2018
Annual Report

SureserveGroup

EXCEPTIONAL SERVICES TO HOMES, BUSINESSES AND COMMUNITIES

Who we are

The Sureserve Group is an asset and energy support services group. We make a difference to people's lives by delivering comprehensive and high quality services in a range of sustainable markets including social housing, public buildings, education, energy services and industrial and commercial buildings.

Sureserve at a glance

Our long term approach is reflected in the strength and depth of our relationships, based on the quality of our work with our clients, their customers, communities, financial partners, our employees, shareholders and suppliers. With highly experienced management and an exceptionally skilled workforce, we look to build our business in regulated markets where revenues are predictable.

Number of offices

23

Number of employees

1,990

2018 highlights

Operational highlights

- Compliance and Energy Services are well established, excellent businesses with a clear vision, which together recorded revenue growth of 5.1% (2017: 20.7%)
- Outstanding record of contract wins, including appointment to the Arbed 3 programme in a 50/50 joint venture that extends Everwarm's reach into Wales
- Year-end net debt of £11.4m (2017: £1.3m)
- Strategic and operational plans implemented following completion of review
- Sale of our Lakehouse Contracts and Foster Property Maintenance businesses enables focus on highly cash-generative growth markets
- Operational improvement plan conducted through the year
- Ongoing focus on smart metering, and readiness for SMETS2 rollout
- Operating cash conversion from continuing operations of 60% (2017: 177%)

Financial highlights

Revenue from continuing operations

£190.8m

(2017: £181.5m)

Operating profit before exceptional items and amortisation of acquisition intangibles margin

4.2%

(2017: 4.1%)

Profit before tax from continuing operations

£1.9m

(2017: restated loss of £5.6m)

Operating profit before exceptional items and amortisation of acquisition intangibles

£8.0m

(2017: £7.4m)

Loss from discontinued operations of

£11.5m

(2017: restated profit of £4.6m), resulting in overall loss of £10.4m (2017: profit of £10,000)

Strategic review

Governance

Financial statements

NEW VISION
NEW NAME

Q&A with the Group's most senior leadership

2018 was a year of great change and progress for the Group. Here, our Chairman and Chief Operating Officer consider its significance.

Q How do you think you'll remember 2018 when you come to look back in the years ahead?

Bob Holt: It was a highly memorable year. Strategically, we made great progress, successfully following the course we had devised in preceding years. We implemented many of the actions we'd identified as necessary to create a high-growth business with regular and predictable income streams and a large, loyal blue-collar customer-base.

In particular, selling off our Construction and Property Services businesses has given us a far sharper focus on areas where we have market leading expertise, significant scale and major opportunities for profitable growth. These were all important steps towards assuring our long term future stability, based on a profitable and cash-generative business that's understood by all our stakeholders.

Q Do you feel that the evolving strategic approach is having the desired effect on your operational performance?

Michael McMahon: Most definitely. By concentrating single-mindedly on the cash-generative growth areas of compliance and energy services, we're working exclusively in areas that are already delivering predictable and profitable revenue streams.

The organic growth delivered by our Compliance division in particular, with 13 contract wins during the year, underlines how a more streamlined organisation that's focused on the areas of greatest potential return can deliver the heightened profitability that our investors are looking for.

Q Which contract win was the most significant in your view?

MM: The Welsh Government's award of a three-year contract worth up to £55m under the Arbed 3 home-improvement programme was an extremely important strategic win for us, extending our reach into Wales for the first time and giving our Everwarm business a truly UK-wide footprint.

Opportunities of this scale are not common, and certainly the Arbed 3 contract is very significant for us. But it's important to remember that every win is important, for many reasons – not just building our revenues, but also boosting the morale of our people and enabling us to prove our quality to an ever-wider audience of end customers; something evident in the significant growth of our gas businesses during this period.

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.

K&T Heating
Part of the Sureserve Group

A provider of gas servicing, maintenance and installations in southern England

AaronServices
Part of the Sureserve Group

A provider of gas servicing, maintenance and installations in eastern England

SureMaintenance
Part of the Sureserve Group

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

AlliedProtection
Part of the Sureserve Group

Specialists in fire safety, servicing and planned works

H2O Nationwide
Part of the Sureserve Group

A water and air hygiene specialist

PrecisionLifts
Part of the Sureserve Group

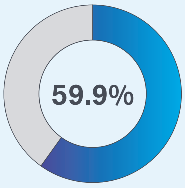
A lift installation and maintenance company

Just energy solutions
FOR SUSTAINABLE LIVING

A provider of heating and renewable energy solutions to clients across the home counties

2018 revenue

£116.3m



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

Q **Looking ahead, how do you see the Group developing over the next few years?**

BH: I'm very confident that we're properly on track to deliver sustainable, profitable growth in the years to come. Critically, we have strong relationships with contracting organisations across the UK in highly regulated private and public sector environments – particularly with those people who ultimately decide which suppliers to turn to. So it's critical that we continue to give our customers the confidence they gain from working with an organisation that aims to build long term relationships on a strong platform of trust and security.

MM: The future looks positive across all our operational areas. For example, the ongoing move towards higher levels of compliance should benefit our gas compliance business. In addition, we believe that our Compliance division as a whole is the strongest of its type in the UK, well positioned to grow further in a largely fragmented and regional market.

As for Energy Services, despite the frustrations resulting from delays to the SMETS1 and SMETS2 smart-metering roll out, we believe we are well placed to react and adapt to any market changes and continue providing the highest standards of customer service.

BH: Our goal is to build an even stronger organisation in the years ahead on foundations of non-volatile income streams generated from scale activities across an ever broader national footprint. That's how we aim to deliver all the stability and financial returns our shareholders want from us, building on those areas where we are already market leaders and moving into new ones that match our existing capabilities and ambitions, where we believe we can excel.

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. During 2018, we commenced the delivery of non-domestic work, moving into industrial and commercial markets for the first time.

Everwarm
Part of the Sureserve Group

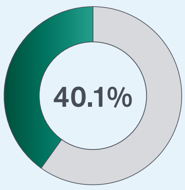
A leading energy services provider

Providor
Part of the Sureserve Group

One of the UK's leading smart metering specialists

2018 revenue

£77.7m



Key business drivers

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

CHAIRMAN'S STATEMENT

STABILITY AND CONSISTENCY

I am pleased to announce that the Group has started the year positively and ahead of management expectations.

Introduction

The Company's change of name during the year to Sureserve Group plc reflected the advances we have made in our structure and overall strategic direction. We are satisfied that the new name accurately reflects the kind of business we are: a stable service group with experienced management, dedicated to providing our clients with the confidence and security that come from dealing with an organisation committed to building long term relationships based on trust and quality.

Following in-depth planning over a substantial period we successfully concluded the sale of Lakehouse Contracts Limited and Foster Property Maintenance Limited to the Mapps Group in August 2018. This was a significant strategic advance for the Group, enabling us to concentrate on delivering operational excellence in our specialist core growth businesses of Compliance and Energy Services. The divestment included certain contracts yet to be finalised. It is hoped that those outstanding works will be concluded by the time of the Group interim results to March 2019. A further update will be provided at that time.

These now make up the two operating divisions of today's streamlined and rationalised Group. Both are businesses in which we have strong market positions and a portfolio of leading brands built on the expertise and quality commitment of our people, ensuring our clients are willing to pay a premium for our services.

Both divisions are soundly based on profitable, cash-generative business models that provide the Group with a sound platform for predictable growth. The wisdom of this approach is demonstrated by our results from continuing operations for the 2018 financial year, based on the successful implementation of our strategy to create a high-turnover business with regular recurring income streams, a 'blue-collar' client base and highly disciplined financial management, providing stable operating margins.

Trading performance

The Group made excellent trading progress during the year, delivering a number of major initiatives that pave the way for us to fulfil our growth ambitions in the years ahead. The success of these is already demonstrated by an increase across both divisions in the number of long term contracts, representing an overall increase in pipeline value of £108m. The details of the awards are set out within the Operating Review, starting on page 14.

We also experienced a full financial year reaping the benefits of our move away from the main FTSE index to AIM, which took place in May 2017.

Please see the Financial Review, starting on page 19, for full details of our results.

Our growth trajectory

Resolving legacy issues to advance the Group to this stage has taken significant and concerted effort by the Group's management team, and I am confident that we are now on track to deliver sustainable, profitable growth over the years to come.

Our growth plans are by acquisition as well as organic. Specifically, we aim to act as a consolidator in a highly fragmented industry by bringing together quality-led organisations with a strong record of compliance in a heavily regulated environment. We continue to seek target businesses that not only match our ambitions, but can embrace the standards and culture within our core growth areas, as well as acquisitions that will enable us to introduce new service lines to our clients.

The opportunity presented itself during the year to purchase the entire share capital of Just Energy Solutions Limited ('JES'), a heating and renewables specialist founded in 2011 whose services for large energy companies, retailers and private clients complement the activities of our own gas compliance activities. We took the decision to make the purchase after considerable deliberation, recognising that it provides us with a low-cost route into the private sector gas and renewables markets.

As I have already indicated, organic growth from continuing operations was strong during the year, with important contract wins significantly strengthening our presence across the UK. Please see pages 14 – 18 for a full report on the many wins by both our operating divisions. These include the award of a £55m contract to our Everwarm business under the Welsh Government's Arbed 3 Warm Homes programme, which we won in May 2018 and which took us into Wales for the first time.

Increasingly, such acquisitions and wins are further strengthening the national platform on which we base our ability to deliver a high quality service at a local level. Aspiring to be this kind of business means we must be the supplier or partner of choice in all the markets where we operate.

Our people

This aspiration places a very high value on the skills, attitude and commitment of the thousands of people who deliver our services. By creating close and mutually beneficial relationships with client personnel responsible for buying facilities management services, based on promises kept and problems solved, they create the sustainable bedrock on which our success is built. I would like to thank each and every one of our excellent people for their commitment and performance over the last year.

To ensure we have access to the skills we need for years to come, in 2018 we launched the Sureserve Academy to train young people in the skills required to become gas and fire engineers. The strategic aim is to ease any issues that may emerge with recruiting qualified engineers as our workforce grows. Please see our sustainability report on pages 26 – 29 for details of this and other new training initiatives we launched during the year.

We saw a number of Board changes during the year. First, I would like to thank Jeremy Simpson, who stood down as Chief Financial Officer in October, for his invaluable contribution to creating the 'new' Sureserve Group. I wish him every success. We hope to bring news of his replacement early in 2019.

I would also like to thank Andrew Harrison for his contribution over the last two years as a Non-Executive Director of the Company. Andrew played a key role in the Group's turnaround, and we wish him well for the future. Derek Zissman was appointed in November 2017 and is Chairman of the Audit Committee. Robert Legget has been appointed interim Chairman of the Remuneration Committee and Derek Zissman has been appointed to the Nomination and Remuneration Committees subsequent to the year end.

Building on our strategy

During the year, we made some significant advances in our strategy, with the aim of building upon a specialist focus on compliance and energy services to maximise the opportunities provided by a stable base of regular recurring and predictable revenues and profits.

- **Operational excellence:** high performances win work and keep our existing clients happy
- **Geography:** working in sectors which have traditionally been predominantly regional we have achieved scale and geographical coverage
- **Focused divisions:** we believe focus is the key in regulated growth markets. We therefore exited the Construction and Property Services businesses and now have more focused businesses in the sectors we have targeted. This means we have a profitable and cash-generative business that is understood by all stakeholders
- **Working together:** cross-selling has proved successful in the past and we have a strong track record at delivering a number of services to the same client

"I have been delighted by the commitment and passion shown across our workforce of more than 1,990."

Dividend

In accordance with the principles of sound financial management and good governance, the Board aims to maintain a dividend that both recognises shareholder needs and expectations while retaining sufficient capital to drive future growth. The Board propose a final dividend payment of 0.25p. The Board will consider an interim dividend based upon the trading performance of the Group later in the year.

Outlook

Looking ahead, I would like to re-emphasise my confidence that we now have a tremendous opportunity to deliver sustainable and predictable growth over the years to come, both organically and by acquisition.

I believe we are now ideally positioned to build strongly on this major achievement, delivered by all our people working as a team. I particularly look forward to continuing and expanding our Arbed 3 activities, building on our work in 2018 to create the necessary infrastructure and consolidating our new presence in Wales.

Going forward, the Sureserve Group is a stable, growing and cash-generative business that delivers operational excellence and builds strong relationships in highly regulated sectors that provide substantial recurring revenues. We have strong relationships with public sector contracting organisations across the UK, and particularly with personnel who are ultimately responsible for purchasing the services we deliver.

We are well placed to build yet further on our market leading gas provision and excellence in compliance. Our goal moving forward is to build an even stronger organisation, based on predictable, non-volatile income streams from scale activities across a growing national footprint, that deliver all the stability and financial returns our shareholders seek.

In addition, we will continue to provide secure employment to a growing and increasingly skilled workforce, helping to improve the quality of life for the many thousands of tenants for whose comfort and safety we are ultimately responsible.

I am pleased to announce that the Group has started the year positively and ahead of management expectations.

Bob Holt
Executive Chairman
21 January 2019

Market overview

The long term sustainable fundamentals provided by the tightly regulated, non-volatile markets in which we operate gives the Sureserve Group considerable potential to expand during the years ahead, as we look to build our business in regulated markets where revenues are predictable.

Our markets

Under our streamlined and focused operational structure, our two operating divisions serve predominantly public sector clients in the social housing, public buildings and energy services markets. We are also selectively increasing our work for clients in the industrial and commercial markets. In addition, we are exploring opportunities to enter the private sector gas and renewables markets.

Our markets and primary customers are:

Compliance
Social housing providers and an expanding presence among industrial and commercial clients, with a national footprint. Our Gas Compliance business is the UK market leader in its sector. We believe our wider compliance business is the strongest in our core public sector markets.

Energy Services
Private and social housing providers, public and commercial building owners, the 'Big Six' power companies, other key independent energy utility companies and the Scottish and Welsh Governments. We also install domestic smart meters for clients nationwide. We are well positioned to take advantage of new technologies and energy systems and are exploring opportunities provided by demand for battery storage and vehicle charging points.

What drives our markets? A number of important factors create demand for our services.

Gas Compliance
Working in tightly regulated markets, we help many of our clients to meet their legal and regulatory obligations. Gas 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.

Building Compliance
The increasing unaffordability of private housing is creating huge demand for social housing. The 2018 Autumn Budget promised additional funding for 650,000 homes, however, recent research by Heriot-Watt University suggested that a further 340,000 homes may need to be built in England every year until 2031. This will increase pressures among social housing providers to offer creative solutions and make the most of existing properties.

Energy and renewables
A recent government report indicated that more than 2.5 million families are living in fuel poverty in England, which has increased from previous reports and now represents 11% of all English households. While there is no longer any consolidated overview of the UK figures, Scottish figures from a December 2018 Scottish Government report suggests 25% of households (over 600,000) are in fuel poverty.

Energy providers remain obliged to fund energy efficiency and heating measures under the Government's Energy Company Obligation ('ECO') policy. A number of key funding schemes exist, such as the Home Energy Efficiency Programmes ('HEEPS') from the Scottish Government, and Arbed 3 in Wales.

Metering
The national smart meter rollout is an £11bn programme to install 53 million meters in over 30 million premises (households and small businesses) across Wales, Scotland and England by the end of 2020. We have been responsible for approaching one million of the more than 13 million smart meters that have already been installed and have started installation of second generation 'SMETS2' meters on behalf of our clients. Improving energy efficiency is an important and recurring government objective, setting ambitions to reduce fuel poverty in a context of legal climate change targets and political pressures. Our Energy Services division provides energy efficiency measures to improve properties' environmental performance. We install smart meters to enable more accurate and visible consumption monitoring to improve the focus on energy efficiency, and we believe this will lead to further opportunities for market development.

Market outlook

Clients must comply with regulations

We expect client demand for our services to continue growing. Such demand is largely driven by regulation and legislation, and this will only increase in the continuing aftermath of the Grenfell Tower tragedy. Our strong position in both the compliance and energy sectors presents us with significant growth opportunities across a range of adjacent services and geographic markets.

Continued demand for social housing

Demand for social housing continues to grow, but client organisations are implementing active cost reductions. This is creating significant holes in housing funding models when compared to consumer price inflation and has caused some clients to review their budgets. In addition, the political significance of fuel poverty remains high, and government will need to continue tackling this key social issue.

Over the long term, we see those pressures leading to an inevitable demand for our services. We are focusing our work on areas with high levels of predictability and clients with whom we feel we can work well and earn an acceptable rate of return.

Customers have environmental targets

One of our key core sources of funding is the ECO ('ECO 3') scheme, which is set to run until March 2022 following recent commencement of a new version of the scheme applying from October 2018. The Group has a wealth of experience in this area. We are also on national and regional programmes with the Scottish Government's flagship HEEPS2 programme, which runs to between 2020 and 2022, and have been appointed by the Welsh Government to act as delivery partner for their Arbed 3 programme for an initial three years.

A reliance on better technology

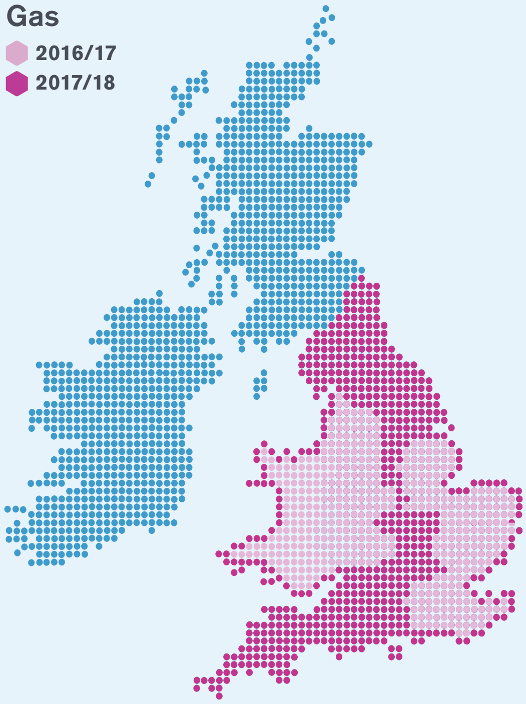
The smart meter rollout is due to be completed in 2020, but it continues to run significantly behind schedule. We expect the deadline to be extended, not least because the roll out of the newer 'SMETS2' meter technology is yet to achieve the pace required. We are confident in the future of our markets, as demand is there and funding in place. That said, the enactment of and consistency in Government Energy policy continues to make the market challenging.

Geographic readiness for market opportunities

The Group's Gas Compliance and Smart Metering businesses have taken significant steps in the last 12 months to expand our service delivery even further towards a truly national scale.

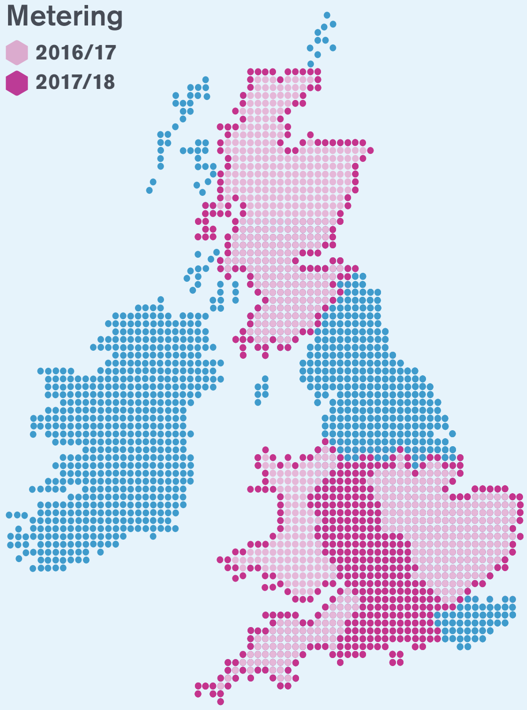
Gas

2016/17
2017/18



Metering

2016/17
2017/18



Business model

The Sureserve Group is focused via its two divisions on delivering comprehensive, high quality solutions to organisations in our target markets of social housing, public buildings, education, energy services and industrial and commercial buildings.

