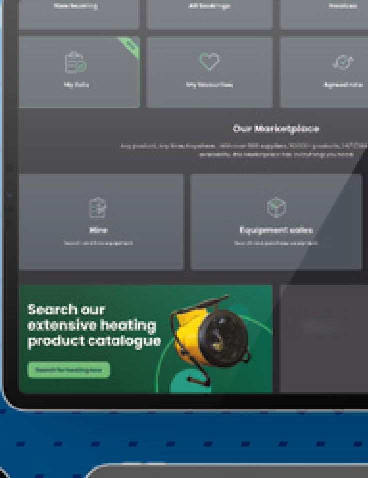
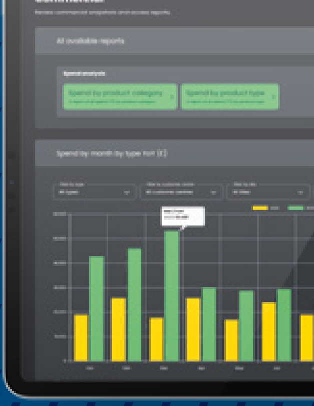
INVESTING FOR **GROWTH**





HSS Hire Group plc

Annual Report and Financial Statements 2023

WHAT'S INSIDE

INVESTMENT CASE

Read about our resilient investment proposition on page 8

CHAIRMAN'S STATEMENT

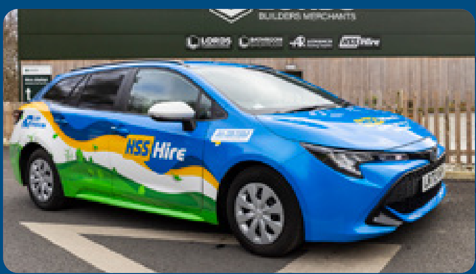
Read what our Chairman, Alan Peterson OBE, has to say about FY23 on page 9

CEO'S STATEMENT

Read what our CEO, Steve Ashmore, has to say about FY23 on page 11

STRATEGY

Find out about our strategic priorities on page 16



SUSTAINABILITY

Discover more about sustainability at HSS on page 20

GOVERNANCE

Read our Chairman's introduction to governance on page 53

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4 Key Performance Indicators
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MARKET-LEADING TECHNOLOGY PLATFORM IN EQUIPMENT HIRE

ABOUT US

HSS Hire Group is a market leader in equipment hire in the UK and Ireland. It offers a one-stop shop for all equipment hire through the complementary combination of its HSS ProService (ProService) and HSS Operations (Operations) divisions.

ProService is a capital-light, scalable, technology-based business focusing on sales acquisition, whilst Operations is a fleet-owning fulfilment business focusing on customer service, health and safety and efficiency.

OUR PURPOSE

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

OUR TECHNOLOGY

Our technology platform, which we call Brenda, has been developed over several years. Modular in design and inherently scalable, this technology was built from the user's perspective, with tailored interfaces for different user types that encourage self-service. Our ambition is to create the most powerful, yet easy-to-use platform for hire and associated building service products in our industry.

HIGHLIGHTS

FINANCIAL

Delivered resilient results set against a challenging market backdrop, maintaining a strong balance sheet and industry-leading returns, whilst investing in our vision and making significant strategic progress.

Read more on page 38

Group revenue
£349.1m
FY22: £332.8m

Rental and related revenues
£207.3m
FY22: £206.2m

Services revenue
£141.8m
FY22: £126.6m

Adjusted EBITDA and margin
£65.1m
18.7% margin

Adjusted EBITA and margin
£24.3m
7.0% margin

Adjusted profit before tax
£11.9m
FY22: £21.0m

Adjusted earnings per share (diluted) (EPS)
1.25p
FY22: 2.34p per share

Leverage – Total operations
1.7x
FY22: 1.3x

Return on capital employed (ROCE)
16.2%
FY22: 22.8%

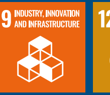
NON-FINANCIAL

RIDDOR frequency rate
0.06
FY22: 0.02

Colleague engagement
74%
FY22: 76%

Greenhouse gases
3.90
TCO_2e/£m rev (FY22: 3.38)

OUR CORE UN SUSTAINABLE DEVELOPMENT GOALS



13 CLIMATE ACTION

See our ESG section on page 20

OPERATIONAL

Continued to invest in our technology platform Brenda, extending the roll-out of our self-service platform to over 500 customers including our single largest customer, launching version 2.0 and re-platforming our website onto Brenda making rehire available online.

