



 Lakehouse plc

2017

Lakehouse plc
Annual Report

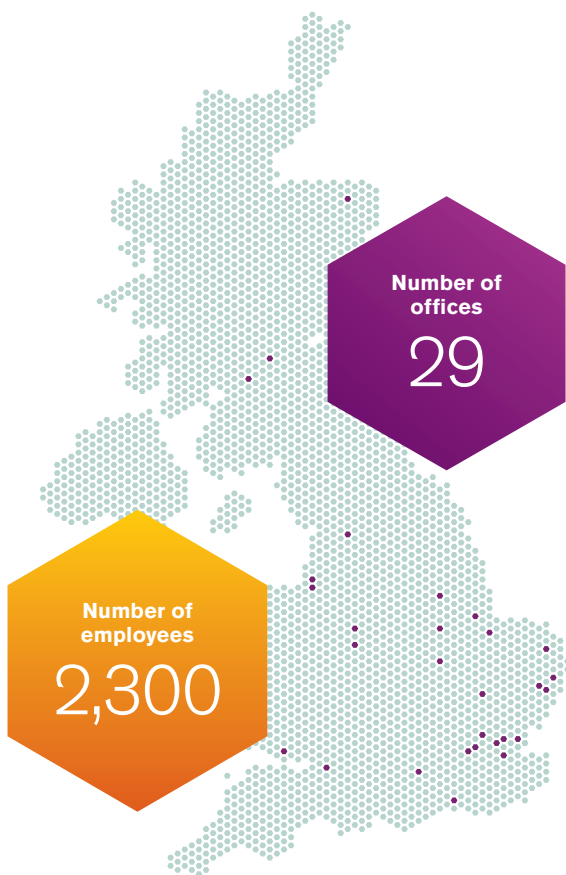


Who we are

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 and public and commercial buildings.

Lakehouse at a glance

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



Compliance

K&THeating

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 eastern England

SureMaintenance

Part of the Lakehouse Group

A provider of gas servicing, maintenance and installations in northern and western England and Wales

AlliedProtection

Part of the Lakehouse Group

Specialists in fire safety, servicing and planned works

H₂ONationwide

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

Provider

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 maintenance services 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

2017 highlights

Operational highlights

- Review of strategy and operations complete
- Strong performance with underlying EBITA of £9.5m (£7.3m from continuing and £2.2m from discontinued operations)
- Compliance, Energy Services and Construction are well established, excellent businesses with a clear vision and together recorded revenue growth of 21%
- Operational improvement plan conducted through the year
- New management in Property Services and problem externals departments closed
- Ongoing focus on mobilising smart metering
- Excellent underlying cash conversion of 169%
- Sale of Orchard Energy for £12.4m
- Year-end net debt of £1.3m significantly ahead of expectations

Financial highlights

Underlying² revenue

£290.3m

Revenue

£299.5m

Underlying cash conversion³

169%

Underlying EBITA¹

£7.3m

Operating Loss

£(1.1)m

Net debt

£(1.3)m

Underlying² profit before tax

£5.6m

Profit after tax

£10,000

Full year dividend

0.5p

Underlying EBITA¹ margin

2.5%

Basic EPS

0.0p

Strategic review	
01	2017 highlights
02	Our four divisions
03	Five-minute read
04	Chairman's statement
06	Market overview
08	Business model
10	Our strategy
12	Key performance indicators
14	Operational review
20	Financial review
26	Principal risks and uncertainties
30	Corporate Social Responsibility

Governance	
34	Chairman's Corporate Governance report
36	Board of Directors
38	Corporate Governance report
39	Nomination Committee report
40	Audit Committee report
42	Directors' remuneration report
42	Remuneration Committee Chairman's annual statement
46	Directors' remuneration policy report
52	Directors' report
55	Statement of Director's responsibilities

Financial statements	
56	Independent auditor's report
59	Consolidated statement of comprehensive income
60	Consolidated statement of financial position
61	Consolidated statement of changes in equity
62	Consolidated statement of cash flows
63	Notes to the consolidated Financial Statements
87	Company balance sheet
88	Company statement of changes in equity
89	Notes to the Company Financial Statements
91	Corporate directory
92	Notes

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 Notes 4 and 7 and on the face of the consolidated statement of comprehensive income. Underlying EBITA is the same as 'Operating profit before Exceptional and Other Items' on the face of the consolidated 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 consolidated statement of comprehensive income, other underlying numbers are stated before Exceptional and Other Items (discussed further in Note 7). Underlying profit after tax and underlying earnings per share are net of an imputed tax charge.

3. Underlying operating cash conversion is operating cash flow, plus the cash impact of Exceptional and Other Items (discussed further in Notes 7 and 34), as a percentage of underlying EBITA.

Our four divisions make an impact through deeper relationships

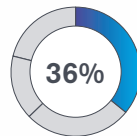
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Our customers know us and trust us, and making a difference to them makes our day.”

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.

2017 underlying revenue
£104.3m



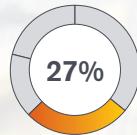
Key business drivers

- 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

Energy Services

Energy Services provides a range of energy efficiency measures primarily to 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 to customers throughout the UK and is one of the country's leading independent installers.

2017 underlying revenue
£79.0m



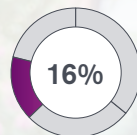
Key business drivers

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

Property Services

Property Services provides planned and responsive maintenance and project works 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, windows and small projects. We contract with customers predominantly under framework agreements, where the number of suppliers will vary from one to a small group.

2017 underlying revenue
£47.0m



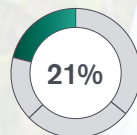
Key business drivers

- 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

Construction

Construction offers refurbishment and small to medium-sized public building works, predominantly for local authority clients. The division delivers works to a range of public buildings, with a focus on clients in the education sector.

2017 underlying revenue
£61.8m



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



Five-minute read



Bidding success

We had an outstanding year in bidding, securing £580m in new wins. These successes were reflected in the value of our frameworks, which increased by 22%, from £1.6bn to £1.9bn and our order book (a subset of frameworks), which rose 19%, from £532m to £631m. As a Group, we are perhaps less vocal about our successes than many market peers. This reflects our inherent conservatism and a desire to manage expectations in what remains a market capable of surprise. What is beyond doubt is that we have punched above our weight this year, winning market share and further enhancing the Group's reputation.

Admission to trading on AIM

As part of its wide-ranging operational review, the Board considered during the year the structure of the Group, its businesses and operations. We wanted to identify the most effective strategy to enable the Group to continue to deliver a quality service to its customers, whilst building a platform for more consistent performance and sustainable growth. This review included consideration of the most appropriate trading environment for the Group's shares on an ongoing basis.

Given the Group's size and profile, the Board concluded that there would be significant benefits from the move to AIM, which would enable the Group to more effectively deliver value to all its stakeholders, including shareholders. The move to AIM was met positively by our stakeholders and the Board is satisfied that this represents a more suitable platform for the business to grow, develop and deliver improved shareholder value.

A focus on operational performance

The Board recognised over the past 24 months that to recover, the Group had to improve its performance significantly. We undertook a wholesale review of operational performance during the year, reducing cost, adopting a more disciplined approach to risk, focusing on workstreams and clients where we can earn an acceptable return and continuing to invest where we saw growth opportunity or identified need for improvement. We are proud of the operational turnaround achieved by the Property Services team in the past year and believe we now have a base upon which to build for the future. We have withstood numerous challenges in the recent past – some fair, some unfair and some outwith our control – regardless, we will make the most from these experiences not simply to fix what is broken, but to become a better, class-leading business across all our divisions.

Overview of underlying Group profitability

	2017 £m	2016 £m
Underlying EBITA: excluding Property Services	9.0	7.7
Underlying EBITA: Property Services	(1.7)	0.8
Group underlying EBITA	7.3	8.5
Underlying EBITA: discontinued activities (Orchard)	2.2	2.4
Underlying EBITA from continuing and discontinued activities	9.5	10.9

A valuable core with strong growth potential

The Group is a market leader in compliance, energy efficiency and smart metering, most notably Gas, where we are the number one in our market. Our Compliance division posted an underlying EBITA of £8m on underlying revenues of £104m and our Energy Services division an underlying EBITA of £4m on underlying revenues of £79m, having absorbed £1.3m of smart metering mobilisation costs. These two divisions offer significant growth opportunity for the Group, with predictable revenues in a market experiencing increased regulatory compliance obligations. We believe these businesses are significantly undervalued by the market and will continue to outline their merits to existing and new investors.



Disposal of Orchard Energy

On 2 October 2017, we announced the sale of Orchard Energy (Holdings) Limited ('Orchard'), our energy brokerage business, with an effective completion date of 29 September 2017. The proceeds of £12.4m were used to reduce Group indebtedness. The sale of Orchard, a white-collar business, will allow the Group to concentrate on its operatives-focused activities within its Compliance and Energy Services divisions.

Chairman's statement



“
**Our Energy Services
and Compliance
divisions both
had excellent
performances.”**

**Bob Holt,
Chairman**

Introduction

I am pleased with the progress made in the year, following a significant restructuring of the Group at the end of 2016. We have continued to focus on building our core growth activities within Energy Services and Compliance, together with maintaining a cautious approach to Construction.

Having downsized our Property Services businesses to manage exposure to risk, we took the opportunity to reduce central costs. I am happy to confirm that we now have a streamlined business that is both fit for purpose and appropriate for a Group of our size.

Our Energy Services and Compliance divisions both had excellent performances, which is a credit to those management teams which contributed to provide the top-line sales growth and profitability in line with or ahead of expectations across the eight companies concerned.

The sector had challenges in the year following the Grenfell tragedy, as highlighted in the Operational Review. This necessitated that clients refocus their budgeted spends on areas of high risk within their property portfolios. The Group saw some benefit arising from those changes in spend pattern, both from existing clients and through contract awards from new clients. However, margins saw some localised pressure. The recent demise of Carillion brings further uncertainty to the sector. For our part, we will continue to invest in our people, focus on quality of service delivery and target those sectors and clients where we believe we can earn an acceptable return.

Our investment case

- Differentiated through our service offering
- Strong performance in core business activities
- Geographical footprint and continual expansion of our core activities
- Well positioned in attractive markets
- Reshaping Property Services into profitable work streams
- Strong brands and established reputation

Significant contract awards were gained in the period and we experienced like for like sales growth of 21% collectively in Compliance, Energy Services and Construction. Our order book grew 19% from £532m in 2016 to £631m as at 30 September 2017. Similarly, our value of frameworks (of which the order book is a subset) increased by 22%, from £1.6bn to £1.9bn, underpinning the confidence we have in the future potential of the Group.

The now leaner central services team also contributed to the successes in the year, as we maintained the highest standards of reporting, health and safety compliance, procurement savings and bid performance. I am pleased to report that the key non-operational functions of the business are all functioning well.

Our cash management in the period was good, where we were able to demonstrate that excellent operational service levels can expect above average cash receipts.

Divestiture

On 2 October 2017, we were able to announce the divestment of our white-collar energy consultancy business, Orchard Energy (Holdings) Limited ('Orchard'). The Group acquired Orchard in 2015 and saw an opportunity to divest at a significant premium to the cost of acquisition. Orchard was the only part of the Group which provided pure consultancy services and therefore the divestment was easy to extract with no upheaval and little effect on the other trading entities. The sale had an effective completion date of 29 September 2017 and realised £12.4m, representing a gain on sale of £5.4m, which was used to pay down the Group's debt with the Royal Bank of Scotland.

As mentioned previously, this cash repayment alongside our good cash collection saw the Group end the period with a very low net debt of £1.3m against a figure of £20.6m at the corresponding period in 2016. This reflected a terrific effort from a number of people.

Trading performance

The details of our financial performance for the year are set out in the Operating Review. I was pleased with an underlying EBITA of £9.5m (comprising £7.3m from continuing activities (2016: £8.5m) and £2.2m from Orchard (2016: £2.4m), which was reported as a discontinued activity). Our performance was in line with market expectations and provides a strong base upon which to move forward. Our profit for the year attributable to equity holders of the Group was significantly improved at £10,000, compared to a £29.3m loss in the prior year.

Strategy

We have outlined our strategy on pages 10 and 11, which remains:

- Developing key markets: utilising our strong presence in social housing, public buildings, energy and education to grow both geographically and across service lines
- Focused divisions: sticking to what we are good at within our core activities of gas, fire and electrical, air and water, lifts, energy efficiency, smart meters and construction, whilst stabilising Property Services
- Working together: capitalising on our strong national base to collaborate in expanding our activities within existing markets

To which we have added a fourth category:

- Operational performance: we are proud of the operational turnaround achieved to date by the Property Services team in the past year, given past failures elsewhere in the sector – we must build on these experiences not simply to fix what is broken, but to become a better, class-leading business across all our divisions



I have been delighted by the commitment and passion shown across our workforce of more than 2,300."

I have been delighted by the commitment and passion shown across our workforce of more than 2,300, in what has been a difficult period. We have come out of this stronger, leaner and, in our target markets, bigger. However, our achievements will count for nothing without our reputation for delivering a high quality service to our clients and wider stakeholders, whilst ensuring our environments remain safe and secure.

Dividend

The Board is looking to maintain a dividend, 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 2018 to shareholders on the register at 2 March 2018. This represents a total dividend of 0.5 pence per share for the year (2016: 1.5 pence).

People

The Board was strengthened recently with the appointment of Derek Zissman, who brings a wealth of experience to the Group, most notably from 35 years at KPMG, where he was a Founding Partner of their Corporate Finance and Private Equity Groups. We are delighted that Derek has agreed to take over the Chairmanship of the Audit Committee. I look forward to the continued maintenance of our high standards of Corporate Governance with Derek's support.

I should like to thank all employees of the Group for their commitment during a challenging but exciting period and I look forward to bringing news of further success to all stakeholders of the Group.

Outlook

We have taken significant steps forward this year, expanding our activities within Energy Services and Compliance, taking a steady approach in Construction and downsizing and repairing Property Services. Our focus remains on operational improvement within the Group, but we can now start to consider strategic development. We do not expect to return to a significant acquisition strategy, albeit we can never rule out the right deal, instead focusing on organic growth in our core growth markets within Energy Services and Compliance, which have considerable bandwidth.

We have a settled and committed Board, a strong leadership base in each of our businesses and a great workforce in which we continue to invest. We therefore look to the future with optimism.

Bob Holt Chairman

22 January 2018

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, energy services and education markets. 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 an expanding presence among industrial and commercial customers, with a national footprint. Our Gas Compliance business is the leading one of its type and we believe our wider compliance business to be the strongest in our core markets
- **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. This business has the ability to open doors in the energy market and play a full role in the further development of the sector
- **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. Our Foster business has a strong regional brand and offers a broad range of property services that provide the opportunity to evolve with and adapt to market demand
- **Construction:** education customers predominantly in London and the South East, as well as the Ministry of Defence, Metropolitan Police, NHS and other public building owners. Lakehouse Construction remains a niche player and well placed to grow cautiously in a market with foreseeable demand



H2O Nationwide provides clients with comprehensive water and air hygiene services, undertaking initial assessments to ensure full compliance with the latest regulations, as well as regular monitoring and testing to make sure clients' properties are maintained to approved standards.



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 Programmes for Scotland, a key policy programme of the Scottish Government. The national smart meter rollout is an £11bn programme to install 53m meters in UK households. 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 clients improve their properties' environmental performance, installs smart meters to enable clients to monitor consumption and advises clients on energy efficiency.

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. The 2017 Autumn Budget suggested that a further 300,000 homes need to be built nationally every year, which will increase pressures among social housing providers to offer creative solutions and make the most of existing properties.

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 which will only increase given the pressures following the Grenfell Tower tragedy. 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

Our core source of funding comes from the ECO scheme, which was extended to September 2018 in March 2017 and is expected to run to 2022, although direction on eligibility and delivery schemes is still unclear. Carbon prices though were stable during FY17. We are also on national and regional programmes with the Scottish Government's flagship Home Energy Efficiency Programmes for Scotland ('HEEPS') programme, which runs to between 2020 and 2022. The smart meter rollout is due to be completed in 2020, but is running significantly behind schedule and we expect will be extended, not least because the newer 'SMETS2' meter technology has yet to be introduced. We are confident in the future of our markets, as demand is there and funding in place — however, enactment of and consistency in Government Energy policy is making the market ever more challenging.

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 found short term disruption in light of a change in client preference for procurement from a single stage to two stages in FY16, but this largely settled down in FY17. We believe this will reduce our risk profile in the long run, as it removes some of the uncertainty hitherto experienced in the bidding process.

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 through to March 2020. 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 compliance services and energy efficiency funding is a particular differentiator as clients seek ways of maintaining and improving their housing stock. We may also assess whether our project skills should be turned to housebuilding programmes, where we can do so at low risk.



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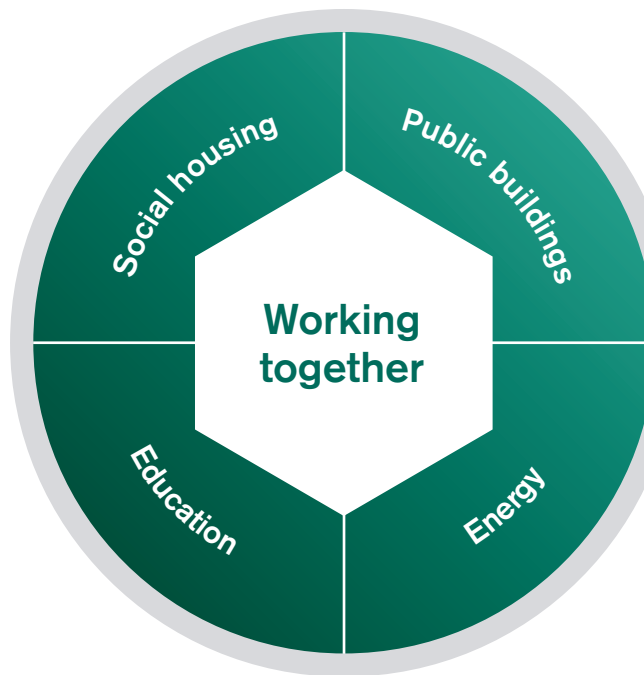
Our longstanding customer relationships and successful reputation are testament to the hard work and professionalism of our employees.”

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.

Careful selection of who we work with

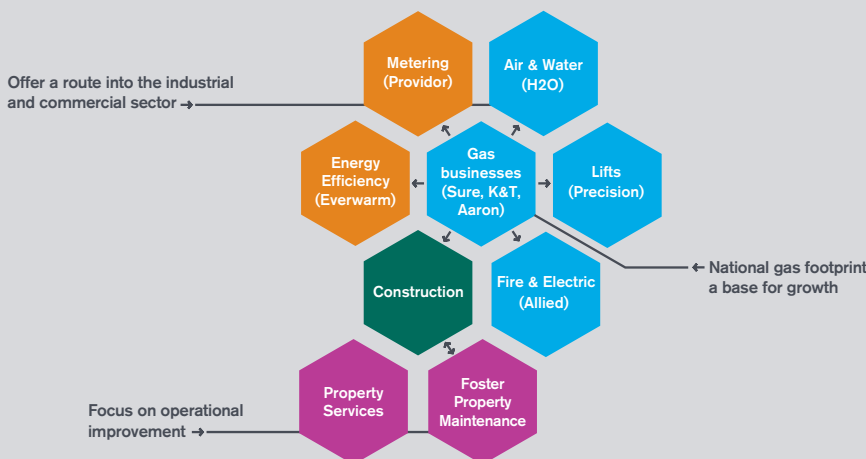
We start by prioritising our opportunities, based on their risk, returns and strategic fit. Our strong customer relationships and market intelligence are critical, enabling us to understand our clients' challenges and requirements, which are crucial to a successful tender. This process however, only 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.



Methods of assessment:

- Return on capital
- Risk management
- Cash conversion
- Future visibility

Working together



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 supply chain partners to deliver a number of our services and for high quality materials. We build long term relationships with them, 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

Differentiation through our service offering

Do business the right way

Focus on operational excellence

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.

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 businesses, 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 strategic priorities

Operational excellence

Deliver a high quality service on time and to budget.

How we will deliver

Invest in our leaders, people and the technology that allows them to deliver.

Progress in 2017

- New leadership in Property Services
- Expanded Lakehouse Training Academy
- Launched development of a common Compliance operations platform

Developing key markets

The chart below shows how the Group's businesses work.

Each business will be empowered to operate in a self-contained entrepreneurial manner, supported by the Group Executive Management Team.

- Significant wins in core businesses
- Growth of Commercial Gas operations
- Geographic expansion in Compliance and smart metering

	Education	Public buildings	Social housing	Private housing	Energy	Industrial and Commercial	Geography
Compliance: Gas							National
Compliance: Fire							National
Compliance: Lifts							National
Compliance: Water							National
Compliance: Air							National
Energy Services: Metering							National
Energy Services: Everwarm							Regional/ National
Property Services: Foster							Regional
Property Services: Lakehouse							Regional
Construction: Lakehouse							Regional

Focused divisions

We will have a clear purpose for each division.

Each business will have a specific role to play within the Group. This will involve refining targets and market ambitions to ensure they are realistic, attainable and offer an acceptable return on financial and human capital.

- Sale of Orchard Energy
- Smaller and more focused Property Services business
- Expansion of Compliance and smart metering activities within core customer base

Working together

Cross-selling to deliver comprehensive client services.

Group-wide initiatives, particularly in bidding and use of technology to improve efficiency.

Investing in our people.

- Secured a series of major and national contracts
- Secured major new contracts in Everwarm and Allied (fire) where we were able to demonstrate a broader service line with existing clients
- Significant expansion of public sector client base within H2O Nationwide (air and water), which had historically been focused predominantly on Industrial and Commercial customers — the challenge is to ensure this works both ways

Case studies



Fleet efficiency translates to significant cost savings

In the past year we have reviewed our fleet suppliers and manufacturers and aligned historic contracts to enhance the level of support we receive, including payment profiles, discounts, rebates and additional benefits. We introduced a Group-wide Fleet Management and Vehicle Tracking system, enabling us to capture everything digitally, enhancing our reporting capabilities and enabling us to effectively manage all aspects of our fleet, control our costs and ensure compliance.