Our key inputs

Our vision is to be a unique and outstanding asset and energy support services group, where we lead our market and innovate in our sectors.

To achieve this, we aim to use our expertise and our people's passionate commitment to excellence in ways that help keep individuals, families, communities and businesses across the UK warm, safe and sustainable.

We work across a number of sustainable markets – social housing, public buildings, energy services and industrial and commercial buildings. Our main clients are housing associations, local authorities and other government bodies, private households and companies.

We bring them expertise in a range of key areas, including:

- Energy services
  - Insulation
  - Heating systems
  - Renewable technologies
  - Smart metering
- Compliance
  - Gas
  - Fire
  - Electrical
  - Water and air hygiene
  - Lifts

We underpin these services with a commitment to quality and building relationships through which we aim to be our clients' most trusted partner and first choice for their most important projects.

How we create value

We carefully select projects on the basis of the value we can generate through undertaking them, for ourselves, our shareholders, our clients, their customers and other stakeholders. This involves assessing risks, returns, strategic fit and our ability to deliver against client expectations.

It's an approach that enables us to create value for a wide range of stakeholder groups, including:

- Our clients: we deliver high quality services with great efficiency, enabling our clients to meet their legal, regulatory and environmental obligations
- Our clients' customers: we provide safe, warm and well-maintained homes that improve their quality of life
- Communities: we deliver increased employment opportunities, skills, better infrastructure and provide leadership for community initiatives
- Financial partners: our responsible business management reflects our deep understanding of risk versus returns
- People: we offer interesting, challenging careers in a well-managed growth business that provides the opportunity for development and progress
- Shareholders: we operate in non-volatile trading markets with predictable recurring cash flows that deliver growing revenues and profits
- Suppliers: we provide opportunities for national and local suppliers to grow their business by developing strong relationships with an expanding group

Predictable revenue streams and accreditation

By their nature, compliance services generate steady revenue streams as such services are frequently mandatory for many of the Division's clients and driven by regulation. The regulatory environment has placed increasing obligations on local authorities and social housing landlords to maintain housing stock and public buildings to applicable safety standards and this, in turn, has led to the growth and development of the gas, fire, air and water, and lift safety industry from which the Compliance Division continues to benefit.

The seven operating companies comprising the Compliance Division hold a number of relevant industry accreditations and certifications which are either a statutory requirement for tendering for, or carrying out, work or may be helpful in securing new contracts. For example, our gas businesses are Gas Safe-registered and Allied Protection has a number of accreditations, including BAFE and FIRAS certification, National Inspection Council for Electrical Installation Contracting ('NICEIC') approval and Exor and Contractors Health and Safety Scheme ('CHAS') accredited contractor status. H2O Nationwide is registered under the Legionella Control Association's Code of Conduct, is a member of the Building and Engineering Services Association (formerly the Heating and Ventilating Contractors' Association) and the Water Management Society and, like Allied Protection, has Exor and CHAS accredited contractor status. Precision Lifts also holds a number of accreditations required to operate in our sector and ensure ongoing compliance with legislation.

Investing in our growth strategy

It is by continuously investing in growth strategy (see pages 10 – 11) that we aim to deliver strong growth, both organically and through acquisition.

Through our strategy, we are committed to delivering highly cash-generative services to organisations in stable, non-volatile growth markets that offer secure, predictable cash flows over the long term.

In delivering against our strategy, we focus on three key areas:

- **Differentiation through our service offering**
  - Unlike many of our competitors, we benefit from having specialist experience and expertise in a wide range of areas and a growing national footprint. This enables us to be selective about the tenders we pursue, focusing on those where we believe we have tangible quality and experience advantages. We have also developed a reliable supply chain comprising partner organisations on whom we know we can rely for excellent technical support and high levels of client service
- **Doing business the right way**
  - We place our clients, their customers and communities at the heart of everything we do. No matter how challenging the conditions, we always focus on quality of service and delivery, and on observing the highest standards of behaviour and integrity. Our in-depth knowledge of the challenges our clients face enables us to anticipate and respond to their requirements and continuously improve our services
- **Delivering operational excellence**
  - We always aim to work with clients on terms that benefit each party. This means that we undertake to focus on operational excellence, both in service provision and in commercial management and financial discipline. We look to improve continually, in our services and in our efficiency through investments in systems, training, development and safety. A key aspect of this disciplined approach is ensuring that we focus on risks and target contracts with appropriate returns that drive profitability. We therefore aim to work with clients on terms of mutual respect, and in the understanding that being paid on time is as important as the level of profitability on each contract

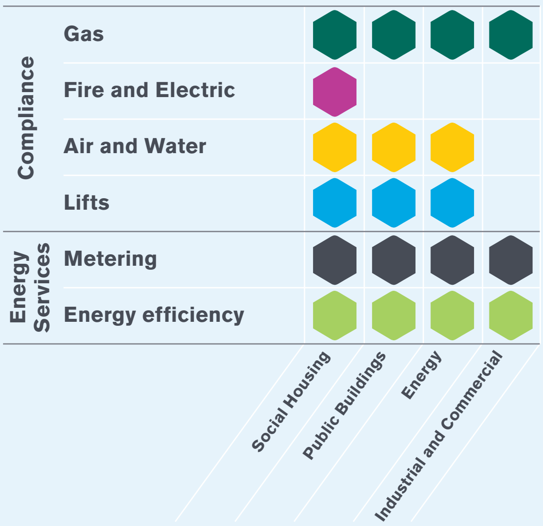
The outcomes we aim to generate

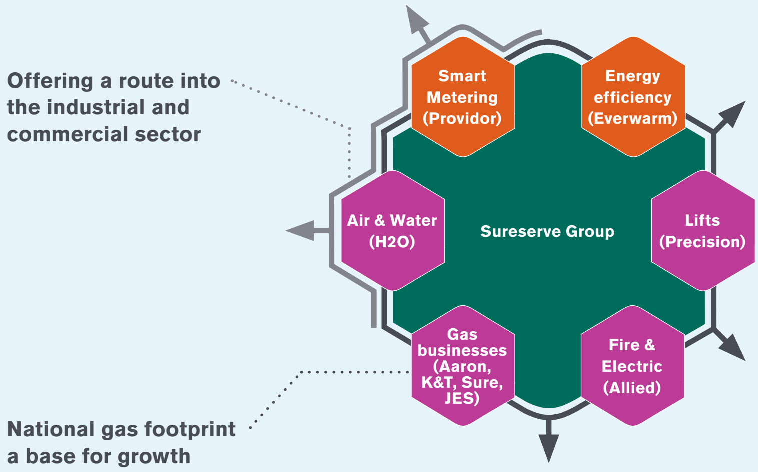
Sustainable growth
With a broad service offering and extensive geographic coverage, we primarily seek to grow organically. We believe that every new contract award provides a potential case study for the next opportunity. We have also acquired businesses that reinforce our ability to grow organically by improving our service offering, client base, geographic footprint or opportunities for entering new markets. We only make acquisitions when we can clearly improve the business.

Recurring revenues
Our focus is on cash-generative markets that generate predictable, recurring revenues that enable us accurately to plan our future growth.

Client relationships
We aim to build ever better and deeper relationships with our clients, leading to contract renewals and extensions and a continuous flow of attractive tender opportunities.

Enhanced reputation
It is important to us that our clients, their customers and the communities where we work regard us in a positive light, recognising us for the quality of our work, our consideration as a contractor, our status as an employer and our role in promoting sustainable practices.





Our strategic priorities

Our vision is to be the leader in the Social Housing and regulated sectors

How will we achieve this?

Operational excellence

Why is this a priority?
High performances win work and keep our existing clients happy.

Progress in 2018:
Delivered operational improvement plan.

Geography

Why is this a priority?
Working in sectors which have traditionally been predominantly regional we have achieved scale and geographical coverage.

Progress in 2018:
Significant expansion of our geographic footprint, into Wales and Scotland. Acquisition of Just Energy Solutions.

Focused divisions

Why is this a priority?
We believe focus is the key in regulated growing markets. We have therefore exited from Construction and Property Services and now have more focused businesses in the sectors we have targeted.

Progress in 2018:
Sale of Lakehouse Contracts and Foster Property Maintenance.

Working together

Why is this a priority?
Cross-selling has proved successful in the past and we have a strong track record at delivering a number of services to the same client.

Progress in 2018:
Secured a series of major regional and national contracts.

Our investment case

1. Streamlined and focused organisational structure
2. Differentiated through our service offering in tightly regulated sectors
3. Experienced management
4. Leadership positions in non-volatile markets with recurring, predictable revenues
5. Strong performance and operational excellence in core business activities
6. Growing geographical footprint and continual expansion of our core activities
7. Strong brands and established reputation

Key performance indicators

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

Financial indicators

Working capital

The key elements of working capital are trade receivables, accrued income, trade payables and accruals.

Relevance to strategy

The level of working capital demonstrates our ability both to grow and manage risk within the Group.

Performance

Trade receivables decreased by 14.9% to £19.0m (2017: £22.3m), accrued income fell by 38.2% to £15.7m (2017: £25.4m), trade payables decreased by 22.6% to £24.6m (2017: £31.8m) and accruals fell by 68.4% to £7.9m (2017: £25.0m).

The principal movements in working capital mainly relate to the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited during the year.

Accrued income: Group

£15.7m

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

Revenue increased by 5.1% to £190.8m (2017: £181.5m), mainly reflecting an increase in underlying revenues in the Compliance division, whose underlying revenues increased by 11.5% to £116.3m (2017: £104.3m). Underlying revenues in Energy Services decreased by 1.6% to £77.7m (2017: £79.0m).

Revenue increase from continuing operations: Group

5.1%

EBITA

EBITA is earnings before exceptional items, amortisation of acquisition intangibles, interest, tax and discontinued activities.

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

Group operating profit before exceptional items and amortisation of acquisition intangibles increased by 8.7% to £8.0m (2017: £7.4m), reflecting a nominal increase in underlying EBITA in Energy Services to £4.0m (2017: £4.0m) and a decrease in underlying EBITA in the Compliance division of 23.6% to £6.1m (2017: £8.0m), and central costs reducing from £4.6m to £2.1m.

Increase in Group operating profit before exceptional items and amortisation of acquisition intangibles

8.7%

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 decreased 39% to £385.0m (2017: £631.0m), principally reflecting exiting Construction and Property Services businesses this year.

We currently have 85.5% visibility for the year to 30 September 2019 (like for like prior year: 84%), reflecting the effect of Lakehouse Contracts Limited and Foster Property Maintenance Limited which were sold just prior to year end.

Order book at 30 September 2018

£385.0m

Non-financial indicators

Group Accident frequency rate ('AFR')

The Group's AFR figures take into account near hits, Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDORs) data, accidents and environmental incidents. This allows us to set relevant and meaningful health and safety targets and objectives.

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 AFR (RIDDORs) stood at 0.14, substantially below the Group target of 0.80. The AFR (all accidents) stood at 3.4, again substantially below the Group target of 5.0.

Accident incident rate ('AIR') RIDDORs

0.14

Accident incident rate ('AIR') all accidents

3.4

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 clients, 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 11,107 tonnes of CO_2, a reduction of 9.5% on the 12,282 tonne usage in 2017. This is equivalent to 58.2 tonnes per £m of revenue (2017: 41.0 tonnes).

The reduction in carbon usage during the year is predominantly due to a range of improvements to our Fleet, which accounts for roughly 70% of our energy consumption, including higher efficiency vehicles and improvements made to driver behaviour.

Carbon usage

11,107 tonnes

Operating cash conversion

Operating cash conversion is operating cash flow, adjusted for the cash impact of exceptional items and the impact of net change in working capital from discontinued operations (discussed further in notes 7 and 34) as a percentage of operating profit before exceptional items and amortisation of acquisition intangibles.

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

Operating cash conversion in the year was at 60% (2017: 177%). Cash conversion on a statutory basis was an outflow of 71% (2017: inflow of 181%).

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

Underlying operating cash conversion

60%

Driver behaviour ratings

Using vehicle telematics we determine driver behaviour within each business, calculating risk ratings for each driver based on speeds, braking and cornering metrics recorded each time they use the vehicle.

Relevance to strategy

By monitoring and improving our drivers' performances we can effect positively the Group's fuel consumption, wear and tear on vehicles and reduce the risk of road traffic incidents.

Performance

Our average driver behaviour rating this year was 92 out of 100 (87 in 2017), an improvement on the previous year which is due to improved reporting through management KPIs, which is followed up and actioned with the driver. Our target for the year remains at 95, showing we still have some improvements to make in order to fulfil our target.

Average driver behaviour rating

92

CHIEF OPERATING OFFICER

STABILITY AND CONSISTENCY

In the six months from 31 March 2018, our value of frameworks grew from £574.3m to £633.4m, demonstrating the effectiveness of our more streamlined and focused structure.

Introduction

During 2018, the Group changed its name to the Sureserve Group plc to reflect our position as a focused asset and energy support services group. This followed a restructure, in which we successfully disposed of our Lakehouse Contracts and Foster Property Maintenance businesses and exited our Property Services and Construction divisions.

This strategically important move is now enabling us to concentrate on our cash-generative core growth areas of compliance and energy services, both of which deliver more predictable, recurring and profitable revenue streams.

Financial performance

- Operating profit before exceptional items and amortisation of acquisition intangibles £8.0m (2017: £7.4m)
- Revenue from continuing operations £190.8m (2017: £181.5m)
- Profit before tax from continuing operations £1.9m (2017: restated loss of £5.6m)
- Loss from discontinued operations £11.5m (2017: restated profit of £4.6m)

These figures confirm that, with experienced management in place, a clear strategy for growth and the focused approach of a more streamlined organisation, the Group is profitable in its continuing operations.

Looking forward

During the year, we saw strong underlying growth in our Compliance division (underlying revenues up 11.5%) and a small decrease in our Energy Services division (underlying revenues down 1.6%) and we will continue to focus on both moving forward. We successfully increased the number of long term contracts we service by 11, representing an overall increase in pipeline value of £108m.

At year end, we were participating in a total of 108 frameworks worth a total of £633.4m (2017: 258 frameworks worth £1.1bn) and had in place 157 maintenance contracts worth a total of £399.1m (2017: 152 contracts worth £367.9m).

We remain confident in the exciting prospects for both of our divisions.

“With experienced management in place, a clear strategy for growth and the focused approach of a more streamlined organisation, the Group is profitable in its continuing operations.”

Compliance division

This division comprises planned and responsive maintenance, installation and repair services, delivered 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.

The Group’s greatest increase in pipeline value was delivered by this division, and the pipeline grew organically by £102.0m with 13 contract wins. It also grew by acquisition, with the purchase during the year of Just Energy Solutions providing a low-cost route into private sector gas and renewables.

Compliance: twelve months ended 30 September

Revenue (£m)

18	116.3	
17	104.3	+11.5%

EBITA (£m)

18	6.1	-23.6%
17	8.0	

EBITA margin (%)

18	5.2	-2.5pts
17	7.7	

Overall, revenue increased by 11.5% to £116.3m (2017: £104.3m). EBITA decreased 23.6% to £6.1m (2017: £8.0m), resulting in an underlying EBITA margin of 5.2%, down by 2.5ppt. Revenues were up in all compliance businesses, reflecting increased volumes of and opportunities with clients and offering of mandatory services which we noted in previous reporting. These revenues are often recurring and represent a stable growth in size and scale that we believe gives us a market leading gas provision.

In relation to the gas businesses, while not significant, the reduction in margins reflected mobilisation of a major national contract and the transfer of trading provisions out of the centre. Expected improvements to margin from revenue increases were mitigated. We believe this investment is worthwhile as the business looks forward.

In relation to the building compliance businesses, we had a poor operational performance for Fire and Lifts, which has already been addressed in FY19.

Post-acquisition impact of Just Energy Services (acquired in May 2018) was £0.8m in revenues and a loss of £0.2m in EBITA.

Operational review continued

Compliance division continued

Gas Compliance

The three Gas Compliance businesses (Aaron Services, K&T Heating and Sure Maintenance) make up 74% of divisional revenues and built on the progress made in FY17 with another excellent year of revenue growth from recurring incomes and new works.

Aaron Services, which delivers gas compliance solutions across East Anglia and the Midlands, had a particularly successful 2018 in terms of new contracts awarded. It has been appointed by Eastern Procurement to the £40m Heating Installations Framework for an initial two-year period, with an option to extend this for a further two years. Under the contract it is eligible to work on heating installation lots for gas, oil, electricity, renewables and all fuels. It has also been appointed by the Hanover Housing Association under a 10-year contract worth £5.0m as sole contractor to install heating systems in its properties across the east of England.

In addition, Suffolk Energy Action, a coalition between the county's seven local authorities to promote domestic energy efficiency and encourage a reduction in energy use within the home, has appointed the company to facilitate the installation of energy efficiency improvements for domestic properties across Suffolk. As well as installing boiler replacements, first-time central heating systems and heating controls, Aaron is tasked with accessing funding through programmes including the Suffolk Warm Homes Healthy People service and the National Grid's Warm Homes Fund.

Other significant wins by Aaron Services include a two-year domestic maintenance contract worth £1.3m from the Accent Housing Association to provide gas-related safety checks, servicing and repairs across 3,000 domestic and commercial properties, and a three-year contract from the Salvation Army for the planned and reactive maintenance of gas, LPG and oil-fired installations in its commercial properties across parts of the region.

K&T Heating, which delivers gas compliance services across London and the South East, has also had a highly successful year. In its biggest win, the London Borough of Havering appointed it to carry out a three-year programme of domestic gas services and associated work, including testing, servicing and repairing gas appliances, central heating systems and more. The programme is worth £9.0m, and includes an option to extend for a further two years.

In a £4.3m award, Guildford Borough Council has appointed K&T Heating to carry out a range of domestic gas servicing and repair activities over a five-year programme that includes gas safety checks and servicing, checking and maintaining air source heat pump systems, solar thermal installations and other works. The company has also won a one-year contract worth £2.0m to install domestic heating and hot water systems for the Metropolitan Thames Valley Housing Association. These wins have seen a significant growth to K&T revenues compared to 2017, and the positive performance of the business is anticipated to continue going forward.

Sure Maintenance, which delivers gas compliance services across the UK, won a three-year contract worth £13.5m with Sandwell Metropolitan Borough Council to replace domestic gas appliances and associated ancillary works across 29,000 domestic properties.

Leeds Federated Housing Association has also appointed Sure to install gas boilers and central heating systems in a programme worth £2.1m and Salix Homes, a social housing provider responsible for some 8,500 properties in and around Salford, greater Manchester, awarded the company a £1.8m contract to service and maintain central heating installations and miscellaneous gas appliances across its estate.

The gas businesses are in the process of moving to the same operational platform within the business on a phased approach and we believe this will offer ever better internal comparability of performance and benchmarking, to allow the businesses to continue to improve their service performance to our clients.

Building Compliance

Our Building Compliance businesses comprise Allied Protection, H2O Nationwide, Precision Lift Services and the newly acquired Just Energy Solutions Limited and makes up 26% of the divisional revenues.

Precision delivers lift installation and maintenance services to local authorities and social housing associations across the UK. During the year, Efficiency East Midlands – an organisation comprising 135 members responsible for more than 1.5m social housing properties – appointed it under a four-year contract to carry out passenger-lift installation, refurbishment and modernisation services.

"Our belief is that an ongoing move towards higher levels of compliance requirements should benefit the compliance division in future periods."

The Royal Borough of Greenwich also appointed Precision in a five-year contract, with an option to extend for a further five years. Worth £8.4m, this engages the company to service, maintain and repair 354 passenger and goods lifts in the residential and public buildings that form the Council's housing and corporate stock. The scope includes a 24/7 breakdown service for all the authority's lifts and 10 annual services of all passenger lifts.

