equity-settled share based payments	—	846
Profit on disposal of property, plant and equipment	(95)	(98)
Change in provisions	(2,334)	(1,037)
Changes in working capital:		
Inventories	478	2,166
Amounts owed by customers under construction contracts	(1,108)	1,194
Amounts owed to customers under construction contracts	116	(1,736)
Trade and other receivables	16,706	1,692
Trade and other payables	(17,411)	3,635
Cash (used in)/generated from operations	(3,014)	19,099
Underlying operating cash conversion calculation		
Cash (used in)/generated from operations	(3,014)	19,099
Cash impact of Exceptional Other Items in the period	16,226	6,540
Underlying cash generated from operations	13,212	25,639
Underlying operating profit before exceptional items and amortisation of acquisition intangibles	10,909	22,224
Underlying cash conversion	121%	115%
Statutory operating cash conversion calculation		
Cash (used in)/generated from operations	(3,014)	19,099
Statutory operating profit before exceptional items and amortisation of acquisition intangibles	1,760	19,700
Statutory cash conversion	(171%)	97%

34. Business combinations

2016 acquisitions:

Aaron Heating Services Limited

On 2 November 2015 the Group acquired the entire share capital of Aaron Heating Services Limited for consideration as detailed below. Aaron Heating Services Limited's principal activity is that of installation and maintenance of plumbing and heating systems.

The acquisition of Aaron Heating Services complemented the Group's existing Gas Compliance businesses: K&T Heating, which operates in London and the South East, and Sure Maintenance, which operates in the North of England and the Midlands. The acquisition will allow Lakehouse to extend its geographic footprint in the gas servicing and maintenance market to provide national coverage to key clients, as well as provide opportunities for adjacent services.

The effect of the acquisition on the Group's assets and liabilities were as follows:

	Book value £'000	Fair value adjustments £'000	Provisional fair value £'000
Assets			
Non-current			
Property, plant and equipment	632	(130)	502
Current			
Inventories	1,436	(598)	838
Trade and other receivables[1]	4,431	(17)	4,414
Cash and cash equivalents	293	—	293
Total assets	6,792	(745)	6,047
Liabilities			
Non-current			
Deferred tax	(74)	—	(74)
Provisions	—	(151)	(151)
Current			
Trade and other payables	(3,265)	17	(3,248)
Total liabilities	(3,339)	(134)	(3,473)
Net assets acquired	3,453	(879)	2,574
Intangibles acquired			3,679
Deferred tax recognised in respect of intangibles capitalised			(699)
Goodwill capitalised			3,667
			9,221
Satisfied by:			
Cash consideration			6,975
Contingent deferred consideration			2,246
			9,221

1. Gross contractual receivables invoiced to the customer at the date of acquisition was £1,877,000.

Contingent deferred consideration has been calculated based on the expectations of future performance in the Group's three-year plan compared to the calculation methodology set out in the Share Purchase Agreement. The contingent deferred consideration may vary depending on the underlying trading performance of the businesses.

The Aaron Heating Services Limited intangible assets are recognised and valued at £3.7m. This represents the expected value to be derived from the acquired customer-related contracts, acquired customer relationships and the value placed on the non-compete agreement. The value placed on these customer-related contracts and relationships is based on the expected post-tax cash inflows over the estimated remaining life of each contract. The cash flows are initially reduced by 10% after year 1 with further deductions thereafter which the Directors consider is commensurate with the risks associated with capturing returns from the customer relationships, and then discounted using a post-tax discount rate of 13%. The estimated life for customer contracts is assumed to be the remaining life of each contract, and the customer relationships are estimated to have a life of six years.

The Directors consider the value assigned to goodwill represents the workforce acquired, expected synergies to be generated, and access to adjacent business activities as a result of this acquisition. It is not expected that any goodwill will be deductible for tax purposes. All costs of the acquisition have been recognised as an exceptional expense in the statement of comprehensive income in the period in which it was incurred, the total cost recognised is £239,000.

Post-acquisition results

The results for Aaron Heating Services Limited since the acquisition date, included within the consolidated statement of comprehensive income for the period ended 30 September 2016, are:

	£'000
Revenue	24,395
Profit from operations	1,122
Interest	—
Profit before tax	1,122
Taxation	(227)
Profit for the period	895

34. Business combinations continued

PLS Holdings Limited

On 8 December 2015 the Group acquired the entire share capital of PLS Holdings Limited for consideration as detailed below. PLS Holdings Limited's principal activity is providing lift installation, modernisation and maintenance services.