£39m metering contract in the West Midlands with Scottish Power

The Group won a £39m metering contract requiring the installation of some 400,000 meters over four years, comprising both smart meters and 'business as usual' installations, and covering the West Midlands. The contract is in addition to our £37m domestic smart meter contract with Scottish Power across Northern Scotland, Wales and North West England, announced on 2 August 2016.



K&T Heating win five year commercial heating contract with L&Q

K&T Heating have won a five year commercial heating contract with L&Q, with an estimated annual value of £750k per year. The contract entails servicing, maintenance and responsive repair services for communal heating and hot water systems to over 170 residential blocks. The service area covered includes Hemel Hempstead through to the South East London and Dartford areas.



Major contract win with Aberdeenshire Council

Everwarm are to deliver a contract with Aberdeenshire Council up to the value of £44m over a four-year duration. Beginning in 2018, services will cover every facet of housing improvement upgrades, including external upgrades, internal refurbishments, domestic heating programmes and renewable energy installations.



Lakehouse Training Academy established

As part of the Lakehouse Training Academy, Allied Protection initiated a three-year training course, in partnership with industry leading fire safety equipment and tool manufacturing businesses, to train college leavers in Fire Safety. Combining in-lesson learning, theory and site based practical experience, and on-the-job mentoring, the course is designed to build a workforce that operates to the highest standards and tackles a serious skills shortage in the fire industry.



K&T Heating and Sure Maintenance working for Guinness Trust

Sure Maintenance has retained a contract with Guinness Partnership for a further four years, worth between £2.0m and £3.0m per annum, and has also won a second contract worth £1.0m providing gas services to properties in the South West. Building on the Group's comprehensive service delivery, K&T Heating has been awarded a £2.0m-£3.0m p.a. contract to maintain c15,000 properties for Guinness across the South of England.

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 both to grow and manage risk within the Group, predominantly through organic means, but where relevant through carefully targeted acquisitions and disposals.

Performance

Underlying revenue decreased by 3.0% to £290.3m (2016: £299.1m), reflecting a risk reduction exercise within Property Services, whose underlying revenues fell 52.1% to £47.0m (2016: £98.1m). Underlying revenues excluding Property Services grew 21% to £243.3m (2016: £201.0m).

Underlying revenue decrease: Group

(3.0)%

Underlying revenue increase: excluding Property Services

21.0%

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, manage risk, deliver operational improvement and expand our margins.

Performance

Underlying EBITA fell by 14.2% to £7.3m (2016: £8.5m), reflecting the downsizing of Property Services as part of our operational improvement programme, resulting in a £1.7m underlying EBITA loss (2016: £0.8m profit). Underlying EBITA excluding Property Services rose 15.8% to £9.0m (2016: £7.7m).

Underlying EBITA decrease: Group

(14.2)%

Underlying EBITA increase: excluding Property Services

15.8%

Order book

The order book comprises 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 foreseeable.

Relevance to strategy

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

Performance

The order book increased 19% to £631m (2016: £532m), principally reflecting the significant successes experienced by Compliance and Energy Services this year.

We currently have 84% visibility for the year to 30 September 2018 (like for like prior year: 87%).

Order book at 30 September 2017

£631m

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 34) 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 169% (2016: 127%). Cash conversion on a statutory basis was an inflow of 248% (2016: outflow of 493%).

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

Underlying operating cash conversion

169%

Non-financial indicators

Accident incident rate ('AIR')

During the year, we refined our calculation of AIR to consider two measures: seven-day RIDDORs and all accidents. The figures are calculated on the basis of the number of seven-day reportable injuries, specified injuries and reportable cases of ill health (as applicable), multiplied by the number of employees (including subcontractors) and divided by the average hours worked.

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 (RIDDORS) stood at 0.18, substantially below the Group target of 0.80. The AIR (all accidents) stood at 2.85, again substantially below the Group target of 5.00.

Accident incident rate ('AIR') RIDDORS

0.18

Accident incident rate ('AIR') all accidents

2.85

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 2016 and 30 September 2017. This is based on weighted average.

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 66% (2016: 69%), which is below our target of 85%. This reflects the ongoing operational improvement actions taken during the year. We will be assessing stability, which we believe better represents retention of core senior staff members.

Management retention rate

66%

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 12,282 tonnes of CO₂, a rise of 37% on the 8,951 tonne usage in 2016. This is equivalent to 41.0 tonnes per £m of revenue (2016: 26.8 tonnes).

We continued to improve data collection through the year and feel this is the first true representation of every company in the Group. With this data in place and use of our energy performance indicators, we are targeting improvements of at least 2% per annum moving forward.

Carbon usage

12,282 tonnes

Operational review

Our value of frameworks increased by 22%, from £1.6bn to £1.9bn, underpinning the confidence we have in the future potential of the Group.

Financial performance

The Group had a strong year, posting an underlying EBITA of £9.5m, comprising £7.3m from continuing activities (2016: £8.5m) and £2.2m from Orchard (2016: £2.4m), which was reported as a discontinued activity.

Underlying revenue from continuing activities was 3% lower at £290.3m (2016: £299.1m) and underlying EBITA from continuing activities declined by 14.2% to £7.3m from £8.5m in the prior year, representing a margin of 2.5% (2016: 2.9%). We have previously discussed the challenges faced by our Property Services business, and excluding these operations, underlying revenues grew 21.0% from £201.0m to £243.3m, with underlying EBITA rising 15.8% from £7.7m to £9.0m, which included absorbing some £1.3m of meter mobilisation costs within our underlying performance. Property Services revenues fell 52.1% from £98.1m to £47.0m, posting an underlying EBITA loss of £1.7m (2016: profit of £0.8m).

Statutory revenue was 8.5% lower at £299.5m (2016: £327.2m), reflecting the withdrawal from our 'externals' activities within Property Services announced in the prior year. Operating losses were much improved at £1.1m (2016: £34.0m), after Other Items of £1.9m (2016: £9.1m), a net exceptional gain of £4.0m (2016: loss of £3.1m, together with a £19.2m impairment charge) and amortisation of acquisition intangibles of £10.5m (2016: £11.2m), which are discussed further in the Financial Review below and Note 7.

Underlying profit before tax from continuing activities was £5.6m (2016: £7.5m) and underlying profit after tax from continuing activities was £4.2m (2016: £6.3m), resulting in underlying basic earnings per share of 3.7 pence (2016: 5.2 pence). The statutory loss from continuing operations before tax was £3.1m (2016: £35.7m) and loss after tax was £1.7m (2016: £31.1m).

Profit after tax from discontinued activities was £1.7m (2016: £1.9m), resulting in a profit for the year attributable to the equity holders of the Group of £10,000 (2016: loss of £29.3m) and basic earnings per share of 0.0 pence (2016: loss of 18.6 pence).



Our Compliance, Energy Services and Construction divisions have all delivered strong growth in the year.”

Looking forward

During the year, we saw very strong underlying growth in our Compliance (underlying revenues up 14.6%) and Energy Services (underlying revenues up 29.9%) divisions and we will continue to focus on both moving forward.

Construction underlying revenues grew 18.7%, which, whilst pleasing, came from a low base in FY16. This remains a good business but unpredictable both in terms of timing of client procurement and project management and we are planning for modest future growth.

Property Services had a difficult first half of the year, losing an underlying £1.1m, and we saw an improvement in the second half, with losses falling to £0.6m, resulting in an overall loss for the year of £1.7m. Underlying revenues declined 52.1% as we sought to reduce risk and we matched this with a reduction in the cost base. We expect these activities to improve returns in the future, possibly on revenues slightly lower than FY17.

With this in mind, we are pleased to have visibility over 84% of forecast revenues for the current year (as at November 2017), compared to 87% at the same point in FY16.

The Group's order book stood at £631m at 30 September 2017, an increase of 19% on the prior year of £532m, reflecting significant gains in Compliance and Energy Services. Our value of frameworks (of which order book is a subset) also increased by 22%, from £1.6bn to £1.9bn, underpinning the confidence we have in the future potential of the Group.

Our Compliance, Energy Services and Construction divisions have all delivered strong growth in the year and we remain confident in the exciting prospects for each. Property Services has been in a turnaround situation during FY17, but new management have stabilised operations, reviewed risks and provided a base upon which we can build in the future.

Compliance

(36% of Group Underlying Revenue)

Compliance: year ending 30 September		
Underlying revenue (£m)		
17		104.3
16	91.0	+14.6%
Underlying EBITA (£m)		
17		8.0
16	6.2	+29.5%
Underlying EBITA margin (%)		
17		7.7
16	6.8	+90ppt

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, underlying revenue increased by 14.6% to £104.3m (2016: £91.0m). Underlying EBITA increased 29.5% to £8.0m (2016: £6.2m), resulting in an underlying EBITA margin of 7.7%, up by 90ppt, reflecting the increased critical mass of the business, especially as regards procurement. The year on year annualised impact of Aaron Heating Services (acquired November 2015) and Precision Lift Services (acquired in December 2016) was £4.8m in revenues and less than £0.2m in EBITA.

Gas Compliance

The three Gas Compliance businesses (Sure, Aaron and K&T) make up 75% of divisional revenues and built on the progress made in FY16 with another excellent year. 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 historically enjoyed larger margins as a result of higher engineer efficiency and procurement leverage. We carried this experience over into Sure and Aaron during 2017, with a resultant improvement in margins.

We have continued to expand the reach of each of the Gas businesses during the year, as we seek to provide both nationwide coverage and a broader range of related services, particularly in commercial gas (being boiler plant rooms and the like). Sure expanded into the South West with Guinness Trust and the Midlands, with Derbyshire County Council. Aaron expanded into the Home Counties with Central Beds. K&T developed its commercial gas offering in securing a £7m programme with London & Quadrant, along with completing a national offering with Sure for Guinness Trust, as we won all three geographic lots on this £5m per annum programme during the year.

The business has further capacity to fill in geographic gaps and expand its range of services, building on the successes of 2017. We are also investigating the investment required in systems development, with the aim to improve engineer planning and utilisation, without compromising the quality of service offered by a local presence. There are further gains to be made in fleet management and procurement, albeit as we identify in the risk section on pages 26 to 29 we will keep a close watch over commodity prices as the Brexit process advances, in particular metals such as steel and copper, which are a core component of boilers. Whilst price rises are possible in the long term, we are committed to mitigating, wherever possible, the impact on client budgets and as such need to ensure our procurement leverage relative to our competitors allows us to maintain and develop our competitive advantage.

During the year, Gas Compliance secured a number of notable further wins, with a £6.1m heating service and maintenance contract with Places for People, a £1.6m boiler replacement programme with Corby Borough Council, a £5m two-year heating services contract with Moat Housing and a £4.9m heating service

and maintenance contract with Southern Housing Group over four years. In addition, we secured places on the Eastern Procurement framework (potentially worth £1.6m per annum) and two places on Sanctuary Housing's commercial heating installations framework, all key and important. We were also highly successful in resecuring a number of existing contracts with clients such as Whitefriars and Charnwood Housing Associations.

Building Compliance

Our Building Compliance businesses comprise Allied Protection (fire and electrical), H2O Nationwide (air and water) and Precision Lift Services (lifts).

H2O Nationwide had another superb year, as we further developed its footprint in both the social housing and industrial and commercial sectors. During the year, the business secured a £0.5m water hygiene maintenance contract with the London Borough of Ealing, a £0.6m water compliance contract with Homes For Haringey, a £0.6m framework with Procurement for All and a £0.7m water hygiene framework with Fusion21. There is significant strategic bandwidth in this business, individually and together in water and air hygiene services, as well as further development in the Industrial and Commercial market and we are excited about the future value that can be generated.

With new management in place, Allied turned a small FY16 EBITA loss into a healthy EBITA profit in FY17 through a focus on operational improvement. This was really pleasing after a difficult FY16, where we saw a significant drop-off in project works. The Grenfell Tower tragedy has focused the attention of clients on the non-discretionary nature of fire protection and we expect this market to develop further in the future. It is too early to determine quite how these developments may progress as there are a range of potential solutions, but we invested during the second half in our central team to ensure we are best placed to respond to client requests and, importantly, provide them with the documentary reassurance they need to remain compliant. Allied was engaged by Kensington and Chelsea in January 2017 to certify the appropriate

Works involving the replacement of lifts in residential blocks, an essential means of access for residents, makes it very important to involve residents in a period of consultation, allowing us to better understand the needs of those whose lives will be impacted.



Operational review continued

Compliance continued

Building Compliance continued

working of its installed fire safety systems at Grenfell Tower and is satisfied the system was maintained in accordance with the requirements. All evidence presented to date indicates that the system performed as it was designed to do and there has been no inference of any contractual shortcomings on Allied's part. Allied was not responsible for the specification or installation of the system.

A particular challenge in the current market is retaining good fire engineers and we expanded the Lakehouse Academy during FY17 to train apprentices in-house, thereby providing a steady stream of engineers trained to the standards we expect. Allied had a good year for new wins with a £1m fire equipment service and maintenance contract with Shepherds Bush Housing Association, a four-year fire safety programme with Fusion21 worth £2.7m and a four-year, £2.4m fire safety improvement works programme with Paragon Housing Association. Allied also achieved successful geographic expansion, including a two-year contract with Coventry City Council and a £1.6m passive protection contract with Wythenshawe Council, courtesy of a pre-existing relationship with Sure.

We decided during the year to bring a new management team into Precision Lift Services, in place of the former owner and Managing Director. We expect the change to bring the drive necessary to deliver growth in a commercial environment. The former team built an excellent and strong business, which was evidenced by a number of great wins in the year, including a 10-year £27m lift service repair and refurbishment programme with Westminster City Council, a £1.6m lift modernisation programme with the London Borough of Hammersmith and Fulham, a £0.9m lift modernisation programme with Brent Housing Partnership, a £0.9m lift refurbishment programme with each of Hyde Housing Association and the London Borough of Newham and a £1.2m four-year framework with Eastern Procurement. We also successfully resecured significant contracts with Tower Hamlets Housing Association and Wandsworth Council.

Looking forward

Compliance now includes 204 frameworks, up from 108 at 30 September 2016, with an aggregate potential value of £608m (30 September 2016: £447m). We have been cautious during the year about announcing

excessive numbers of new wins, as headline client names and quantum of frameworks do not always lead to material levels of new work. In reflecting a near doubling of our number of frameworks and increase in value by one-third, we have exercised our normal levels of conservatism.

We regard Lakehouse to be the market leaders in the compliance sector, with a true national reach. We believe we have built the strongest compliance business of its type, well positioned to grow further in what is a fragmented and regional market. The division stands alone and each of the six business Managing Directors is encouraged to think and act as an entrepreneur, whilst operating within the governance boundaries of a plc.

Energy Services

(27% of Group Underlying Revenue)

Energy Services: year ending 30 September

Underlying revenue (£m)

17	79.0	
16	60.8	+29.9%

Underlying EBITA (£m)

17	4.0	-29.0%
16	5.7	

Underlying EBITA margin (%)

17	5.1	-420ppt
16	9.3	

Underlying EBITA excluding the impact of smart metering (£m)

17	5.3	-5.8%
16	5.7	

Energy Services provides a range of energy efficiency services, including insulation, heating and renewable technologies 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. The division offers smart metering services through Providor and has a small but developing presence in the installation of electrical vehicle charging points.

Underlying revenue increased by 29.9% to £79.0m (2016: £60.8m). These figures reflect our energy efficiency and metering activities following the sale of Orchard in September 2017, which has been treated as a discontinued activity and therefore excluded from the above figures. Top-line growth was very much driven by our new contracts with Scottish Power as the metering business continued to mobilise in the year.

Underlying EBITA decreased by 29.0% to £4.0m (2016: £5.7m). As we highlighted in FY16 would be the case, the Providor metering business continued to mobilise during the year and we felt as a continuing activity it was therefore right to include the performance within trading, whereas as a new activity it had been taken to 'Other Items' in the prior year. The costs of mobilisation amounted to £1.3m (2016: £2.5m reported within 'Other Items'), which were slightly higher than the £1.0m we had previously indicated, due to the inefficiencies created by continued delays in the programme. This is discussed further below and accounted for the bulk of the movement in underlying divisional EBITA year on year.

Everwarm

We saw Everwarm's business model continue to evolve during the year, creating a wider and more balanced portfolio of activities, particularly in heating, renewables and comprehensive property services, all of which performed well during the year. We were delighted to announce a £44m four-year contract with Aberdeenshire Council, which underpins this development.

Insulation remains the most significant part of Everwarm's business and in the year, whilst the carbon rates that underpin energy subsidy funding remained stable at a macro-level, we experienced some localised examples of price fluctuations, mainly one-off offerings for smaller volumes and shortened timeframes based on specific requirements among energy suppliers. Our strategic approach to relationships with energy suppliers secures us higher volume commitments over longer durations, which saw less volatility, and we currently have committed volumes to June 2018. In addition, the ECO2 transition ('ECO2t') model has seen a move to deemed scoring measures, aimed to simplify the procedures. While the headline carbon rates associated with ECO2t have increased, on average the new scoring approach has maintained overall funding levels per property, so we see no margin benefit. There remain challenges around lead generation and compliance;

however, our core strengths play well to the latter and leave us extremely well placed to deliver a class-leading service. ECO2t has been extended to September 2018, prior to the proposed introduction of a fuel poverty-focused scheme thereafter. Our belief continues to be that insulation offers a low cost and highly effective means of reducing energy consumption and alleviating fuel poverty.

As we discussed at the half year, margins in the insulation market remain challenging, but we saw improvements in heating, renewables and comprehensive property services through an improved activity mix and scale in our activities.

The Group holds a one-third share in the Warmworks joint venture, along with Changeworks and the Energy Saving Trust. Warmworks operates the Scottish Government's flagship Home Energy Efficiency Programme for Scotland ('HEEPS'), which performed exceptionally well, albeit with the expected plateau and then slight decrease in volumes during the second half of the year, in light of funding availability. A decision around further funding is expected in early 2018, which will guide us further, although committed volumes reduce any exposure we have here. We continue to explore options for the development of the business model, including areas such as water efficiency and advisory services.

The recent tragic events with Grenfell Tower have no direct bearing on Everwarm, as the business has not engaged in either aluminium cladding or refurbishment of tower blocks. However, the insulation sector remains under-represented in Westminster and these events have introduced further uncertainty into the market. We nevertheless remain optimistic of the long term need for energy efficiency measures, given the large volume of energy inefficient homes in England and Wales, but this will require a flexible model that responds to the solutions that arise, which could involve development of new technology. Given the breadth of the wider Group, we believe the business is well placed to respond accordingly.

Provider Metering

We were delighted to announce in March 2017 the award of a £39m contract with Scottish Power, covering the installation of some 400,000 meters in the West Midlands. This contract is mobilising and we continue to work well with Scottish Power, with client data indicating we are now established as one of the highest performing meter installers in the industry.

We noted at the half year that we are now having to review pricing, as the complexities of the smart meter installation programme become more apparent. If anything, these complexities have increased as the year has progressed. A particular difficulty is that the new 'SMETS2' smart meter standard has yet to be introduced. This means that suppliers continue to install less advanced 'SMETS1' smart meters. The UK Government has granted an exclusive licence to DCC Limited ('DCC'), a data communications company entrusted to manage the data and communications network to connect smart meters to the business systems of energy suppliers, network operators and other authorised service users of the network. The introduction of this network is three years behind schedule and there is no guarantee that SMETS1 meters will communicate with the DCC. This means that suppliers are understandably holding back in the introduction of smart meters, making the installation process less efficient as a consequence. The UK Government has set a July 2018 backstop date for introduction of SMETS2 (albeit with a flexibility for minor slippage), but this focuses on the interests of suppliers – as installers, we are concerned about a significant dip in installations up to this period and then a huge surge in demand afterwards. This would create significant difficulties in the installation sector, with engineer churn a particular challenge. We continue to review our forecasts every month and work with our customer base to manage the programme as efficiently and profitably as possible.

Providor is one of only a handful of operators capable of managing a national rollout of smart meter installations and we are confident that we have built a strong market position with future opportunity for growth through partnership with the leading energy utilities. To this end, we will ensure our concerns are registered with both energy suppliers and the Government.

Divisional contract position

FY17 has been a successful bidding period for the division, winning a variety of projects spread across new and existing clients. Securing Everwarm's position on the Aberdeenshire £44m HIP framework was a key victory with an existing partner, in addition to significant External Wall wins for West Dunbartonshire (£2.1m) as a new client, West Lothian Council (£2m) and Almond Housing Association (£1.4m). Providor won a £4m managed service contract with Scottish Power in addition to the installation contracts previously announced.

Everwarm secured a first ranked place in 28 out of 32 areas on the multi-million pound Scotland Excel framework in the year, from which we have already obtained our first contract win (£4m for Renfrewshire Council). This was in addition to our first non-domestic contract with North Ayrshire (£1m), for which work is progressing well. We continue to see a strong volume of new opportunities to secure our pipeline and remain interested in the Welsh Government Warm Homes (Arbed) tender, as a means to increase our footprint outside of Scotland and take advantage of our years of industry experience.

Looking forward

Energy Services is now on 54 frameworks, up from 36 at 30 September 2016, with an aggregate value of £468m (30 September 2016: £427m), providing an encouraging future pipeline of opportunity.

Discontinued activities

Orchard Energy

At the end of the financial year, we disposed of Orchard Energy, our energy procurement and advisory services business. Orchard recorded an operating profit of £2.2m, some 10% down on the prior year (2016: £2.4m). The sale of Orchard, a white-collar business, will allow the Group to concentrate on our operatives-focused activities within Compliance and Energy Services.