Read more on page 18

Launched new product verticals including Equipment Sales and Building Materials, all using our Brenda technology, making them available to all users.

Read more on page 19

Established our Central sales function designed to reach more customers through a leaner model, driven by data and enabled by technology.

Rolled out our Digital Service Portal technology to our Operations teams, targeting improved efficiency and reduced carbon footprint.

Read more in our CEO's Statement on page 11

Published our second ESG Impact Report, had our Net Zero plan approved by SBTi, launched customer CO_2 reporting and rolled out colleague ESG training. This progress helped us achieve a Gold award from EcoVadis.

Read more on page 21

BUSINESS AT A GLANCE

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

OUR TWO DIVISIONS

PROSERVICE

HSS ProService

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

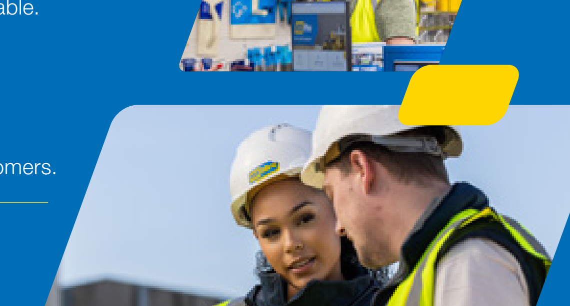
Read more on page 16

HSS Training

Extensive training offering for customers.

c900
sales and training colleagues

900+
supply chain partners



OPERATIONS

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

Read more on page 16

500+
Delivery fleet

38
Customer Distribution Centres

Key to map
- H Head office
- HSS Branch or Builders Merchant
- Customer Distribution Centre (CDC)

OUR VALUES

MAKE IT SAFE

MAKE IT HAPPEN

MAKE IT BETTER

MAKE IT TOGETHER

BUSINESS AT A GLANCE CONTINUED

SUSTAINABILITY

ESG remains a high area of focus for the Group's stakeholders and significant progress was made during 2023 in the execution of the Group's ESG strategy. We have been able to progress smoothly into our second year of CFD reporting and commissioned specialist consultant, Sustainable Advantage, to ensure we are adopting best practice. We completed our third comprehensive external ESG maturity assessment against 90 evaluation areas, with topics ranging from reporting on nature and biodiversity risks and opportunities, supplier monitoring and promoting employee safety, wellbeing and development. This assessment also added 20 new evaluation areas, which form the foundation of our strategic 12-month action plan for 2024.

Our combined efforts to create a more sustainable world have been recognised in an EcoVadis Gold rating, placing us in the top 5% of companies assessed for sustainability on a global scale.

Read more on page 21

ENVIRONMENT

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

Read more on page 21

SOCIAL

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

Read more on page 23

GOVERNANCE

Understand our approach to CFD and our commitment to science-based targets.

Read more on page 25

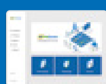
OUR UNDERLYING TECHNOLOGY

LEADING WITH **INNOVATION**

OUR TECHNOLOGY:

BRENDA

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



SELF-SERVICE MARKETPLACE:

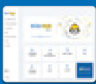
ProService

- Marketplace offering all customers a self-service one-stop shop
- Approval management
- Onsite and in-office visibility
- Quote generation capability
- Consolidated purchase orders
- Single invoice
- Sustainability reporting

ONLINE CUSTOMER INTERFACE:

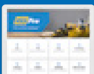
hss.com (also available on HSS customer app)

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



SUPPLIER INTERFACE:

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



COLLEAGUE INTERFACE:

HSS ProPOS

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

Vodafone storm®

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

Microsoft Dynamics Customer Relationship Management (CRM)

- Optimises sales activity
- Improves customer contact points

KEY PERFORMANCE INDICATORS

MEASURING OUR PROGRESS

KPIs and strategy
There have been no change in our FY23 KPIs as these best reflect the performance of the business and progress against the latest strategy.