The acquisition of PLS Holdings provided a complimentary service offering to the Group's existing Compliance businesses. The acquisition will create new opportunities for collaboration and the cross-selling of additional and more comprehensive compliance services to local authorities and housing associations.

The effect of the acquisition on the Group's assets and liabilities were as follows:

	Book value £'000	Fair value adjustments £'000	Provisional fair value £'000
Assets			
Non-current			
Property, plant and equipment	60	(26)	34
Current			
Inventories	341	(148)	193
Trade and other receivables[1]	1,975	(148)	1,827
Cash and cash equivalents	506	—	506
Total assets	2,882	(322)	2,560
Liabilities			
Non-current			
Provisions	—	(182)	(182)
Current			
Trade and other payables	(1,689)	(7)	(1,696)
Total liabilities	(1,689)	(189)	(1,878)
Net assets acquired	1,193	(511)	682
Intangibles acquired			3,996
Deferred tax recognised in respect of intangibles capitalised			(759)
Goodwill capitalised			3,626
			7,545
Satisfied by:			
Cash consideration			6,484
Contingent deferred consideration			1,061
			7,545

1. Gross contractural receivables invoiced to the customer at the date of acquisition was £1,112,000.

Contingent deferred consideration has been calculated based on the expectations of future performance in the Group's three-year plan compared to the calculation methodology set out in the Share Purchase Agreement. The contingent deferred consideration may vary depending on the underlying trading performance of the businesses.

The PLS Holdings Limited intangible assets are recognised and valued at £4.0m. This represents the expected value to be derived from the acquired customer-related contracts, acquired customer relationships and the value placed on the non-compete agreement. The value placed on these customer-related contracts and relationships is based on the expected post-tax cash inflows over the estimated remaining life of each contract. The cash flows are initially reduced by 10% after year 1 with further deductions thereafter which the Directors consider is commensurate with the risks associated with capturing returns from the customer relationships, and then discounted using a post-tax discount rate of 13%. The estimated life for customer contracts is assumed to be the remaining life of each contract, and the customer relationships are estimated to have a life of six years.

The Directors consider the value assigned to goodwill represents the workforce acquired, expected synergies to be generated, and access to additional customers and markets as a result of this acquisition. It is not expected that any goodwill will be deductible for tax purposes. All costs of the acquisition have been recognised as an exceptional expense in the statement of comprehensive income in the period in which it was incurred, the total cost recognised is £253,000.

Post-acquisition results

The results for PLS Holdings Limited since the acquisition date, included within the consolidated statement of comprehensive income for the period ended 30 September 2016, are:

	£'000
Revenue	7,277
Profit from operations	183
Interest	—
Profit before tax	183
Taxation	(18)
Profit for the period	165

Results of all business combinations occurring during the year

Assuming the acquisition date for all business combinations that occurred during the year had been 1 October 2015, the consolidated statement of comprehensive income for Lakehouse plc for the year ended 30 September 2016, would have been:

	£'000
Revenue	337,633
Loss from operations	(31,507)
Interest	(1,635)
Loss before tax	(33,142)
Taxation	3,985
Loss for the period	(29,157)

Notes to the consolidated financial statements continued

For the year ended 30 September 2016

35. Summary of consideration paid and payable in respect of acquisitions

The sums below represent sums paid and payable in respect of acquisitions in the year:

	Allied Protection Limited £'000	H2O Nationwide Limited £'000	Providor Limited £'000	Orchard (Holdings) UK Limited £'000	Sure Maintenance Limited £'000	Aaron Heating Services Limited £'000	PLS Holdings Limited £'000	Bury Metering Services Limited £'000	Total £'000
At 1 October 2015	3,267	2,384	1,497	1,562	511	—	—	—	9,221
Total discounted consideration payable for additions in the year ended 30 September 2016	—	—	—	—	—	9,221	7,545	75	16,841
Revaluation of deferred consideration	—	(607)	(1,504)	408	(561)	—	—	—	(2,264)
Unwinding of discount	13	(3)	107	163	50	163	94	—	587
Paid in year	(2,990)	(442)	(100)	—	—	(8,368)	(6,498)	(75)	(18,473)
At 30 September 2016	**290**	**1,332**	**—**	**2,133**	**—**	**1,016**	**1,141**	**—**	**5,912**

The fair value of the consideration has been assessed in accordance with the Sale & Purchase Agreements and expected future trading performance. The non-current element of the expected settlement has been discounted using a pre-tax discount rate that reflects the time value of money.