Operational review continued

Property Services

(16% of Group Underlying Revenue)

Property Services: year ending 30 September			
Underlying revenue (£m)			
17	47.0		-52.1%
16		98.1	
Underlying EBITA (£m)			
17	(1.7)		-312.1%
16		0.8	
Underlying EBITA margin (%)			
17	(3.5)		-430ppt
16		0.8	

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: operates in London and the South East, focusing on planned maintenance activities
- Foster Property Maintenance ('Foster'): operates in East Anglia and has a broad reach, encompassing planned and reactive maintenance, project works and energy efficiency measures

We discussed last year that we had launched an operational improvement programme aimed at improving returns in Property Services. This involved challenging the return on capital at a client level and focusing on those relationships where we can earn an acceptable return, matching the cost base accordingly. The turnaround of this business meant that FY17 was a transitional year for Property Services and we ended the year a great deal stronger and leaner than when it started.

Property Services underlying revenue was £47.0m in the year, down 52.1% (2016: £98.1m). This decline reflected our previously stated intention to manage risk in the business and, to this end, the significant efforts of the Lakehouse Property Services team in closing out legacy issues in the business (reported within Other Items and discussed below). We needed to go through this process before taking on new work, which became a focus towards the end of the year.

Revenues of £9.3m (2016: £25.2m) relating to businesses being exited and reported within Other Items reflect the residual contracts completed in the year, relating to the exit from our directly delivered externals business announced in FY16. We finished all contracts in relation to this business in October 2017.

The business posted an underlying EBITA loss of £1.7m (2016: profit of £0.8m), which was below expectations, but improved significantly as the year progressed. Given the focus on clearing up legacy issues we saw a lack of margin-earning work that meant the business overall made a loss. This was exacerbated by a frustrating inconsistency in workflows from certain key clients and although our primary response was to work with clients on planning out their needs, there were instances where we had to walk away. As part of this exercise, we continued to review the cost base throughout the year, not only in headcount, but in other operating expenditure such as premises, fleet and inventory management. The actions contributed to an improvement in returns as the year progressed and we expect to return to profitability over the medium term.

Lakehouse Property Services

Our new leadership team spent most of the year stabilising Lakehouse Property Services after an exceptionally difficult FY16. We managed to close out the legacy 'roofing' contracts during the year, with the operations concluding with the final project in October 2017. Lakehouse has always delivered on its promises, frustratingly at times, irrespective of cost. This, however, means that clients know they can rely on Lakehouse to deliver works to the highest standard, focused always on compliance with contractual terms and the needs and safety of residents. When things go wrong, as they can in this industry, we ensure issues are resolved in a timely fashion and where they turn out not to be our fault, we work with clients in a constructive fashion. It is for these reasons that we have sought during the year to focus on working with those clients with whom we can forge a relationship of cooperation and fair approach to sharing risk and reward. This is not a quick process, which is why bidding remained secondary to operational improvement during the year, but the balance shifted as the year progressed and we have gone into FY18 with a number of opportunities that we are confident will ultimately deliver growth and profitability. It is a particular testament to the new team

and its resilience that we managed to deliver on this difficult turnaround programme.

We secured our first works order under the new four-year planned maintenance framework with Network Homes, valued at £1.5m, to install new windows, doors, kitchens and bathrooms. We were also pleased to secure positions on the Redbridge housing capital delivery and London and Quadrant internal works frameworks. As we enter FY18, we are seeing a number of opportunities crystallise within our core client base that we are confident will underpin an improvement year on year.

Foster

Foster faced inconsistent client volumes on its core planned maintenance activities through the year. We responded by reducing staffing levels, along with our number of premises, vans and volume of stores. This is, however, not enough to preserve Foster's future, so we took the tough decision during the year to exit certain planned maintenance contracts and seek a broader base of work for the business. Foster has historically earned good returns from project work, essentially small-scale construction contracts, which we grew during the year among a core group of clients with whom we could develop a regular flow of work and, importantly, earn a satisfactory return. We were also pleased to see an improvement in fortunes in the responsive maintenance business, which went from being loss making in FY16 to break even in the year. Given its unique geographic focus on East Anglia and regional brand strength, Foster has traditionally turned its hand to a wide range of activities, including renewables, energy efficiency and certain compliance activities. We therefore entered FY18 as a broader business, which we believe will largely maintain or even slightly reduce revenues, but improve returns.

Foster had a number of encouraging wins during the year, including repair and maintenance contracts for Hastoe Group and Colchester Borough Homes (together worth £3.7m over the next three to four years), planned maintenance contracts with Havebury Housing Partnership (£1.8m over three years) and Cambridge City Council (£3m p.a. over five years), and the £4m St Luke's Primary School Sensory Room Works project with Cambridgeshire County Council.

Looking forward

Property Services is now on 70 frameworks (2016: 71), a small fall by number but with a higher aggregate value of £442m (2016: £370m). With a strong base of frameworks, a settled leadership team and a firm policy of managing risk/reward, we are confident in the turnaround of Property Services and its future prospects.

Construction

(21% of Group Underlying Revenue)

Construction: year ending 30 September		
Underlying revenue (£m)		
17	61.8	
16	52.1	+18.7%
Underlying EBITA (£m)		
17	2.0	-44.9%
16	3.6	
Underlying EBITA margin (%)		
17	3.2	-370ppt
16	6.9	

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.

Underlying revenue increased by 18.7% to £61.8m (2016: £52.1m). Underlying EBITA decreased by 44.9% to £2.0m (2016: £3.6m). This resulted in an underlying EBITA margin of 3.2%, around half of the margin experienced in the prior year (2016: 6.9%).

Although we were pleased to see revenues increase, these arose largely as a consequence of FY16 delays coming through in the year. The market is becoming ever more challenging, particularly as clients are becoming increasingly contractual and able to provide less visibility over project timing, in light of the nature of two-stage procurement. This was particularly apparent in closing out final accounts and general negotiation with clients in the year and the lower margins reflected a series of settlements that were less favourable than expected, where we may have expected a better outcome in the past. We conducted a significant review of all contracts at year end, which contributed to the lower margin. As we discuss on page 31, we will be further

investing in training our teams this year on contractual understanding, to ensure we present clear and robust claims for payment.

The division continually looks to innovate and is participating in Built2Spec, part of the EU-funded research and innovation project Horizon 20/20, which aims to secure Europe's global competitiveness. Built2Spec's objective is to reduce the 'performance gap' in new buildings, being the difference between the expected energy performance of a building at design stage and the actual energy performance of that building once it is built and being used. The performance gap can potentially mean up to double the expected energy usage after a building has been finished, a significant challenge to the UK construction industry. Built2Spec addresses this challenge by supporting the development of systems to check the efficiency of the building at all stages of the build process, ensuring delivery of the building is exactly as specified at the design stage.

Built2Spec has access to €5.5m in funding across 20 construction partners from eight countries and these partners are undertaking research in new onsite techniques in several key areas: thermal imaging, internal air quality, air tightness testing, acoustic tools, 3D imaging tools and smart building sensors. Each of these areas can significantly improve the process of ensuring the building's efficiency is as it should be.

Lakehouse Construction has been working alongside a mixture of partners including VRM Technology, the Building Services Research and Information Association ('BSRIA') and the University of Nottingham, conducting research and development in the area of air tightness testing within buildings. Lakehouse Construction and its partners are involved in the project in the following ways:

- Nottingham University is developing new air testing equipment called the pulse unit
- BSRIA is testing thermal imaging cameras from Flir 1 that can be used with iPhones and developing software so this can be utilised on site checks of thermal performance
- VRM is developing its Refurbify app software for the Virtual Construction Management Platform ('VCMP')

- Lakehouse is to work with these partners by providing sites for testing, carrying out the pulse unit testing against blower door test equipment and developing the VRM software and overall training plans

The results of the development work will be brought together in one overall cloud-based, Building Information Modelling integrated, construction management platform. This cloud-based platform will also incorporate site quality management systems through mobile devices. The full suite of tests will then be piloted across all regions. Over the course of FY18 Lakehouse will be conducting long term live testing of the air tightness equipment and VCMP.

The Construction team has maintained a disciplined approach to bidding through the year and seen considerable success, securing a number of important wins, including a £6.1m contract with Uxendon Manor Primary School, a £2.7m contract for Harris Academy, an £8.9m contract for Hackbridge School, a £3.3m contract for Colville School, a £3.8m contract for Galleywall Primary School, a £5.1m contract for West Hatch High School and, most recently, a £2.1m contract for Millbrook Combined School High Wycombe.

Whilst education remains our core focus, we secured a number of frameworks with other parts of the public sector during the year, including the Met Police Minor and Intermediate framework and the Capital Works framework – Sussex Partnership NHS, where we secured our first project shortly after year end. During FY17, we also gained our first project at Bulford Garrison, a £1.5m project under the Aspire Defence Partnership arrangement.

Looking forward

The number of frameworks declined to 23 from 29 as at 30 September 2016, albeit aggregate value rose 20% to £424m (30 September 2016: £353m). These frameworks provide significant opportunity for the Construction division to continue to grow, whilst maintaining an acceptable rate of return. We remain positive about the prospects for Construction in a market with challenges, but strong underlying growth fundamentals.

Michael McMahon
Chief Operating Officer

22 January 2018

Financial review



“
The sale of
Orchard
allowed the
Group to pay
down its debt.”

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

Trading overview

The Group had a strong year, posting an underlying EBITA of £9.5m, comprising £7.3m from continuing activities (2016: £8.5m) and £2.2m from Orchard (2016: £2.4m), which was reported as a discontinued activity.

Group underlying revenue from continuing operations in the year decreased by 3.0% to £290.3m (2016: £299.1m). We have previously discussed the challenges faced by Property Services and excluding these operations, underlying revenues grew 21.0% to £243.3m (2016: £201.0m). Property Services saw revenues fall 52.1% to £47.0m in the year (2016: £98.1m).

Underlying EBITA from continuing operations decreased to £7.3m (2016: £8.5m). Property Services saw a FY16 profit of £0.8m slip to a £1.7m loss in the year. Again, excluding Property Services, we saw underlying EBITA grow 15.8% to £9.0m (2016: £7.7m). We took the full £1.3m cost of mobilising smart metering within underlying EBITA in the year, reflecting its continuing nature, whereas we took the corresponding charge of £2.5m to 'Other Items' in FY16, given this was a new activity in the prior year.

We exclude Exceptional and Other Items in calculating underlying EBITA to provide a more appropriate view of underlying operating performance.

Underlying operating expenses fell 1% to £25.5m in the year (2016: £25.8m) reflecting reductions in the cost base of Property Services and investment in mobilising new contracts within Compliance and Energy Services. Central costs fell by 34.7% to £5.0m (2016: £7.7m), reflecting the cost reduction programme outlined last year.

Statutory revenue from continuing operations was 8.5% lower at £299.5m (2016: £327.2m), reflecting the withdrawal from our 'externals' activities within Property Services announced in the prior year. We reported an operating loss from continuing operations of £1.1m (2016: £34.0m), reflecting £1.9m of Other Items (2016: £9.1m), a £4.0m net exceptional gain (2016: £3.1m loss together with a £19.2m impairment charge) and a £10.5m charge for amortisation of acquisition intangibles (2016: £11.2m). Interest expense was £2.0m (2016: £1.6m), taxation a £1.4m credit (2016: £4.5m) and Orchard recorded a post-tax profit within discontinued operations of £1.7m (2016: £1.9m). The statutory profit after tax was £10,000 (2016: loss of £29.3m).

Exceptional and Other Items, including amortisation of acquisition intangibles

Exceptional and Other Items in the year reduced the Group's profit before tax by £8.7m (2016: £43.2m) and related to the following items:

	2017 £m	2016 £m
Contract losses on businesses being exited	1.9	6.6
Smart metering mobilisation costs	—	2.5
Total Other Items	1.9	9.1
Exceptional Items:		
Acquisition costs	—	0.6
Final account provisions	0.9	—
Impairment of receivables	(0.5)	2.6
Restructuring EGM and other costs	2.6	2.5
Total exceptional costs	3.0	5.7
Release of deferred consideration	(1.6)	(2.6)
Profit on sale of Orchard (Holdings) UK Limited	(5.4)	—
Total net Exceptional Items	(4.0)	3.1
Impairment of goodwill and intangible assets acquired	—	19.2
Amortisation of acquisition intangible assets	10.5	11.2
	8.4	42.6
Unwinding discount of deferred consideration	0.3	0.6
Total Exceptional and Other Items	8.7	43.2

Contract losses on businesses being exited

The Group continues to redefine its service offering and the Board has taken the decision to reduce its exposure to risky and unprofitable activities, particularly within Property Services, with the closure and downsizing of non-profitable operations. Following the announcement in FY16 that we would be exiting our directly delivered externals business within Property Services, we undertook an operational improvement programme during the year, focused on managing a balanced position of risk and return on capital.

As we highlighted in October 2017, we conducted a wide-ranging review of legacy contracts at year end, which resulted in a £1.9m charge (2016: £6.6m) relating to the finalisation of our exit from the directly delivered externals business within Property Services. This process finished in October 2017 on completion of the final outstanding contract.

Smart metering mobilisation costs

We incurred a charge of £2.5m within 'Other Items' in FY16 relating to the costs associated with training and retaining smart metering engineers, along with mobilisation complexities to do with planning work, documenting installations, inventory management and systems development. A sum of £1.3m has been incurred in FY17 and reported within underlying profit, in light of the continuing nature of our smart metering activities. This is discussed further within the Operational review on page 17.

Exceptional Items

Acquisition costs comprise legal, professional and other expenditure in relation to acquisition activity and amounted to £nil (2016: £0.6m).

Final account provisions of £0.9m (2016: £nil) relate to the operational improvement programme highlighted above and the exit of our Kent office.

Impairment of receivables, representing an income of £0.5m (2016: cost of £2.6m), reflected the successful outcome of a series of adjudications associated with the resolution of historic matters on a specific contract ('the Contract') with Hackney Council where a charge had been taken at 30 September 2016, further details of which are outlined in Note 7 of our Annual Report and Accounts for the year ending 30 September 2016.

Restructuring EGM and other costs of £2.6m (2016: £2.5m) reflect the costs of our move to AIM in May 2017, managing the impact of media reports, investigating potential strategic options for the Group as part of our operational improvement programme and restructuring and other costs during the period. We also announced in September 2017 our intention to exit Lakehouse's head office in Romford, which is now too large for our needs and the charge includes the write-off of leasehold improvements made to the building. At the time of writing, we had agreed head of terms for the assignment of the lease to a third party.

Release of deferred consideration of £1.6m (2016: £2.6m) reflects the expected settlement of the final deferred consideration due to Aaron Heating Services Limited, H2O Nationwide and a wider review of remaining outstanding balances.

Profit on sale of Orchard of £5.4m (2016: £nil) relates to the sale of Orchard to World Fuel Services Europe, Ltd with an effective date of 29 September 2017. Lakehouse received a cash consideration on completion of £12.4m, with a further sum of £1.9m to be held in escrow against potential claims under the Sale and Purchase Agreement, to be released in equal instalments on the first and second anniversaries of Completion. We attributed a fair value of £12.4m to the consideration and recognised a gain on book value of £5.4m.

Impairment of goodwill and intangible assets acquired

Impairment of goodwill and intangible assets acquired was £nil (2016: £19.2m).

Amortisation of acquisition intangibles

Amortisation of acquisition intangibles was £10.5m for the period (2016: £11.2m). The £0.7m reduction reflected the fact that we have taken charges in prior periods, meaning we are amortising a reduced base of intangible assets. We expect a steeper reduction in this charge in future years.

Unwinding discount of deferred consideration

Unwinding discount of deferred consideration of £0.3m (2016: £0.6m) reflects the present value of deferred sums, discounted at a post-tax rate of 2.7% due on outstanding payments for acquisitions.

Financial review continued

Exceptional Items continued

Accounting treatment

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 (aside from amortisation of acquisition intangibles and unwinding discount of deferred consideration) 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 in FY16, which have been reflected within underlying operating profit in FY17, in light of their continuing nature.

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 £1.7m (2016: £1.0m).

The total finance expense of £2.0m (2016: £1.6m) included the unwinding of discounts on deferred consideration figure of £0.3m (2016: £0.6m) discussed above and treated as a non-operating item.

Tax

The tax charge on underlying profit before tax was £1.4m (2016: £1.2m), representing an effective rate of 24.9%, which compares with the statutory corporation tax rate of 19.5%. The difference was due to a combination of permanent differences together with prior year tax adjustments. A tax credit of £2.8m (2016: £5.7m) was recognised in relation to Exceptional and Other Items, resulting in a statutory tax credit for the year of £1.4m (2016: £4.5m).

The effective tax rate on the statutory loss before tax for the year was 44.9%, which is higher than the UK statutory corporation tax rate of 19.5% mainly due to permanent differences together with prior year tax adjustments. The decrease in gross permanent differences from £15.2m to a credit of £5.0m (to which a tax rate of 19.5% should be applied) is mainly due to the £5.4m profit on sale of Orchard should and non-taxable income of £1.6m relating to a release of deferred consideration.

Our net cash tax receipt for the year was £0.7m for continuing operations (2016: net cash payment of £0.3m). During the year, the Group has received the anticipated cash tax refund from HMRC which formed the corporation tax receivable on the 30 September 2016 balance sheet. The Group has also made tax payments on account during the year.

The net deferred tax asset as at 30 September 2017 was £2.1m (2016: £0.2m), with the movement mainly relating to acquisition intangibles and the disposal of Orchard. Further details are set out in Note 26.

In the year, the Group maintained a deferred tax asset in respect of tax losses at £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 remaining tax credit relates to three 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 ended 30 September (£m)	2017 £m	2016 £m
Underlying EBITA	7.3	8.5
Less:		
Exceptional and Other Items	(8.4)	(42.6)
Finance expense	(2.0)	(1.6)
Tax	1.4	4.5
Discontinued activities	1.7	1.9
Profit/(loss) for the year attributable to the equity holders of the Group	—	(29.3)

Earnings per share

Underlying basic earnings per share from continuing and discontinued operations were 3.7 pence (2016: 5.2 pence), based on underlying earnings of £5.9m (2016: £8.2m). Underlying earnings are stated after adding back £5.9m (2016: £37.4m) of Exceptional and Other Items (after tax).

Our statutory profit for the year was £10,000 (2016: loss of £29.3m). Based on the weighted average number of shares in issue during the year of 157.5m, this resulted in basic earnings per share of 0.0 pence (2016: loss of 18.6 pence).

Further details are contained in Note 14.

Dividend

The Board has proposed a final dividend for the year of 0.5 pence per share. This represents a total dividend payable for the year of 0.5 pence (2016: 1.5 pence).

Subject to approval at the AGM on 28 March 2018, the final dividend will be paid on 6 April 2018 to shareholders on the register at the close of business on 2 March 2018.

Cash flow performance

Our underlying operating cash flow for the year was an inflow of £12.4m (2016: £10.9m), discussed in Note 34 and reflecting a strong underlying cash conversion of 169% (2016: 127%). We calculate underlying operating cash conversion as cash generated from continuing 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 inflow of £13.4m (2016: outflow of £3.0m), representing a cash conversion of 248% (2016: outflow of 493%).

As we highlighted last 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.

The value of net 'unbilled' is a particular feature of our industry, being accrued income, prepaid expenses and accrued project costs. The management of these items, together with debtors and creditors represented a challenge in the year, resulting in a series of working capital peaks and troughs, particularly in Construction and Property Services. We managed these comfortably within our banking facilities and a significant push on cash at year end contributed to our excellent performance for the year as a whole. However this represents a snapshot in time and a normalised year-end debt position would have been some £10m higher.

Notwithstanding the turbulence in Property Services and Construction, we expect to continue to target an average annual operating cash conversion of 80% over the long term.

Net debt

Our net debt balance was improved significantly at £1.3m at 30 September 2017 (2016: £20.6m). The decrease over FY16 related predominantly to the £12.4m proceeds from the sale of Orchard, recognised as at 29 September 2017. Net debt was nevertheless significantly ahead of expectations, with much of the inflow occurring in September 2017 as a result of a significant improvement in working capital. We would expect year end net debt to be some £10m higher on a steady run rate.

Banking arrangements

We had drawn £27.5m under our revolving credit facility at the year end. At the date of issuing this report we had drawn £17m, as we used the Orchard sale proceeds to pay down debt. Royal Bank of Scotland ('RBS') continue to be an excellent and supportive partner. As with last year, we continue to show our commitment to managing our banking arrangements and, on the sale of Orchard, requested that RBS reduce our Revolving Credit Facility ('RCF') from £35m to £25m, which took effect on 2 October 2017 and removes an expensive non-utilisation charge of some £0.2m per annum. We retain a £5m overdraft facility.

We extended the term of the RCF after year end to February 2019 and expect to renew the facility during FY18. We are confident that our banking facilities provide sufficient support in managing our corporate affairs and provide sufficient capacity 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 2017 £m	30 September 2016 £m
Goodwill and intangibles	51.4	69.3
Tangible and other fixed assets	5.6	4.9
Total non-current	57.0	74.2
Other current assets	70.4	75.4
(Debt)/cash	25.9	(0.3)
Other current liabilities	(71.8)	(68.4)
Net current assets	24.5	6.7
Non-current liabilities	(4.1)	(9.2)
Debt	(27.2)	(20.7)
Net assets	50.2	51.0
Net current assets/(liabilities) (excluding cash)	(1.4)	7.0
Net debt	(1.3)	(20.6)

The principal movement in net assets reflected a reduction of £17.9m in goodwill and intangibles, due to £10.5m in amortisation of acquisition intangibles and £7.8m in relation to the sale of Orchard, discussed above and in Notes 7, 15 and 16.

Net current liabilities (excluding cash) stood at £1.4m (2016: asset of £7.0m), reflecting a hard push on working capital management towards the end of the year, which as discussed above, produced results significantly above expectations.

Deferred consideration on acquisitions is analysed below.