The Company has also won a three-year contract worth £350,000 to maintain and repair the portfolio of passenger lifts owned by One Housing Group, which manages around 16,000 homes across London and surrounding counties and helps over 11,500 people to live independently.

Allied Protection is the Sureserve Group's specialist provider of fire and electrical compliance services across East Anglia and the South East. Its outstanding year included five contract wins:

- A four-year contract from Paragon ASRA Housing worth between £750,000 and £2.0m each year to carry our fire remedial and safety work across around 6,200 of the association's properties
- Participation in a framework agreement for fire safety issued by the Northern Housing Consortium, estimated at a value of £4.0m over four years
- A c.£2.5m share of a framework agreement for fire risk and mitigation from Procure Plus/Re:Allies
- A four-year programme worth £1.6m to install and maintain fire alarms for the South East Consortium
- A contract from One Direct Maintenance worth £750,000 annually over three years, with two one-year extension options, to deliver a fire safety systems maintenance and repair service

H2O is the Sureserve Group's specialist provider in water and risk assessments across the UK. Its outstanding year includes two contract wins and repeat works:

- Year on year contract from Metropolitan for various ad hoc works which annually is worth £413,000
- Southend Borough Council, continuing routine monitoring and testing worth a total of £314,000 a year
- Optivo, totalling £583,000 a year to carry out water risk assessments

Our belief is that an ongoing move towards higher levels of compliance requirements should benefit the compliance division in future periods. Our continuing stable growth should increase our buying power further and improve our ability to deliver revenues at margins. Fleet management continues to be monitored closely and we have or are investing in a number of areas including dashboards to better analyse performance and find additional areas for improvement with options being explored for further development.

Looking forward

We continue to regard Sureserve 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, where we have seen continued revenue growth and believe this is a non-volatile sector of recurring revenues that underpin these cash-generative businesses.

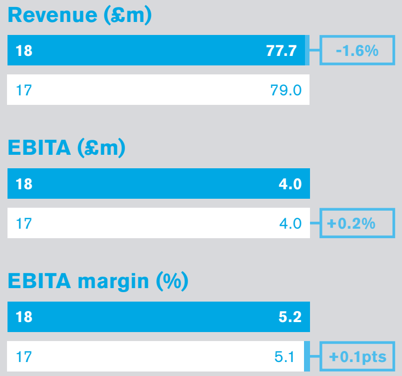
The experienced management teams include a number of Managing Directors who are focused on business growth by operational excellence from a common operating platform, building a stable platform for us to continue to grow and support our client base in the future.

Energy Services division

Our Energy Services businesses provide a range of energy efficiency services including insulation, heating and renewable technologies for social housing and private homes through the Everwarm subsidiary. Everwarm also uses these services to deliver carbon emissions savings for Utility companies, enabling them to meet their legislative targets. Work has extended in the current year to include energy efficiency projects within non-domestic properties, a recent area of new focus.
The division offers domestic smart metering installation and recurring asset management services through Providor to a largely blue-chip utility client base, with that sector growing due to the ongoing UK-wide government rollout. The division also has an established presence in the installation of electrical vehicle charging points, a further growth sector in which our experienced management team are well placed to deliver.

The Energy Services division also increased pipeline value by £6.2m, a further demonstration of opportunities we are seeing in the sector.

Energy Services: twelve months ended 30 September



Revenue was £77.7m in the period, 1.6% down on the comparative period. This was reflective of a reduction in the Everwarm incomes due to a mix of factors but mainly reduced external wall and kitchen and bathroom works due to lower levels of completed client works. The Providor business saw an increase in revenues compared to 2017 which part mitigated the Everwarm reduction, due to the full year impact of the 2017 additional contract win in the West Midlands with Scottish Power, as previously disclosed in May 2017.

EBITA improved nominally to £4.0m (2017: £4.0m), with Everwarm seeing reduced overall profitability due to revenue reductions above, however, still producing an overall strong performance, which we expect to continue with a number of recurring revenue streams remaining. The Warmworks joint venture is included within the Everwarm position – this remains the Scottish Government's flagship Home Energy Efficiency Programme for Scotland ('HEEPS') and it continued to perform well during the full year with a now established level of operational excellence. This also brings a diversified installation portfolio for Everwarm, focusing on central heating, and boiler improvements and other energy efficiency installation measures. The divisional profitability variance was underpinned by the improvement in metering and mitigated the downside from the Everwarm business – further progression will be linked to smart meter programme timing and have been noted overleaf.

Carbon prices remained largely stable during the period, and while the ECO3 commencement period is still ongoing, overall the new obligation is not anticipated to have a significant impact either positively or negatively on pricing in the future period. The Arbed 3 programme as discussed below did not impact on 2018 numbers as this was in a mobilisation phase at year end.

Operational review continued

Energy Services division
continued

Everwarm

The increase in pipeline value achieved by Energy Services was due to the strategically important award of a three-year contract worth up to £55.0m by the Welsh Government to Everwarm, our national energy efficiency business. The contract was issued under the Arbed 3 programme, which aims to deliver improvements to more than 6,000 homes throughout Wales where households are most likely to be in severe fuel poverty.

There is potential for a two-year contract extension and we were delighted to secure this work as this opportunity was particularly significant for reasons other than its sheer scale – it would also extend our reach into Wales for the first time, giving Everwarm a truly UK-wide footprint. We have set up the Arbed Am Byth Ltd joint venture to deliver this contract with the Energy Saving Trust, with whom we already collaborate on the Scottish Government's flagship Home Energy Efficiency Programme for Scotland (HEEPS).

Everwarm manages a range of services, including insulation and central heating upgrades, working with local operators to deliver benefits to the local economy. Our approach ensures we have the full range of competencies required, which included drawing on Everwarm's client service expertise to manage the client journey from initial assessment through to aftercare and service visits.

In general the year has been an excellent period for wins with Arbed 3 underpinning this but with a number of other strong contract wins by Everwarm supporting this from a divisional perspective. In addition to the significant Renfrewshire (£10.0m) and Fife (£6.0m) wins mentioned in our half year review, these also include a four-year central heating contract from Perth and Kinross Council (£5.6m), and HEEPS 2018/19 wins for Aberdeenshire (c£7.0m) and West Lothian (£2.5m) Councils. We also won a three-year renewable energy contract from North Lanarkshire Council (£2.6m), a further phase of EWI for ANCHO (£1.6m) and energy-efficient heating for Berwickshire HA (£1.4m).

Providor

Providor remains in a period of consolidating existing contract delivery following a period of strong growth, however, we are seeing many opportunities from a mix of 'Big 6' and smaller/'Challenger' utilities particularly linked to the SMETS2 rollout, which we believe will bring us further possibility for growth.

Looking forward

Everwarm's order book is strong with future revenues underpinned by long term JV arrangements with Warmworks and Arbed, in additional to strong contractual agreements with a number of clients. Carbon pricing remains an ongoing area of importance however, we remain confident there is an appetite from the government to continue to provide funding for fuel poverty in this highly regulated sector. Everwarm has a market leading proposition in this area and a huge wealth of management experience, so we believe we remain well placed to react and adapt to any changes in the landscape to continue to provide a quality service to our clients and deliver effectively for our stakeholders. Generally changes in regulations result in increased compliance which we believe is a positive for us as in effect this can act as a barrier to entry and therefore enhance our position in the market.

For Providor there have been continued delays to the national smart meter rollout and indeed, there remain further derogations permitting the installation of older SMETS1 meters now to March 2019. This is impacting installation volumes as we have discussed in previous reports. The impact on engineer efficiency requires careful management, both with workforce and our contractual positions. While we continue to seek to provide strong and secure employment for our engineers, uncertainty within the wider industry does not assist churn. The impact of this is that costs will continue to rise and we believe the successful transition to SMETS2 with an achievable timetable allowing consistent volumes is crucial if costs are not to rise further. There is therefore a level of reliance on all stakeholders in the national smart meter rollout to remain committed to this and we remain frustrated our investment supporting the rollout continues to be ignored by the legislative agencies who ultimately rely on a skilled workforce to deliver the programme.

Michael McMahon
Chief Operating Officer
21 January 2019

CONTINUING TO REDEFINE OUR SERVICES

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 operating profit before exceptional items and amortisation of acquisition intangibles of £8.0m from continuing activities (2017: £7.4m).

Group continuing revenue increased by 5.1% to £190.8m (2017: £181.5m), reflecting an increase in revenues in the Compliance division, whose revenues increased by 11.5% to £116.3m (2017: £104.3m). Revenues in Energy Services decreased by 1.6% to £77.7m (2017: £79.0m). Intersegment revenue of £3.2m (2017: £1.8m) is eliminated on consolidation.

Group operating profit before exceptional items and amortisation of acquisition intangibles increased by 8.7% to £8.0m (2017: £7.4m), reflecting a decrease in operating profit before exceptional items and amortisation of acquisition intangibles in the Compliance division of 23.6% to £6.1m (2017: £8.0m), an increase in operating profit before exceptional items and amortisation of acquisition intangibles in Energy Services of 0.2% to £4.0m (2017: £4.0m).

We exclude exceptional items and amortisation of acquisition intangibles in calculating the figure reported above to provide a more appropriate view of underlying operating performance.

Operating expenses fell 3.9% to £19.6m in the year (2017: £20.4m) reflecting reductions in the cost base. Central costs fell by 54.6% to £2.1m (2017: £4.6m), reflecting hiving down costs into the trading subsidiaries as well as the cost reduction programme outlined over the last couple of years.

We reported an operating profit from continuing operations of £3.4m (2017: restated loss of £3.6m) reflecting a £0.3m net exceptional loss (2017: £0.5m) and a £4.3m charge for amortisation of acquisition intangibles (2017: £10.5m). Interest expense was £1.5m (2017: £2.0m) and taxation was £0.8m (2017: £0.9m credit). The disposal of Lakehouse Contracts, Foster Property Maintenance and Orchard (in 2017) resulted in a post-tax loss from discontinued operations of £11.5m (2017: restated post-tax profit of £4.6m). The statutory loss after tax was £10.4m (2017: profit of £10,000).

Exceptional items in the year reduced the Group's profit before tax by £0.3m (2017: £0.5m) and related to the following items:

	2018 £m	2017 £m
Acquisition costs	0.1	0.0
Restructuring and other costs	1.0	2.1
Total exceptional costs	1.1	2.1
Release of provisions for deferred consideration	(0.8)	(1.6)
Total net exceptional costs	0.3	0.5

Restructuring and other costs of £1.0m (2017: £2.1m) relate to a small number of legacy clean-up and restructuring costs during the year.

Release of provisions for deferred consideration of £0.8m (2017: £1.6m) relate to the final settlement of deferred consideration due to Aaron Heating Services Limited and Precision Lift Services Limited.

Profit on sale of Orchard (Holdings) UK Limited of £1.2m (2017: £5.4m), relating to the sale of Orchard to World Fuel Services Europe Ltd in September 2017, which was presented as exceptional in the 2017 Financial statements, has been reclassified as discontinued operations in the current year, to ensure consistent presentation of the results (see Note 1 for further details).

Amortisation of acquisition intangibles

Amortisation of acquisition intangibles was £4.3m for the year (2017: £10.5m), the reduction reflected the fact that we have taken amortisation charges in prior periods, meaning we are amortising a reduced base of intangible assets.

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 £1.4m (2017: £1.7m).

The total finance expense of £1.5m (2017: £2.0m) included the unwinding of discounts on deferred consideration figure of £0.1m (2017: £0.3m).

Financial review continued

Discontinued items

Losses from discontinued operations amounted to £11.5m (2017: restated profit of £4.6m) on associated revenues of £71.9m (2017: £124.1m). The losses comprised losses up to the date of disposal of £5.2m (2017: £0.8m) and losses on disposal of £6.3m (2017: profit of £5.4m) The associated cash outflow for the period was £8.0m, discussed also in Note 34. Profit on sale of Orchard (Holdings) UK Limited of £1.2m (2017: £5.4m) has been reclassified as discontinued operations in the current year, to ensure consistent presentation of the results (see Note 1 for further details). The 2018 profit relates to the reassessment of the fair value of the consideration receivable (see Note 3).

Discontinued activities represent the Group's Construction and Property Services divisions which were sold on 17 August 2018 and Orchard (Holdings) UK Limited, which was sold in September 2017. In determining the classification of the activities as discontinued at 30 September 2018, the Board had regard to the conditions that needed to be met under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

Further details of the losses/profit from discontinued operations are in Note 11.

Tax

The tax charge on the profit before tax from continuing operations was £0.8m (2017: £0.9m credit), representing an effective rate of 40%, which compares with the statutory corporation tax rate of 19%. The difference was due to a combination of permanent differences, which relates in part to deferred consideration, together with prior year tax adjustments.

Our net cash tax payment for the year was £0.2m for continuing operations (2017: net cash receipt of £0.7m). During the year, the Group has received part of the anticipated cash tax refund from HMRC which formed the corporation tax receivable on the 30 September 2017 balance sheet, with the remaining amount being received in October 2018. The Group has also made tax payments on account during the year.

The net deferred tax liability as at 30 September 2018 was £37,000 (2017: asset of £2.1m), with the movement mainly relating to acquisition intangibles and the disposal of Lakehouse Contracts and Foster Property Maintenance. Further details are set out in Note 26.

Earnings per share

Earnings per share from continuing operations were 0.7 pence (2017: restated loss per share of 2.9 pence), based on profit after tax from continuing operations of £1.2m (2017: restated loss of £4.6m).

Our statutory loss for the year was £10.4m (2017: profit of £10,000). Based on the weighted average number of shares in issue during the year of 157.5 million, this resulted in basic loss per share from continuing and discontinued operations of 6.6 pence (2017: earnings of 0.0 pence).

Further details are contained in Note 14.

Dividend

The board has proposed a final dividend for the year of 0.25 pence per share. This represents a total dividend payable for the year of 0.25 pence (2017: 0.5 pence).

Subject to approval at the AGM on 19 March 2019 the final dividend will be paid on 30 April 2019 to shareholders on the register at the close of business on 1 March 2019.

Cash flow performance

Our operating cash flow from continuing operations for the year was an inflow of £4.8m (2017: £13.1m), discussed in Note 34 and reflecting an operating cash conversion from continuing operations of 60% (2017: 177%). We calculate continuing operating cash conversion as cash generated from continuing operations, excluding the cash impact of exceptional items and amortisation of acquisition intangibles, divided by operating profit before exceptional items and amortisation of acquisition intangibles. We believe this measure provides a consistent basis for comparing cash generation consistently over time. On a statutory basis, we saw an operating cash outflow of £5.7m (2017: inflow of £13.4m), representing a cash conversion of 71% outflow (2017: inflow of 181%).

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 management of working capital represents a continued challenge. The sale of Lakehouse Contracts Limited and Foster Property Maintenance Limited has simplified our volume of 'unbilleds' (especially prepaid expenses and accrued project costs) and allowed us to focus on the management of accrued income, debtors and creditors. We will need to manage through one to two seasonal cycles to see the full advantage of the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited in improving peaks and troughs in working capital. We managed these balances within our banking facilities around year end, however this represents a snapshot in time and the weighted average debt in the year was £18.7m (2017: £27.3m).

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 £11.4m at 30 September 2018 (2017: £1.3m). The increase over FY17 related predominantly to the outflow of cash in relation to Lakehouse Contracts and Foster Property Maintenance, however, this represents a snapshot in time and the weighted average debt in the year was £18.7m (2017: £27.3m).

Banking arrangements

We had drawn £13.0m (2017: £27.5m) under our revolving credit facility at the year end. At the date of issuing this report we had drawn £14.0m and National Westminster Bank ('Natwest') continue to be an excellent and supportive partner.

The Group had net current liabilities as at 30 September 2018 as a result of the borrowings being due within one year at the reporting date. In December 2018, the Group renewed its bank facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000 which runs to 31 January 2022, so the bank facility is now non-current.

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.

Financial position

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

The principal movement in net assets reflected the disposal of Lakehouse Contracts and Foster Property Maintenance. There was a reduction of £3.5m in goodwill and intangibles, due to £4.3m in amortisation of acquisition intangibles and £0.8m increase in goodwill in relation to the acquisition of Just Energy Solutions, discussed above and in notes 15 and 16.

Net current assets (excluding cash and borrowings) stood at £3.2m (2017: liability of £1.4m), reflecting a push on working capital management towards the end of the year.

Working capital

	30 September 2018 £m	30 September 2017 £m
Trade receivables	19.0	22.3
Accrued income	15.7	25.4
Trade payables	(24.6)	(31.8)
Accruals	(7.9)	(25.0)

The principal movements in working capital are noted in the above table and mainly relate to the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited during the year.

Provisions

Provisions as at 30 September 2018 stood at £7.7m (2017: £4.0m). During the year, we utilised £0.3m of provisions. We provided a further £4.9m for specific risks in relation to the disposal of Lakehouse Contracts and Foster Property Maintenance and provisions of £1.5m were disposed of on the sale of Lakehouse Contracts and Foster Property Maintenance.

Further details are set out in Note 25.

Acquisitions and disposals

The Group acquired Just Energy Solutions on the 15 May 2018 for a gross consideration of £0.3m, comprising net liabilities of £0.5m and £0.8m of goodwill.

On 17 August 2018, we announced the sale of Lakehouse Contracts and Foster Property Maintenance. Please see Note 11 in regard to discontinued operations.

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.

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 pre-tax discount rate that reflects the time value of money.

The total deferred consideration may vary between £0.0 million and £0.3 million depending on the underlying trading performance of the businesses.

The sums due in relation to H20 Nationwide Limited and Aaron Heating Services Limited were settled in full during the year.

	H2O Nationwide Limited £m	Aaron Heating Services Limited £m	PLS Holdings Limited £m	Just Energy Solutions Limited £m	Total £m
At 1 October 2017	1.0	0.3	0.6	—	1.9
Total discounted consideration payable for addition in the year	—	—	—	0.3	0.3
Unwinding of discount	0.0	0.0	0.0	0.0	0.0
Revalued in the year	—	(0.1)	(0.6)	—	(0.7)
Paid in year	(0.1)	(0.2)	—	—	(1.2)
At 30 September 2018	**—**	**—**	**—**	**0.3**	**0.3**

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 22 – 25. 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.

Our year-end review included an assessment of accrued income balances, of which the balance was £15.7m at the reporting date (2017: £25.4m), which as a Group we review regularly for impairment. Accrued income represents a balance sheet risk in our industry and we continue to ensure a balanced approach between risk and possible outcome on final invoicing. Subsequent to the disposal of Lakehouse Contracts and Foster Property Maintenance the balance sheet risk is significantly reduced in this area.

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.

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.

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 – 29. 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 – 29. In addition, Note 32 to the consolidated Financial Statements within the 2018 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 and Company'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. The Group had net current liabilities as at 30 September 2018 as a result of the borrowings being classified as a short term liability at the reporting date. RBS remains very supportive of the Group and in December 2018, the Group renewed its bank facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000 which runs to 31 January 2022. The Directors have a reasonable expectation that the Group and Company 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.

Michael McMahon
Chief Operating Officer
21 January 2019

Principal risks and uncertainties

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

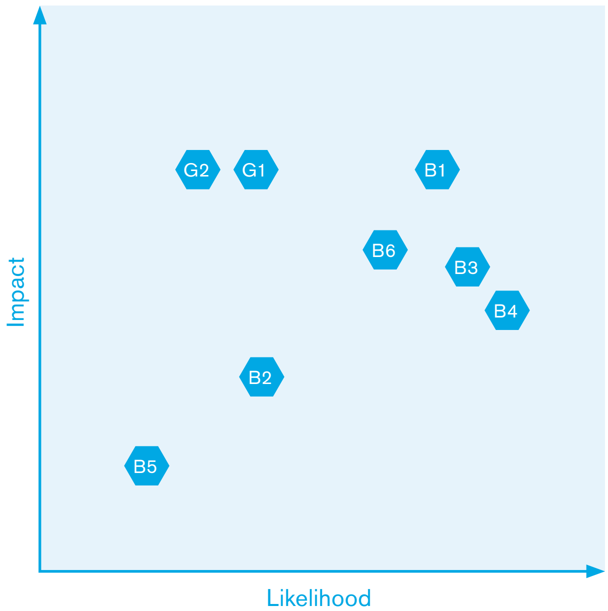
A key focus of our strategy is to reduce risk and build a sustainable and profitable business, with predictable revenues and increasing margins. We constantly review our control and monitoring processes and our systems and work closely with our clients to understand how our marketplace is changing and 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 and its likelihood of occurring.