IFRS 16 and KPIs
The Group adopted IFRS 16 during FY20. Under the adoption method chosen, prior years were not restated. The standard has a significant impact on several financial measures and, as a result, certain KPIs.

IFRS 16 adoption means FY19 is not directly comparable.

The Group now reports its KPIs on an IFRS 16 basis which means the periods prior to FY20 are not directly comparable.

Financial Review on page 38

KEY

Strategy linkage
1. ProService: Enhance our market-leading proposition
2. ProService: Expand both our buyer and seller network
3. ProService: Drive self-service adoption
4. Operations: Lead with ESG
5. Operations: Optimise our network
6. Operations: Focus on customer service

Remuneration linkage
- C Driver of colleague incentive plans
- L Component of leadership incentive plan
- CL Driver of colleague incentive plans and component of leadership incentive plan
- I Indirectly, as a key component of EBITA

Segment reporting linkage
- SR KPI included for comparative purposes during a year of transition to new reporting segments. See note 5 to the financial statements for further details.

GROUP REVENUE
1 2 6 C

Definition & Importance
Simplest measure of the ongoing growth of the Group's sales from which profits can be generated and shareholder value created.

Revenue is from contracts with third party customers derived after deducting VAT, rebates and credit note provision movements.

FY23 performance
Continuing operations

£349.1m

FY22: £332.8m

Increase of 4.9%, driven by 12.0% growth in our Services business and 0.5% growth in our Rental business.

RENTAL AND RELATED REVENUES
1 2 6 CL SR

Definition & Importance
Simplest measure of the ongoing growth of the core hire business' sales from which profits can be generated and shareholder value created.

Revenue includes kit and equipment sales derived from the direct contact with our customers.

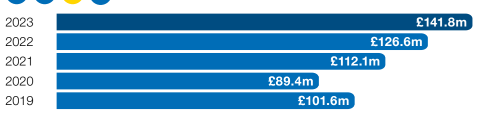
FY23 performance
Continuing operations

£207.3m

FY22: £206.2m

Growth of 0.5%, underpinned by strong like-for-like growth in our builders merchants, despite softening demand in certain buyer segments and the impact of mild weather on our seasonal products.

SERVICES REVENUE
1 2 C SR



Definition & Importance
Simplest measure of the ongoing growth of the Services business representing the strategic goal of focusing on a capital-light structure.

Revenue includes kit and equipment sales derived from the rehire of third party equipment and our Training business.

FY23 performance
Continuing operations

£141.8m

FY22: £126.6m

Growth of 12.0%, with customers continuing to value our one-stop shop proposition underpinned by our technology platform.

ADJUSTED EBITDA AND MARGIN
1 2 3 5 6 I

Definition & Importance
Widely recognised measure of profitability. Metric also used in leverage and covenant calculations.

Adjusted EBITDA is operating profit before depreciation, amortisation and exceptional items.

FY23 performance
Continuing operations

£65.1m

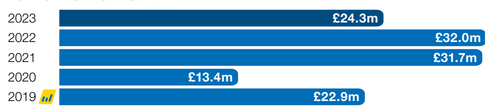
18.7% margin

EBITDA has decreased by 9.1% to £65.1m and EBITDA margin reduced by 2.8pp. This reduction reflects the strategic investment in additional overheads for future growth and the demand softness in certain end markets. Margins have also been diluted with a mix in revenue towards Services.

KEY PERFORMANCE INDICATORS CONTINUED

ADJUSTED EBITA AND MARGIN

1 2 3 5 6 CL



Definition & Importance

Measure of profitability before amortisation, impacts of capital structure (interest and tax) and exceptional items.

Adjusted EBITA is operating profit before amortisation and exceptional items.

FY23 performance

Continuing operations

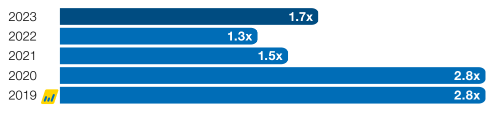
£24.3m

7.0% margin

EBITA has decreased by 24.1% to £24.3m and EBITA margin reduced by 2.6pp. These reflect a lower EBITDA and increased depreciation.