Provisions

Provisions as at 30 September 2017 stood at £4.0m (2016: £4.9m). During the year, we utilised £2.2m of provisions in line with our expectations, relating predominantly to the Contract, discussed above and in Note 7 and the costs of our industrial and commercial metering business as discussed in our 2016 accounts. We provided a further £1.5m in relation to specific risks and adjusted £0.1m in relation to the sale of Orchard.

Further details are set out in Note 25.

Acquisitions and disposals

The Group made no acquisitions in the year. On 2 October 2017, we announced the sale of Orchard, which had an effective date of 29 September. Lakehouse received a net cash consideration on completion of £12.4m, with a further sum of £1.9m to be held in escrow against potential claims under the Sale and Purchase Agreement, to be released in equal instalments on the first and second anniversaries of Completion. We attributed a fair value of £12.4m to the consideration, representing a gain on book value of £5.4m.

Financial review continued

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.

	Allied Protection Limited £m	H2O Nationwide Limited £m	Orchard (Holdings) UK Limited £m	Aaron Heating Services Limited £m	PLS Holdings Limited £m	Total £m
At 1 October 2016	0.3	1.3	2.2	1.0	1.1	5.9
Revaluation of deferred consideration	—	0.1	(0.4)	(0.8)	(0.6)	(1.7)
Unwinding of discount	—	0.1	—	0.1	0.1	0.3
Paid in year	(0.3)	(0.5)	(1.8)	—	—	(2.6)
At 30 September 2017	—	1.0	—	0.3	0.6	1.9

The sums due in relation to H2O Nationwide Limited and Aaron Heating Services Limited were settled in full after year end.

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 26 to 29 below. We 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.

As we discussed above in Exceptional and Other Items, the Group continues to redefine its service offering and the Board has taken the decision to reduce its exposure to risky and unprofitable activities, particularly within Property Services, with the closure and downsizing of non-profitable operations. Following the announcement in FY16 that we would be exiting our directly delivered externals business within Property Services, we undertook an operational improvement programme during the year, focused on managing a balanced position of risk and return on capital.

This process has progressed well in the year and the Board continues to focus 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. Most notably, the £6.9m claim from Harvil Roofing discussed in section 7.3 of the Appendix to our Schedule One AIM Announcement found in our favour, with no liability due. We believe we head into FY18 with an ever more balanced risk position.

Our year-end review included an assessment of unbilled balances, which as a Group we review regularly for impairment. 'Unbilled' represent the significant balance sheet risk in our industry and we continue to ensure a balanced approach between risk and possible outcome on final account settlements is taken, rather than defer decisions until the final outcome is achieved, which can be months or years.

Going concern statement

The Directors acknowledge the Financial Reporting Council's 'Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks' issued in April 2016. The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Strategic Report as referred to on pages 1 to 33. 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 Report, on pages 1 to 33. In addition, Note 32 to the consolidated Financial Statements within the 2017 Annual Report includes details of the Group's approach to financial risk management, 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 16 months following year end, 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 our commitment to managing banking arrangements within our means, we requested that RBS reduce our RCF from £35m to £25m following the sale of Orchard, with an effective date of 2 October 2017. We also agreed an extension with RBS of the facility from December 2018 to February 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.

Longer term outlook

Taking account of the Group's current position, prospects and principal risks, the Directors 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 2020. A three-year period is considered appropriate in light of the lifecycle of the Group's order book, itself a function of Government procurement and funding cycles, 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 Group employed a dedicated Internal Auditor during the year, who, as part of the year-end process, conducted a bottom-up review of risk with the CFO and business Managing Directors. The conclusions of this review were reported to the Audit Committee. We are therefore confident that all matters of significance were 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 its direct control, such as Government policy and programme management, client procurement policies and potential claims and disputes brought against the Group by others. Sensitivities are also tested against available banking facilities to ensure we have sufficient headroom and remain compliant with banking covenants. In this assessment, we have assumed that RBS agrees to a renewal of our banking facilities in February 2019 and the extension above should be viewed positively in this regard.

Jeremy Simpson
Chief Financial Officer

22 January 2018



Continued expansion of our gas businesses during the year has furthered plans to provide nationwide service coverage, with significant wins in new geographical areas.

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 schematic sets out each potential impact of each risk 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
- Green items represent existing risks
- Grey items represent new risks

More information about how we manage risk can be found in the Corporate Governance Report on pages 34 to 38.

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 the UK, devolved national and local Governments. In particular, Energy Services may be susceptible to changes in Government policy, and Property Services and Construction 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 and Property Services businesses operate under long term fixed-price contracts (subject to agreed variations) and value 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

Significant changes to policy, particularly in Energy Services around carbon pricing, could have a material impact on our results.

Policy, however, extends beyond legislation into client procurement methods and available budgets. There is also governmental focus on the housebuilding and a post-Grenfell prioritisation of budgets on infrastructure and remedial works.

As a UK-focused business, we are not exposed to the trade risks of international businesses, but there is a potential Brexit impact around the increases in commodity prices as suppliers pass on the costs of a weakened pound.

Beyond changes in procurement trends, we are experiencing the knock-on effects of challenges faced by our clients. 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. In addition, there appears to be inconsistencies amongst clients' prioritisation of remediation works post-Grenfell.

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 consolidated statement of comprehensive income.

This is an inherent business risk and if we do not compete effectively we may not be able to win enough work or retain existing contracts, affecting our revenues, profits and cash.

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 within the consolidated statement of financial position reflect amounts that are as yet to reach a point of invoice and involve the highest levels of judgement.

In addition, the impact of revised accounting standard IFRS 15 'Revenue from Contracts with Customers', effective for accounting periods commencing on or after 1 January 2018, is being considered by management.

Mitigation

Our diverse business has enabled us to manage the risks 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.

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 enable us to work with clients to help them 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 and invested in an internal Legal Counsel to drive further improvements.

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.

Our commitment to health and safety and 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.

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 refreshed the talent in the Property Services division to ensure high quality standards are delivered, and all the contracts are closely monitored for the best results.

Our principal focus is to ensure our consolidated 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

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.

Explanation of risk

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 New Technology

Understanding and using new technology to our advantage is an important part of our strategy. We need to ensure that through investing in technology, we can gain competitive advantage whilst satisfying the needs of clients and wider stakeholders.

By failing to innovate and make proper use of new available technologies, we may not be able to secure the potential market opportunities and achieve further business growth. We see this as a new risk and included it in our risk assessment this year.

B8 Major health and safety incident

We provide our services in a range of potentially high risk environments: in homes, in public buildings, at height, with water, in lifts, with electrical and gas services and as 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.

We are also faced with a significant rise in the perceived risk of the construction sector, with an increased nervousness of the insurance market around social housing contracting.

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, typically in the winter and around the timing of work instructed by our clients and/or 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 managers and operatives who are experienced in their roles. We closely monitor quality, progress and service using industry standard products and 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 and ensuring rapid resolution of issues as they arise.

We have continued to focus on improving the performance of Property Services through the year, where legacy issues were still affecting the day to day operational business. Management has strengthened the delivery team, and is committed to taking on new projects with an improved risk vs reward balance, whilst maximising efficiencies for existing projects.

We invest significant resources in developing our managers and training our employees including through the Lakehouse Training Academy. 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.

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 are continually assessing the Group's service capabilities and its internal systems to adapt to the changing needs of the business and clients. We empower divisional management to innovate and deliver business improvement through the use of advances in technology. Clearly systems development is not without risk and potential disruption, so any implementation would require careful planning and risk assessment.

We recognise that investing and expanding into new available technology such as smart grid technology, electric vehicle charging points, smart buildings and the Internet of Things may enable us to grow the business and move it forward. However, there will also be failures and commercial limitations, so careful selection is key.

We review continually our investment in high quality staff and performance of health and safety reviews and the AIR 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 which has 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 which monitors and maintains training standards and is 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 and 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. Our revolving credit facility of £25m has been further extended to February 2019 and the disposal of Orchard for £12.4m improved the debt position during the year.

We continue to 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 and supports the business strategic direction.

We invest in resource and technology to ensure that the Group is protected, such as back-up and disaster recovery processes to ensure minimum disruption. The systems are reviewed continually and processes are audited on a regular basis.

We have a dedicated security team in place to not only prevent the potential loss or misuse of data, but also to ensure compliance with the new General Data Protection Regulations.

Corporate Social Responsibility

Resources, relationships and sustainability

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

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.

Health, safety and the environment

Health and safety

Protecting the health and safety of our people, customers, suppliers and members of the public adjacent to our sites remains the core priority for the Board. We report across a number of matrices and discuss health and safety performance monthly at Board meetings.

During the year, we reviewed closely the Group's health and safety performance reporting to ensure we continue to be best in class in the sectors in which we operate. As such, we refined our calculation of Accident Incident Reporting ('AIR') to consider two measures: seven-day RIDDORS and all accidents. The figures are calculated on the basis of the number of seven-day reportable injuries, specified injuries and reportable cases of ill health (as applicable), multiplied by the number of employees (including subcontractors) and divided by the average hours worked. The AIR (RIDDORS) stood at 0.18 for the year, substantially below the Group target of 0.80. The AIR (all accidents) stood at 2.85, again substantially below the Group target of 5.00.

We have a training programme within our 'Lakehouse World' intranet site, 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.

Following the decentralisation of the Safety, Health, Environment and Quality ('SHEQ') function in 2016, we convened the SHEQ forum during the year, involving SHEQ leaders from across the Group whose aim and focus remains on making a difference at the front line and on continual improvement of the SHEQ performance of the Group.

Our health and safety champions now sit within each division, where they are better equipped to coordinate employee consultations and communication across the Group. They use forums such as our 'Lakehouse World' intranet and the SHE network to discuss safety strategy, review health and safety projects and reflect on industry and regulatory changes. Our champions remain instrumental in raising the profile of health and safety within the Group and making sure it is part of the Group's DNA.



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 aspects and 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 to all. 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 is communicated to all employees.

Group energy consumption

A core element of our environmental strategy is to drive and improve where possible our Group carbon footprint in order to ensure a sustainable business. As a Group we have a commitment to implement and maintain an effective Energy Management System as part of our ISO:50001 accreditation, which takes into consideration growth and external factors but drives carbon reductions where possible.

This enables us to monitor energy use on a monthly basis and assess the results in both kWh and CO₂e. Every year, an in-depth energy review is undertaken which analyses energy use and consumption, opportunities for improvement and EPIs (energy performance indicators) and sets energy targets and objectives. We review this periodically in our management review meetings and provide training to all applicable staff.

Our Group carbon emissions in 2017 were 12,282 tonnes of CO₂e (2016: 8,951 tonnes). We continued to improve data collection through the year and feel this is the first true representation of every company in the Group. Approximately 90% of current energy use across the Group relates to the operation of vehicles and fleet, which, given the growth in fleet intensive activities within Compliance and smart metering, has also contributed to the increase in emissions. With this data now in place and use of our EPIs, we are targeting improved efficiencies both in terms of fleet numbers and volume of wasted or inefficient journeys.

With a comprehensive base of data and the Energy Management System in place, we can set effective targets for 2018 and begin to implement and discuss reduction strategies within each division.

Waste management

Due to the type of works we undertake as a Group, effective waste management is vital for ensuring that we do not negatively impact our surrounding environments. We aim to divert at least 90% of waste away from landfill and therefore promote recycling and reuse of materials throughout all stages of our works. We only use licensed waste removal partners which are committed to diverting high levels of waste from landfill.

In the year, we have achieved an average recycling and diversion from landfill rate of 98% (2016: 96%), maintaining our consistently high level of performance.



This year the Group celebrated the winners of the inaugural Steve Rawlings Apprentice of the Year Awards, highlighting the amazing work done by many young people across all our businesses. The winners were welcomed by Mrs Miren Rawlings and congratulated on their conscientiousness, determination, professionalism, and passion. The winners were Tom Williamson (Central Services), Courtney-Jean Heath (Construction), Lilly Bosworth (Property Services), Kyle Paton (Energy Services), Jack Dykes (Compliance) and Emma Stones (Foster).

People

Our culture

Every employee and wider stakeholder in our business is integral to advancing the aims of the organisation, at the heart of which 'doing business the right way' is not about compliance, but culture.

More than two-thirds of our workforce perform a highly skilled engineering service in the homes of customers. This is a valuable and trusted role and, as such, our people are at the heart of everything we do.

We focus on training, communication and quality of service delivery and expect the highest standards of all of our engineers accordingly. These front-line teams are supported by a large number of customer service, supervisory, commercial and back office staff, together with a supply chain that we trust and regard as partners. We place a great emphasis on teamwork and we are fortunate to have a strong and experienced group of managers in place who have coordinated the successes and improvements in the business in the year.

We believe in being transparent and are grateful to our clients and financial partners, who have worked with us through good times and bad and are now seeing the benefits of this collaboration.

We recently updated the Group Code of Conduct. Formerly an internal document, the Code is available on our website and communicates clearly how we will engage internally and externally with all stakeholders.

Invariably in our challenging and technical markets, mistakes are made – we learn from these in a drive to improve service, quality and responsiveness. We believe this to be a continual ongoing process.

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

Training is a key component to the success of our business. We have increased our investment this year, most notably in smart metering, where we took a £1.3m charge through the trading line.

During the year, we have seen our Group Learning Management System ('LMS') develop in both content and recognition across the Group. Our Lakehouse Academy team undertook an LMS Roadshow to each business, discussing and promoting the benefits of the Group-wide learning model. With mobile technology very much a part of our everyday lives, we look forward to the development of our learning app, which will move us away from web browser learning, especially for those in the field. We see this as a big step forward in accessibility and connectivity to our learning and we believe that 2018 will see the LMS become an integrated part of the learning portfolio of every business in the Group.

We have embraced the introduction of the Apprenticeship Levy and target our investment in training to exceed the levy imposed.

Our investment in training in 2018 will focus on the following areas:

- Expand the Lakehouse Academy to focus on in-house training of our engineers. This will build on our successful apprenticeship schemes in the Gas businesses and expand the scope to fire and electrical engineers, to serve a market that we expect both to grow and increase in complexity in 2018. We are also investigating potential synergies with our smart meter training programmes, which embrace similar gas and electrical skills

- Continued evolution of LMS as part of a continuous training plan
- Increase the focus on contractual understanding. Our operational improvement programme highlighted certain of the problems in Property Services in the prior year which arose from a lack of appreciation of the detailed technicalities of certain contracts. We have addressed this in refreshing the team and bringing on board an in-house Legal Counsel. We will seek to reinforce core skills through targeted training in all individual contract terms to ensure we are always on a sound footing in seeking to enforce our entitlements

Recruitment and retention

The labour market continues to be challenging, especially in growing markets with high demand, such as fire and smart metering. We seek to address this in the following ways:

- Investment in training, to bring engineers through from an early stage and allow them to grow with our business. This provides a continual flow of staff to mitigate churn
- An in-house recruitment team works with each business to gain a detailed understanding of its needs, thereby ensuring we target the most suitable external hires. This has the added benefit of saving on the fees of external agencies
- Maintenance of packages to retain staff and reward for performance, so their success is matched to that of the organisation

Our human resources function has continued to develop during the year as we seek to focus on our core base of directly employed engineers and their needs, particularly considerations such as lone working and time spent driving.

The management retention rate for the year was 66% (2016: 69%), which is below our target of 85%. This reflects the ongoing operational improvement actions taken during the year. We will be assessing during FY18 a revised method of performance based on management stability, which we believe better represents retention of core senior staff members.

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 principal male and female clusters:

	At 30 September 2017		At 30 September 2016	
	Male	Female	Male	Female
Board	6	—	6	—
Leadership team	49	13	90	25
Employees	1,672	401	1,701	445
Total	1,727	414	1,797	470

Corporate Social Responsibility continued

People continued

Employee representation

Lakehouse has an Employee Representative Council ('ERC') made up of elected employees from across the Group. The ERC offers a voice direct to the senior management of the Group in all workplace matters. We held elections this year and each business nominated a representative to serve a three-year term.

The ERC is chaired by the Chairman and aims to encourage employee engagement and involvement, gather views and comments so that employees have a say on Group 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 continues to be very important as we develop and reshape the Group.

Human rights

Lakehouse is committed to upholding the human rights of our employees and wider stakeholders, including our supply chain. We have detailed policies, which extend to:

- Providing a safe working environment for all employees and contractors
- Respecting the rights of the individual with zero tolerance of any form of discrimination, harassment or bullying
- Providing training and development programmes to our workforce
- Not employing underage or illegal labour
- Acting with honesty and integrity with all our business partners
- Adopting an open and inclusive management style

The Group's employees come from many different backgrounds and cultures. The Group values the diversity of its employees and respects their right to work in a safe environment of mutual respect, free from harassment and which ensures equal opportunity. Harassment in any form creates a hostile and abusive work environment and will not be tolerated in the Group.

We published our Modern Slavery Statement during the year and as part of a zero-tolerance policy, not only for slavery, but wider abuses of human rights, we have incorporated a series of measures to promote compliance, safety and respect at work through our internal policies, including recruitment, our Code of Conduct and procurement. Training is being developed through the LMS to be delivered to all staff in the businesses and will be made readily available to our supply chain partners.

Supply chain and procurement

Our supply chain is crucial to our business. We deliver a broad range of services through subcontractors, the quantum of which will vary with seasonal influences. 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. We had considerable success in the year in delivering cost savings through the leverage that our wider Group can bring. Moving forward, we have identified that Brexit may bring a significant risk to material pricing and have seen movement in specific commodities during the year to push up prices of certain product lines. We will clearly seek to pass on such price increases where possible, but it is also incumbent on us to use our negotiation strength to seek mitigating savings and continue to enhance margins through improved efficiencies.

Our clients view us as their partners and therefore it is incumbent on us to negate price increases where possible.

Fleet continues to be a particular area of focus, and during the year we aligned the majority of our vehicles onto a single telemetry platform. This allows us to understand driver behaviour, track vehicle movements and analyse utilisation. This data is fed into our Fleet Check software platform that maintains vehicle and driver information and enables us to assess usage. Our aim is to deliver savings in vehicle numbers, fuel consumption and vehicle damage and repair costs, which we expect to deliver significant savings to an annual cost that exceeds £10m.

Community

Lakehouse applies socially responsible principles to its business strategy. We respect local communities and are sensitive to any concerns they may have.

We seek to invest in our business and people, building a reputation as a responsible and trustworthy partner. As such, 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 Group Responsible Business Lead, 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 which deliver our day to day services. This creates local accountability for delivering social value through our projects.

Our community activities are focused around our four key community development themes:

- Education and young people – delivering mentoring programmes and education partnerships and working strategically with local schools to provide support and increase the educational aspirations and skills of young people
- Employment and skills – supporting the delivery of apprenticeships, employment and skills development for our local residents and the communities in which we work
- Developing social impact and supporting community infrastructure – championing and supporting community-led initiatives that tackle key social issues
- Strategic employee volunteering – encouraging each of our employees to donate their time and expertise during work hours to tackling local social issues. We aim to ensure that all of our employee volunteering is focused on our key community development themes

Leadership and governance

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

West Ham Church School opens to teachers and pupils



Lakehouse Construction has completed work at the West Ham Church School in Newham following just over a year of work, which included a local labour and apprenticeships initiative and a host of educational events, fund-raisers and community engagement programmes.

The new two-storey extension which replaced mobile classrooms, and now provides 10 new state of the art learning areas for pupils, incorporates class-based teaching spaces, a teaching group room and kitchenette facilities, toilets, entrance and circulation spaces together with external hard landscaping for business access.

At the handover in September site staff were delighted to receive a presentation by the school children of a special poem written by head teacher Paulette Bailey to commemorate the work.

'This is the School...'

Adapted from the original ('This is the house that Jack built') by Paulette Bailey

This is the school that Lakehouse built.

These are the children that learn in the school that Lakehouse built.

These are the parents, that brought the children that learn in the school that Lakehouse built.

This is the staff, that welcomed the parents, that brought the children that learn in the school that Lakehouse built.

This is the head, who worked with the staff, that welcomed the parents, that brought the children that learn in the school that Lakehouse built.

These are the mobiles all tattered and torn, that puzzled the head, who worked with the staff, that welcomed the parents, that brought the children that learn in the school that Lakehouse built.

This is Mike and this is Shane, who called from the lane, that puzzled the head, who worked with the staff, that welcomed the parents, that brought the children that learn in the school that Lakehouse built.

These are the architects from Rivington Street, that met Mike and Shane, and the whole fleet who called about designing the school, that puzzled the head, who worked with the Bursar and the staff, that welcomed the parents, that brought the children that learn in the school that Lakehouse built.

This is the Mayor of Newham Borough, who passed the plans from Rivington Street, that met Mike and Shane, and the whole fleet who called about designing the school, that puzzled the head, who worked with the Bursar and the staff, that welcomed the parents, that brought the children, that learn in the school that Lakehouse built.

These are the meetings with Hazel and Joy who petitioned the Mayor of Newham Borough, who passed the plans from Rivington Street, that met Mike and Shane, and the whole fleet who called about designing the school, that puzzled the head, who worked with the Bursar and the staff, that welcomed the parents, that brought the children that learn in the school that Lakehouse built.

These are the governors, elated and pleased, who heard the great news from Hazel and Joy who petitioned the Mayor of Newham Borough, who passed the plans from Rivington Street, that met Mike and Shane, and the whole fleet who called about designing the school, that puzzled the head, who worked with the Bursar and the staff, that welcomed the parents, that brought the children that learn in the school that Lakehouse built.

Systems governance

Technology is fast moving and has an increasing influence on our operations. This year, we have focused on two areas:

- Data security – the General Data Protection Regulations ('GDPR') will come into force in May 2018 and will impact every business. We have an obligation to ensure our approach to service quality is matched in the treatment of the data associated with this process and recruited a Data Security Officer during the year to develop the Group's data security policies and procedures. The Data Security Officer is working with every business in the Group to ensure we are ready for GDPR
- Systems development – in the short term, our ICT development team has been focused on the smart meter rollout, which is a technically complex programme and far more so than originally expected. We anticipate smart meter development will continue during 2018, albeit at a lesser pace. We intend turning our attentions to developing a single operating platform across our direct engineer-based activities, which we believe will help drive a competitive advantage through higher service quality, together with cost efficiencies

Return on capital

In order to maintain client service, we have to earn an adequate return on capital. We have determined that an acceptable threshold return on capital is 50%, with a target of 100%.