'B' items represent business risks

'G' items represent general corporate risks

Blue items represent existing risks

More information about how we manage risk can be found in the Corporate Governance Report on pages 30 – 33.



B1 Changes in Government policy

The public sector and regulated industries provide some 98% of our revenue, so our business is heavily dependent on policies and programmes adopted by the UK, devolved national and local Governments, this is particular to Energy Services which may be susceptible to changes in Government policy.

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

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, 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.

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 and distraction within government from core domestic policy.

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 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 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.

B2 Tendering for new work

We compete for work by tendering or negotiating directly with our clients. 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.

Explanation of risk

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.

Mitigation

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.

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.

B3 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.

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.

B4 People

The success of our business depends on recruiting, retaining, motivating and developing the right people at all levels of our organisation.

Explanation of risk

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.

Mitigation

We invest significant resources in developing our managers and training our employees including through the Sureserve Academy. 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 work hard to make Sureserve a group that people want to be part of, with a positive culture and opportunities to develop and learn.

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.

Principal risks and uncertainties continued

B5 Revenue recognition

In our industry, the valuation and recognition of revenue requires significant judgement by management. 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

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 accrued income in the consolidated statement of financial position reflects amounts that are as yet to reach a point of invoice.

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, has been considered by management, with discussion included in Note 1 of the Financial Statements.

Mitigation

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. 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 disposal of our Construction activities, this risk has reduced significantly.

B6 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.

Explanation of risk

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 sector, with an increased nervousness of the insurance market around social housing contracting.

Mitigation

We review continually our investment in high quality staff and performance of health and safety reviews and the AFR 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.

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.

Explanation of risk

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.

Mitigation

We maintain excellent relationships with our banking partners, 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. In December 2018 the Group renewed its banking facilities to provide an overdraft of £5,000,000 together with a revolving credit facility of £25,000,000 which runs to 31 January 2022.

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.

G2 ICT failure

Our business is 24/7 and relies on a robust ICT infrastructure and service.

Explanation of risk

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 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 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.

BUILDING AND MAINTAINING

A STRONG REPUTATION

It is vital to our success that we build and maintain a strong reputation as a responsible business and trusted partner.

This is why we go to great lengths to do business the right way, keeping our promises to our stakeholders, building positive relationships within our marketplace and minimising our impact on the environment.

Workplace

Health and safety

Across the Sureserve Group, our single most important priority is to protect the health, safety and well-being of our employees, customers, suppliers and members of the public. This is one of the core values that underpin our culture as a Group.

We are committed to continuous improvement and do everything we can to ensure anybody affected by our work is kept safe, both during our operations and into the future. We operate a Health and Safety system and are certified to the ISO 18001 standard accreditation for Occupational Health and Safety Assessment. This enables us to underpin our internal management system and assist with driving regular performance reviews and improving our processes and procedures.

As a result, we believe our commitment to health and safety exceeds the standards that are common to our industry.

When it comes to looking after our own people, we have a programme in place that provides all employees with high quality safety training tailored to our business workstreams. We also enable employees to undertake core training when on the move, covering health and safety essentials such as Working at Heights and Asbestos Awareness. Delivered via our Learning Management System (LMS), an e-learning system from the Sureserve Academy (see below), this is always supported by instructor-led training.

We believe the ongoing health and well-being of our people is as important as their on-site safety, and we are continually developing and delivering initiatives to support this. The Group Safety, Health, Environment and Quality (SHEQ) network we created in 2015 continues to provide us with a framework for sharing best practice, introducing improvements and implementing risk-reduction programmes to continually strengthen our health and safety culture. A key element of this initiative is the annual SHEQ Forum, which provides a platform for our highly trained and skilled health and safety specialists to share knowledge and launch new projects.

Alongside training, every year we look for new ways to improve our health and safety performance across the Group. These include reward and incentive schemes, awareness programmes and near-hit reporting.

Reporting and data analysis are vital tools for us, and we submit health and safety statistics to the PLC Board every month. As well as near hits, these include Reporting of Injuries, Diseases and Dangerous Occurrences Regulations (RIDDOR) data, accidents and environmental incidents. This enables us to calculate our Accident Frequency Rate (AFR), allowing us to set relevant and meaningful health and safety targets and objectives.

Recruitment and retention

Like any business in a competitive market place, we are committed to investing in our people to ensure we have a diverse, capable and motivated workforce that represents us well in the markets where we operate. This enhances our reputation, making it easier to win new contracts and therefore to drive economic benefits for society by employing more people.

UK employment patterns and demographic change mean that recruitment and retention for roles like service and installation engineers are important areas of focus for us. We therefore continue to develop initiatives that first enable us to find and attract the right people, and then encourage them to stay with us.

Training and personal development have an important role to play in this area. We operate a graduate recruitment programme, targeting individuals who can grow with us, ensuring that we have in place the pipeline of talent needed to continue growing our business.

Group-wide the Sureserve Academy acts as a central hub for all Learning and Development activity across the Group. It has been developed to create visibility and promote consistency in all training and upskilling undertaken within each of our businesses – whether that's apprenticeships, employee development opportunities, mandatory training or our online Learning Management System (which already provides 29 essential courses online or via an app to all employees, and is set to almost double that in early 2019). We now have upwards of 170 Apprenticeships in operation throughout our Compliance businesses. This has the potential to be recognised as a national apprenticeship academy and can become the cornerstone of our resourcing and reputation within the industry.

Our Allied Protection fire safety and security business, for example, has created a three-year course for young people interested in joining the fire industry. Working with training providers and industry-leading partners in equipment and tool manufacturing, during the year the company welcomed its first intake of 10 trainees who had just completed their City and Guilds level 2 and 3 courses for mentored training.

This complements other initiatives including apprenticeship programmes for electricians and operations training for managers, which together aim to equip the company to meet not only today's demand but tomorrow's challenges too.

As well as training opportunities, we have succession plans that enable people to see how they can develop within the Group, encouraging them to build rewarding, long term careers with us.

Investing in our workforce is not only about improving skills and performance, but also giving our people an enjoyable and motivating place to work. We therefore always work hard to engage with every level of our workforce, learning from their opinions and insights to improve our business and help them develop satisfying careers that add to their quality of life.

It is because of this that the Women in Business working group was set up in early 2018, in order to advocate for both short and long term goals in promoting diversity and resolving both operational and cultural challenges across the Group.

Already having had a number of meetings with a settled team of representatives, the group has made progress in identifying and discussing solutions to Group wide issues including training, recruitment, management, diversity, culture and reputation.

> "We engage with every level of our workforce, learning from their opinions and insights to improve business and help them develop satisfying careers."

For information on workplace visit
www.sureservegroup.co.uk/sustainability/workplace

For information on markets visit
www.sureservegroup.co.uk/sustainability/markets

For information on environment visit
www.sureservegroup.co.uk/sustainability/environment

Sustainability continued

Market

Our clients

Every year, we serve hundreds of thousands of end customers when we are contracted to deliver work schemes for public sector clients across the UK.

Our continuing reputation for excellence as a provider of asset and energy support services is mission-critical, supporting our ability to win new contracts and deliver against their requirements. This is why we continuously ensure that client focus is at the heart of everything we do.

As our Executive Chairman Bob Holt has stated: "The development and long term prosperity of our business is reliant on every individual committing to a shared ethos of customer care, from the very top of the organisation, starting with me and the Board, to the office-based employees across the country, to the individuals working out in our communities on a daily basis. Every one of us has a responsibility to make our commitment to our customers the very best it can be, and it is this commitment that lies at the heart of our success moving forward."

As part of Customer Service Week every year, we run a business-wide Customer Service Award programme. The 2018 winner was Water Hygiene Technician, Ian Curzon, who has been with H2O Nationwide for almost two years. Ian was chosen for his "excellent customer service that goes above and beyond on a daily basis", "compliments from residents" and "polite and courteous professionalism". The award brought to the fore the Group's focus on client service, which has in turn driven improvements internally within a number of businesses.

Celebrating the hard work and achievements of our people is also something which is shared Group wide, and apparent right through our businesses. 'Sureserve Legends' is a peer-to-peer award which invites our employees to nominate colleagues for the difference that they make to the people around them, be it in one of our offices, in a call centre or on the road. Winners are selected from the testimonials of those that work with them, and whose working lives are improved because of their passion and energy for what they can bring to the business.

Supply chain

Ethical purchasing is a priority for the Group, and we seek always to take social, environmental and economic factors into account when deciding what, where and how to buy. Our procurement team is highly skilled at achieving best value while positively discriminating in favour of suppliers with policies that complement our beliefs.

Whenever we can, we use our procurement activities to have a positive influence on communities by enabling local businesses to grow. An example of this is our Warmworks joint venture, which manages the Scottish Government's Home Energy Efficiency Programmes (HEEPs).

This includes fair payment terms and free or subsidised training for suppliers, helping to ensure that local businesses can access our supply chain and encouraging innovation among our suppliers. Every year, we provide training to around 700 of our suppliers' employees.

Community

Our purpose includes helping to create and sustain successful and cohesive communities where people want to live and work, and we are ideally positioned to help.

This means being involved in our communities beyond our immediate role as a provider of asset and energy support services. While some of our local authority customers require us to deliver social value through our contracts, such as by creating jobs or offering apprenticeships, we aim to do so wherever we work.

For example, we offer mentoring programmes and education partnerships, helping to increase the aspirations and skills of local young people. We offer residents access to apprenticeships, employment and skills development. Whenever we can, we support initiatives that tackle social issues like crime, vandalism and other forms of anti-social behaviour. We also aim to promote social and digital inclusion, and health and well-being.

As a part of our commitment to being a responsible business we have also launched an independent charitable foundation, the Sureserve Foundation, which exists to warm the communities in the UK served by public and private buildings. We understand that many of the individuals and families that we serve face challenges to their everyday wellbeing, unjustly and unfairly as a result of fuel poverty and energy inefficiency.

The foundation supports individuals, families and communities achieve fuel efficiency and in turn, lessen the financial burden of high gas and electric bills. It works with industry partners to achieve its goals of educational and advice services, delivering energy efficient home and community improvements and enhancing energy saving for households in the United Kingdom.

Environment

When planning, undertaking and delivering our work, how best to protect the natural environment and help sustain it for the future is always a key consideration for Sureserve. We believe that every business should carefully manage and measure its impacts, and doing so is a key part of our own Group strategy.

As part of this, we continuously monitor potential impacts, promote awareness and do everything we can to reduce risks. Our Environmental Management System, underpinned by ISO 14001 accreditation, ensures that we go further than simply meeting legal requirements. We aspire to set an example of best practice to our wider industry. We communicate this to all employees, ensuring that our commitments in this area inform and influence their everyday work.

As part of this, we measure all environmental risks and opportunities across the Group, all backed up by training, awareness and support. As a result, we understand the importance of conserving wildlife, protecting plants and trees and minimising the levels of pollution that our activities release into the environment.

The key environmental areas on which we focus are energy efficiency, carbon management and waste diversion. We monitor and analyse all these aspects, setting targets to ensure continuous improvement.

Waste management

In the waste management area, we strive to ensure that at least 90% of waste is diverted from landfill. We achieve this by partnering with highly regarded waste-disposal companies that are committed to recycling and other acceptable forms of waste reduction.

Energy and carbon management

Achieving a substantial reduction in our use of energy is one of our core priorities as we strive to reduce our carbon footprint, both at a local level within each business unit and across the Group as a whole.

We hold the ISO 50001 standard for energy management systems. We apply its guidance across the Group, not only to ensure we comply with all legal and other requirements but also to help us continually develop and improve our performance.

We monitor energy consumption at all our offices, and use a fuel card system to do so for all our company vehicles. By analysing the data we collect in this way, we use it to set stretching but realistic annual reduction targets. We report Group consumption to the PLC Board each month and create annual energy reviews and baseline reports to identify and highlight annual performance and improvement opportunities.

Analysis demonstrates that during 2018 we reduced our carbon emissions by 1,175 tonnes over the previous year (2018: 11,107 tonnes of CO_2E; 2017: 12,282 tonnes of CO_2E). This is predominantly due to several improvements to our fleet, which accounts for roughly 70% of our energy consumption. Improvements include the fact that all new vehicles are fitted with start/stop technology to reduce idling. We are also replacing our current fleet with the most up-to-date and efficient vehicles with 49% of our current fleet now Euro 6 and 50% Euro 5 along with improved driver analysis and fleet tracker systems.

“We aspire to set an example of best practice to our wider industry. We communicate this to all employees, ensuring that our commitments in this area inform and influence their everyday work.”

Chairman's Corporate Governance report

I am pleased to introduce the Company's 2018 Corporate Governance Report.

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.

During 2018 the London Stock Exchange announced that from 28 September 2018, all AIM listed companies would be required to apply a recognised corporate governance code. After due consideration the Directors decided to apply the Quoted Companies Alliance Corporate Governance Code ('QCA Code'), on the basis that they believed it is the most appropriate governance code for the Group, having regard to its strategy, size, stage of development and resources.

Following the disposal of the Group's interests in it's Property Services and Construction activities during August 2018, the Company now has a tightly focused range of activities within the Compliance and Energy Services markets.

Board composition has changed during the year with the departure of one of the three Non-Executive Directors and, post the year end, with the departure of the Chief Financial Officer. As I write, the appointment of a new Finance Director for the Group is nearing completion and the structure of the Board will be further reviewed in the coming months.

My 2018 Corporate Governance Statement, along with the Board Committee Reports that follow, detail how our governance framework operates and how the Group has applied the 10 principles of the QCA Code.

Bob Holt OBE
Chairman
21 January 2019

2018 Corporate Governance Report

In line with the London Stock Exchange's recent changes to the AIM Rules requiring all AIM – listed companies to adopt and comply with a recognised corporate governance code, the Board have adopted the Quoted Companies Alliance ('QCA') Corporate Governance Code (2018).

Details of how the Group complies with each of the 10 principles of the QCA Code may be found on the Company's website at www.sureservegroup.co.uk/investors/corporate-governance

Further disclosure relating to each of the 10 principles can be found in other sections of the 2018 Annual Report and Accounts (the '2018 Report'), as detailed in the table below:

Number	Principles	Disclosure in the 2018 Report
1.	Establish a strategy and business model which promotes long term value for shareholders	Pages 10 – 11 and 31
2.	Seek to understand and meet shareholder needs and experience	Page 31
3.	Take into account wider stakeholder and social responsibilities, and their implications for long term success	Pages 26 – 29 and 31
4.	Embed effective risk management, considering both opportunities and threats throughout the organisation	Pages 22 – 25 and 31
5.	Maintain the Board as a well-functioning, balanced team led by the Chairman	Pages 31 and 34 – 35
6.	Ensure that between them the Directors have the necessary up-to-date experience, skills and capabilities	Pages 31 and 37 – 44
7.	Evaluate Board performance based on clear and relevant objectives, seeking continuous improvement	Page 32
8.	Promote a corporate culture that is based on ethical values and behaviours	Pages 1 – 29 and 32
9.	Maintain governance structures and processes that are fit for purpose and support good decision making by the Board	Pages 30 – 44
10.	Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders	Pages 1 – 48

Principle 1 – Strategy

Sureserve is a leading compliance and energy support services group that performs critical functions in homes, public and commercial buildings, with a focus on clients in the UK public sector and regulated markets. Services are delivered through two divisions: Compliance and Energy Services. Sureserve Group strategy is explained fully within our Strategic Report which is contained within pages 10 – 11 of this Report and Accounts. The Principal Risks and Uncertainties to the business are detailed on pages 22 – 25 of this Report and Accounts.

Principle 2 – Shareholder needs and experience

The Board recognises the importance of active shareholder dialogue with both institutional and private shareholders, and this is led by the Chairman and Chief Operating Officer. How the Company addresses these matters is fully detailed within the Principle 2 Note in the Corporate Governance section of the website, at www.sureservegroup.co.uk/investors/corporate-governance

Principle 3 – Stakeholder engagement and Corporate Social Responsibility

The Board is conscious of the impact that the Company's business activities may have on the environment and society more generally. The Company acknowledges it's responsibilities to all stakeholders and encourages all feedback via the Contact Us section of the Company website at www.sureservegroup.co.uk.

Full details of our Corporate Social Responsibility activities may be found in the relevant report on pages 26 – 29.

Principle 4 – Risk management

Details of the risks and uncertainties faced by the Group, and their mitigation, can be found in the Principal Risks and Uncertainties section of this Report and Accounts at pages 22 – 25. Risk management is a core focus of the Board and this is reviewed in depth at each Board meeting. Detailed feedback is obtained from each operating subsidiary, together with external regulatory bodies, for discussion at these meetings. Formal Risk Registers for the business are reviewed on a regular basis by the Board. Operational risk and any newly identified risk to the business are reviewed on a regular basis by the Board.

Principle 5 – Board

The Board, led by the Chairman, 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 day to day management to the Executive Directors, subject to formal delegated authority limits, certain matters are reserved for full Board approval. Details of Matters reserved for the Board may be found at www.sureservegroup.co.uk/investors/corporate-governance.

The table below summarises the membership of the Board, the Board Committees and the attendance record of Directors.

Director	Board scheduled meetings	Audit	Remuneration	Nomination
Executive Directors				
Bob Holt	16/16	—	—	2/2
Jeremy Simpson	15/16	—	—	
Michael McMahon	15/16	—	—	
Non-Executive Directors				
Robert Legget	16/16	4/4	3/3	2/2
Andrew Harrison[1]	10/10	1/1	2/2	2/2
Derek Zissman[2]	13/14	4/4	—	—

Notes

1. Andrew Harrison resigned on 10 May 2018.
2. Derek Zissman was appointed on 27 November 2017. He joined Remuneration Committee post the financial year end.

All Directors are required to commit sufficient time to their roles in order to adequately discharge their duties.

Principle 6 – Board composition and independence

As at 30 September 2018, the Board comprised of an Executive Chairman, two further Executive Directors and two Non-Executive Directors. Following the year end, Jeremy Simpson resigned from the Board and the Board have undertaken an extensive search for a replacement Finance Director with an announcement due imminently.

All Directors are required to commit sufficient time to their roles in order to adequately discharge their duties. Training is maintained through regular business updates from the Executive Directors and briefings from external advisers.

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

The Board has considered the independence of the Non-Executive Directors and the table below sets out their appointment date and those considered to be independent.

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.

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).

Chairman's Corporate Governance report continued

Principle 6 – Board composition and independence continued

Biographical details of each of the Directors, including their key strengths and experience are shown on pages 34 – 35.

Directors at year end	Role	Independent/ Non-Independent	Date of appointment
Bob Holt	Executive Chairman	Not Independent	July 2016
Michael McMahon	Chief Operating Officer	Not Independent	Joined the group April 2014 following the acquisition of Everwarm. Appointed Chief Operating Officer in February 2017
Jeremy Simpson[1]	Chief Financial Officer	Not Independent	April 2014
Robert Legget	Non-Executive Director Senior Independent Director	Independent	April 2016
Andrew Harrison[2]	Non-Executive Director	Independent	Appointed as an alternate Director June 2016 and as a Director July 2016
Derek Zissman	Non-Executive Director	Independent	November 2017

1. Jeremy Simpson resigned 14 October 2018.
2. Andrew Harrison resigned 10 May 2018.

Principle 7 – Board evaluation

In order to ensure the effective operation of the Board and the Committees, and in line with QCA Code Guidelines, an evaluation of the Board was undertaken by an external, independent consultant. The process of appointing an external consultant was overseen by the Senior Independent Director and the Company Secretary.