The total deferred consideration may vary between £3.5m and £6.5m depending on the underlying trading performance of the businesses.

36. Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Trading transactions

In the period from October 2015 to February 2016 the Group leased its head office premises at 1 King George Close, Romford, Essex, from La Maison du Lac Limited. In February 2016 La Maison du Lac Limited sold the freehold of 1 King George Close, Romford, Essex RM7 7LS to AMNT Properties Limited. Steve Rawlings and Paul King were directors and shareholders of La Maison du Lac Limited. Steve Rawlings was a shareholder of Lakehouse plc and was a Director of Lakehouse plc from 18 April 2016 until his death on 23 July 2016. Paul King is a shareholder and employee of Lakehouse plc. The lease with La Maison du Lac Limited was on arm's length terms and the annual rent payable in respect of the premises was determined based on an independent rental valuation. The Company's subsidiary Lakehouse Contracts Limited, incurred rent charges on a property owned by La Maison du Lac Limited at an annual rate of £38,275 (2015: £112,880).

As at 30 September 2016 La Maison Du Lac Limited had a loan owed to Lakehouse Contracts Limited amounting to £nil (2015: £381,143). The loan was unsecured, interest free and repayable in 2015 following a listing of the Group.

Steve Rawlings was appointed as a Director of Lakehouse plc on 18 April 2016. Steve Rawlings died on 23 July 2016. In the period to 23 July 2016 Steve Rawlings was a director of Building Lives for the Future, which in the year to 30 September 2016 had a commercial relationship with the Lakehouse Group. At 30 September 2016 Building Lives owed the Group £nil (2015: £46,636) for services provided which was repayable on normal commercial terms. The total value of services provided by the Group to Building Lives was £10,674 (2015: £775,832).

Andrew Harrison was appointed as Alternate Director of Lakehouse plc for Steve Rawlings on 3 June 2016. Andrew Harrison was appointed as a Director of Lakehouse plc on 26 July 2016. Following Steve Rawlings' death on 23 July 2016 Andrew Harrison was appointed as a Trustee of the Estate of Steve Rawlings.

The Company's subsidiary, Everwarm, leases premises in Bathgate, West Lothian, from Xafinity Pension Trustees Limited (as corporate trustee of the Everwarm Group SIPP). Michael McMahon, a Director of the Company, is a beneficiary of the Everwarm Group SIPP. The lease was set up on an arm's length basis with annual rentals determined based on an independent rental valuation. £156,956 of rents were paid by the Group in 2016 (2015: £75,000). The lease terminates in eight years. The Company entered into an Extension and Variation Agreement with the Everwarm SIPP with respect to the lease in August 2016.

36. Related party transactions continued

Trading transactions continued

Johnathan Ford was a Non-Executive Director of Lakehouse plc and Chairman of the Audit Committee in the period from 1 October 2015 to 20 June 2016, when he resigned as a Director of Lakehouse plc. During that period Mr Johnathan Ford was an Executive Director of Homeserve plc. The Company's subsidiary undertaking, Sure Maintenance Group Limited, provided services to Homeserve plc in the period from 1 October 2015 to 20 June 2016 valued at £484,603 (11 September 2015 to 30 September 2015: £85,332).

The Company's subsidiary, Everwarm Limited, provides services to Warmworks, a joint venture with Everwarm. £3,883,331 of services were provided in 2016 (2015: £124,000), £246,770 was charged to Everwarm Limited from Warmworks for services provided in 2016 (2015: £nil).

As at 30 September 2016 Warmworks had a loan owed to Everwarm Limited amounting to £250,000 (2015: £nil). As at 30 September 2016 Everwarm Limited had a receivable owing from Warmworks amounting to £593,908 (2015: £124,000).

Bob Holt was appointed as Executive Chairman on 22 July 2016. Bob Holt provides consultancy services to Lakehouse plc and other Group companies in relation to advice about the turnaround management strategy of the Group. These consultancy services are provided by a consultancy company of which he is a shareholder. The daily fee payable for such consultancy services is £1,595 plus VAT. Such services are provided for two days per week over 47 weeks per year at a total cost of £150,000 per annum (plus VAT). The total value of services provided to the Group was £25,000 (2015: £nil).