We were pleased to see Compliance, Energy Services and Construction all achieve satisfactory returns, albeit with an increasing level of variability of returns through the year. In particular, cash management in Construction has been tough, in light of the challenges around account settlements faced during the year and discussed further in the operating review; we now work far harder to get paid by public sector clients than in the recent past.

Property Services continued to draw capital through the year, in light of its loss-making position.

Cash generation continues to be a core focus for the Group, notwithstanding the pleasing cash conversion achieved for FY17. Much of this came towards the end of the year and the challenge is to make cash flow more even, rather than a seasonal event. This requires strong attention to detail on contracts and a proactive relationship with clients, which we are working hard with the team to embed into our culture.

Jeremy Simpson
Chief Financial Officer
22 January 2018

Chairman's Corporate Governance report



Bob Holt
Chairman

The Board recognises that good Corporate 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.

Accordingly, whilst the UK Corporate Governance Code does not apply to AIM Companies, the Board continues to observe the requirements of the Corporate Governance Code for Small and Mid-Size Quoted Companies ('the Code') published by the Quoted Companies Alliance ('QCA') as far as they are relevant in the context of the Group's size, stage of development and resources.

Details as to how the Group has applied the principles of the Code are set out below.

Board

The Board is responsible for the overall management of the Group including the approval and implementation of the Group's objectives and strategy, budgets, operational performance along with the maintenance of sound internal control and risk management procedures. Whilst the Board may delegate certain matters there is a formal schedule of matters reserved for the Board.

The Board comprises of a Chairman, two further Executive Directors and three Non-Executive Directors. After a period of significant management change within the Group, the last financial year has seen a period of stability within the Board composition.

There are three Board Committees all with formally delegated powers – an Audit Committee, a Remuneration Committee and a Nominations Committee. All are chaired and comprise of the Non-Executive Directors.

Each of the Directors is subject to either an Executive Service agreement or a letter of appointment. The Company's Articles of Association require all of the Directors to retire at every Annual General Meeting.

Details of each of the directors, their appointment date, committee membership, key strengths and experience are shown on pages 36 and 37.

Audit Committee

The Audit Committee is responsible for reviewing and monitoring the integrity of the Company's financial statements and significant financial reporting issues. It also ensures an effective system of internal controls and risk management systems is maintained. Full terms of reference for the Committee may be found on the Company's website at www.lakehouse.co.uk/investors/corporate-governance.

The Audit Committee is comprised of the Non-Executive Directors. The Interim Chairman of the Audit Committee was Robert Legget, who was appointed on 20 June 2016, and held office for the period of these financial results. Derek Zissman, who was appointed to the Board on 27 November 2017, became Chairman of the Audit Committee from that date.

Details of the Audit Committee's activities can be found in the Audit Committee Report on pages 40 and 41.

Remuneration Committee

The Remuneration Committee is responsible for determining and agreeing with the Board the framework for the remuneration of Board members and other designated senior executives. Within the agreed framework, the Committee will determine the total individual remuneration packages including where appropriate, bonuses, incentive payments and share options or other share awards.

Full terms of reference for the Committee are available on the Company's website at www.lakehouse.co.uk/investors/corporate-governance.

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.

Details of the Remuneration Committee's activities can be found in the Remuneration Committee Report on pages 42 to 51.

Nomination Committee

The Nomination Committee is comprised of the Non-Executive Directors and the 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 available on the Company's website at www.lakehouse.co.uk/investors/corporate-governance.

Board balance and Independence

The Code recommends a balance between Executive and Non-Executive Directors. The Company has three Executive Directors, including the Chairman, and three Non-Executive Directors, thus providing balance within the Board. Derek Zissman was appointed as the third Non-Executive Director after the end of the financial year.

The Directors consider all Non-Executive Directors to be independent.

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).

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	13/14	—	—	1/1
Jeremy Simpson	14/14	—	—	—
Michael McMahon	13/14	—	—	—
Non-Executive Directors				
Robert Legget	10/10	2/2	5/5	1/1
Ric Piper ¹	2/2	—	—	—
Andrew Harrison	10/10	2/2	5/5	1/1
Derek Zissman ²	n/a			

Notes

1. Ric Piper resigned on 30 November 2016.
2. Derek Zissman was appointed as a Director on 27 November 2017.

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.

Share Dealing Code

The Company has adopted a share dealing code for the Directors and applicable employees of the Group for the purpose of ensuring compliance by such persons with the provisions of the AIM rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM rules). The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

Information, meetings and attendance

The Board met regularly throughout the year and has a full programme of Board meetings planned for the coming financial year.

To enable the Board to function effectively and 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.

Whistleblowing

The Company has established procedures by which employees may, in confidence, raise concerns relating to 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.

Relations with shareholders

In the year to 30 September 2017 the Executive Directors and members of the Board 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. 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.

Board Evaluation

It is anticipated that the Board will review its performance, and that of its committee's during the current financial year. This will be led by the Senior Independent Director, together with external support as required.

Compliance with laws

The Group has systems in place designed to ensure compliance with all relevant laws and regulations and all relevant codes of business practice. This includes:

- Taking all appropriate steps to comply with the provisions of the Market Abuse Regulation
- A copy of the Group's Anti-Slavery and Human Trafficking policy statement in relation to the Modern Slavery Act 2015, can be found on the Company website
- The Company issued a revised Code of Conduct after the end of the financial year
- An Anti-Corruption policy and Group Whistle Blowing policy, both of which relate to compliance with the Bribery Act 2010 can also be found on the Company website
- The Group is taking steps to provide statutory information relating to the Gender Pay Gap legislation within the appropriate deadlines

Approved by order of the Board

Bob Holt
Chairman

22 January 2018

Board of Directors



Bob Holt OBE
Chairman

Appointment

Bob was appointed as a Director and 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 Totally plc. Bob was awarded an OBE in January 2016.



Michael McMahon
Chief Operating Officer

Appointment

Michael joined the Group in April 2014 following its acquisition of Everwarm and was appointed Chief Operating Officer in February 2017.

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.



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 Gingerbread, the charity for one parent families.



Robert Legget
Senior Independent Director

Appointment

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

Committee membership

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

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, the founder of Lakehouse and a substantial shareholder of the Group.



Derek Zissman
Non-Executive Director

Appointment

Derek was appointed to the Board of Lakehouse in November 2017.

Committee membership

Chairman of the Audit Committee.

Key strengths

Derek has extensive business and finance experience.

Experience, skills and qualifications

Derek is currently a director at a number of businesses, but spent most of his career with KPMG where he was a founding partner of KPMG's UK Private Equity Group, was a Vice Chairman of KPMG UK and latterly created the firm's US Private Equity Group. Derek is a Fellow of the Institute of Chartered Accountants in England and Wales.

Corporate Governance report



The Board

Leadership, strategy and development, controls, risk and values

Nomination Committee	Audit Committee	Remuneration Committee
<p>Chairman Robert Legget</p>	<p>Chairman Derek Zissman</p>	<p>Chairman Andrew Harrison</p>
<p>Members Andrew Harrison Bob Holt Derek Zissman</p>	<p>Members Andrew Harrison Robert Legget</p>	<p>Members Robert Legget</p>
<p>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.</p>	<p>Key responsibilities Reviewing and monitoring the integrity of the Financial Statements. Ensuring an effective system of internal controls is maintained. Monitoring accounting policies.</p>	<p>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.</p>
<p>More information Nomination Committee Report, page 39.</p>	<p>More information Audit Committee Report, pages 40 and 41.</p>	<p>More information Remuneration Committee Report, pages 42 to 51.</p>



Executive Management Team

Members

- Chairman
- Chief Operating Officer
- Chief Financial Officer
- Managing Directors of Compliance, Property Services and Construction
- Company Secretary

Key responsibilities

Assist the 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.

Corporate Governance report

Nomination Committee report



Robert Legget

Senior Independent Director

Chairman of the Nomination Committee

This is the Nomination Committee Report for the year to 30 September 2017.

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.

Membership of the Nomination Committee and attendance during the year

The Nomination Committee comprises of Non-Executive Directors of the Company and the Chairman. Robert Legget, Andrew Harrison and Bob Holt are the current members of the Committee. Details of attendance record during the period can be found on page 35.

The Board composition has been stable during the year with all Executive and Non-Executive Directors serving throughout the financial year.

On 13 February 2017 the Company announced the appointment of Michael McMahon as Chief Operating Officer of Lakehouse plc. Michael had previously served as an Executive Director and Managing Director of Lakehouse's Energy Services Division.

The Committee had announced last year its intention to review the appropriate balance of Executive and Non-Executive Directors on the Board, with the intention of seeking to strengthen the Board with the appointment of an additional Non-Executive Director in due course. The Committee interviewed a number of candidates during the year and on 27 November 2017, post the end of the financial year, announced the appointment of Derek Zissman as a Non-Executive Director. Biographical details for Derek are available to view at <https://www.lakehouse.co.uk/about-us/board-directors>.

The Board acknowledges that diversity extends beyond the boardroom and supports the management efforts to build a diverse organisation. 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 2017/18

The focus for the Committee during the coming financial year will be:

- To undertake the Board evaluation detailed in the Chairman's Corporate Governance Report
- To review succession planning within the Company

Approved on behalf of the Board by:

Robert Legget

Senior Independent Director

Chairman of the Nomination Committee

22 January 2018

Corporate Governance report

Audit Committee report



Derek Zissman
Non-Executive Director
Chairman of the Audit Committee

This is the Audit Committee Report for the year ended 30 September 2017.

Derek Zissman was appointed as Chairman of the Audit Committee on his appointment to the Board on 27 November 2017. For the financial year under review the Committee was chaired on an interim basis by Robert Legget, Senior Independent Director.

Committee meetings

The Committee met twice 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 26 to 29)
- 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
- Reviewing the Group's risk management procedures and monitoring actions taken in the year

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

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 were the members of the Committee during the period under review. The Chairman of the Audit Committee during this period, Robert Legget, is a member of the Institute of Chartered Accountants of Scotland.

Activities of the Committee

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

- Reviewed the key accounting considerations and judgements reflected in the Group's results for the six-month period ended 31 March 2017
- Undertook a tender process for the appointment of external auditors, following the Company's move from the Main List to AIM. As a result of the tender process RSM UK Audit LLP were appointed as the Company's independent external auditor
- Reviewed and agreed the external auditor's audit plan in advance of their audit for the year ended 30 September 2017
- Discussed the report received from the external auditor regarding their audit in respect of the year ended 30 September 2017, which includes comments on their findings on internal control and a statement on their independence and objectivity
- Worked with the Chief Financial Officer to agree the appointment of a new internal auditor role within the Company focussing on various aspects of the Group's operations, controls, procedures and risk management
- Received the reports from the internal auditor covering risk management procedures within the business and a detailed review of the Risk Registers
- Reviewed and approved the non-audit assignments undertaken by the external auditor in the year to 30 September 2017
- Considered, together with the Board, the Principal Risks and Uncertainties Review

External auditor

The Group appointed a new independent external auditor during the year – RSM UK Audit LLP – following a detailed tendering process. RSM 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 RSM
- 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

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 financial 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 26 to 29.

Internal audit

During the course of the year an internal auditor was appointed, reporting to the Chairman of the Audit Committee.

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. Internal audit is 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.

Following the year end the Audit Committee approved an internal audit plan for 2017/18. The Audit Committee will continue to monitor the effectiveness of internal audit plans in accordance with the Group's ongoing requirements.

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

Also following the year end, Derek Zissman has been appointed as a Non-Executive Director of the Company and as Chairman of the Audit Committee. Derek is a Fellow of the Institute of Chartered Accountants in England and Wales.

Derek Zissman Chairman of the Audit Committee

22 January 2018

Directors' remuneration report

Remuneration Committee Chairman's annual statement



Andrew Harrison Non-Executive Director Remuneration Committee Chairman

This is the Directors' Remuneration Report for the year to 30 September 2017.

The Annual Report on Remuneration on pages 42 to 51 provides details of each Director's pay and benefits in the year to 30 September 2017.

Responsibilities and role of the Remuneration Committee

The primary function of the Remuneration Committee is to review the remuneration of the Executive Directors and to monitor the remuneration of the Group's senior managers. The remuneration strategy and policy for all staff is also reviewed annually by the Committee.

The full terms of reference of the Committee are available on the Company website.

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

The Committee reviews the Company's executive remuneration arrangements taking external advice on current market practice, as appropriate, and implements incentive arrangements to align the interests of executives with shareholder value.

Membership of the Committee

Membership of the Committee during the financial year comprised two Non-Executive Directors:

- Andrew Harrison
- Robert Legget

The Committee met five times during the year with both members attending each meeting. As the members of the Committee are the Independent Non-Executive Directors, they are recognised by the Board as bringing independent judgement to the matters considered by the Committee.

This report is split into:

- Components of Executive remuneration for 2016/17
- Proposed remuneration for 2017/18
- Details of the Company's remuneration policy

Components of Executive Remuneration

The following section summarises how remuneration arrangements operated during the 2016/17 financial year.

Salary and Benefits

The table below sets out the annual salary of each of the Executive Director's in the year to 30 September 2017 and the proposed 2017/2018 salary for each of their current roles.

	2016/17 salary	2017/18 salary	% change in basic salary
Bob Holt ¹	£75,000	£75,000	0%
Michael McMahon ^{2,3}	£238,625	£260,000	0%
Jeremy Simpson ³	£278,000	£296,000	0%

1. 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 up to £150,000 p.a. 0% (plus VAT), which was the sum paid in the year.
2. On 13 February 2017 the Company announced the appointment of Michael McMahon as Chief Operating Officer of Lakehouse plc. Michael had previously served as an Executive Director and Managing Director of Lakehouse's Energy Services Division. His base salary was increased from £200,000 p.a. to £260,000 p.a.
3. 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 fixed rate equivalent to 15% of salary. In the year to 30 September 2017 the Board agreed that Executive Directors and other senior employees may elect to receive the retirement benefit as an additional salary payment in lieu. Jeremy Simpson elected during the year to take £18,000 of retirement benefit as additional salary, with an annualised impact of £36,000.

Annual bonus

A Performance bonus of £25,000 was paid to each of Michael McMahon and Jeremy Simpson in respect of performance relating to financial year 2016/17, although the actual bonus was paid after the end of the financial year.

The bonus reflected both achievement of consensus city targets and the successful disposal of the Orchard Energy business.

Performance Share Plan ('PSP') and Share Incentive Plan ('SIP')

No awards were made to Executive directors under the PSP or SIP schemes during the financial year.

Special Incentive Award Plan ('SIAP')

Awards to both Michael McMahon and Jeremy Simpson under the SIAP Scheme were made after the end of the financial year. Both Michael McMahon and Jeremy Simpson were awarded options over 500,000 Ordinary shares structured as a nil-cost option, and subject to the terms of the Lakehouse plc Special Incentive Award Plan (SIAP). If all performance conditions set out in the Plan are satisfied then the maximum award to Michael McMahon and Jeremy Simpson would be 1,000,000 shares each.

All terms and conditions for the award mirror those put in place for Bob Holt in August 2016 and full details may be found at page 49.

A summary of SIAP, PSP and SIP share awards granted to Executive Directors

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 2016	Granted during the period	Lapsed during the period	Exercised during the period	Number of options at 30 September 2017	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	216	3	—	—	219	(Note 3)	(Note 3)
	Total	445,515	3	—	—	445,518		
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	216	3	—	—	219	(Note 3)	(Note 3)
	Total	579,104	3	—	—	579,107		

Notes

- 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.
- 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.
- 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 2017 an additional award of 3 shares was made to Jeremy Simpson and Michael McMahon following the reinvestment of the Company's 2016 final dividend (2016: 17 shares).

Proposed Remuneration for 2018

For the current financial year to 30 September 2018 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
- The annual bonus potential for Executive Directors remains unchanged

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

The performance measures in respect of the 2017/18 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 will apply to the 2017/18 bonus.

Directors' remuneration report

Remuneration Committee Chairman's annual statement continued

Proposed Remuneration for 2018 continued

- 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 Executive Directors may be awarded PSP awards in 2017/18 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 2017/18 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

Single total figures of remuneration (audited information)

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

2017	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	2016 Total remuneration £'000
Executive Directors							
Bob Holt ⁵	75	—	—	—	—	75	13
Jeremy Simpson	278	17	25	—	21	341	323
Michael McMahon	239	17	25	—	35	316	249
Stuart Black ⁶	—	—	—	—	—	—	203
Sean Birrane ⁷	—	—	—	—	—	—	206
Non-Executive Directors							
Robert Legget ⁸	50	—	—	—	—	50	23
Andrew Harrison ⁹	45	—	—	—	—	45	8
Ric Piper ¹⁰	17	—	—	—	—	17	125
Steve Rawlings ¹¹	—	—	—	—	—	—	11
Chris Geoghegan ¹²	—	—	—	—	—	—	43
Jill Ainscough ¹³	—	—	—	—	—	—	37
Johnathan Ford ¹⁴	—	—	—	—	—	—	37

Notes:

- Total salary and fees — the amount of salary/fees received in the year.
- Taxable benefits — the taxable value of benefits received in the year (i.e. car allowance and private medical insurance).
- 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 47.
- Long Term Incentive — there were no long term incentive awards with performance periods vesting in the respective years.
- Bob Holt was appointed to the Board as Chairman on 21 July 2016. 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 up to £150,000 p.a. (plus VAT), which was the sum paid in the year.
- 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.
- Sean Birrane served as Chief Executive Officer to 8 March 2016. Sean Birrane resigned as a Director on 14 March 2016.
- Robert Legget was appointed as a Director on 18 April 2016.
- Andrew Harrison was appointed as an Alternate Director 3 June 2016 and appointed as a Director 26 July 2016.
- 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.
- Steve Rawlings was appointed as a Director on 18 April 2016. Mr Rawlings died 23 July 2016.
- 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.
- Jill Ainscough resigned as a Director on 4 July 2016.
- Johnathan Ford resigned as a Director on 20 June 2016.

Payment for loss of office

Ric Piper was paid £40,000 for loss of office in the year to 30 September 2017, which took the form of a charitable contribution on his behalf.

Long term incentive vesting

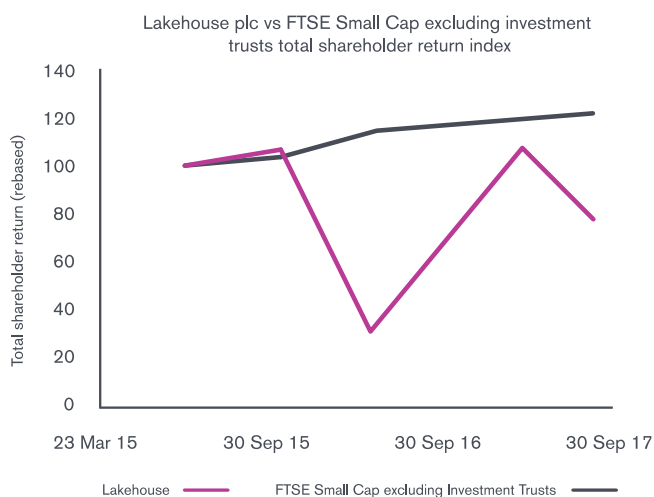
There were no long term incentive awards capable of vesting in 2016/17.

Other directorships

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

Performance graph and table

The chart below illustrates Lakehouse plc's TSR performance against the FTSE Small Cap index (excluding investment trusts). This index was chosen as Lakehouse was a constituent of the index until May 2017.



Note

This graph shows the value, by 30 September 2017, 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.

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. 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.

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			
<p>A competitive base salary is essential to recruit and retain Executives.</p> <p>Reflects an individual's experience, role, competency and performance.</p>	<p>Salaries are paid monthly. They are normally reviewed annually and fixed for 12 months commencing 1 October.</p> <p>Decisions on changes to salaries are influenced by a variety of factors including:</p> <ul style="list-style-type: none"> ▪ 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 	<p>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.</p> <p>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.</p>	<p>No formal metrics apply, although individual and Company performance is taken into account when determining any annual increase.</p>
Benefits			
<p>The Company offers competitive and cost-effective benefits to help recruit and retain Executives.</p> <p>Certain benefits such as medical cover are provided to minimise disruption to the day to day operation of the business.</p>	<p>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.</p> <p>Relocation or other related expenses may be offered, as required.</p> <p>Executive Directors may participate in the all-employee HMRC-approved Sharesave ('SAYE') scheme, Share Incentive Plan ('SIP') and Company Share Option Plan ('CSOP').</p>	<p>The cost of providing market competitive benefits may vary from year to year depending on the cost to the Company from third-party providers.</p> <p>Participation in HMRC-approved plans will be subject to the individual limits as prescribed by HMRC at the time of grant.</p>	<p>No performance metrics apply.</p>

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 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.	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.
Bonus deferral in shares provides a retention element and extra alignment with shareholders.	<p>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.</p> <p>Bonus payments in respect of the financial year 2016/17 onwards and Deferred Share Bonus Plan awards granted from 2016/17 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.</p> <p>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.</p>		<p>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.</p> <p>For financial metrics, a range of targets is set by the Committee, taking into account factors such as the business outlook for the year.</p> <p>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.</p> <p>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.</p> <p>The detail of the measures, targets and weightings may be varied by the Committee year on year based on the Company's strategic goals¹. 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.</p>

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.