The evaluation was concluded post the end of the current reporting period and the results of the Board evaluation were presented to the Board on 10 January 2019. The Board evaluation process included an observed Board meeting, confidential questionnaires and individual interviews of Board members. The questionnaire included sections relating to the compliance principles of the Quoted Companies Alliance code.

The conclusions of the report presented on 10 January 2019 consider the areas that the Directors identified for improvement and set out a way in which they will be addressed. These include Board strategy beyond the turnround, the quality of Board interaction, governance and structure, and succession and diversity. Specifically, the Board will:

- Conclude the appointment of a new Finance Director
- Update the Company strategy
- Address Board structure and diversity, including the appointment of a further Non- Executive Director to chair the Remuneration Committee
- Provide regulatory and technical board updates
- Continue high quality Board interactions, informed by the report

The Board was unanimous in its agreement with the evaluation assessment that the Board, its Committees and individuals continue to be effective. The Board valued the independence of the external evaluator and the approach taken.

Principle 8 – Corporate culture

Our culture evolves through our working together agenda which achieves shared stakeholder value for our clients, client's customers, communities, financial partners, employees, shareholders and suppliers. The culture is driven by the Board and implemented by our Group Responsible Business Lead. 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.

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.

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's Code of Conduct – available on the Company website
- 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 has complied with the provision of statutory information relating to the Gender Pay Gap legislation and Payment Practices regime

Principle 9 – Board process and effectiveness

There were 16 Board meetings held during the year.

Within the annual calendar of Board meetings there is normally an annual budget presentation at which the Executive team present their budget for the forthcoming year. The Non-Executive Directors are encouraged to attend visits to the individual operating businesses to discuss performance and other issues with the management teams.

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.

There is a formal agenda at each Board meeting which includes an operational update from the Chief Operating Officer and financial updates from the Chief Financial Officer. Both reports cover all business units within the Group and also cover new business opportunities. Health and Safety and strategic issues are dealt with at each Board meeting by the Chairman.

During the course of the year, other matters considered by the Board include annual and half year results announcements, principal risks and uncertainties, corporate social responsibility, AGM resolutions, shareholder communications and management incentivisation.

Board papers are circulated to the Directors at least three clear business days in advance of meetings to enable proper consideration of the content of the papers.

The Chairman maintains regular contact with the Non-Executive Directors outside of formal Board meetings.

The roles of all Board members are as detailed below:

Position	Name	Responsibilities
Executive Chairman	Bob Holt	Leads the Board and sets Company strategy. Ensures an effective link between shareholders and the Board.
Chief Operating Officer	Michael McMahon	Assists the Chairman to develop strategy. Implements policies and strategies agreed by the Board and manages the business.
Chief Financial Officer	Jeremy Simpson[1]	Develops, implements and monitors financial strategy of the business.
Non-Executive Directors	Robert Legget, Derek Zissman and Andrew Harrison[2]	Provide constructive challenge to the Executive Directors. Monitor delivery of agreed strategy.
Group Company Secretary	John Charlton	Provides guidance on all matters of Corporate Governance. Ensures a good flow of information within the Board and it's Committees.

1. Jeremy Simpson resigned 14 October 2018.
2. Andrew Harrison resigned 10 May 2018.

All Directors have access to the support and advice of the Company Secretary as required. Directors are also able to take independent professional advice at the Companies expense in the furtherance of their duties where considered necessary.

Board Committees

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

The terms of reference for all Board Committees are reviewed regularly and can be found on the Company website at www.sureservegroup.co.uk/investors/corporate-governance.

Committee Chairmen attend the Company AGM and are available to answer any questions from shareholders regarding the activities of the Committees.

Principle 10 – Relations with shareholders

In the year to 30 September 2018 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 at www.sureservegroup.co.uk/investors. The website also provides details for contacting the Company on any issues.

The AGM remains a valuable opportunity for the Board to engage with shareholders and to answer any questions which shareholders may have. This year's AGM will be held on 19 March 2019 and full details of venue and resolutions proposed may be found in the Notice of Meeting enclosed with these accounts or on the Company website.

Approved by order of the Board

Bob Holt
Chairman
21 January 2019

Board of Directors

Bob Holt OBE
Chairman

Appointment
Bob was appointed as a Director and Chairman 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 currently serves as Chairman of Totally plc, and is a director of a number of other businesses. 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 in April 2014. Prior to founding Everwarm, Michael was Group Operations Director at Eaga plc, leaving it shortly before it was acquired by Carillion plc.

Robert Legget
Senior Independent Director

Appointment
Robert was appointed to the Board in April 2016.

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

Key strengths
Robert has extensive business and finance experience.

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

Derek Zissman
Non-Executive Director

Appointment
Derek was appointed to the Board in November 2017.

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

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

Chairman
Robert Legget

Members
Bob Holt
Derek Zissman

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

Evaluating the structure, size and composition of the Board.

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

More information
Nomination Committee Report, page 37.

Audit Committee

Chairman
Derek Zissman

Members
Robert Legget

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

Ensuring an effective system of internal controls is maintained.

Monitoring accounting policies.

More information
Audit Committee Report, pages 38 – 39.

Remuneration Committee

Chairman
Robert Legget

Members
Derek Zissman

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

Determining the remuneration and benefits packages of the Executive Directors.

More information
Remuneration Committee Report, pages 40 – 44.

Executive Management Team

Members
- Chairman
- Chief Operating Officer
- Chief Financial Officer
- Managing Directors of Compliance and Energy Services business
- 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 2018.

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.sureservegroup.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 were the members of the Committee during the year. Andrew Harrison resigned as a Director and member of the Audit, Remuneration and Nomination Committees on 10 May 2018. Details of attendance records during the period can be found on page 31.

Following the resignation of Andrew Harrison consideration was given to the appointment of a further Non-Executive Director, but given the ongoing discussions regarding the disposal of the Group's Property Services and Construction activities during the period, it was agreed to defer this matter to a later date.

Following the end of the financial year it was agreed that Derek Zissman the other Non-Executive Director of the Company, should join the Remuneration and Nomination Committees. Derek had joined the Board on 27 November 2017 as previously reported, following a review of the balance between Executive and Non-Executive Directors of the business.

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.

As a result of the resignation of Jeremy Simpson, the Chief Financial Officer, effective 14 October 2018, the Committee have initiated the search for a new Finance Director, and this process is nearing conclusion. The new appointment will reflect the different scale of the business following the disposal of the Group's interests in Property Services and Construction, during August 2018.

The Senior Independent Director and the Company Secretary commenced a search for the appointment of an independent, external evaluator to undertake the Board evaluation process identified in last year's report. The evaluation process was completed post the financial year end and the evaluation report was presented to the Board on 10 January 2019. The conclusion of the Report, in that it was considered that there was an effective Board and Committee structure in place was welcomed by the Board. Further details of the evaluation and the areas identified for improvement are included in the Chairman's Report on Corporate Governance on pages 30 – 33.

Action Plan for 2018/19

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

- To oversee the implementation of the recommendations from the Board evaluation Report and to monitor progress. It was agreed by the Board to invite the independent evaluator back to meet with the Board in 6 months time and to consider progress made to implementing the improvements recommended
- To conclude the appointment of a new Financial Director
- To review succession planning within the Company and the membership of the Executive management team which supports the Executive Directors
- To review the Executive/Non-Executive balance of the Board

Approved on behalf of the Board by:

Robert Legget
Senior Independent Director
Chairman of the Nomination Committee
21 January 2019

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 2018.

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 until the appointment of Derek Zissman.

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

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

- Reviewing and monitoring the integrity of the Group's annual and interim financial statements and accompanying reports to shareholders and Corporate Governance statements
- Reporting to the Board on the appropriateness of the accounting policies and practices
- In conjunction with the Board, reviewing and monitoring the effectiveness of the Group's internal control and risk management systems, including reviewing the process for identifying, assessing and reporting all key risks (see the Principal Risks and Uncertainties Review on pages 22 – 25)
- 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.sureservegroup.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. Derek Zissman and Robert Legget were the members of the Committee during the period under review. The Chairman of the Audit Committee during this period, Derek Zissman, is a Fellow of the Institute of Chartered Accountants in England and Wales whilst 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 2018
- Reviewed and agreed the external auditor's audit plan in advance of their audit for the year ended 30 September 2018
- Discussed the report received from the external auditor regarding their audit in respect of the year ended 30 September 2018, which includes comments on their findings on internal control and a statement on their independence and objectivity
- Received reports from the Internal Auditor covering risk management procedures within the business and a detailed review of the Risk Registers
- Undertook a detailed piece of work with the Internal Auditor, reviewing debtors and WIP in the Construction and Property Services division
- Reviewed and approved the non-audit assignments undertaken by the external auditor in the year to 30 September 2018
- Considered, together with the Board, the Principal Risks and Uncertainties Review

External auditor

The Group's external auditor – RSM UK Audit LLP – 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 22 – 25.

Internal audit

The group Internal Audit function is currently under review following the resignation of the Internal Auditor in June 2018 and the disposal of the Construction and Property Services Divisions in August 2018. Whilst it is considered that the disposal of the Construction and Property Services Divisions reduces significantly the risks seen within the Group, the importance of an Internal Audit function is well recognised. Currently this function is undertaken through peer review and the deployment of the central Finance team.

Where control deficiencies are noted, follow-up reviews are undertaken.

Future structure of the Finance team

Following the financial year end the Chief Financial Officer, Jeremy Simpson, resigned on 14 October 2018. The Group is currently anticipating the imminent appointment of a new Finance Director position which will reflect the changed shape and size of the Group going forward. This will give the opportunity to fully review the Group Finance function and the requirements for Internal Audit.

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

Derek Zissman
Non-Executive Director
Chairman of the Audit Committee
21 January 2019

Directors’ remuneration report

Remuneration Committee Chairman’s annual statement

Robert Legget
Non-Executive Director
Interim Chairman of the Remuneration Committee

This is the Directors Remuneration Report for the year to 30 September 2018.

The Annual Report on Remuneration on pages 40 – 44 provides details of each Director’s pay and benefits in the year to 30 September 2018.

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 at www.sureservegroup.co.uk/investors/corporate-governance.

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, with the Executive Chairman in attendance as required:

- Andrew Harrison
- Robert Legget

Andrew Harrison resigned as a Director and Remuneration Committee Chairman on 10 May 2018, at which time Robert Legget assumed the Chairman’s role. Following the financial year end in September, Derek Zissman, Non-Executive Director joined the Committee

The Committee met three 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 2017/18
- Proposed remuneration for 2018/19
- Details of the Company’s remuneration policy

Components of Executive Remuneration

The following section summarises how remuneration arrangements operated during the 2017/18 financial year.

Salary and Benefits

The table below sets out the annual salary of each of the Executive Directors in the year to 30 September 2018 and the proposed 2018/19 salary for each of their current roles.

	2017/18 salary	**2018/19 salary**	% change in basic salary
Bob Holt[1]	£75,000	**£75,000**	0%
Michael McMahon[2]	£260,000	**£260,000**	0%
Jeremy Simpson[3]	£296,000	**£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. (plus VAT), which was the sum paid in the year.
2. 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 2018 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.
3. Jeremy Simpson resigned on 14 October 2018.

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.

No Performance bonus was paid in respect of the 2017/18 financial year.

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')

During the year awards to both Michael McMahon and Jeremy Simpson under the SIAP Scheme were made. 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 details may be found below.

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 2017	Granted during the period	Lapsed during the period	Exercised during the period	**Number of options at 30 September 2018**	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)	—	**Nil**	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)
	SIAP[1]	—	500,000	—	—	**500,000**	(Note 1)	(Note 1)
	Total	445,515	500,003	(224,719)	—	**720,799**		
Jeremy Simpson	PSP[2]	292,134	—	(292,134)	—	**Nil**	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)
	SIAP[1]	—	500,000	—	—	**500,000**	(Note 1)	(Note 1)
	Total	579,104	500,003	(292,134)	—	**786,973**		

Notes

1. In relation to the SIAP award granted to Bob Holt no consideration is payable in order to exercise the award as set out above. The award will normally become capable of exercise on the day after the first to occur of (i) 31 January 2019 or (ii) the date that the audited financial results for the financial year ended 30 September 2018 are published ('Vesting Date') and will cease to be capable of exercise (and lapse) on the day immediately before the second anniversary of such Vesting Date. If the maximum performance is achieved under the SIAP award Bob Holt will be entitled to acquire 4,615,384 shares.

   During the year awards to both Michael McMahon and Jeremy Simpson under the SIAP Scheme were made. 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 details may be found above.
2. In relation to the PSP award granted to Jeremy Simpson no consideration is payable in order to exercise the awards set out above. In relation to the award granted to Michael McMahon, an exercise price of 10p per share (being the nominal value of an ordinary share in the capital of the Company) is payable in order to exercise such award. In normal circumstances each award will not be capable of being exercised prior to the Vesting Date.

   The Performance criteria for the PSP award which became exercisable on 23 March 2018 were not met, and the options under the awards to Jeremy Simpson and Michael McMahon have lapsed.
3. On 2 April 2015 each of the Executive Directors were granted an award over 199 ordinary shares of the Company under the terms of the Lakehouse plc Share Incentive Plan ('SIP'). In each case the award was made as an award of free shares by Yorkshire Building Society in its capacity as the trustee of the SIP. In accordance with the rules of the SIP, no consideration was payable for the award of free shares granted to them. In the year to 30 September 2018 an additional award of three shares was made to Jeremy Simpson and Michael McMahon following the reinvestment of the Company's 2016 final dividend (2017: three shares).

Proposed Remuneration for 2019

For the current financial year to 30 September 2019 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 will be 100% of salary. The performance measures in respect of the 2018/19 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 2018/19 bonus.

- 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 2018/19 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 2018/19 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 2021. 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.

Details of the Company's remuneration policy

2018	Total salary and fees[1] £'000	Taxable benefits[2] £'000	Annual bonus[3] £'000	Long Term Incentive[4] £'000	Pensions related benefits £'000	Compensation for loss of office £'000	Total £'000	2017 Total remuneration £'000
Executive Directors								
Bob Holt[5]	75	—	—	—	1	—	76	75
Jeremy Simpson[6]	296	18	—	—	1	315	630	341
Michael McMahon	260	17	—	—	39	—	316	316
Non-Executive Directors								
Robert Legget[7]	50	—	—	—	—	—	50	50
Andrew Harrison[8]	30	—	—	—	—	—	30	45
Derek Zissman[9]	38	—	—	—	—	—	38	—
Ric Piper[10]	—	—	—	—	—	—	—	17

Notes:

1. Total salary and fees — the amount of salary/fees received in the year.
2. Taxable benefits — the taxable value of benefits received in the year (ie car allowance and private medical insurance).
3. Annual bonus — the cash value of the bonus earned in respect of the year.
4. Long Term Incentive — there were no long term incentive awards with performance periods vesting in the respective years.
5. Bob Holt was appointed to the Board as 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.
6. Jeremy Simpson resigned from the Board with effect from 14 October 2018.
7. Robert Legget was appointed as a Director on 18 April 2016.
8. Andrew Harrison was appointed as an Alternate Director 3 June 2016 and appointed as a Director 26 July 2016. He resigned on 10 May 2018.
9. Derek Zissman was appointed as a Director on 27 November 2017.
10. Ric Piper resigned as a Director on 30 November 2016.

Long term incentive vesting

There were no long term incentive awards capable of vesting in 2017/18.

Other directorships

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

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. The Sureserve Group operates all its share plans within these guidelines.

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 Sureserve Group 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
Derek Zissman	27 November 2017	1 month	1 month

Corporate governance

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 50 Liverpool Street, London EC2M 7PY.

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.

Robert Legget
Senior Independent Director
Interim Chairman of the Remuneration Committee
21 January 2019

Directors' report

The Directors present their Annual Report and the audited Financial Statements for the Group for the year ended 30 September 2018.

General information

The Company was incorporated as a public company limited by shares in England and Wales on 28 January 2015 with registered number 09411297 and traded as Lakehouse plc until the Company changed its name to Sureserve Group plc on 1 October 2018, following the divestment of the Group's Construction and Property Services Divisions. 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 50 Liverpool Street, London EC2M 7PY.

Principal activities

Sureserve is a leading compliance and energy support services group that performs critical functions in homes, public and commercial buildings, with a focus on clients in the UK public sector and regulated markets. Services are delivered through two divisions: Compliance and Energy Services.

Results and dividends

The results for the year are set out in the consolidated statement of comprehensive income on page 52. The Directors recommend the payment of a final dividend of 0.25 pence per share on 30 April 2019 subject to approval at the Annual General Meeting on 19 March 2019 with a record date of 1 March 2019.

Directors and Directors' interests

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

Bob Holt OBE
Michael McMahon
Jeremy Simpson (Resigned 14 October 2018)
Andrew Harrison (Resigned 10 May 2018)
Robert Legget
Derek Zissman (Appointed 27 November 2017)

Biographical details and committee membership details for Directors appears on pages 34 – 35.

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:

	Beneficial/ non-beneficial	At 1 October 2017 (or date of appointment)	Movement in year	**At 30 September 2018**	**At 30 September 2018 Percentage**
Michael McMahon	Beneficial	5,463,890	—	**5,463,890**	**3.47%**
Jeremy Simpson	Beneficial	342,606	—	**342,606**	**0.22%**
Bob Holt	Beneficial	—	100,000	**100,000**	**0.06%**
Robert Legget	Beneficial	—	—	**—**	**0.00%**
Andrew Harrison[1]	Non-beneficial	24,409,196	(24,409,196)	**—**	**0.00%**
Derek Zissman	Beneficial	—	100,000	**100,000**	**0.06%**

1. Andrew Harrison resigned on 10 May 2018.

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 40 – 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.

Directors’ report continued

Substantial shareholdings and share capital

As at 11 January 2019, 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	30,165,000	19.15
Estate of Steve Rawlings	24,409,196	15.49
Slater Investments	15,996,982	10.15
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 2018, 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 – 13.

Risks and uncertainties

Details of the risks and uncertainties faced by the Group can be found in the Strategic Review on pages 22 – 25.

Financial instruments

An explanation of the Group’s treasury policies and existing financial instruments are set out in Note 2 of the Financial Statements.

Donations

The Group made charitable donations in the year of £45,676. Information on the Group's resources, relationships and sustainability are set out on pages 26 – 29. 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 50 Liverpool Street, London EC2M 7PY on 19 March 2019 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 30 – 36. 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
21 January 2019

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 21 January 2019 and is signed on its behalf by

Bob Holt OBE
Chairman

Michael McMahon
Chief Operating Officer

Independent auditor's report

To the members of Sureserve Group plc

Opinion

We have audited the financial statements of Sureserve Group plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 30 September 2018, which comprise the consolidated statement of comprehensive income, the consolidated statement of financial position and company balance sheet, the consolidated and company statements of changes in equity, the consolidated statement of cash flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International 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 Financial Reporting Standard 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 2018 and of the group's loss 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 the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities and we have fulfilled our other ethical responsibilities in accordance with these requirements. 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 judgment, were of most significance in our audit of the group and parent company 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 group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Group key audit matters

Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited

As disclosed in Note 11 in the consolidated financial statements, the Group completed the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited on 17 August 2018. The matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter because the transaction had a material impact on the result for the year, resulting in losses of £12.7m included within the total losses from discontinued operations of £11.5m. The loss on disposal includes provisions of £4.9m, the estimation of which involves a significant degree of management judgement.