Remuneration of key management personnel

The remuneration of the Directors and members of the Board, together with other key management personnel of the Group, is set out below in aggregate for each of the categories specified in IAS 24 – Related Party Disclosures. The key management personnel are the members of the Group Management Board. Further information about the remuneration of individual Group Directors is provided in the audited part of the remuneration report:

	2016 Number	2015 Number
Number of members of the Group Management Board at each year end	9	13

	2016 £'000	2015 £'000
Short term employee benefits	2,102	2,591
Post-employment benefits	217	202
Fees payable	—	135
Share-based payments	—	348
	2,319	3,276

37. Events after the reporting date

The Group agreed a variation with Royal Bank of Scotland in January 2017 to reduce the RCF to £40m and further reduce the facility to £35m in April 2017. The variation to the RCF included a revision to the banking covenants, which reflect the lower earnings expectations of the Group, and a higher rate of interest.

Since the 30 September 2016 there has been a subsequent agreement to adjust the deferred consideration, in regards to Orchard (Holdings) UK Limited, from £2.1m to £1.8m, which will be paid by 28 February 2017.

Company balance sheet
At 30 September 2016

	Notes	2016 £'000	2015 £'000
Fixed assets			
Interests in subsidiaries	40	**12,392**	12,392
Current assets			
Debtors – due within one year	41	**491**	41
Debtors – due after more than one year	41	**47,477**	40,592
Income tax receivable		**922**	421
		48,890	41,054
Creditors: Amounts falling due within one year	42	**(3,011)**	(5,469)
Net current assets		**45,879**	35,585
Total assets less current liabilities		**58,271**	47,977
Creditors: Amounts falling due after more than one year	42	**(2,030)**	(2,004)
Provisions for liabilities	43	**(946)**	(200)
Net assets		**55,295**	45,773
Capital and reserves			
Called up share capital	44	**15,753**	15,753
Share premium account	45	**25,314**	25,314
Own shares		**(290)**	(290)
Share-based payment reserve	46	**616**	549
Profit and loss account		**13,902**	4,447
Shareholders' funds		**55,295**	45,773

The Financial Statements of Lakehouse plc (registered number 09411297) were approved by the Board of Directors and authorised for issue on 23 January 2017. They were signed on its behalf by:

J J C Simpson
Director

The accompanying notes are an integral part of this company balance sheet.

Company statement of changes in equity

For the year ended 30 September 2016

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Own shares £'000	Profit and loss account £'000	Total equity £'000
Issue of share capital	15,753	25,314	—	—	—	41,067
Profit for the period	—	—	—	—	4,447	4,447
Share based payment charge	—	—	549	—	—	549
Purchase of own shares	—	—	—	(290)	—	(290)
At 1 October 2015	15,753	25,314	549	(290)	4,447	45,773
Profit for the period	—	—	—	—	14,090	14,090
Dividends paid	—	—	—	—	(4,568)	(4,568)
Share-based payment charge	—	—	67	—	(67)	—
At 30 September 2016	**15,753**	**25,314**	**616**	**(290)**	**13,902**	**55,295**

Notes to the Company financial statements

For the year ended 30 September 2016

Company only

The following Notes 38 to 46 relate to the Company only position for the year ended 30 September 2016.

38. Accounting policies

Statement of compliance and basis of preparation

The separate Financial Statements of the Company are presented as required by the Companies Act 2006. The Company meets the definition of a qualifying entity under FRS 100 (Financial Reporting Standard 100) issued by the Financial Reporting Council. Accordingly the Financial Statements have been prepared in accordance with FRS 101 (Financial Reporting Standard 101) 'Reduced Disclosure Framework' as issued by the Financial Reporting Council.

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to share-based payment, financial instruments, capital management, presentation of a cash flow statement and certain related party transactions.

Where required, equivalent disclosures are given in the consolidated Financial Statements.

As a consolidated statement of comprehensive income is published, a separate statement of comprehensive income for the parent Company is omitted by virtue of the exemption available in section 408 of the Companies Act 2006. The Company's profit for the year was £14,090,000 (2015: £4,447,000).

The Financial Statements have been prepared on the historical cost basis. The principal accounting policies adopted are the same as those set out in Note 2 to the consolidated Financial Statements except as noted below:

Investments

Investments in subsidiary undertakings are stated at cost less any provision for impairment.