Directors' remuneration report

Directors' remuneration policy report continued

Purpose and link to strategy	Operation	Maximum opportunity	Performance metrics
Performance Share Plan			
<p>The PSP incentivises the Executive Directors and selected employees to achieve demanding financial targets and superior long term shareholder returns.</p> <p>Retains key Executives over the medium term.</p> <p>Aligns the interests of the Executives and shareholders through the requirement to build up a substantial shareholding.</p>	<p>Awards are granted annually in the form of either nominal or nil-cost options under the Performance Share Plan and vest after three years.</p> <p>Stretching performance conditions measured over a period of three years determine the extent to which awards vest.</p> <p>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.</p> <p>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.</p> <p>Dividends payable during the vesting period may accrue on vested shares.</p>	<p>The maximum annual award under the PSP that may be granted to an individual in any financial year is 150% of salary.</p>	<p>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:</p> <p>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.</p> <p>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.</p> <p>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.</p> <p>TSR and EPS or financial metric performance periods will usually commence from the start of the financial year in which the award is made.</p> <p>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</p>

Performance Share Plan metrics

- 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			
<p>To provide alignment with the short term interests of shareholders in relation to restoring value over the period to January 2019.</p> <p>To retain the services of the Chairman and to incentivise other Executive Directors, if appropriate, selected at the discretion of the Remuneration Committee.</p>	<p>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.</p> <p>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 financial year ending 30 September 2018.</p> <p>Dividends will not accrue on vested shares but will be taken into account when assessing the performance condition.</p>	<p>Bob Holt may not be granted an award in excess of 2,307,692 Lakehouse Shares under the SIAP.</p> <p>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).</p> <p>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.</p>	<p>The performance condition is measured over a performance period beginning on the date on which Bob Holt is appointed as 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.</p> <p>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 2017). The same performance target shall apply to all awards made under the SIAP. The multiplier applying to the award shall be as follows:</p> <ul style="list-style-type: none"> ▪ 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 <p>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.</p> <p>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</p>

Special Incentive Plan metrics

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

Directors' remuneration report

Directors' remuneration policy report continued

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.	<p>The fees of the Non-Executive Directors are determined by a subcommittee of the Board comprising the Chairman and other Executive Directors. Fees are reviewed periodically.</p> <p>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.</p> <p>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.</p> <p>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 cost of travel, overnight accommodation or other reasonable expenses incurred in carrying out their duties.</p>	The Company's Articles of Association set an aggregate fee level of £500,000 per annum.	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.	<p>Executive Directors are expected to build up a shareholding in the Company equal to at least 200% of salary.</p> <p>Only shares owned outright by Executive Directors (or connected persons) are included in the guideline.</p> <p>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.</p>	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.

Any use of the above discretions would, where relevant, be explained in the Directors' Remuneration Report 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.

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 Directors			
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 Directors			
Robert Legget	19 April 2016	1 month	1 month
Andrew Harrison	26 July 2016	1 month	1 month
Derek Zissman	27 November 2017	1 month	1 month

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 pays 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.

Andrew Harrison

Chairman of the Remuneration Committee

22 January 2018

Directors' report

The Directors present their Annual Report and the audited Financial Statements for the Group for the year ended 30 September 2017.

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 listed on the AIM market of the London Stock Exchange. The Company's registered address is 1 King George Close, Romford, Essex RM7 7LS.

Principal activities

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.

Results and dividends

The results for the year are set out in the consolidated statement of comprehensive income on page 59. The Directors recommend the payment of a final dividend of 0.5 pence per share on 6 April 2018 subject to approval at the Annual General Meeting on 28 March 2018 with a record date of 2 March 2018.

Directors and Directors' interests

The Directors who held office during the year and to date were as follows:

Bob Holt
Michael McMahon
Jeremy Simpson
Andrew Harrison
Robert Legget
Ric Piper (Resigned 30 November 2016)
Derek Zissman (Appointed 27 November 2017)

Biographical details and committee membership details for directors appears on pages 36 and 37.

All Directors are required to retire annually, in line with the Articles of Association.

The Directors who held office during the financial year had the following interests in the shares of the Company:

		At 1 October 2016 (or date of appointment)	Movement in year	At 30 September 2017	At 30 September 2017 Percentage
Michael McMahon	Beneficial	7,963,890	(2,500,000)	5,463,890	3.47%
Jeremy Simpson	Beneficial	342,606	—	342,606	0.22%
Bob Holt	Beneficial	—	—	—	0.00%
Robert Legget	Beneficial	—	—	—	0.00%
Andrew Harrison	Non-beneficial	24,409,196	—	24,409,196	15.50%

Details of Directors' emoluments and interests in share options are disclosed in the report of the Board to the shareholders on Directors' remuneration on pages 43 and 44.

No Director has had a material interest in any contract of significance in relation to the business of the Company, or any of its subsidiary undertakings, during the financial year or had as such at the end of the financial year.

Substantial shareholdings and share capital

As at 15 January 2018, being the latest practical date prior to the publication of this document, the Company has been advised of the following interests in 3% or more of the Company's ordinary share capital.

	Number of shares	Percentage held (%)
Harwood Capital	27,165,000	17.24
Estate of Steve Rawlings	24,409,196	15.50
Slater Investments	11,355,000	7.21
Legal & General Investment Management	8,825,898	5.60
Michael McMahon	5,463,890	3.47
Carol King	5,337,929	3.39
Sean Birrane	4,806,114	3.05

The Company has one class of share in issue, being ordinary shares with a nominal value of 10p each. As at 30 September 2017, there were 157,527,103 shares in issue.

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 12 and 13.

Risks and uncertainties

Details of the risks and uncertainties faced by the Group can be found in the Strategic Review on pages 26 to 29.

Financial instruments

An explanation of the Group's treasury policies and existing financial instruments are set out in Note 32 of the Financial Statements.

Directors' report continued

Donations

The Group made charitable donations in the year of £nil. Information on the Group's resources, relationships and sustainability are set out on pages 30 to 33. 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 28 March 2018 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 34 to 38. The Corporate Governance Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Independent auditor

The auditor, RSM UK Audit LLP, has indicated its 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 order of the Board:

John Charlton
Group Company Secretary
22 January 2018

Statement of Directors' responsibilities in respect of the Annual Report and the Financial Statements

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 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 Group and Company and of the profit or loss of the Group 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 Group's financial position and financial performance
- Make an assessment of the Group'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 Group and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and 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 Group and 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 22 January 2018 and is signed on its behalf by

Bob Holt
Chairman

Jeremy Simpson
Chief Financial Officer

Independent auditor's report

To the members of Lakehouse plc

Opinion

We have audited the Financial Statements of Lakehouse plc (the 'parent company') and its subsidiaries (the 'Group') for the year ended 30 September 2017 which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position, the consolidated statement of changes in equity, the consolidated statement of cash flows, the parent company balance sheet, the parent company statement of changes in equity and the Notes to the Financial Statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (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 including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

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 2017 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with 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; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the Financial Statements section of our report. We are independent of the Group and parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Directors' use of the going concern basis of accounting in the preparation of the Financial Statements is not appropriate; or
- the Directors have not disclosed in the Financial Statements any identified material uncertainties that may cast significant doubt about the Group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the Financial Statements are authorised for issue.

Key audit matters

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

Construction contracts

The Group recognises significant revenues arising from long term contracts. As described in Note 3 of the consolidated Financial Statements, accounting for construction contracts requires management to make judgements when assessing the stage of completion and overall margins anticipated on completion of individual contracts. There is a risk that revenue could be misstated as a result of these judgements and that provisions may be understated and income and costs recognised in the wrong periods.

Our response to the risk included;

- Selection of a sample of contracts to check that revenue and profit was appropriately recognised based on the stage of completion, as determined by management
- Meetings held with quantity surveyors and attendance at CVR meetings to challenge assumptions made regarding the assessed stage of completion and contract margin applied
- Comparison of the estimated and actual costs and margin across a sample of contract lifecycles and discussion of these with management where significant variances were noted
- Corroboration of a sample of costs incurred to contract invoices.

Revenue recognition

Revenue recognition accounting policies are described in Note 2 in the consolidated Financial Statements. The policies and associated audit risks vary by division and sector and depending on how the various businesses in the Group contract with their customers. There is a risk that the Financial Statements could be misstated if the appropriate revenue recognition policies are not selected and applied appropriately and consistently.

Our response to the risk included:

- Audit of revenue recognition policies and discussion of the policies with management to check that they are appropriate based on the service supplied, contractual terms and relevant accounting standards
- Performance of analytical review procedures and corroboration of material movements outside of expected trends
- Selection of a sample of revenue transactions and verification to supporting documentation
- Specific testing of cut-off through the selection of a sample of revenue transactions recognised either side of the year end and corroboration of the period in which the service was provided.

Disposal of Orchard Energy

On 29 September 2017, the Group completed the disposal of Orchard Energy (Holdings) Limited and its subsidiary undertakings (collectively 'Orchard'). The disposal, which is disclosed in Notes 7 and 11 in the consolidated Financial Statements, meets the definition of a discontinued operation under IFRS 5 and has a material impact on the consolidated statement of comprehensive income.

Our response to the risk included:

- Audit of the completion date through corroboration to the sale and purchase agreement and verification of the receipt of funds to supporting documentation
- Audit of management's estimate of the fair value of the consideration received and challenge of the assumptions adopted and judgements applied
- Audit of the disclosure of Orchard as a discontinued operation and management's application of the requirements of IFRS 5

Goodwill and intangible asset impairment

At 30 September 2017, the Group had goodwill totalling £42.2 million (2016: £47.3 million) and intangible assets totalling £9.2m (2016: £21.9 million) as disclosed in Notes 15 and 16 in the consolidated Financial Statements. Management assess goodwill for impairment using discounted cash flow (DCF) models to estimate the value in use of the Group's cash-generating units (CGUs) and compare this to the goodwill, acquisition intangibles and other assets of the relevant CGU. The use of DCFs involves a significant degree of management judgement, including forecasts of revenue and profitability and application of appropriate discount rates.

Our response to the risk included:

- Audit of management's sensitivity analysis and check of model arithmetic
- Corroboration of inputs to the DCF models to relevant financial information and challenge of management assumptions
- Comparison of forecast financial performance to post-year-end trading to assess reliability of forecasting
- Comparison of growth and discount rate assumptions to comparable companies
- Audit of the disclosures in the Financial Statements and consideration of their appropriateness

Provisions for contract disputes and legal claims

The Financial Statements include provisions for legal and other costs of £4.0 million (2016: £4.9 million), as disclosed in Note 25 in the consolidated Financial Statements. The amounts provided and the completeness of provisions are areas that involve a high degree of management judgement.

Our response to the risk included:

- Obtaining confirmation from management of the completeness of all actual and potential claims
- Requesting confirmation from the Group's solicitors regarding the status of known claims and completeness of claims

- Reviewing correspondence from the Group's solicitors in respect of actual and potential claims and holding discussions with management regarding their judgement over the existence and valuation of required provisions, or lack thereof
- Corroboration of key assertions made by management to supporting documentation
- Audit of the disclosures made in respect of contingent liabilities for which no provision has been made

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures and to evaluate the effects of misstatements, both individually and on the Financial Statements as a whole. During planning, we determined a magnitude of uncorrected misstatements that we judge would be material for the Financial Statements as a whole (FSM). During planning FSM was calculated as £829,500, which was not changed during the course of our audit. We agreed with the Audit Committee that we would report to them all unadjusted differences in excess of £20,000 as well as differences below those thresholds that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The audit was scoped to ensure that we obtained sufficient and appropriate audit evidence in respect of:

- The significant business operations of the Group
- Other operations which, irrespective of size, are perceived as carrying a significant level of audit risk whether through susceptibility to fraud, or for other reasons
- The appropriateness of the going concern assumption used in the preparation of the Financial Statements

The audit was scoped to support our audit opinion on the parent company and Group Financial Statements of Lakehouse plc and was based on Group materiality and an assessment of risk at Group level.

Other information

The other information comprises the information included in the annual report, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information. Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Independent auditor's report

To the members of Lakehouse plc

Opinions on other matters prescribed by the Companies Act 2006

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

- The information given in the Strategic Report and 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 has been prepared in accordance with applicable legal requirements

Matters on which we are required to report by exception

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us
- The parent company Financial Statements are not in agreement with the accounting records and returns
- Certain disclosures of Directors' remuneration specified by law are not made
- We have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement set out on page 55, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

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

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

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.

Graham Ricketts (Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP

Statutory Auditor

Chartered Accountants

25 Farringdon Street

London

EC4A 4AB

22 January 2018

Consolidated statement of comprehensive income

For the year ended 30 September 2017

	Notes	Underlying results before exceptional and other items 2017 £'000	Exceptional and other items (see Note 7) 2017 £'000	2017 £'000	Underlying results before exceptional and other items 2016 £'000	Exceptional and other items (see Note 7) 2016 £'000	2016 £'000
Continuing operations							
Revenue	4	290,275	9,251	299,526	299,146	28,051	327,197
Cost of sales		(258,197)	(11,035)	(269,232)	(265,362)	(34,335)	(299,697)
Gross profit		32,078	(1,784)	30,294	33,784	(6,284)	27,500
Other operating expenses		(25,536)	(147)	(25,683)	(25,783)	(2,865)	(28,648)
Share of results of joint venture	18	786	—	786	537	—	537
Operating profit/(loss) before exceptional and other items		7,328	(1,931)	5,397	8,538	(9,149)	(611)
Exceptional costs	7	—	(3,012)	(3,012)	—	(5,742)	(5,742)
Exceptional income – other	7	—	1,624	1,624	—	2,672	2,672
Exceptional income – profit on disposal of subsidiary	7	—	5,402	5,402	—	—	—
Impairment of goodwill and intangible assets acquired	7	—	—	—	—	(19,204)	(19,204)
Amortisation of acquisition intangibles	7	—	(10,495)	(10,495)	—	(11,156)	(11,156)
Operating profit/(loss)	4,5	7,328	(8,412)	(1,084)	8,538	(42,579)	(34,041)
Finance expense	8	(1,747)	(238)	(1,985)	(1,070)	(587)	(1,657)
Investment income	8	16	—	16	46	—	46
Profit/(loss) before tax	4,5	5,597	(8,650)	(3,053)	7,514	(43,166)	(35,652)
Taxation	12	(1,394)	2,766	1,372	(1,199)	5,720	4,521
Profit/(loss) after taxation from continuing operations		4,203	(5,884)	(1,681)	6,315	(37,446)	(31,131)
Discontinued operations							
Profit for the year from discontinued operations	11	1,691	—	1,691	1,863	—	1,863
Profit/(loss) for the year attributable to the equity holders of the Group		5,894	(5,884)	10	8,178	(37,446)	(29,268)
Earnings/(loss) per share from continuing and discontinued operations							
Basic	14			0.0p			(18.6p)
Diluted	14			0.0p			(18.6p)
Loss per share from continuing operations							
Basic	14			(1.1p)			(19.8p)
Diluted	14			(1.1p)			(19.8p)
Underlying earnings per share from continuing and discontinued operations							
Basic	14	3.7p			5.2p		
Diluted	14	3.6p			5.0p		

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

Consolidated statement of financial position

At 30 September 2017

	Notes	2017 £'000	2016 £'000
Non-current assets			
Goodwill	15	42,169	47,338
Other intangible assets	16	9,233	21,947
Property, plant and equipment	17	1,905	2,826
Interests in joint venture	18	1,196	537
Trade and other receivables	21	456	1,359
Deferred tax asset	26	2,085	229
		57,044	74,236
Current assets			
Inventories	19	4,490	5,187
Amounts due from customers under construction contracts	20	6,269	3,161
Trade and other receivables	21	59,129	65,633
Corporation tax receivable		551	1,451
Cash and cash equivalents		26,129	—
		96,568	75,432
Total assets		153,612	149,668
Current liabilities			
Amounts due to customers under construction contracts	20	1,786	690
Trade and other payables	22	69,178	65,801
Loans and borrowings	23	—	71
Finance lease obligations	27	182	222
Provisions	25	893	1,904
		72,039	68,688
Net current assets		24,529	6,744
Non-current liabilities			
Trade and other payables	22	973	6,236
Loans and borrowings	23	27,077	20,586
Finance lease obligations	27	144	164
Provisions	25	3,137	2,974
		31,331	29,960
Total liabilities		103,370	98,648
Net assets		50,242	51,020
Equity			
Called up share capital	28	15,753	15,753
Share premium account	30	25,314	25,314
Share-based payment reserve	29,30	776	776
Own shares	30	(290)	(290)
Merger reserve	30	20,067	20,067
Retained earnings		(11,378)	(10,600)
Equity attributable to equity holders of the Company		50,242	51,020

The Financial Statements of Lakehouse plc (registered number 09411297) were approved by the Board of Directors and authorised for issue on 22 January 2018. 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 2017

	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 2015	15,753	25,314	709	(290)	20,067	23,911	85,464
Loss for the period	—	—	—	—	—	(29,268)	(29,268)
Dividends paid (Note 13)	—	—	—	—	—	(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
Profit for the period	—	—	—	—	—	10	10
Dividends paid (Note 13)	—	—	—	—	—	(788)	(788)
At 30 September 2017	15,753	25,314	776	(290)	20,067	(11,378)	50,242

Consolidated statement of cash flows

For the year ended 30 September 2017

	Notes	2017 £'000	2016 £'000
Cash flows from operating activities			
Cash generated from/(used in) operations	34	13,373	(3,014)
Interest paid		(1,385)	(808)
Interest received		3	46
Taxation		655	(268)
Net cash generated from/(used in) operating activities		12,646	(4,044)
Cash flows from investing activities			
Purchase of shares in subsidiary, net of cash acquired		—	(14,140)
Payment of deferred consideration on prior year acquisitions		(2,588)	(3,532)
Sale of shares in subsidiary, net of cash disposed of		12,044	—
Purchase of property, plant and equipment		(909)	(819)
Purchase of intangible assets		(462)	(291)
Sale of property and equipment		153	160
Loan to associate		—	(250)
Net cash generated from/(used in) investing activities		8,238	(18,872)
Cash flows from financing activities			
Dividend paid to shareholders		(788)	(4,568)
Proceeds from bank borrowings		6,500	21,000
Repayments to finance lease creditors		(60)	(357)
Finance issue costs		(336)	(164)
Net cash generated from financing activities		5,316	15,911
Net increase/(decrease) in cash and cash equivalents			
Cash and cash equivalents at beginning of year		(71)	6,934
Cash and cash equivalents at end of year		26,129	(71)

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 2017

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 IAS 7 Disclosure Initiative
- Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses

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
IFRS 15	Revenue from Contracts with Customers	1 January 2018
IFRS 16	Leases	1 January 2019
Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions	1 January 2018
IFRIC 23	Uncertainty over Income Tax Treatments	1 January 2019

IFRS 15 represents a notable change to revenue recognition in our industry. We will evaluate the potential impact of IFRS 15 on the FY18 results, which will form the comparative figure when the standard is adopted in FY19 and will provide guidance to the market accordingly. With the exception of IFRS 15 (and IFRS 16), Directors do not expect the adoption of the standards listed above to have a material impact on the Financial Statements of the Group.

Basis of consolidation

The consolidated Financial Statements incorporate the assets, liabilities, income and expenses of the Group. The Financial Statements 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 transactions 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.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

2. Significant accounting policies

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 balance sheet 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 24.

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. 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 remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or liability is remeasured 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 believe that acquisition costs are exceptional in nature and classified 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.

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	Five years	Expected cash flows receivable
Non-compete agreements	Five years	With or without method

Derecognition of intangible assets

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. The gain or loss from derecognition 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 derecognised.

2. Significant accounting policies continued

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% per annum on a straight line basis
Fixtures and fittings	—	20% to 33% per annum on a straight line basis
Motor vehicles	—	25% per annum on a straight line basis

The estimated useful lives, residual values and depreciation method 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 derecognised 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 scrapping 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.

Impairment of tangible and intangible assets excluding goodwill

At each balance sheet 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.

Exceptional Items

Items which are significant by their size and nature require separate disclosure and are reported separately in the statement of comprehensive income. Details of exceptional 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 considers such losses should be highlighted separately as not related 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 income statement with further details provided in Note 7.

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 balance sheet 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.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

2. Significant accounting policies continued

Revenue continued

(a) Service contracts continued

(i) 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.

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 period 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 consolidated 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.

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 balance sheet 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 its IPO in 2015, 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.

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.

2. Significant accounting policies continued

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 to profit or loss, 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.

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). Details of material provisions are disclosed unless it is not practicable to do so or where it could be expected to prejudice seriously the position of the entity.

Contingent liabilities

Where a provision or accrual is deemed to be required, it has been included within the consolidated statement of financial position. For contingent liabilities where an economic outflow is possible, it is often not practicable to estimate the financial effect due to the range of estimation uncertainty. For contingent liabilities where the possibility of economic outflow is remote, disclosure of the estimated financial effect is not required.

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.

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.

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.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

2. Significant accounting policies continued

Financial instruments continued

(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 year end in which the acquisition occurred 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 remeasured in future periods at their fair value. They are held at fair value through profit or loss and are remeasured 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.

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 reporting 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 market values identified for equivalent assets, together with 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 acquisitions in 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 cashflows to determine the net present value of the cashflows
- Identification of and judgements around the uncertainties of the valuation model and its sensitivity to error in its key assumptions

3. Critical accounting judgements and key sources of uncertainty *continued*

Key sources of estimation uncertainty *continued*

(i) Fair value of identifiable net assets acquired *continued*

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.

(iii) Determination of fair value of disposal proceeds

On sale of a business, management will determine the fair value of sale proceeds. The fair value will be estimated based on the contractual entitlements contained in a sale and purchase agreement, discounted for any deferred sums and contingencies contained therein. Management will also consider potential post-sale liabilities, based on commitments provided in the sale and purchase agreement.

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.

(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 sub-contractors, as yet unbilled
- An estimation of costs to complete
- An estimation of remaining revenues

These assessments include a degree of uncertainty and therefore if the key judgements change, further adjustments of recoverable amounts may be necessary.