Our response to the risk included:

- Reviewing the Sale and Purchase Agreement ("SPA") and comparing the accounting treatment to the terms of the SPA
- Audit of the estimates made by management in recognising provisions in relation to the disposal, including discussing the existence of any guarantees, warranties or deferred consideration agreements with management and reviewing post completion correspondence with the purchaser
- Obtaining confirmation from management of the completeness of all actual and potential claims in relation to the disposal
- Audit of the disclosures in the financial statements, including the restatement of the comparative results

Goodwill and intangible asset impairment

At 30 September 2018, the Group had goodwill totalling £42.9 million (2017: £42.2 million) and other intangible assets totalling £4.9m (2017: £9.2 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 requires management to make estimates involving judgement, including forecasts of revenue and profitability and application of appropriate discount rates and the matter was considered a key audit matter due to its effect on the allocation of resources in the audit.

Independent auditor's report continued

To the members of Sureserve Group plc

Group key audit matters continued

Goodwill and intangible asset impairment continued

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

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 and as a result the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter.

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 such as invoices and the underlying contracts
- Specific testing of cut-off through the selection of a sample revenue transactions recognised either side of the year end and corroboration of the period in which the service was provided
- Audit of the disclosures made in the financial statements on the expected impact of adoption of IFRS 15 (and other new accounting standards)

Provisions and legal and other costs

The financial statements include provisions for legal and other costs of £7.7 million (2017: £4.0 million), as disclosed in Note 25 in the consolidated financial statements. The amounts provided, and the completeness of provisions, are areas that require management estimates involving judgements and as a result the matter was considered to be one of most significance in the group audit and therefore determined to be a key audit matter.

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 provisions, including associated accounting estimates, and in respect of contingent liabilities for which no provision has been made

Parent company key audit matters

The only parent company key audit matter is the risk of impairment of investments in subsidiaries of £12.4m (2017: £12.4m) as disclosed in Note 42 and amounts due by group undertakings of £66.6m (2017: £46.3m) as disclosed in Note 45. Our response to risk is as set out in the goodwill and intangible asset impairment key audit matter above, where relevant to the balances in the parent company balance sheet.

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. When evaluating whether misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Materiality for the group financial statements as a whole was calculated as £523,000 and materiality for the parent company financial statements as a whole was calculated as £400,000 which were not significantly 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 £50,000, as well as differences below that threshold 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 company and group financial statements of Sureserve Group plc and was based on parent company materiality for the parent company and group materiality for the group and an assessment of risk at parent company and group level.

Other information

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

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.

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; and
- the Strategic Report and the Directors' Report have 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 their environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or 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; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 48, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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.

Use of our 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
21 January 2019

Consolidated statement of comprehensive income

For the year ended 30 September 2018

	Notes	2018 £'000	2017 Restated £'000
Continuing operations			
Revenue	4	**190,750**	181,496
Cost of sales		**(163,380)**	(154,530)
Gross profit		**27,370**	26,966
Other operating expenses		**(19,558)**	(20,358)
Share of results of joint venture	18	**226**	786
Operating profit before exceptional items and amortisation of acquisition intangibles	4,5	**8,038**	7,394
Exceptional costs	7	**(1,048)**	(2,127)
Exceptional income	7	**757**	1,624
Amortisation of acquisition intangibles	16	**(4,325)**	(10,495)
Operating profit/(loss)		**3,422**	(3,604)
Finance expense	8	**(1,475)**	(1,985)
Investment income	8	**—**	16
Profit/(loss) before tax from continuing operations	4	**1,947**	(5,573)
Taxation	12	**(782)**	934
Profit/(loss) after taxation from continuing operations		**1,165**	(4,639)
Discontinued operations			
(Loss)/profit for the year from discontinued operations	11	**(11,520)**	4,649
(Loss)/profit for the year attributable to the equity holders of the Group		**(10,355)**	10
Earnings/(loss) per share from continuing operations			
Basic	14	**0.7p**	(2.9p)
Diluted	14	**0.7p**	(2.9p)
(Loss)/earnings per share from continuing and discontinued operations			
Basic	14	**(6.6p)**	0.0p
Diluted	14	**(6.6p)**	0.0p

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

Consolidated statement of financial position

At 30 September 2018

	Notes	2018 £'000	2017 £'000
Non-current assets			
Goodwill	15	**42,923**	42,169
Other intangible assets	16	**4,927**	9,233
Property, plant and equipment	17	**1,474**	1,905
Interests in joint venture	18	**865**	1,196
Trade and other receivables	21	**—**	456
Deferred tax asset	26	**—**	2,085
		50,189	57,044
Current assets			
Inventories	19	**4,222**	4,490
Amounts due from customers under construction contracts	20	**—**	6,269
Trade and other receivables	21	**42,618**	59,129
Corporation tax receivable		**769**	551
Cash and cash equivalents		**1,705**	26,129
		49,314	96,568
Total assets		**99,503**	153,612
Current liabilities			
Amounts due to customers under construction contracts	20	**—**	1,786
Trade and other payables	22	**39,334**	69,178
Loans and borrowings	23	**12,926**	—
Finance lease obligations	27	**83**	182
Provisions	25	**5,102**	893
		57,445	72,039
Net current (liabilities)/assets		**(8,131)**	24,529
Non-current liabilities			
Trade and other payables	22	**269**	973
Loans and borrowings	23	**—**	27,077
Finance lease obligations	27	**60**	144
Provisions	25	**2,593**	3,137
Deferred tax liability	26	**37**	—
		2,959	31,331
Total liabilities		**60,404**	103,370
Net assets		**39,099**	50,242
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		**(22,521)**	(11,378)
Equity attributable to equity holders of the Company		**39,099**	50,242

The Financial Statements of Sureserve Group plc (registered number 09411297) were approved by the Board of Directors and authorised for issue on 21 January 2019. They were signed on its behalf by:

Michael McMahon
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 2018

	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 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
Loss for the period	—	—	—	—	—	(10,355)	(10,355)
Dividends paid (Note 13)	—	—	—	—	—	(788)	(788)
At 30 September 2018	**15,753**	**25,314**	**776**	**(290)**	**20,067**	**(22,521)**	**39,099**

Consolidated statement of cash flows

For the year ended 30 September 2018

	Notes	2018 £'000	2017 Restated £'000
Cash flows from operating activities			
Cash (used in)/generated from operations	34	(5,682)	13,373
Interest paid		(1,058)	(1,385)
Interest received		—	3
Taxation		(152)	655
Net cash (used in)/generated from operating activities		(6,892)	12,646
Cash flows from investing activities			
Payment of deferred consideration on prior year acquisitions		(1,245)	(2,588)
Sale of shares in subsidiary, net of cash disposed of		—	12,044
Purchase of property, plant and equipment		(430)	(909)
Purchase of intangible assets		(449)	(462)
Sale of property and equipment		65	153
Net cash (used in)/generated from investing activities		(2,059)	8,238
Cash flows from financing activities			
Dividend paid to shareholders		(788)	(788)
Proceeds from bank borrowings		—	6,500
Repayment of bank borrowings		(14,500)	—
Repayments to finance lease creditors		(183)	(60)
Finance issue costs		(2)	(336)
Net cash (used in)/generated from financing activities		(15,473)	5,316
Net (decrease)/increase in cash and cash equivalents		(24,424)	26,200
Cash and cash equivalents at beginning of year		26,129	(71)
Cash and cash equivalents at end of year		1,705	26,129

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 2018

General information

Sureserve Group plc is a company incorporated in the United Kingdom under the Companies Act. The address of the registered office is 50 Liverpool Street, London EC2M 7PY. On 28 September 2018, Lakehouse plc changed its name to Sureserve Group plc.

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.

Restatement of comparative information

The Group has amended the format of the consolidated statement of comprehensive income to simplify the presentation by presenting a single column for each year instead of separate columns for 'underlying' results and 'exceptional and other items' presented in the 2017 Financial Statements. We have made this change in light of FRC guidance on clear and concise reporting and use of alternative performance measures and because we consider it presents the results in a clearer way. We have also presented all results from discontinued operations in a single line in both 2017 and 2018 in accordance with IFRS 5, which has resulted in a restatement of 2017 exceptional income, profit from continuing operations, taxation, results from discontinued operations, earnings per share and cash flow statement.

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 Revenue from Contracts with Customers

IFRS 15 sets out the principles to be applied in revenue recognition, replacing those in IAS 18 Revenue, IAS 11 Construction Contracts and their related guidance.

IFRS 15 is effective for accounting periods beginning on or after 1 January 2018 and will be applied by the Group from 1 October 2018. Upon transition to IFRS 15, the Group currently intends to apply the 'Cumulative Catch-Up' method. Under this method, the cumulative impact of the transition to IFRS 15 will be recorded as an adjustment to equity on 1 October 2018 and the comparative figures presented in the Financial Statements will not be restated.

A project to assess the full impact of the new standard has now been advanced with the engagement of an independent professional services firm. In order to assess the impact of applying IFRS 15 for the first time, a representative sample of client contracts was selected for analysis. The analysis is continuing but the work performed thus far has enabled management to conclude that the adoption of IFRS 15 will impact the Group's Financial Statements in the following areas:

1. Basis of Preparation continued

IFRS 15 Revenue from Contracts with Customers continued

Measurement of revenue for those contracts where control of the asset or service is transferred to the customer over time

The Group's contract portfolio comprises a mixture of short term contracts (where works are typically completed within a day or so) and longer term projects (where works may extend over several weeks or months).

- Short term contracts – the Group will utilise the practical expedient within IFRS 15, allowing revenue to be recognised at the amount which the Group has the right to invoice, where that amount corresponds directly with the value to the customer of the Group's performance completed to date. This is aligned with the Group's existing accounting policy and so is not expected to result in any adjustments being required on adoption of IFRS 15
- Longer term contracts – under the Group's current accounting policy, the costs of fulfilling longer term contracts are initially recognised in the balance sheet as work in progress and are subsequently released to profit and loss as revenue is recognised in line with surveys performed (ie an 'outputs' basis). Under IFRS 15, contract fulfilment costs are required to be expensed as incurred unless they can be recognised as an asset under another accounting standard. Having revisited the Group's existing methodology for recognising revenue on longer term contracts, management have determined that recognising revenue in line with costs incurred as a proportion of total expected costs (ie an inputs basis) will more faithfully represent the measurement of contract progress over time and so intend to apply this method with effect from 1 October 2018. This is expected to result in a similar pattern for the recognition of revenue as previously with the exception of amounts previously recorded as work in progress relating to materials where control has passed to the client but installation has not yet occurred. Under the inputs method, these amounts will now be recognised in revenue (at nil margin) on the transfer of control of the goods. Had this policy been applied in the year ended 30 September 2018, revenue would have increased by £1.0m with a corresponding increase in cost of sales and no impact on gross margin

Accounting for variable consideration

While issued infrequently, the Group's contracts often provide for credits to be issued in the event of specified service targets not being met. Under the Group's current accounting policy, a provision is made for the value of service credits expected to be granted with the resulting charge being recognised as a cost of sale. Under IFRS 15, service credits represent 'variable consideration' and are required to be accounted for as a reduction in revenue. Had this policy been applied in the year ended 30 September 2018, revenue would have decreased by £0.1m with a corresponding decrease in cost of sales and no impact on gross margin.

IFRS 16

We will evaluate the potential impact of IFRS 16 on the 2019 accounts, which will form the comparative figure when the standard is adopted in 2020 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 transitions between Group companies are eliminated on consolidation.

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

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 reporting 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. The Group had net current liabilities as at 30 September 2018 as a result of the borrowings being classified as a short term liability at the reporting date. In December 2018, the Group renewed its bank facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000, which runs to 31 January 2022. Accordingly, they have adopted the going concern basis in preparing the financial information. Please see further information in the strategic report.

Operating segments

The Directors regard the Group's reportable segments of business to be Compliance and Energy Services. 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.

2. Significant accounting policies continued

Business combinations continued

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

Management believe that acquisition costs are exceptional in nature and they are presented as such in the income statement, so as not to distort presentation of the underlying performance of the Group.

Discontinued operations

A discontinued operation is a component of an entity that either has been disposed of, or is classified as held for sale, and

(a) represents a separate major line of business or geographical area of operations,

(b) is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or

(c) is a subsidiary acquired exclusively with a view to resale.

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.

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

2. Significant accounting policies continued

Property, plant and equipment continued

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 gains or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Impairment of tangible and intangible assets excluding goodwill

At each reporting 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/or nature require separate disclosure and are reported separately in the statement of comprehensive income. Details of exceptional items are explained 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 reporting 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 client. The billing arrangements can range from an all-encompassing price for each direct works, including an element of local site overhead, central overhead and associated profit; to the price of the direct works alone, with (where relevant) a separately agreed annual fee for local site and central overheads. The quantum of work performed in each period is captured and valued either against the agreed contract terms or with reference to costs incurred to date as a percentage of total expected costs, and the resulting revenue is recognised.

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

Certain contracts, in particular for gas servicing and maintenance, are procured on a fixed price basis. Revenue for maintenance/reactive activities is recognised on a straight line basis over the life of the contract. Revenue for servicing activities is recognised when the service is performed; however, when it is impractical for the client 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.

2. Significant accounting policies continued

Revenue continued

(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 clients 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 clients for contract work is presented as a liability for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses). Full provision is made for losses on all contracts in the year in which the loss is first foreseen.

All revenue arising from construction contracts is included in the discontinued operations set out in Note 11.

(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 reporting 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, whose remit is to hold Sureserve Group 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.

2. Significant accounting policies continued

Costs incurred in raising finance

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

Taxation

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

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

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

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

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

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

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

Inventories

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

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 ventures

Under IFRS 11 we account for joint ventures under the equity method of accounting. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the arrangement. Loans receivable and investments in joint venture entities are reviewed for impairment at each year end.

2. Significant accounting policies continued

Financial instruments

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

(a) Loans and receivables

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

(b) Cash and cash equivalents

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

(c) 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.

(d) 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.

(e) 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.

(f) 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.

(g) 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.

Nature and purpose of each reserve in equity

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

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

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

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

3. Critical accounting judgements and key sources of uncertainty

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

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

3. Critical accounting judgements and key sources of uncertainty continued

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.

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 estimation and judgement; however, service provision lump sum and longer term contracts do require judgements and estimates to be made to determine the stage of completion and the expected outcome for the individual contract. A sum will be recognised in relation to the accrued revenue on the statement of financial position, details of which are described in Note 21. The accrued income balance as at 30 September 2018 was £15.7m (2017: £25.4m).

These assessments include a degree of uncertainty and therefore if the key judgements and estimates change, further adjustments of recoverable amounts may be necessary. Following the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited in the year, the Directors consider the risk of material adjustments arising from a revision of estimates to have reduced. Revenue from continuing operations is generated from a large number of contracts with customers, such that there is limited sensitivity to material revisions arising from changes in estimates on individual contracts.

Provisions 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

Estimates of amounts provided take account of legal advice where sought. Details of specific cases are not disclosed due to potential commercial sensitivity. Provisions at 30 September 2018 includes £4.9m in respect of the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited – see notes 11 and 25 for details of the basis of estimation used.

The total carrying value of provisions as at 30 September 2018 was £7.7m (2017: £4.0m) – see Note 25 for further details.

Fair value of deferred consideration

The fair value of deferred consideration is considered in line with the terms of the associated Sale and Purchase Agreement and the potential range of likely outcomes.

The carrying value of deferred consideration payable as at 30 September 2018 was £0.3m (2017: £1.9m) see Note 35 for further details.

The Directors reassessed the fair value of deferred consideration receivable in the year in respect of the disposal of Orchard (Holdings) UK Limited in September 2017. The assessment of fair value of consideration at 30 September 2017 was made based on the limited information available at that date, taking account of the date of disposal (29 September 2017) and lack of transactional experience with the buyer.

The reassessment of fair value of deferred consideration receivable resulted in recognition of profit of £1.2m in the year (see Note 11) and deferred consideration receivable of £1.2m at 30 September 2018 (see Note 21). Of this balance £0.9m has been received post year end and the remaining estimation range is nil to £0.9m of which a receivable of £0.3m has been recognised. The reassessment of fair value resulted from information that became available within the year. Measurement of fair value of the remaining deferred consideration receivable involves a review of expected receivables on a customer by customer basis, and application of a percentage probability of an adverse outcome on each based on the past experience of the Orchard team, which we consider to be a reliable base of estimation.

In regards to the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited, the consideration receivable in the sale and purchase agreement was £0.5m but no consideration has been recognised in these accounts as the Directors regard the fair value of this to be £nil.

Critical accounting judgements

The Group did not in the period make any critical accounting judgements, other than the estimates involving judgement set out above within key sources of estimation and uncertainty.

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 two core activities of the Group, with the following operating segments applicable:

- **Compliance:** focused on gas, fire, electrics, air, 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

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For the year ended 30 September 2018

4. Operating segments continued

- 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, boiler upgrades and other renewable technologies. The services are offered under various energy saving initiatives including Energy Company Obligations ('ECO'), Green Deal and the Scottish Government's HEEPs ('Home Energy Efficiency Programme') Affordable Warmth programme. Clients include housing associations, social landlords, local authorities and private householders and we have trading relationships with five of the 'big six' utility suppliers and many of the leading utility challengers. We also provide metering services involving the installation, servicing and administration of devices and associated data.

The accounting policies of the reportable segments are the same as those described in the accounting policies section.

All revenue and profit is derived from operations in the United Kingdom only.

The profit measure the Board used to evaluate performance is operating profit before exceptional and amortisation of acquisition intangibles. Operating profit before exceptional and amortisation of acquisition intangibles is defined as operating profit before deduction of exceptional items and amortisation of acquisition intangibles, as outlined in Note 7 and on the face of the income statement.

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 Operating profit before exceptional and amortisation of acquisition intangibles by reportable segment:

	2018 £'000	2017 £'000
Revenue		
Compliance	116,275	104,319
Energy Services	77,734	78,960
Total segment revenue	194,009	183,279
Inter-segment elimination	(3,259)	(1,783)
Total continuing revenue	190,750	181,496

Reconciliation of Operating profit before exceptional and amortisation of acquisition intangibles to profit/(loss) before taxation from continuing operations

	2018 £'000	2017 £'000
Operating profit before exceptional and amortisation of acquisition intangibles by segment		
Compliance	6,104	7,986
Energy Services	4,025	4,015
Central	(2,091)	(4,607)
Total operating profit before exceptional and amortisation of acquisition intangibles	8,038	7,394
Amortisation of acquisition intangibles	(4,325)	(10,495)
Exceptional costs	(1,048)	(2,127)
Exceptional income	757	1,624
Investment income	—	16
Finance costs	(1,475)	(1,985)
Profit/(loss) before taxation from continuing operations	1,947	(5,573)

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 clients account for more than 10% of Group revenue for 2018 or 2017.

5. Profit/(loss) before taxation

Profit/(loss) before taxation is stated after charging/(crediting):

	2018 £'000	2017 £'000
Amount of inventories recognised as an expense	57,133	62,425
Depreciation of property, plant and equipment		
– owned	678	1,039
– held under finance leases	180	222
Amortisation of intangible assets (Note 16)	4,668	10,931
Impairment of tangible assets (Note 17)	—	394
Staff costs (Note 9)	84,822	87,279
Operating lease rentals:		
– land and buildings	933	1,177
– other	4,027	3,270
Profit on disposal of property, plant and equipment	(52)	(107)

6. Auditor's remuneration

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

	2018 £'000	2017 £'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	54
– The audit of the Company's subsidiaries	186	216
Total audit fees	240	270
Fees payable to the Company's auditor and their associates for other services to the Group:		
– Agreed upon procedures on interim accounts	23	—
– Other assurance services	—	14
– Corporate finance services (IPO)	—	128
Total non-audit fees	23	142

7. Exceptional and other items

	2018 £'000	2017 Restated £'000
Acquisition costs	34	14
Restructuring and other costs	1,014	2,113
Total exceptional costs	1,048	2,127
Release of provisions for deferred consideration	(757)	(1,624)
Total net exceptional costs	291	503

Exceptional items in the year decreased the Group's profit after tax by £0.3m and relate to the following items:

Restructuring and other costs of £1.0m (2017: £2.1m) in the year relating to a small number of legacy clean-up and restructuring costs.