Cost is defined as the consideration transferred and is measured at fair value. Fair value is calculated as the sum of the acquisition-date fair values of assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquired company and the equity interest issued by the Company in exchange for control of the acquired company. Acquisition-related costs are recognised in profit or loss as incurred.

When the consideration transferred by the Company includes an asset or liability resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred. Changes in fair value of the contingent consideration are adjusted when identified with corresponding adjustments dependent upon on how the contingent consideration is classified. Where contingent consideration is classified as equity any change in fair value is accounted for within equity. Contingent consideration that is classified as an asset or liability is re-measured at subsequent reporting dates in accordance with IAS 39: Financial instruments, or IAS 37: Provisions, contingent liabilities and contingent assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

Impairment of investments

At each balance sheet date, the Company tests the carrying amounts of investments to determine whether those investments have suffered an impairment loss. The recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

39. Critical accounting judgements and key sources of uncertainty

Critical accounting estimates and judgements

The preparation of Financial Statements in conformity with IFRSs requires the use of certain critical accounting estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the Financial Statements and the reported amounts of revenues and expenses during the reporting period.

39. Critical accounting judgements and key sources of uncertainty continued

Critical accounting estimates and judgements continued

Estimates and judgements are continually made and are based on historic experience and other factors, including expectations of future events that are believed to be reasonable in the circumstances. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates.

(i) Assessment of investment cost

The key judgements and estimates made in determining the fair value of the consideration transferred were:

- The valuation of equity and equity based financial instruments issued by the Company as part of the consideration transferred
- The appropriate discount factor to be applied to any future consideration to be paid
- An estimation of future revenues and profit of the related businesses which determine the amount of the future consideration to be paid
- Identification of and judgements around the uncertainties of the valuation model and its sensitivity to error in its key assumptions

(ii) Impairment of investments

The Company reviews the valuation of all its investments for impairment annually or if events and changes in circumstances indicate that the carrying value may not be recoverable. The recoverable amount is determined based on value-in-use calculations. The use of this method requires the estimation of future cash flows and the choice of a suitable discount rate in order to calculate the present value of these cash flows. See Note 14 for further information.

40. Investment in subsidiaries

	£'000
Investment in subsidiaries	
Cost	
At 1 October 2015 and 30 September 2016	**12,392**
Net book value	
At 1 October 2015 and 30 September 2016	**12,392**

Further information is provided in Note 17.

41. Debtors

	2016 £'000	2015 £'000
Amounts falling due within one year		
Amounts owed by Group undertakings	**412**	—
Prepayments	**33**	—
Other debtors	**46**	41
	491	41
Amounts falling due after more than one year		
Amounts owed by Group undertakings	**47,474**	40,589
Other debtors	**3**	3
	47,477	40,592

The Directors consider that the carrying amount of trade receivables approximates to their fair value. There is no provision against amounts receivable and no amounts are past due or are impaired.

42. Creditors

	2016 £'000	2015 £'000
Creditors: Amounts falling due within one year		
Bank loans and overdrafts	**5**	4,367
Trade creditors	**232**	63
Amounts owed to Group undertakings	**788**	—
Accruals and deferred income	**1,888**	951
Social security and other taxes	**82**	73
Other creditors	**16**	15
	3,011	5,469
Creditors: Amounts falling due after more than one year		
Amounts owed to Group undertakings	**2,030**	2,004

43. Provisions for liabilities

	Legal and other £'000
At 1 October 2015	200
Additional provision	746
At 30 September 2016	**946**

Further information is provided in Note 24.

44. Share capital

Allotted, called up and fully paid	Number	£
Ordinary shares of £0.10 each	157,527,103	15,752,710

Details of the movements in share capital together with the key rights and preferences of the share capital are disclosed in Note 27.

45. Share premium account

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares, net of the direct costs associated with issuing those shares.

46. Share-based payments

During the period ended 30 September 2016 the Company had five share-based payment arrangements, which are described in Note 28.

Corporate Directory

Company registration number
9411297

Directors
Bob Holt OBE (Executive Chairman)
Michael McMahon (Executive Director)
Jeremy Simpson (Chief Financial Officer)
Robert Legget (Non-Executive Director and Senior Independent Director)
Andrew Harrison (Non-Executive Director)

Company Secretary
Simon Howell

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London EC2Y 5ET

Registrars
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The Registry
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Corporate calendar
Annual General Meeting
31 March 2017

Announcement of Interim Results
May 2017

Announcement of Final Results
January 2018

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