(iii) Provision for legal and other claims

The Group continues to manage a number of potential risks and uncertainties, including claims and disputes, which are common to other similar businesses and 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 outturn for the Group, the key judgements and estimates will typically include:

- The scope of the Group's assessed responsibility
- An assessment of the potential likelihood of economic outflow
- An estimation of economic outflow (including potential likelihood)
- A commercial assessment of potential further liabilities

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 lifts, 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 Energy Company Obligations ('ECO') and the Scottish Government's HEEPS Affordable Warmth programme. Clients include housing associations, social landlords, local authorities and private householders and we have trading relationships with the 'big six' utility suppliers and many of the leading utility challengers. We also provide renewable technologies and metering services to customers throughout the UK
- **Property Services:** focused on planned and responsive maintenance service for social housing. A significant part of our service is the project management 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
- **Construction:** focused on small to medium-sized building projects, normally under framework agreements with an emphasis on (but not confined to) the education sector. The business targets refurbishment projects for public buildings in the mid-range of value and tends to avoid large scale building projects

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.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

4. Operating segments continued

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 consolidated 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.

The following is an analysis of the Group's revenue and Underlying EBITA by reportable segment:

	2017 £'000	2016 £'000
Revenue		
Compliance	104,319	91,023
Energy Services	78,960	60,795
Property Services	47,017	98,143
Construction	61,762	52,051
Total segment revenue	292,058	302,012
Inter-segment elimination	(1,783)	(2,866)
Total underlying revenue	290,275	299,146
Mobilisation of smart metering contracts	—	2,803
Businesses being exited	9,251	25,248
Revenue from external customers	299,526	327,197

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 profit before taxation

	2017 £'000	2016 £'000
Underlying EBITA by segment		
Compliance	7,986	6,169
Energy Services	4,015	5,655
Property Services	(1,654)	780
Construction	1,987	3,606
Central	(5,006)	(7,672)
Total underlying EBITA	7,328	8,538
Mobilisation of smart metering contracts	—	(2,493)
Contract losses on businesses being exited	(1,931)	(6,656)
Amortisation of acquisition intangibles	(10,495)	(11,156)
Impairment of goodwill and intangible assets acquired	—	(19,204)
Exceptional costs	(3,012)	(5,742)
Other exceptional income	1,624	2,672
Profit on disposal of Orchard	5,402	—
Investment income	16	46
Finance costs	(1,985)	(1,657)
Loss before taxation	(3,053)	(35,652)

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 had more than 10% of Group revenue for 2017 or 2016.

5. Loss before taxation

Loss on ordinary activities before taxation is stated after charging/(crediting):

	2017 £'000	2016 £'000
Amount of inventories recognised as an expense	62,425	63,258
Depreciation of property, plant and equipment:		
– owned	1,039	1,222
– held under finance leases	222	371
Amortisation of intangible assets (Note 16)	10,931	11,508
Impairment of goodwill and intangible assets acquired	—	19,204
Impairment of tangible assets (Note 17)	394	—
Staff costs (Note 9)	87,279	85,828
Operating lease rentals:		
– land and buildings	1,177	1,354
– other	3,270	2,276
Profit on disposal of property, plant and equipment	(107)	(95)

6. Auditor's remuneration

The analysis of the auditor's remuneration is as follows:

	2017 £'000	2016 £'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	54	—
– The audit of the Company's subsidiaries	216	—
Total audit fees	270	—
Fees payable to the Company's auditor and their associates for other services to the Group:		
– Other assurance services	14	—
– Corporate finance services	128	—
Total non-audit fees	142	—
Fees payable to the Company's previous auditor and their associates for audit services to the Group:		
– The audit of the Company's annual accounts	—	55
– The audit of the Company's subsidiaries	—	269
Total audit fees	—	324
Fees payable to the Company's previous auditor and their associates for other services to the Group:		
– Taxation advisory services (corporate tax and indirect tax)	—	48
– Other assurance services (interim review)	—	22
Total non-audit fees	—	70

7. Exceptional and Other Items, including amortisation of acquisition intangibles

	2017 £'000	2016 £'000
Contract losses on businesses being exited	1,931	6,656
Smart metering mobilisation costs	—	2,493
Total 'Other Items'	1,931	9,149
Acquisition costs	14	642
Final account provisions	917	—
Impairment of receivables	(540)	2,567
Restructuring, EGM and other costs	2,621	2,533
Total exceptional costs	3,012	5,742
Release of deferred consideration	(1,624)	(2,672)
Profit on sale of Orchard (Holdings) UK Limited	(5,402)	—
Net exceptional items	(4,014)	3,070
Impairment of goodwill and intangible assets acquired	—	19,204
Amortisation of acquisition intangible assets	10,495	11,156
	8,412	42,579
Unwinding discount of deferred consideration	238	587
Loss before taxation	8,650	43,166
Taxation	(2,766)	(5,720)
Loss after taxation from continuing operations	5,884	37,446

Exceptional and Other Items in the year reduced the Group's profit before tax by £8.7m (2016: £43.2m) and relate to the following items:

Contract losses on businesses being exited

The Group continues to redefine its service offering and the Board has taken the decision to reduce its exposure to higher risk and unprofitable activities, particularly within Property Services, with the closure and downsizing of non-profitable operations. Following the announcement in FY16 that we would be exiting our directly delivered externals business within Property Services, we undertook an operational improvement programme during the year, focused on managing a balanced position of risk and return on capital.

As we discussed in October 2017, we conducted a wide-ranging review of legacy contracts at year end, which resulted in a £1.9m charge (2016: £6.6m) relating to the finalisation of our exit from the directly delivered externals business within Property Services. This process was completed in October 2017 on completion of the final outstanding contract.

Smart metering mobilisation costs

We incurred a charge of £2.5m in FY16 relating to the costs associated with training and retaining smart metering engineers, along with mobilisation complexities to do with planning work, documenting installations, inventory management and systems development. A sum of £1.3m has been incurred in FY17 and reported within underlying profit, in light of the continuing nature of our smart metering activities.

Exceptional Items

Acquisition costs comprise legal, professional and other expenditure in relation to acquisition activity and amounted to £nil (2016: £0.6m).

Final account provisions of £0.9m (2016: £nil) relate to the operational improvement programme discussed above and the exit of our Kent office.

Impairment of receivables, representing an income of £0.5m (2016: cost of £2.6m), reflected the successful outcome of a series of adjudications associated with the resolution of historic matters on a specific contract ('the Contract') with Hackney Council where a charge had been taken at 30 September 2016, further details of which are outlined in Note 7 of our Annual Report and Accounts for the year ending 30 September 2016.

Restructuring EGM and other costs of £2.6m (2016: £2.5m) reflect the costs of our move to AIM in May 2017, managing the impact of media reports in July 2017, investigating potential strategic options for the Group as part of our operational improvement programme and restructuring and other costs during the period. We also announced in September 2017 our intention to exit Lakehouse's head office in Romford, which is now too large for our needs and the charge includes the write-off of leasehold improvements made to the building. At the time of writing, we had agreed head of terms for the assignment of the lease to a third party.

Release of deferred consideration of £1.6m (2016: £2.6m) reflects the settlement of the final deferred consideration due to the vendors of Aaron Heating Services Limited, H2O Nationwide and a wider review of remaining outstanding balances.

Profit on the sale of Orchard (Holdings) UK Limited ('Orchard') of £5.4m (2016: £nil) relates to the sale of Orchard to World Fuel Services Europe Ltd with an effective date of 29 September 2017. Lakehouse received a net cash consideration on completion of £12.4m, with a further sum of £1.9m to be held in escrow against potential claims under the Sale and Purchase Agreement, to be released in equal instalments on the first and second anniversaries of Completion. We attributed a fair value of £12.4m to the consideration, representing a gain on book value of £5.4m.

Impairment of goodwill and intangible assets acquired

Impairment of goodwill and intangible assets acquired was £nil (2016: £19.2m).

Amortisation of acquisition intangibles

Amortisation of acquisition intangibles was £10.5m for the period (2016: £11.2m). The £0.7m reduction reflected the fact that we have taken amortisation charges in prior periods, meaning we are amortising a reduced base of intangible assets. We expect a steeper reduction in this charge in future years.

Unwinding discount of deferred consideration

Unwinding discount of deferred consideration of £0.3m (2016: £0.6m) reflects the present value of deferred sums, discounted at a post-tax rate of 2.7% due on outstanding payments for acquisitions.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

7. Exceptional and Other Items, including amortisation of acquisition intangibles continued

Accounting treatment

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 (aside from amortisation of acquisition intangibles and unwinding discount of deferred consideration) 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 in FY16, which have been reflected within underlying operating profit in FY17, in light of their continuing nature.

8. Investment income and expenditure

	2017 £'000	2016 £'000
Finance expenses		
Interest payable on bank overdrafts and loans	(1,661)	(1,014)
Unwinding of discount on financial liabilities	(238)	(587)
Fair value loss on interest rate hedge arrangement	—	(42)
Other interest payable	(86)	(14)
	(1,985)	(1,657)
Investment income		
Bank interest receivable	—	4
Unwinding of discount on financial assets	13	—
Other interest receivable	3	42
	16	46

9. Information relating to employees

The average number of employees, including Directors, employed by the Group during the year was:

	2017 Number	2016 Number
Direct labour and contract management	1,575	1,393
Administration and support	841	1,003
	2,416	2,396

The aggregate remuneration was as follows:

	2017 £'000	2016 £'000
Wages and salaries	78,161	76,976
Social security	8,163	7,706
Pension costs – defined contribution plans	955	1,146
	87,279	85,828

10. Retirement benefit obligations

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. From 1 February 2014, the Group contributes to a new workplace pension scheme for all employees in compliance with the automatic enrolment legislation. The Group paid £955,000 in the year ended 30 September 2017 (2016: £1,146,000). At the reporting date, £143,770 of contributions were payable to the schemes (2016: £165,970).

11. Discontinued operations

	2017 £000	2016 £000
Revenue	6,052	6,641
Expenses	(3,926)	(4,270)
Profit before tax	2,126	2,371
Taxation	(435)	(508)
Profit after tax from discontinued operations	1,691	1,863

On 2 October 2017, the Group announced the sale of Orchard, which had an effective date of 29 September 2017. The fair value of consideration (net of cash held on Orchard's balance sheet) amounted to £12.4m, representing a net gain on sale of £5.4m.

12. Tax on loss on ordinary activities

	2017 £'000	2016 £'000
Current tax		
Current year	35	(357)
Current tax – prior year adjustment	83	(173)
Total current tax	118	(530)
Deferred tax (Note 26)	(1,490)	(3,991)
Total tax on loss on ordinary activities	(1,372)	(4,521)

The tax assessed for the year is lower/higher than the standard rate of corporation tax in the UK. The differences are explained below:

	2017 £'000	2016 £'000
Loss before tax from continuing operations	(3,053)	(35,652)
Effective rate of corporation tax in the UK	19.50%	20.00%
Loss before tax at the effective rate of corporation tax	(595)	(7,130)
Effects of:		
Expenses not deductible for tax purposes	—	3,009
Income not taxable	(982)	—
Adjustment of deferred tax to closing tax rate	238	(268)
Current tax – prior year adjustment	83	(173)
Deferred tax – prior year adjustment	(32)	(154)
Deferred tax asset not recognised	(84)	195
Tax credit for the year	(1,372)	(4,521)

12. Tax on loss on ordinary activities continued

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:

	2017 £'000	2016 £'000
Deferred tax (Note 26)	—	(608)
Changes in estimated excess tax deductions relating to share-based payments	—	(608)

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 balance sheet date.

The closing deferred tax asset at 30 September 2017 has been calculated at 17% reflecting the tax rate at which the deferred tax asset is expected to be utilised in future periods.

13. Dividends

The final dividend for the year ended 30 September 2016 of 0.5 pence per share, amounting to £0.8m, was paid in the year. The proposed final dividend for the year ended 30 September 2017 of 0.5 pence per share amounting to £0.8m and representing a total dividend of 0.5 pence for the full year (2016: 1.5 pence per share) will be paid on 6 April 2018 to the shareholders on the register at the close of business on 2 March 2018. The proposed final dividend is subject to approval by shareholders at the Annual General Meeting on 28 March 2018 and has not been included as a liability in these Financial Statements.

14. Earnings per share

The calculation of the basic and diluted earnings/loss per share is based on the following data:

	2017 Number	2016 Number
Weighted average number of ordinary shares for the purposes of basic earnings/loss per share	157,527,103	157,527,103
Diluted		
Effect of dilutive potential ordinary shares:		
Share options	6,354,933	2,897,178
Weighted average number of ordinary shares for the purposes of diluted earnings/loss per share	163,882,036	160,424,281
Earnings/(loss) for the purpose of basic and diluted earnings per share being net profit attributable to the owners of the Company from continuing and discontinued operations (£'000)	10	(29,268)
Basic earnings/(loss) per share	—	(18.6p)
Diluted earnings/(loss) per share	—	(18.6p)
Loss for the purpose of basic and diluted earnings per share being net profit attributable to the owners of the Company from continuing operations (£'000)	(1,681)	(31,131)
Basic loss per share	(1.1p)	(19.8p)
Diluted loss per share	(1.1p)	(19.8p)
Earnings for the purpose of underlying earnings per share being underlying net profit attributable to the owners of the Company from continuing and discontinued operations (£'000)	5,894	8,178
Underlying basic earnings per share	3.7p	5.2p
Underlying diluted earnings per share	3.6p	5.0p

The number of shares in issue at 30 September 2017 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 30).

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

15. Goodwill

	£'000
At 1 October 2015	56,267
Recognised on acquisition of Aaron Heating Services Limited	3,667
Recognised on acquisition of PLS Holdings Limited	3,626
Impairment of goodwill of Foster Property Maintenance Limited	(17,421)
Other adjustments to goodwill	1,199
At 30 September 2016	47,338
Disposal of Orchard (Holdings) UK Limited	(5,607)
Other adjustments to goodwill	438
At 30 September 2017	42,169

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.

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	2017 £'000	2016 £'000
K&T Heating Services Limited	Compliance	3,774	3,774
Allied Protection Limited	Compliance	3,717	3,717
Everwarm Limited	Energy Services	17,476	17,476
H2O Nationwide Limited	Compliance	2,209	2,209
Providor Limited	Energy Services	3,037	3,037
Orchard (Holdings) UK Limited	Energy Services	—	5,607
Sure Maintenance Group Limited	Compliance	4,225	4,225
Aaron Heating Services Limited	Compliance	3,667	3,667
PLS Holdings Limited	Compliance	4,064	3,626
		42,169	47,338

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 2017 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.

Future budgeted and forecast profits are estimated by reference to the average operating margins achieved in the period immediately before the start of the budget period.

The estimated growth rates are based on past experience and knowledge of the individual sector's markets. The Directors believe that the heating, fire safety, property maintenance and the renewable energy and insulation markets will continue to present strong growth opportunities for the CGUs outlined above respectively. Management believes 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

The assumptions used in the impairment reviews are outlined below.

The growth rate applied to the cash flows in years four and five of the impairment review performed at 30 September 2017 was 2% (2016: 2%). A terminal growth rate of 1% (2016: 1%) was applied. The pre-tax discount rate applied was 10.3% (2016: 11.4%). The Directors consider that reasonably possible changes in the key assumptions would not cause the carrying amount of any CGU to exceed its recoverable amount.

16. Other intangible assets

	Acquisition intangibles				Total £'000
	Computer software £'000	Contracted customer order book £'000	Customer relationships £'000	Non-compete agreements £'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
Disposal of Orchard (Holdings) UK Limited	(43)	(2,216)	—	(1,788)	(4,047)
Additions	462	—	—	—	462
At 30 September 2017	2,030	24,334	18,360	1,670	46,394
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
At 30 September 2016	1,054	18,217	7,708	1,053	28,032
Disposal of Orchard (Holdings) UK Limited	(33)	(979)	—	(790)	(1,802)
Amortisation charge	436	5,358	4,260	877	10,931
At 30 September 2017	1,457	22,596	11,968	1,140	37,161
Carrying value					
At 30 September 2017	573	1,738	6,392	530	9,233
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

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 ranges from one to five years.

Customer relationships

The value placed on the customer relationships is 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 is based upon the non-compete clauses and knowledge and know-how of the former owners of the acquired businesses. The value of non-compete agreements are amortised over five years.

The annual WACC discount rate employed in the calculation of the acquisition intangibles is 13.00% (2016: 13.00%).

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

17. Property, plant and equipment

	Leasehold improvements £'000	Plant and 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
Disposal of Orchard (Holdings) UK Limited	(49)	—	(178)	—	(227)
Additions	94	112	483	220	909
Disposals	(42)	(26)	(69)	(407)	(544)
At 30 September 2017	1,415	935	2,218	1,320	5,888
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
Disposal of Orchard (Holdings) UK Limited	(2)	—	(96)	—	(98)
Charge for the year	213	151	490	407	1,261
Impairment in the year	394	—	—	—	394
Disposals	(39)	(11)	(65)	(383)	(498)
At 30 September 2017	1,026	469	1,595	893	3,983
Net book value					
At 30 September 2017	389	466	623	427	1,905
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 property, plant and equipment is £326,000 (2016: £763,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £222,000 (2016: £371,000).

18. 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 domestic gas heating systems
Allied Protection Limited	England	Ordinary	100	Fire alarm engineers
Bury Metering Services Limited	England	Ordinary	100	Non-trading
Everwarm Limited	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
H20 Nationwide Limited	England	Ordinary	100	Water hygiene
K & T Heating Services Limited	England	Ordinary	100	Plumbing and heating engineers
Lakehouse Compliance Services Limited ²	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	Non-trading
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
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
Precision Lift Services Limited	England	Ordinary	100	Lift installation, modernisation and maintenance services
Providor Limited	England	Ordinary	100	Smart Metering
Smart Metering Limited	England	Ordinary	100	Non-trading
Speedfit Limited	England	Ordinary	100	Non-trading
Sure Maintenance Limited	England	Ordinary	100	Maintenance and installation of domestic gas heating systems
Sure Maintenance Group Limited	England	Ordinary	100	Intermediate holding company

1. Directly held investment.

2. Investment held by Lakehouse Holdings Limited.

The registered office of all entities above is 1 King George Close, Romford, Essex RM7 7LS, except for Everwarm Limited whose registered office is 3-5 Melville Street, Edinburgh EH3 7PE.

Joint ventures

The Group's joint venture is:

	Country of incorporation	Class of capital	%	Principal activity
Warmworks Scotland LLP	Scotland	Ordinary	33.33	Energy and insulation services

Details of Warmworks

	2017 £'000	2016 £'000
Carrying value of investment in joint venture	1,196	537

Warmworks, a joint venture with Changeworks and the Energy Saving Trust, commenced trading in September 2015. The Group's share of income for 2017 was £786,000 (2016: £537,000).

The registered office of Warmworks Scotland LLP is 1 Carmichael Place, Leith, Edinburgh, Midlothian EH6 5PH.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

19. Inventories

	2017 £'000	2016 £'000
Raw materials and consumables	3,832	3,462
Other work in progress (which includes development properties)	658	1,725
	4,490	5,187

There are no inventories at 30 September 2017 or 30 September 2016 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.

20. Amounts due from and to customers under construction contracts

	2017 £'000	2016 £'000
Contracts in progress at the reporting date:		
Contract costs incurred plus recognised profits less recognised losses to date	218,556	218,476
Less: progress billings	(214,073)	(216,005)
	4,483	2,471
Amounts due from construction contract customers	6,269	3,161
Amounts due to construction contract customers	(1,786)	(690)
	4,483	2,471

Details of retentions held by customers for performance under construction contracts are disclosed in Note 21. As at 30 September 2017 there were no advances received from customers for work performed under construction contracts (2016: £nil).

21. Trade and other receivables

	2017 £'000	2016 £'000
Current		
Trade receivables	22,283	24,259
Construction contract retentions receivable	3,313	3,139
Social security and other taxes	199	665
Other receivables	5,819	6,000
Prepayments	2,106	2,283
Accrued income	25,409	29,287
	59,129	65,633
Non-current		
Construction contract retentions receivable	453	338
Related party loans receivable	—	150
Other receivables	3	871
	456	1,359

	2017 £'000	2016 £'000
Trade receivables		
Trade receivables not due	20,097	19,849
Trade receivables past due 1 – 30 days	1,581	2,280
Trade receivables past due 31 – 60 days	163	1,455
Trade receivables past due 61 – 90 days	86	336
Trade receivables past due over 90 days	833	1,144
Gross trade receivables	22,760	25,064
Provision for bad debt brought forward	(805)	(977)
Debtor provision recognised upon acquisition	—	(28)
Disposal of Orchard (Holdings) UK Limited	11	—
Amounts written off receivables ledger	329	18
Debtor provision (charged)/credited to profit or loss in the year	(12)	182
Provision for bad debt carried forward	(477)	(805)
Net trade receivables	22,283	24,259

The entire provision for bad debts of £477,000 (2016: £805,000) relates to trade receivables past due over 90 days.

During the year, it was determined that the sum of £150,000 due from the former owners of Everwarm (extant at completion of the acquisition) should be taken as a price adjustment, given under the purchase working capital mechanism, any increased cash received into the business would have been due to the vendors, making this a nil sum gain. The loan at 30 September 2017 therefore stood at £nil (2016: £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 (2016: zero).

22. Trade and other payables

	2017 £'000	2016 £'000
Current		
Trade payables	31,849	23,810
Sub-contract retentions	5,454	4,343
Accruals	24,989	28,504
Deferred income	894	2,600
Social security and other taxes	5,529	6,092
Other payables	463	452
	69,178	65,801
Non-current		
Sub-contract retentions	353	421
Accruals	620	5,815
	973	6,236

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 55 days (2016: 34 days).