Release of provisions for deferred consideration of £0.8m (2017: £1.6m) reflecting the final settlement of deferred consideration due to Aaron Heating Services Limited and Precision Lift Services Limited.

Exceptional items are considered non-trading because they are not part of the underlying trade of the Group.

8. Investment income and finance expenses

	2018 £'000	2017 £'000
Investment income		
Unwinding of discount on financial assets	—	13
Other interest receivable	—	3
	—	16
Finance expenses		
Interest payable on bank overdrafts and borrowings	(1,355)	(1,661)
Unwinding of discount on financial liabilities	(82)	(238)
Other interest payable	(38)	(86)
	(1,475)	(1,985)

9. Information relating to employees

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

	2018 Number	2017 Number
Direct labour and contract management	1,716	1,575
Administration and support	612	841
	2,328	2,416

The aggregate remuneration was as follows:

	2018 £'000	2017 £'000
Wages and salaries	75,586	78,161
Social security	8,012	8,163
Pension costs – defined contribution plans	1,224	955
	84,822	87,279

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 £1,224,000 in the year ended 30 September 2018 (2017: £955,000). At the reporting date, £251,568 of contributions were payable to the funds (2017: £143,770).

11. Discontinued operations

	2018 £'000	2017 Restated £'000
Revenue	71,949	124,082
Expenses	(78,371)	(124,838)
Loss before tax	(6,422)	(756)
Taxation	1,220	3
Loss after tax from discontinued operations	(5,202)	(753)
Loss on disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(7,476)	—
Profit on disposal of Orchard (Holdings) UK Limited	1,158	5,402
	(11,520)	4,649

Below is a breakdown of the discontinued operation by entity:

Orchard (Holdings) UK Limited

	2018 £'000	2017 £'000
Revenue	—	6,052
Expenses	—	(3,926)
Profit before tax	—	2,126
Taxation	—	(435)
Profit after tax from discontinued operations	—	1,691

11. Discontinued operations continued

Lakehouse Contracts Limited and Foster Property Maintenance Limited

	2018 £'000	2017 £'000
Revenue	71,949	118,030
Expenses	(78,371)	(120,912)
Loss before tax	(6,422)	(2,882)
Taxation	1,220	438
Loss after tax from discontinued operations	(5,202)	(2,444)

Losses from discontinued operations amounted to £11.5m (2017: profit of £4.6m) on associated revenues of £71.9m (2017: £124.1m). The associated cash outflow for the period was £8.0m, discussed also in Note 34. Profit on sale of Orchard (Holdings) UK Limited of £1.1m (2017: £5.4m) has been reclassified as discontinued operations in the current year, to ensure consistent presentation of the results.

Discontinued activities represent the Group's Construction and Property Services divisions (the 'Activities') which were sold on 17 August 2018, with the comparative period also including Orchard Energy, which was sold in September 2017. In determining the classification of the Activities as discontinued at 30 September 2018, the Board had regard to the conditions that needed to be met under IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations'.

The 2018 losses from discontinued operations comprise:

- Disposal costs of Lakehouse Contracts Limited and Foster Property Maintenance Limited (including professional fees) of £1.0m (2017: £nil)
- Provisions for liabilities relating to the disposal of £4.5m net of tax of £0.4m (2017: £nil)
- £2.0m loss on disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited (2017: £nil) representing net assets at date of disposal – no consideration receivable has been recognised
- Losses of Lakehouse Contracts Limited, Foster Property Maintenance Limited and Orchard (Holdings) UK Limited prior to disposal of £5.2m (2017: £0.8m)
- £1.1m profit on sale of Orchard (Holdings) UK Limited from reassessment of the fair value of consideration receivable (2017: £5.4m)

The Group is entitled to recover any net value yielded by the buyer of Lakehouse Contracts Limited and Foster Property Maintenance Limited from the working capital balances of the activities post-sale, together with amounts provided for provisions noted above of £4.5m. No sums have been recovered to date and in light of the weak performance of the activities since, the Board has reserved in full, all sums potentially recoverable under this process. The consideration receivable in the sale and purchase agreement was £0.5m but no consideration has been recognised in these accounts as the Directors regard the fair value of this to be £nil.

In addition to the amounts provided for above there are a number of potential contingent liabilities arising from the disposal including:

- Potential claims under parent company guarantees and bonds for projects. The value of bonds and guarantees is disclosed in Note 31.
- Potential claims under clauses in the sale and purchase agreement including working capital adjustments and warranties/indemnities. Further details are not disclosed on the basis that such disclosure would be seriously prejudicial.

12. Tax on profit/(loss) from continuing operations

	2018 £'000	2017 Restated £'000
Current tax		
Current year	1,656	473
Current tax – prior year adjustment	(67)	83
Total current tax	1,589	556
Deferred tax (Note 26)	(807)	(1,490)
Total tax on profit/(loss) on ordinary activities	782	(934)

12. Tax on profit/(loss) from continuing operations continued

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

	2018 £'000	2017 Restated £'000
Profit/(loss) before tax from continuing operations	1,947	(5,573)
Effective rate of corporation tax in the UK	19.00%	19.50%
Profit/(loss) before tax at the effective rate of corporation tax	370	(1,087)
Effects of:		
Expenses not deductible for tax purposes	537	—
Income not taxable	—	(52)
Adjustment of deferred tax to closing tax rate	65	238
Current tax – prior year adjustment	(67)	83
Deferred tax – prior year adjustment	(96)	(32)
Deferred tax asset not recognised	(27)	(84)
Tax charge/(credit) for the year	782	(934)

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 reporting date.

The closing deferred tax asset at 30 September 2018 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 2017 of 0.5 pence per share amounting to £0.8m was paid in the year.

The Board has proposed a final dividend for the year of 0.25 pence per share amounting to £0.4m and representing a total dividend of 0.25 pence for the full year (2017: 0.5 pence).

Subject to approval at the Annual General Meeting on 19 March 2019 the final dividend will be paid on 30 April 2019 to shareholders on the register at the close of business on 1 March 2019 and has not been included as a liability in these Financial Statements.

14. Earnings per share

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

	2018 Number	2017 Number
Weighted average number of ordinary shares for the purposes of basic (loss)/earnings per share	157,527,103	157,527,103
Diluted		
Effect of dilutive potential ordinary shares:		
Share options	7,316,715	6,354,933
Weighted average number of ordinary shares for the purposes of diluted loss/earnings per share	164,843,818	163,882,036
(Loss)/earnings for the purpose of basic and diluted earnings per share being net (loss)/profit after tax attributable to the owners of the Company from continuing and discontinued operations (£'000's)	(10,355)	10
Basic (loss)/earnings per share	(6.6p)	—
Diluted (loss)/earnings per share	(6.6p)	—
Earnings for the purpose of basic and diluted earnings per share being net profit/(loss) after tax attributable to the owners of the Company from continuing operations (£'000's)	1,165	(4,639)
Continuing basic earnings/(loss) per share	0.7p	(2.9p)
Continuing diluted earnings/(loss) per share	0.7p	(2.9p)

The number of shares in issue at 30 September 2018 was 157,527,103 (2017: 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

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15. Goodwill

	£'000
At 1 October 2016	47,338
Disposal of Orchard (Holdings) UK Limited	(5,607)
Other adjustments to goodwill	438
At 30 September 2017	42,169
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	—
Acquisition of Just Energy Solutions Limited	754
At 30 September 2018	**42,923**

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	2018 £'000	2017 £'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
Sure Maintenance Group Limited	Compliance	4,225	4,225
Aaron Heating Services Limited	Compliance	3,667	3,667
PLS Holdings Limited	Compliance	4,064	4,064
Just Energy Solutions Limited	Compliance	754	—
		42,923	42,169

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 2018 the value in use for each CGU was calculated based upon the cash flow projections of the latest board approved three-year forecasts together with a further two years estimated and an appropriate terminal value based on perpetuity.

This is discussed further below.

Future budgeted and forecast profits are estimated by reference to 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 and the renewable energy and insulation markets will continue to present strong growth opportunities for the CGUs outlined above. Management believe that future growth in these markets is underpinned by a number of factors including:

- A pipeline of new tenders
- Further opportunities to work with other Group companies
- Client demand for safe buildings
- Adjacent market opportunities

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 2018 was 2% (2017: 2%). A terminal growth rate of 1% (2017: 1%) was applied. The pre-tax discount rate applied was 10.3% (2017: 10.3%). Three different types of sensitivity analysis have been performed on all entities, including a 20% reduction in revenue, a reduction in the operating profit margin of between 1% and 3% and an increase in the discount rate by 1%. The Directors consider that reasonably possible changes in the key assumptions would not cause the carrying amount to exceed its recoverable amount.

16. Other intangible assets

	Computer software £'000	Acquisition intangibles: Contracted customer order book £'000	Acquisition intangibles: Customer relationships £'000	Acquisition intangibles: Non-compete agreements £'000	Total £'000
Cost					
At 1 October 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
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(1,533)	(5,728)	(3,705)	—	(10,966)
Additions	449	—	—	—	449
At 30 September 2018	**946**	**18,606**	**14,655**	**1,670**	**35,877**
Amortisation					
At 1 October 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
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(1,446)	(5,728)	(3,705)	—	(10,879)
Amortisation charge	343	1,243	2,563	519	4,668
At 30 September 2018	**354**	**18,111**	**10,826**	**1,659**	**30,950**
Carrying value					
At 30 September 2018	**592**	**495**	**3,829**	**11**	**4,927**
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

Contracted customer order book

The value placed on the order book is based upon the cash flow projections over the contracts in place when a business is acquired. Due to uncertainties with trying to forecast revenues beyond the contract term, the Directors have valued contracts over the contractual term only. The value of the order book is amortised over the remaining life of each contract which typically range from one to five years.

Customer relationships

The values placed on the customer relationships are based upon the non-contractual expected cash inflows forecast on the base business over and above contracted revenues. The value of customer relationships is amortised over five years.

Non-compete agreements

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

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 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
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(936)	(147)	(791)	(514)	(2,388)
Acquisition of Just Energy Solutions Limited	—	32	49	—	81
Additions	52	237	141	—	430
Disposals	—	(12)	(11)	(299)	(322)
At 30 September 2018	**531**	**1,045**	**1,606**	**507**	**3,689**
Depreciation					
At 1 October 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
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(893)	(150)	(751)	(524)	(2,318)
Charge for the year	77	217	310	254	858
Disposals	—	(5)	(11)	(292)	(308)
At 30 September 2018	**210**	**531**	**1,143**	**331**	**2,215**
Net book value					
At 30 September 2018	**321**	**514**	**463**	**176**	**1,474**
At 30 September 2017	389	466	623	427	1,905
At 30 September 2016	952	520	716	638	2,826

Included within the net book value of property, plant and equipment is £143,000 (2017: £326,000) in respect of assets held under finance leases. Depreciation for the year on these assets was £180,000 (2017: £222,000).

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
H20 Nationwide Limited	England	Ordinary	100	Water hygiene
Just Energy Solutions Limited	England	Ordinary	100	Maintenance and installation of domestic gas heating systems
K&T Heating Services Limited	England	Ordinary	100	Plumbing and heating engineers
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
Sureserve Compliance Services Limited	England	Ordinary	100	Intermediate holding company
Sureserve Construction Services Limited	England	Ordinary	100	Non-trading
Sureserve Design and Build Limited	England	Ordinary	100	Non-trading
Sureserve Energy Services Limited	England	Ordinary	100	Intermediate holding company
Sureserve Holdings Limited (*)	England	Ordinary	100	Intermediate holding company
Sureserve Property Investments Limited	England	Ordinary	100	Non-trading

* Directly held investment.

The registered office of all entities above is St James House, C/O BPE Solicitors LLP, First Floor, St James Square, Cheltenham, Gloucestershire, United Kingdom, GL50 3PR except for Everwarm whose registered office is 3-5 Melville Street, Edinburgh, EH3 7PE.

18. Group entities continued

Joint ventures

The Group's joint ventures are:

	Country of incorporation	Class of capital	%	Principal activity
Warmworks Scotland LLP	Scotland	Ordinary	33.33	Energy and insulation services
Arbed am Byth	Wales	Ordinary	50	Energy and insulation services

Details of joint ventures

	2018 £'000	2017 £'000
Carrying value of investment in Arbed am Byth	**200**	—
Carrying value of investment in Warmworks	**665**	1,196
	865	1,196

	£'000
Carrying value of investment in joint ventures at 1 October 2017	1,196
Income from Warmworks joint venture	226
Investment in Arbed am Byth	200
Cash received from Warmworks	(757)
Carrying value of investment in joint ventures at 30 September 2018	865

Warmworks, a joint venture with Changeworks and the Energy Saving Trust, commenced trading in September 2015, the income for 2018 was £226,000 (2017: £786,000). The registered office of Warmworks Scotland LLP is 1 Carmichael Place, Leith, Edinburgh, Midlothian, EH6 5PH.

Arbed am Byth, a joint venture with the Energy Saving Trust, commenced trading in August 2018, the income for 2018 was £nil (2017: £nil). The registered office of Arbed am Byth is Unit 2 Cefn Coed, Nantgarw, Cardiff, Wales, CF15 7QQ.

19. Inventories

	2018 £'000	2017 £'000
Raw materials and consumables	**2,581**	3,832
Work in progress	**1,641**	658
	4,222	4,490

There are no inventories at 30 September 2018 or 30 September 2017 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 specific security held at either reporting date over inventory.

20. Amounts due from and to clients under construction contracts

	2018 £'000	2017 £'000
Contracts in progress at the reporting date:		
Contract costs incurred plus recognised profits less recognised losses to date	**—**	218,556
Less: progress billings	**—**	(214,073)
	—	4,483
Amounts due from construction contract clients	**—**	6,269
Amounts due to construction contract clients	**—**	(1,786)
	—	4,483

20. Amounts due from and to clients under construction contracts continued

Details of retentions held by clients for performance under construction contracts are disclosed in Note 21. Amounts due from and to clients under construction contracts amounted to £nil at 30 September 2018 following the Group's disposal of its construction activities in August 2018 (see Note 11).

21. Trade and other receivables

	2018 £'000	2017 £'000
Current		
Trade receivables	19,018	22,283
Construction contract retentions receivables	—	3,313
Deferred consideration receivable	1,158	—
Social security and other taxes	965	199
Other receivables	3,192	5,819
Prepayments	2,580	2,106
Accrued income	15,705	25,409
	42,618	59,129

Other receivables includes sales retentions of £2,222,000 (2017: £4,630,000) and rebates receivable of £796,000 (2017: £772,000).

Non-current		
Construction contract retentions receivable	—	453
Other receivables	—	3
	—	456

	2018 £'000	2017 £'000
Trade receivables		
Trade receivables not due	15,273	20,097
Trade receivables past due 1 – 30 days	2,748	1,581
Trade receivables past due 31 – 60 days	227	163
Trade receivables past due 61 – 90 days	363	86
Trade receivables past due over 90 days	886	833
Gross trade receivables	19,497	22,760
Provision for bad debt brought forward	(477)	(805)
Debtor provision recognised upon acquisition	(79)	—
Disposal of investments	27	11
Amounts written off receivables ledger	50	329
Debtor provision charged to profit or loss in the year	—	(12)
Provision for bad debt carried forward	(479)	(477)
Net trade receivables	19,018	22,283

The entire provision for bad debts of £479,000 (2017: £477,000) relates to balances past due over 90 days.

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 one client represented £1,122,000 of the total balance of trade receivables (2017: zero represented more than 5%).

22. Trade and other payables

	2018 £'000	2017 £'000
Current		
Trade payables	24,607	31,849
Sub-contract retentions	1,068	5,454
Accruals	7,873	24,989
Deferred income	38	894
Social security and other taxes	4,690	5,529
Other payables	1,058	463
	39,334	69,178
Non-current		
Sub-contract retentions	—	353
Accruals	269	620
	269	973

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 76 days (2017: 55 days). The movement in creditor days is mainly due to the impact on the calculation of the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited.

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

	2018 £'000	2017 £'000
Current	—	1,318
Non-current	269	620
	269	1,938

The fair value of the consideration has been assessed in accordance with the Sale & Purchase Agreements.

Notes to the consolidated Financial Statements continued
For the year ended 30 September 2018

23. Borrowings

	2018 £'000	2017 £'000
Bank loans and credit facilities at amortised cost:		
Current	12,926	—
Non-current	—	27,077
Maturity analysis of bank loans and credit facilities falling due:		
In one year or less, or on demand	12,926	—
Between one and two years	—	27,077
	12,926	27,077

In December 2018, the Group renewed its bank facilities to provide an overdraft facility of £5.0m together with a revolving credit facility of £25.0m which runs to 31 January 2022.

24. Net debt

	2018 £'000	2017 £'000
Cash and cash equivalents	1,705	26,129
Bank loans and borrowings	(12,926)	(27,077)
Finance lease obligations	(143)	(326)
	(11,364)	(1,274)

25. Provisions

	Legal and other £'000
At 1 October 2016	4,878
Disposal of Orchard (Holdings) UK Limited	(130)
Additional provision	1,497
Utilised in the year	(2,215)
At 30 September 2017	4,030
Identified on acquisition	27
Additional provision	5,490
Utilised in the year	(344)
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(1,508)
At 30 September 2018	**7,695**
Current provisions	5,102
Non-current provisions	2,593

Legal and other

Provisions relate to property dilapidation obligations, potential contract settlement costs and other potential legal settlement costs. These are expected to result in an outflow of economic benefit over the next one to three years.

Additional provisions in the year include £4.9m in respect of the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited (see Note 11) such amounts include:

- £2.4m for expected costs of disposal of which £2.4m has been settled post year end
- £2.5m for costs of claims under parent company guarantees and bonds which are considered probable following risk assessment of all outstanding parent company guarantees and bonds. The estimated costs have been based on independent third-party estimates

26. Deferred taxation

	Accelerated capital allowances £'000	Short term timing differences £'000	Share-based payments £'000	Acquisition intangibles £'000	Unutilised losses £'000	Total £'000
Asset/(provision) bought forward as at 1 October 2016	266	966	36	(3,636)	2,597	229
Disposals in the year	(10)	(4)	—	380	—	366
Credit/(debit) to P&L	53	(309)	—	1,784	(38)	1,490
Asset/(provision) bought forward as at 30 September 2017	309	653	36	(1,472)	2,559	2,085
Disposals in the year	(206)	(183)	(36)	—	(2,504)	(2,929)
Credit/(debit) to P&L	104	(34)	—	735	2	807
Asset/(provision) carried forward as at 30 September 2018	**207**	**436**	**—**	**(737)**	**57**	**(37)**
At 30 September 2018						
Non-current asset	207	436	—	—	57	700
Non-current liability	—	—	—	(737)	—	(737)
Net deferred tax asset/(liability)	**207**	**436**	**—**	**(737)**	**57**	**(37)**
At 30 September 2017						
Non-current asset	309	653	36	—	2,559	3,557
Non-current liability	—	—	—	(1,472)	—	(1,472)
Net deferred tax asset/(liability)	309	653	36	(1,472)	2,559	2,085

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

27. Finance lease obligations

	Future minimum lease payments £'000	Interest £'000	Present value of minimum lease payments £'000
At 1 October 2016	469	(83)	386
New obligations	263	(51)	212
Repayments	(327)	55	(272)
At 30 September 2017	405	(79)	326
Repayments	(220)	37	(183)
At 30 September 2018	**185**	**(42)**	**143**

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	106	(23)	83
Between two and five years	79	(19)	60
At 30 September 2018	**185**	**(42)**	**143**
Less than one year	226	(44)	182
Between two and five years	179	(35)	144
At 30 September 2017	405	(79)	326

Notes to the consolidated Financial Statements continued
For the year ended 30 September 2018

28. Called up share capital

Allotted, called up and fully paid:

2018 Number	2017 Number		2018 £	2017 £
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 (2017: £nil).

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 share 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. 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 10p per share (being the nominal value of a share in the capital of the Company). The vesting period is for three years, during which the holder must remain in the employment of the Group and is conditional on the achievement of a mix of market and non-market performance conditions from the date of granting the option to the date of potential exercise.