22. Trade and other payables continued

Included in accruals is deferred consideration arising from business combinations analysed as follows:

	2017 £'000	2016 £'000
Current	1,318	757
Non-current	620	5,155
	1,938	5,912

The fair value of the consideration has been assessed in accordance with the Sale & Purchase Agreements. The non-current element of the expected settlement has been discounted using a post-tax discount rate of 2.68% (2016: 2.68%) that reflects the time value of money. £1,443,000 of the deferred consideration is contingent using a post-tax discount rate of 8.5%.

23. Borrowings

	2017 £'000	2016 £'000
Bank loans and credit facilities at amortised cost:		
Current	—	71
Non-current	27,077	20,586
	27,077	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	27,077	—
Between two and five years	—	20,586
	27,077	20,657

Following the sale of Orchard, we requested that RBS reduce our RCF from £35m to £25m, with an effective date of 2 October 2017. We also agreed an extension with RBS of the facility from December 2018 to February 2019.

24. Net debt

	2017 £'000	2016 £'000
Cash and cash equivalents	26,129	(71)
Bank loans and credit facilities (non-current)	(27,077)	(20,586)
Unamortised finance costs (included in other receivables)	—	414
Finance lease obligations	(326)	(386)
	(1,274)	(20,629)

25. 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
Disposal of Orchard (Holdings) UK Limited	—	(130)	(130)
Additional provision	—	1,497	1,497
Utilised in the year	—	(2,215)	(2,215)
At 30 September 2017	—	4,030	4,030
Current provisions	—	893	893
Non-current provisions	—	3,137	3,137

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

25. Provisions continued

Legal and other

Legal and other costs relate to property dilapidation obligations, potential contract settlement costs and other potential legal and regulatory 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.

26. Deferred taxation

	Accelerated capital allowances £'000	Short term timing differences £'000	Share-based payments £'000	Acquisition intangibles £'000	Unutilised losses £'000	Total £'000
(Provision)/asset brought forward as at 1 October 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 P&L	195	522	(3)	3,137	140	3,991
Charge to equity	—	—	—	—	(608)	(608)
Asset/(provision) brought forward as at 30 September 2016	266	966	36	(3,636)	2,597	229
Disposals in the year	(10)	(4)	—	380	—	366
Credit/(charge) to P&L	53	(309)	—	1,784	(38)	1,490
Asset/(provision) carried forward as at 30 September 2017	309	653	36	(1,472)	2,559	2,085
Deferred tax asset element At 30 September 2017	309	653	36	—	2,559	3,557
Deferred tax liability element	—	—	—	(1,472)	—	(1,472)
Net deferred tax asset/(liability)	309	653	36	(1,472)	2,559	2,085
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

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so.

27. Finance lease obligations

These comprise legacy lease arrangements inherited with previous acquisitions.

	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
New obligations	263	(51)	212
Repayments	(327)	55	(272)
At 30 September 2017	405	(79)	326

27. Finance lease obligations continued

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	226	(44)	182
Between two and five years	179	(35)	144
At 30 September 2017	405	(79)	326
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

28. Called up share capital

Allotted, called up and fully paid:

2017 Number	2016 Number		2017 £	2016 £
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 29.

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.

29. 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).

The net charge recognised for share-based payments in the year was £nil (2016: £67,000).

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 were 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.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

29. Share-based payments continued

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 and no unexercised options are outstanding at the year end.

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. Three employees are currently participating in the SIAP.

	SIP	SAYE	CSOP	PSP	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)	—	(1,647,217)	—
At 30 September 2016	196,310	616,408	1,330,741	1,731,911	4,615,385
Granted	—	2,622,809	2,424,234	645,000	—
Lapsed	(31,144)	(817,441)	(1,577,285)	(393,498)	—
At 30 September 2017	165,166	2,421,776	2,177,690	1,983,413	4,615,385
Weighted average exercise price (p)					
At 1 October 2016	0.00p	81.74p	91.68p	0.00p	0.00p
Granted	—	33.27p	40.75p	0.00p	—
Lapsed	0.00p	60.77p	91.68p	0.00p	—
Outstanding at 30 September 2017	0.00p	36.33p	40.75p	0.00p	0.00p
Exercisable at 30 September 2017	—	—	—	—	—
Outstanding at 30 September 2016	0.00p	81.74p	91.68p	0.00p	0.00p
Exercisable at 30 September 2016	—	—	—	—	—
Fair value of options granted					
Weighted fair value of one outstanding option	87.61p	15.25p	12.13p	54.15p	0.02p
Assumptions used in estimating the blended fair value					
Share price at date of grant	99.75p	49.50p	40.00p	75.19p	23.50p
Exercise price	—	36.33p	40.75p	0.00p	0.00p
Expected dividend yield	4.60%	7.07%	7.37%	5.76%	6.66%
Risk-free rate	1.21%	0.17%	0.07%	0.55%	0.13%
Expected volatility	40.37%	51.93%	54.50%	44.02%	42.17%
Expected life	3 years	3.25 years	3 years	3 years	2.36 years

In the year ended 30 September 2017, options were granted in March 2017 in respect of the PSP and CSOP in May 2017 in respect of the SAYE.

The weighted average remaining contractual life of outstanding options at 30 September 2017 was 2.7 years. The aggregate of the estimated fair values of options granted above was £1.8m.

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.

The inputs into the Black-Scholes model are as follows:

	2017	2016
Share price (p)	40–46.4	89.75
Exercise price (p)	0.00–40.75	0.00–90.67
Expected volatility (%)	54.5	23.1
Expected life (years)	3.00–3.25	3.00
Risk-free rate (%)	0.07–0.12	1.6
Expected dividends (%)	7.37	5.4

29. Share-based payments continued

Special Incentive Award Plan (SIAP) continued

The inputs into the Monte Carlo model are as follows:

	2017	2016
Share price (p)	40	23.5–89.75
Exercise price (p)	0.00–40.75	0.00–90.67
Expected volatility (%)	54.5–83.0	23.1–42.2
Expected life (years)	3.00	2.36–3.00
Risk-free rate (%)	0.07	0.1–1.6
Expected dividends (%)	7.37	5.4–6.7

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.

30. Reserves

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.

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 2017 represents the cost of £325,842 (2016: £325,842) shares in Lakehouse plc, with a weighted average of 165,166 (2016: 196,310) shares during the year.

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. Merger accounting principles for this combination have given rise to a merger reserve of £20,067,000.

31. Guarantees and contingent liabilities

Guarantees

The Company and certain subsidiaries have, in the normal course of business, given guarantees and performance bonds relating to the Group's contracts totalling £10,889,790 (2016: £9,561,513). A subsidiary of the Group has provided a guarantee of £750,000 (2016: £750,000) to the Warmworks joint venture.

Contingent liabilities

The Group continues to manage a number of potential risks and uncertainties, including claims and disputes, which are common to other similar businesses and 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 outturn for the Group, the key judgements and estimates will typically include:

- The scope of the Group's assessed responsibility
- An assessment of the potential likelihood of economic outflow
- An estimation of economic outflow (including potential likelihood)
- A commercial assessment of potential further liabilities

Where a provision or accrual is deemed to be required, it has been included within the consolidated statement of financial position. For contingent liabilities where an economic outflow is possible, it is often not practicable to estimate the financial effect due to the range of estimation uncertainty. For contingent liabilities where the possibility of economic outflow is remote, disclosure of the estimated financial effect is not required.

Where specific matters are considered worthy of note, commentary has been included within the Strategic Report on pages 14 to 29.

32. 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 Pounds 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.

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

32. Financial instruments continued

Categories of financial instruments

Financial assets	Loans and receivables	
	2017 £'000	2016 £'000
Current financial assets		
Trade receivables, loans and other receivables	57,023	63,350
Cash and cash equivalents	26,129	—
Corporation tax receivable	551	1,451
	83,703	64,801
	Financial liabilities measured at amortised cost	
Financial liabilities	2017 £'000	2016 £'000
Current financial liabilities		
Trade and other payables	68,284	63,201
Borrowings	—	71
Finance lease obligations	182	222
Total current financial liabilities	68,466	63,494
Non-current financial liabilities		
Trade and other payables	973	6,236
Borrowings	27,077	20,586
Finance lease obligations	144	164
Total non-current financial liabilities	28,194	26,986
	96,660	90,480

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 Pounds 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 23.

(a) Interest rate of borrowings

The interest rate exposure of the Group's borrowings is shown below:

	2017 £'000	2016 £'000
Floating rate Pounds Sterling borrowings with a capped interest rate	27,077	20,657

At 30 September 2017, the Group had the following interest rate caps in place:

- A cap of 2.5% on up to £12.5m of debt (2016: £10.0m), rising by £0.8m per quarter up to £12.5m on 30 June 2017, then to £15m on 29 December 2017 and expiring on 9 December 2018
- A cap of 2.00% on up to £2.5m of debt (2016: £5.0m), 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 £27.3m 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 £136,500 (2016: £123,000). If the floating interest rate had increased to the capped rate, interest payable on the weighted average of £27.3m of debt would have increased by £568,000 (2016: £431,000).

33. Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2017		2016	
	Land and buildings £'000	Other items £'000	Land and buildings £'000	Other items £'000
Within one year	899	3,220	1,000	1,916
Between two and five years	1,862	3,801	2,266	1,678
Over five years	374	—	333	—
	3,135	7,021	3,599	3,594

At 30 September 2017 the Company has no operating lease commitments (2016: £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.

34. Cash generated from/(used in) operations

	2017 £'000	2016 £'000
Operating loss	(1,084)	(34,041)
Adjustments for:		
Depreciation	1,261	1,621
Amortisation of intangible assets	10,931	11,479
Impairment of goodwill and intangible assets acquired	—	19,204
Impairment of tangible fixed assets	394	—
Profit on disposal of property, plant and equipment	(107)	(95)
Profit on disposal of subsidiary	(5,402)	—
Changes in working capital:		
Inventories	697	478
Amounts owed by customers under construction contracts	(3,108)	(1,108)
Amounts owed to customers under construction contracts	1,096	116
Trade and other receivables	6,533	16,706
Trade and other payables	458	(17,401)
Provisions	(1,136)	(2,334)
Net change in working capital from discontinued operations	2,840	2,361
Cash generated from/(used in) operations	13,373	(3,014)
Underlying operating cash conversion calculation		
Cash generated from/(used in) operations	13,373	(3,014)
Cash impact of Exceptional Other Items in the period	1,882	16,226
Cash impact of net change in working capital from discontinued operations	(2,840)	(2,361)
Underlying cash generated from operations	12,415	10,851
Underlying operating profit before Exceptional Items and amortisation of acquisition intangibles	7,328	8,538
Underlying cash conversion %	169%	127%
Statutory operating cash conversion calculation		
Cash generated from/(used in) operations	13,373	(3,014)
Statutory operating profit before Exceptional Items and amortisation of acquisition intangibles	5,397	(611)
Statutory cash conversion %	248%	493%

Notes to the consolidated Financial Statements continued

For the year ended 30 September 2017

35. Summary of consideration paid and payable in respect of acquisitions

	Allied Protection Limited £'000	H2O Nationwide Limited £'000	Orchard (Holdings) UK Limited £'000	Aaron Heating Services Limited £'000	PLS Holdings Limited £'000	Total £'000
At 1 October 2016	290	1,332	2,133	1,016	1,141	5,912
Revaluation of deferred consideration	—	70	(329)	(770)	(595)	(1,624)
Unwinding of discount	—	55	26	83	74	238
Paid in year	(290)	(468)	(1,830)	—	—	(2,588)
At 30 September 2017	—	989	—	329	620	1,938

The fair value of the consideration has been assessed in accordance with the sale and purchase agreements. 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 £1.2m and £1.9m 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

The Company's subsidiary, Everwarm Limited, leases premises in Bathgate, West Lothian, from Xafinity Pension Trustees Limited (as corporate trustee of the Everwarm Group SIPP). Mr M 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. £226,184 of rents were paid by the Group in 2017 (2016: £156,956). The lease terminates in seven years.

The Company's subsidiary, Everwarm Limited, provides services to Warmworks, a joint venture with Everwarm. £8,424,925 of services were provided in 2017 (2016: £3,883,331). £525,239 was charged to Everwarm Limited from Warmworks for services provided in 2017 (2016: £246,770).

As at 30 September 2017 Warmworks had a loan owed to Everwarm Limited amounting to £nil (2016: £250,000). As at 30 September 2017 Everwarm Limited had a receivable owing from Warmworks amounting to £701,823 (2016: £593,908).

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 up to £150,000 per annum (plus VAT). The total value of services provided to the Group in the year was £150,000 (2016: £25,000).

The Company's subsidiary, Sure Maintenance Limited, provides services to Mears plc, an entity of which Bob Holt is the Chairman. £41,580 (plus VAT) of services were provided in 2017 (2016: £nil). As at 30 September 2017 Sure Maintenance Limited had a receivable owing from Mears plc amounting to £6,228 (2016: £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.

	2017 Number	2016 Number
Number of members of the Group Management Board at each year end	9	9
	2017 £'000	2016 £'000
Short term employee benefits	1,511	2,102
Post-employment benefits	128	217
	1,639	2,319

37. Events after the reporting date

Following the sale of Orchard, we requested that RBS reduce our RCF from £35m to £25m, with an effective date of 2 October 2017. We also agreed an extension with RBS of the facility from December 2018 to February 2019.

Company balance sheet

At 30 September 2017

	Notes	2017 £'000	2016 £'000
Fixed assets			
Interests in subsidiaries	41	12,392	12,392
Current assets			
Debtors – due within one year	42	3,992	491
Debtors – due after more than one year	42	42,669	47,477
Income tax receivable		508	922
Cash at bank and in hand		14,968	—
		62,137	48,890
Creditors: Amounts falling due within one year	43	(8,583)	(3,011)
Net current assets		53,554	45,879
Total assets less current liabilities		65,946	58,271
Creditors: Amounts falling due after more than one year			
Amounts owed to group companies	43	—	(2,030)
Loans and borrowings	43	(11,500)	—
Provisions for liabilities	44	(1,462)	(946)
Net assets		52,984	55,295
Capital and reserves			
Called up share capital	45	15,753	15,753
Share premium account	46	25,314	25,314
Own shares		(290)	(290)
Share-based payment reserve	47	616	616
Profit and loss account		11,591	13,902
Shareholders' funds		52,984	55,295

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 loss for the year was £1,523,000 (2016: profit of £14,090,000).

The Financial Statements of Lakehouse plc (registered number 09411297) were approved by the Board of Directors and authorised for issue on 22 January 2018. 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.

Company statement of changes in equity

For the year ended 30 September 2017

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Own shares £'000	Profit and loss account £'000	Total equity £'000
At 1 October 2015	15,753	25,314	549	(290)	4,447	45,773
Profit for the period	—	—	—	—	14,090	14,090
Dividends paid (Note 13)	—	—	—	—	(4,568)	(4,568)
Share-based payment charge	—	—	67	—	(67)	—
At 30 September 2016	15,753	25,314	616	(290)	13,902	55,295
Loss for the period	—	—	—	—	(1,523)	(1,523)
Dividends paid (Note 13)	—	—	—	—	(788)	(788)
At 30 September 2017	15,753	25,314	616	(290)	11,591	52,984

Notes to the company Financial Statements

For the year ended 30 September 2017

Company only

The following Notes 38 to 47 relate to the Company only position for the year ended 30 September 2017.

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.

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 remeasured 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 Company 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 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.

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.

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 15 for further information.

40. Staff numbers and costs

The average number of persons employed by the Company (including Directors) during the period, analysed by category, was as follows:

	2017 Number	2016 Number
Office and administration	35	14

Notes to the company

Financial Statements continued

For the year ended 30 September 2017

40. Staff numbers and costs continued

	2017 £'000	2016 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	2,975	1,980
Social security costs	355	200
Other pension costs	126	139
	3,456	2,319

41. Investment in subsidiaries

	£'000
Investment in subsidiaries	
Cost	
At 1 October 2016 and 30 September 2017	12,392
Net book value	
At 1 October 2016 and 30 September 2017	12,392

Further information is provided in Note 18.

42. Debtors

	2017 £'000	2016 £'000
Amounts falling due within one year		
Amounts owed by Group undertakings	3,584	412
Prepayments	90	33
Deferred tax asset	299	—
Other debtors	19	46
	3,992	491

The deferred tax asset of £299,000 (2016: £nil) relates to short term timing differences.

	2017 £'000	2016 £'000
Amounts falling due after more than one year		
Amounts owed by Group undertakings	42,669	47,474
Other debtors	—	3
	42,669	47,477

43. Creditors

	2017 £'000	2016 £'000
Creditors: Amounts falling due within one year		
Bank loans and overdrafts	—	5
Trade creditors	402	232
Amounts owed to Group undertakings	4,147	788
Accruals and deferred income	3,917	1,888
Social security and other taxes	106	82
Other creditors	11	16
	8,583	3,011
Creditors: Amounts falling due after more than one year		
Amounts owed to Group undertakings	—	2,030
Loans and borrowings	11,500	—

44. Provisions for liabilities

	Legal and other £'000
At 30 September 2016	946
Additional provision	516
At 30 September 2017	1,462

Further information is provided in Note 25.

45. Share capital

Allotted, called up and fully paid:

	Number	£
Ordinary shares of £0.10 each	157,527,103	15,752,710

46. 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.

47. Share-based payments

During the period ended 30 September 2017 the Company had five share-based payment arrangements, which are described in Note 29. There was no share-based payment charge in the year (2016: £67,000).

Corporate directory

Company registration number

9411297

Directors

Bob Holt OBE (Chairman)
Michael McMahon (Chief Operating Officer)
Jeremy Simpson (Chief Financial Officer)
Robert Legget (Senior Independent Director)
Andrew Harrison (Non-Executive Director)
Derek Zissman (Non-Executive Director)

Company Secretary

John Charlton

Registered office

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Romford
Essex
RM7 7LS

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EC4A 4AB

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Royal Bank of Scotland

280 Bishopsgate
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EC2M 4RB

Legal advisers to the Company

Eversheds Sutherland

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London
EC2V 7WS

Financial adviser and stockbroker

Stockdale Securities Limited

100 Wood Street
London
EC2V 7AN

Registrars

Link Asset Services

The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

Corporate calendar

Annual General Meeting

28 March 2018

Announcement of Interim Results

June 2018

Announcement of Final Results

January 2019

Notes



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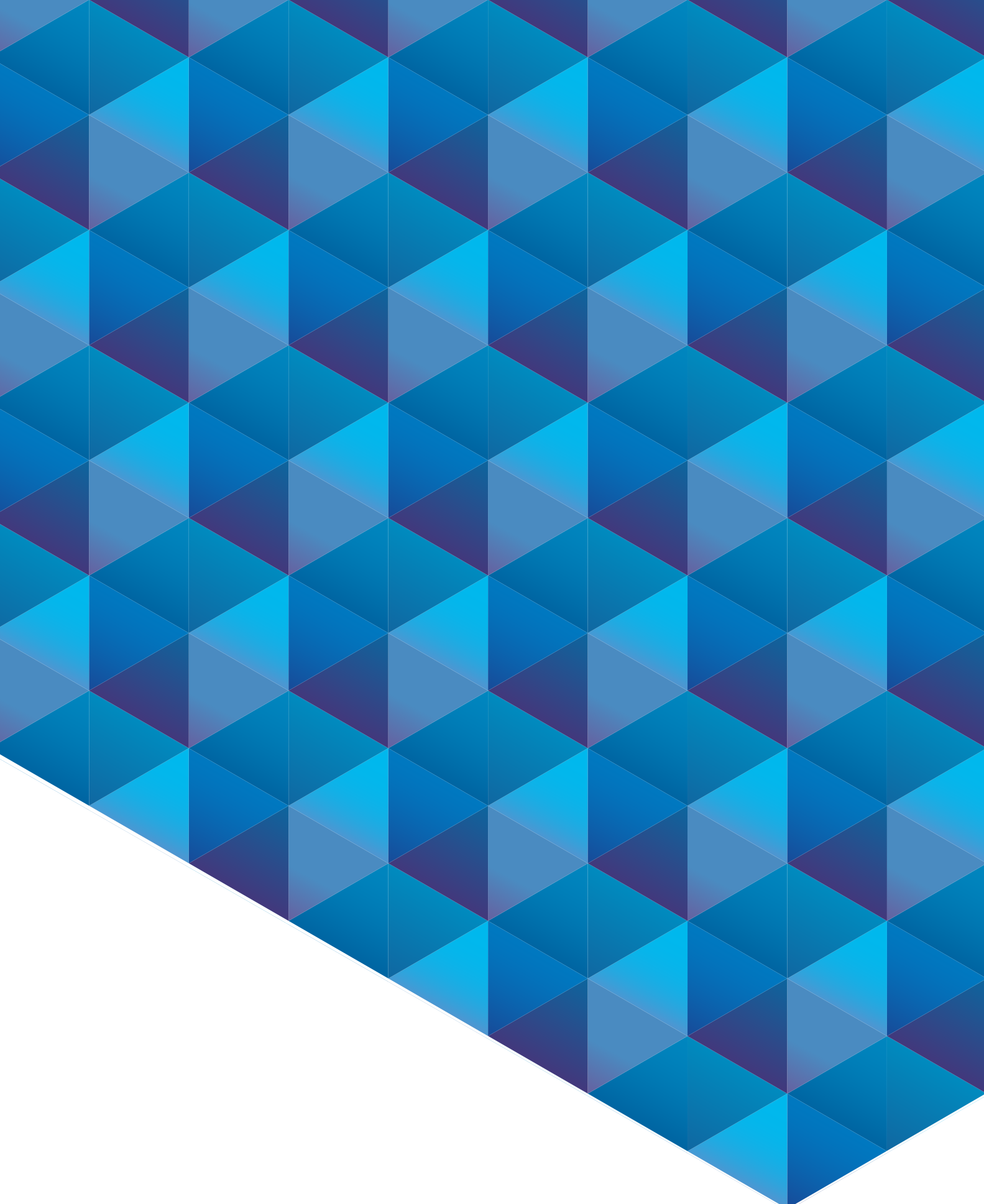
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