Deferred Share Bonus Plan (DSBP)

The DSBP will be operated in conjunction with the Company's (and its subsidiaries') annual discretionary bonus arrangements from time to time and will provide a means by which a proportion of an employee's annual discretionary non-contractual bonus can be deferred. The number of shares placed under an award granted will be such number of shares as has a market value (measured at the grant date) as near to, but not exceeding, the amount of bonus that has been granted under such award. No award was made under the DSBP in the year.

29. Share-based payments continued

Special Incentive Award Plan (SIAP)

Awards granted under the SIAP take the form of options to acquire Sureserve 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 shares to be subject to each award. Three employees are currently participating in the SIAP.

	SIP	SAYE	CSOP	PSP	SIAP
Number					
At 1 October 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
Granted	—	1,634,136	—	—	2,000,000
Lapsed	(82,555)	(814,917)	(613,439)	(1,074,284)	—
At 30 September 2018	**82,611**	**3,240,995**	**1,564,251**	**909,129**	**6,615,385**
Weighted average exercise price (p)					
At 1 October 2017	0.00p	36.33p	40.75p	0.00p	0.00p
Granted	—	34.00p	—	—	7.00p
Lapsed	0.00p	37.69p	40.75p	0.00p	—
Outstanding at 30 September 2018	**0.00p**	**34.51p**	**40.75p**	**0.00p**	**0.00p**
Exercisable at 30 September 2018	**—**	**—**	**—**	**—**	**—**
Outstanding at 30 September 2017	0.00p	36.33p	40.75p	0.00p	0.00p
Exercisable at 30 September 2017	—	—	—	—	—
Fair value of options granted					
Weighted fair value of one option	87.61p	14.52p	12.13p	51.59p	3.51p
Assumptions used in estimating the fair value (blended for all options in each scheme)					
Share price at date of grant	99.75p	44.40p	40.00p	72.79p	29.09p
Exercise price	—	34.51p	40.75p	0.00p	0.00p
Expected dividend yield	4.60%	5.12%	7.37%	6.07%	6.56%
Risk-free rate	1.21%	0.51%	0.07%	0.64%	0.23%
Expected volatility	40.37%	50.79%	54.50%	43.53%	41.78%
Expected life	3 years	3.14 years	3 years	3 years	2 years

In the year ended 30 September 2018, options were granted in November 2017 in respect of the SIAP, and options were granted in June 2018 in respect of the SAYE.

The weighted average remaining contractual life of outstanding options at 30 September 2018 was 2.5 years (2017: 2.7 years). The aggregate of the estimated fair values of options granted on the above dates was £1.3m (2017: £1.8m).

The SIP and SAYE options were valued using a Black-Scholes model and the CSOP and PSP options by a combination of Black-Scholes and Monte Carlo models, weighted according to the performance conditions of both.

The SIAP options were valued using a Monte Carlo model.

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

	2018	2017
Share price (p)	**40.0**	40 – 46.4
Exercise price (p)	**34.00**	0.00 – 40.75
Expected volatility (%)	**48.63**	53.40 – 83.00
Expected life (years)	**3.00**	3.00 – 3.25
Risk-free rate (%)	**0.94**	0.07 – 0.12
Expected dividend yield (%)	**2.63**	2.63 – 7.37

Notes to the consolidated Financial Statements continued

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29. Share-based payments continued

Special Incentive Award Plan (SIAP) continued

The inputs into the Monte Carlo model are as follows:

	2018	2017
Share price (p)	42.00	40.00
Exercise price (p)	0.00	0.00
Expected volatility (%)	40.88	83.00
Expected life (years)	1.17	3.00
Risk-free rate (%)	0.46	0.07
Expected dividend yield (%)	6.33	7.37

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

Share premium reserve

The share premium account represents amounts received in excess of the nominal value of shares on issue of new shares, net of the direct costs associated with issuing those shares.

Share-based payment reserve

Equity-settled share-based 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 2018 represents the cost of £325,842 (2017: £325,842) shares in Sureserve Group plc.

Merger reserve

On 23 March 2015 Sureserve Group plc (then Lakehouse plc) was listed on the Premium Listing segment of the Official List and trading on the Main Market of the London Stock Exchange. As part of a restructuring accompanying the Initial Public Offering ('IPO') of the Group on 23 March 2015, Sureserve Group plc replaced Sureserve Holdings Limited as the Group's ultimate parent company by way of a share exchange agreement. Under IFRS 3 this has been accounted for as a Group reconstruction under merger accounting.

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

31. Guarantees and contingent liabilities

The Company and certain subsidiaries have, in the normal course of business, given guarantees and performance bonds relating to the Group's contracts totalling £7,292,000 (2017: £10,889,790). A subsidiary of the Group has provided a guarantee of £750,000 (2017: £750,000) to the Warmworks joint venture.

Contingent liabilities in respect of the disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited are disclosed in Note 11.

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 and cash and cash equivalents. The principal financial liabilities in the Group comprise borrowings which are categorised as debt at amortised cost, together with trade and other payables, other long term liabilities and provisions for liabilities, which are classified as other financial liabilities.

Financial risk management

The Group's objectives when managing finance and capital are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The Group is not subject to any externally imposed capital requirements.

The main financial risks faced by the Group are liquidity risk, credit risk and market risk (which includes interest rate risk). Currently the Group only operates in the UK and only transacts in Sterling. It is therefore not exposed to any foreign currency exchange risk. The Board regularly reviews and agrees policies for managing each of these risks.

Categories of financial instruments

	Loans and receivables	
Financial assets	2018 £'000	2017 £'000
Current financial assets		
Trade receivables, loans and other receivables	39,073	56,824
Cash and cash equivalents	1,705	26,129
	40,778	82,953

	Financial liabilities measured at amortised cost	
Financial liabilities	2018 £'000	2017 £'000
Current financial liabilities		
Trade and other payables	34,606	62,755
Borrowings	12,926	—
Finance lease obligations	83	182
Total current financial liabilities	47,615	62,937
Non-current financial liabilities		
Trade and other payables	439	973
Borrowings	—	27,077
Finance lease obligations	60	144
Total non-current financial liabilities	499	28,194
	48,114	91,131

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.

32. Financial instruments continued

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group does not enter into derivatives to manage its credit risk.

The maximum exposure to credit risk at the reporting date is represented by the carrying value of the financial assets in the statement of financial position. The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

There has been a minimal history of bad debts as the majority of its sales are to local government councils or housing trust partnerships and as a consequence the Directors do not consider that the Group has a material exposure to credit risk.

Market risk

As the Group only operates in the UK and only transacts in Sterling, the Group's activities expose it primarily to the financial risks of changes in interest rates only.

Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Board, which has established an appropriate liquidity risk management framework for the management of the Group's short, medium and long term funding and liquidity management requirements. The Group's policy on liquidity is to ensure that there are sufficient committed borrowing facilities to meet the Group's long to medium term funding requirements.

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities, by continuously monitoring forecast and actual cash flows, and by matching the maturity profiles of financial assets and liabilities.

A maturity analysis of bank borrowings at each period end is contained in Note 23.

(a) Interest rate of borrowings

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

	2018 £'000	2017 £'000
Floating rate Sterling borrowings with a capped interest rate	12,926	27,077

At 30 September 2018, the Group had the following interest rate caps in place:

- A cap of 2.5% on up to £15m of debt (2017: £12.5m at a cap of 2.5% and £2.5m at a cap of 2.0%), expiring on 9 December 2018

(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 £18.7m 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 £93,333 (2017: £136,500). If the floating interest rate had increased to the capped rate, interest payable on the weighted average of £18.7m of debt would have increased by £332,000 (2017: £568,000).

33. Operating lease commitments

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

	2018		2017	
	Land and buildings £'000	Other items £'000	Land and buildings £'000	Other items £'000
Within one year	815	2,961	899	3,220
Between two and five years	1,447	2,584	1,862	3,801
Over five years	227	—	374	—
	2,489	5,545	3,135	7,021

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.

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For the year ended 30 September 2018

34. Cash generated from operations

	2018 £'000	2017 Restated £'000
Operating profit/(loss)	3,422	(3,604)
Adjustments for:		
Depreciation	858	1,261
Amortisation of intangible assets	4,668	10,931
Impairment of goodwill and intangible assets acquired	—	394
Profit on disposal of property, plant and equipment	(52)	(107)
Changes in working capital:		
Inventories	305	697
Amounts owed by clients under construction contracts	6,269	(3,108)
Amounts owed to clients under construction contracts	(1,786)	1,096
Trade and other receivables	18,010	6,533
Trade and other payables	(29,185)	458
Provisions	3,638	(1,136)
Adjustment of loss from discontinued operations	(11,829)	(42)
Cash (used in)/generated from operations	(5,682)	13,373
Operating cash conversion calculation		
Cash (used in)/generated from operations	(5,682)	13,373
Exceptional costs paid in the period	2,448	1,882
Cash impact of net change in working capital from discontinued operations	8,042	(2,182)
Adjusted cash generated from continuing operations	4,808	13,073
Operating profit before exceptional items and amortisation of acquisition intangibles	8,038	7,394
Operating cash conversion %	60%	177%
Statutory operating cash conversion calculation		
Cash (used in)/generated from operations	(5,682)	13,373
Statutory operating profit before exceptional items and amortisation of acquisition intangibles	8,038	7,394
Statutory operating cash conversion %	(71%)	181%

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

	H2O Nationwide Limited £'000	Aaron Heating Services Limited £'000	PLS Holdings Limited £'000	Just Energy Solutions Limited £'000	Total £'000
At 1 October 2017	989	329	620	—	1,938
Total discounted consideration payable for addition in the year	—	—	—	254	254
Unwinding of discount	6	21	37	15	79
Revalued in the year	—	(100)	(657)	—	(757)
Paid in year	(995)	(250)	—	—	(1,245)
At 30 September 2018	—	—	—	269	269

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 pre-tax discount rate that reflects the time value of money.

The total deferred consideration may vary between £0.0m and £0.3m depending on the underlying trading performance of the businesses.

36. Business Combinations

Just Energy Solutions Limited

Just Energy Solutions Limited was acquired on 15 May 2018.

On acquisition, the Directors assessed the fair value of assets and liabilities and did not identify any separately identifiable acquisition intangible assets.

The Directors consider the value assigned to goodwill represents the workforce acquired, expected synergies to be generated, and access to additional customers and markets as a result of this acquisition. It is not expected that any goodwill will be deductible for tax purposes. All costs of the acquisition have been recognised as an exceptional expense in the statement of comprehensive income in the period in which it was incurred, the total cost recognised is £34,000.

The effect of the acquisition on the Group's assets and liabilities were as follows:

	Book value £'000	Fair value adjustments £'000	Provisional fair value £'000
Assets			
Non-current			
Property, plant and equipment	82	—	82
Current			
Stock	75	(38)	37
Trade and other receivables	1,289	(514)	775
Total assets	**1,446**	**(552)**	**894**
Liabilities			
Non-current			
Provisions	(14)	(26)	(40)
Current			
Overdraft	(284)	—	(284)
Trade and other payables	(1,003)	(67)	(1,070)
Total liabilities	**(1,301)**	**(93)**	**(1,394)**
Net assets acquired	145	(645)	(500)
Goodwill capitalised			754
			254
Satisfied by:			
Contingent Deferred consideration			254

Contingent deferred consideration has been calculated based on the expectations of future performance in the Group's three-year plan compared to the calculation methodology set out in the Share Purchase Agreement. The contingent deferred consideration may vary depending on the underlying trading performance of the businesses.

Post-acquisition results

The results for Just Energy Solutions Limited since the acquisition date, included within the consolidated statement of comprehensive income for the period ended 30 September 2018, are:

	£'000
Revenue	839
Loss from operations	(190)
Interest	—
Loss before tax	(190)
Taxation	49
Loss for the period	(141)

36. Business Combinations continued

Results of all business combinations occurring during the year

Assuming the acquisition date for all business combinations that occurred during the year had been 1 October 2017, the consolidated statement of comprehensive income for Sureserve Group plc for the year ended 30 September 2018, would have been:

	£'000
Revenue	193,932
Profit from operations	3,263
Interest	(1,475)
Profit before tax	1,788
Taxation	(750)
Profit after tax from continuing operations	1,038

37. 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. £130,767 of rents were paid by the Group in 2018 (2017: £226,184). The lease terminates in seven years.

The Company's subsidiary, Everwarm Limited, provides services to Warmworks, a joint venture with Everwarm. £6,817,509 of services were provided in 2018 (2017: £8,424,925). £1,645,429 was charged to Everwarm Limited from Warmworks for services provided in 2018 (2017: £525,239).

As at 30 September 2018 Everwarm Limited had a receivable owing from Warmworks amounting to £363,969 (2017: £701,823).

As at 30 September 2018 Arbed am Byth had a loan owed to Everwarm Limited amounting to £200,000 (2017: £nil). As at 30 September 2018 Everwarm Limited had a receivable owing from Arbed am Byth amounting to £91,566 (2017: £nil).

Bob Holt provides consultancy services to Sureserve Group plc and other Group companies in relation to advice about the turnaround management strategy of the Group. These consultancy services are provided by a consultancy company of which he is a shareholder. The daily fee payable for such consultancy services is £1,595 plus VAT. Such services are provided for two days per week over 47 weeks per year at a total cost of £150,000 per annum (plus VAT). The total value of services provided to the Group was £150,000 (2017: £150,000).

The Company's subsidiary, Sure Maintenance Limited, provides services to Mears Group PLC, an entity of which Bob Holt was Chairman during the period. £30,056 of services were provided in 2018 (2017: £41,580). As at 30 September 2018 Sure Maintenance Limited had a receivable owing from Mears Group PLC amounting to £1,298 (2017: £6,228).

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.

	2018 Number	2017 Number
Number of members of the Group Management Board at each year end	13	9

	2018 Number	2017 Number
Short term employee benefits	1,804	1,511
Post-employment benefits	114	128
Compensation for loss of office	315	—
	2,233	1,639

38. Events after the reporting date

In December 2018, the Group renewed its bank facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000 which runs to 31 January 2022.

Company balance sheet

At 30 September 2018

	Notes	2018 £'000	2017 £'000
Fixed assets			
Investments in subsidiaries	42	12,392	12,392
Intangible fixed assets	43	254	—
Tangible fixed assets	44	71	—
		12,717	12,392
Current assets			
Debtors – due within one year	45	2,869	3,992
Debtors – due after more than one year	45	64,620	42,669
Income tax receivable		948	508
Cash at bank and in hand		—	14,968
		68,437	62,137
Creditors: Amounts falling due within one year	46	(28,657)	(8,583)
Net current assets		39,780	53,554
Total assets less current liabilities		52,497	65,946
Creditors: Amounts falling due after more than one year			
Loans and borrowings	46	—	(11,500)
Provisions for liabilities	47	(6,665)	(1,462)
Net assets		45,832	52,984
Capital and reserves			
Called up share capital	48	15,753	15,753
Share premium account	49	25,314	25,314
Own shares		(290)	(290)
Share-based payment reserve	50	616	616
Profit and loss account		4,439	11,591
Shareholders' funds		45,832	52,984

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 and total comprehensive income for the year was £6,364,000 (2017: £1,523,000).

The financial statements of Sureserve Group plc (registered number 09411297) were approved by the Board of Directors and authorised for issue on 21 January 2019. They were signed on its behalf by:

M McMahon
Director

The accompanying notes are an integral part of this company balance sheet.

Company statement of changes in equity

For the year ended 30 September 2018

	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 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
Loss for the period	—	—	—	—	(6,364)	(6,364)
Dividends paid (Note 13)	—	—	—	—	(788)	(788)
At 30 September 2018	**15,753**	**25,314**	**616**	**(290)**	**4,439**	**45,832**

Notes to the Company Financial Statements

For the year ended 30 September 2018

Company only

The following notes 39 – 52 relate to the Company only position for year ended 30 September 2018.

39. 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 principle 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

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

40. 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.

Notes to the Company Financial Statements continued

For the year ended 30 September 2018

41. Staff numbers and costs

	2018 Number	2017 Number
Office and administration	**37**	35

	2018 £'000	2017 £'000
The aggregate payroll costs of these persons were as follows:		
Wages and salaries	**2,976**	2,975
Social security costs	**353**	355
Other pension costs	**124**	126
	3,453	3,456

42. Investment in subsidiaries

	£'000
Investment in subsidiaries	
Cost	
At 1 October 2017 and 30 September 2018	**12,392**
Net book value	
At 1 October 2017 and 30 September 2018	**12,392**

Further information is provided in Note 18.

43. Intangible fixed assets

	Computer software £'000
Cost	
At 1 October 2017	—
Additions	271
At 30 September 2018	271
Amortisation	
At 1 October 2017	—
Amortisation charge	17
At 30 September 2018	17
Carrying value	
At 30 September 2018	254
At 30 September 2017	—

44. Property, plant and equipment

	Plant and equipment £'000
Cost	
At 1 October 2017	—
Additions	73
At 30 September 2018	73
Depreciation	
At 1 October 2017	—
Charge for the year	2
At 30 September 2018	2
Carrying value	
At 30 September 2018	71
At 30 September 2017	—

45. Debtors

	2018 £'000	2017 £'000
Amounts falling due within one year		
Amounts owed by Group undertakings	**2,009**	3,584
Prepayments	**436**	90
Deferred tax asset	**281**	299
Other debtors	**143**	19
	2,869	3,992
Amounts falling due after more than one year		
Amounts owed by Group undertakings	**64,620**	42,669

The Directors consider that the carrying amount of trade receivables approximates to their fair value. There is no provision against amounts receivable and no amounts are past due or are impaired.

46. Creditors

	2018 £'000	2017 £'000
Creditors: Amounts falling due within one year		
Bank loans and overdrafts	**20,387**	—
Trade creditors	**1,072**	402
Amounts owed to Group undertakings	**3,824**	4,147
Accruals and deferred income	**2,723**	3,917
Social security and other taxes	**132**	106
Other creditors	**519**	11
	28,657	8,583
Creditors: Amounts falling due after more than one year		
Loans and borrowings	**—**	11,500

47. Provisions for liabilities

	Legal and other £'000
At 1 October 2017	1,462
Additional provision	5,403
Utilised in the year	(200)
At 30 September 2018	**6,665**

Further information is provided in Note 25.

48. Share capital

Allotted, called up and fully paid:

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

Details of the movements in share capital together with the key rights and preferences of the share capital are disclosed in Note 28.

49. 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.

50. Share-based payments

During the period ended 30 September 2018 the Company had five share-based payment arrangements, which are described in Note 29.

51. Operating lease commitments

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

	2018		2017	
	Land and buildings £'000	**Other items £'000**	Land and buildings £'000	Other items £'000
Within one year	**167**	**—**	—	—
Between two and five years	**119**	**—**	—	—
	286	**—**	—	—

52. Events after the reporting date

In December 2018, the Company renewed its bank facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000 which runs to 31 January 2022.

Corporate directory

Company registration number
09411297

Directors
Bob Holt OBE (Chairman)
Michael McMahon (Chief Operating Officer)
Robert Legget (Senior Independent Director)
Derek Zissman (Non-Executive Director)

Company Secretary
John Charlton

Registered office
50 Liverpool Street
London
EC2M 7PY

Independent auditors
RSM UK Audit LLP
25 Farringdon Street
London
EC4A 4AB

Principal bankers
NatWest
9th floor
250 Bishopsgate
London
EC2M 4AA

Legal advisers to the Company
BPE Solicitors LLP
St James House
St James Square
Cheltenham
GL50 3PR

Eversheds Sutherland
1 Wood Street
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
19 March 2019

Announcement of Interim Results
June 2019

Announcement of Final Results
January 2020

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50 Liverpool Street
London
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