LEVERAGE

1 2 3 5 6 L



Definition & Importance

Measure of balance sheet strength.

Leverage is net debt expressed as a multiple of Adjusted EBITDA.

FY23 performance

Total operations

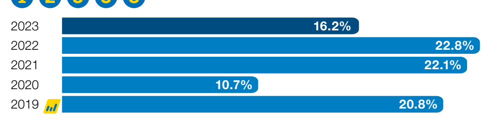
1.7x

FY22: 1.3x

Increase from FY22 driven by lower Adjusted EBITDA and higher net debt. Following investment in the Group's strategy, exceptional items and increased dividend payments.

RETURN ON CAPITAL EMPLOYED (ROCE)

1 2 3 5 6



Definition & Importance

Measure of the return-generating ability of the business over the longer term and key measure for leadership incentives. Adjusted EBITA is divided by the average of capital employed at the beginning and end of the year.

Capital employed is total assets except intangible assets, derivatives and cash less current liabilities except current debt items including lease liabilities recognised under IFRS16

FY23 performance

Continuing operations at reporting date

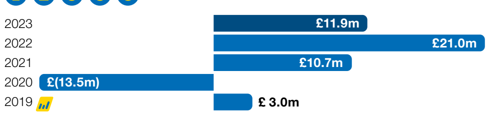
16.2%

FY22: 22.8%

Decrease from FY22 driven by lower EBITA and higher capital employed through targeted investment for future growth.

ADJUSTED PROFIT BEFORE TAX[1]

1 2 3 5 6



Definition & Importance

Measure of profitability before tax that forms part of the Adjusted EPS calculation.

Represents profit before tax, amortisation of customer relationships and brand related intangibles and exceptional items.

FY23 performance

Continuing operations

£11.9m

FY22: £21.0m

Decrease of £9.1m driven by lower EBITDA and higher annual interest charges due to the impact of UK base rate changes.

ADJUSTED EARNINGS PER SHARE (DILUTED) (EPS)[1]

1 2 3 5 6

Definition & Importance

Widely recognised measure of adjusted profitability per share. Adjusted Earnings per share is defined as Adjusted Profit Before Tax after charging tax at the prevailing rate of tax, divided by the diluted weighted average number of shares.

FY23 performance

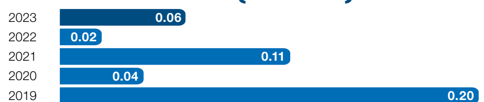
Profit of

1.25p per share

FY22: 2.34p per share

Decrease of 1.09p is primarily driven by the lower profits, reflective of our strategic investment in operating costs for future growth and the demand softness in certain end markets.

HEALTH AND SAFETY (RIDDORS) 4 L



Definition & Importance

Widely recognised measure of safety in the workplace. Safety is at the heart of how HSS operates.

RIDDORS are defined as number of events that are reportable under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 2013 multiplied by 100,000 and divided by the hours worked.

FY23 performance

Continuing operations

0.06

FY22: 0.02

A marginally worse RIDDOR frequency rate, with three RIDDORS in the year, compared with one last year.

COLLEAGUE ENGAGEMENT 4

Definition & Importance

A measure of the level of engagement across the entire population of colleagues.

Represents the proportion of responses from colleague engagement survey (carried out by Anthem Engagement) that either strongly agree or agree to positively phrased questions.

FY23 performance

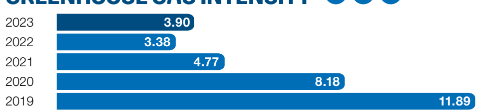
Continuing operations

74%

FY22: 76%

A marginally lower score than FY22 but still significantly above the UK average of 62%. Our completion rate was once again very strong at 89% (FY22 92%).

GREENHOUSE GAS INTENSITY[2] 2 4 5



Definition & Importance

A key measure of the impact we have on the environment relative to our scale and which allows progress to be tracked.

Represents the total UK and ROI GHG scope 1 and 2 emissions produced by the Group during the period in tonnes, divided by total Group revenue in £m.

FY23 performance

Gross operations

3.90 TCO_2e/£m rev

FY22: 3.38

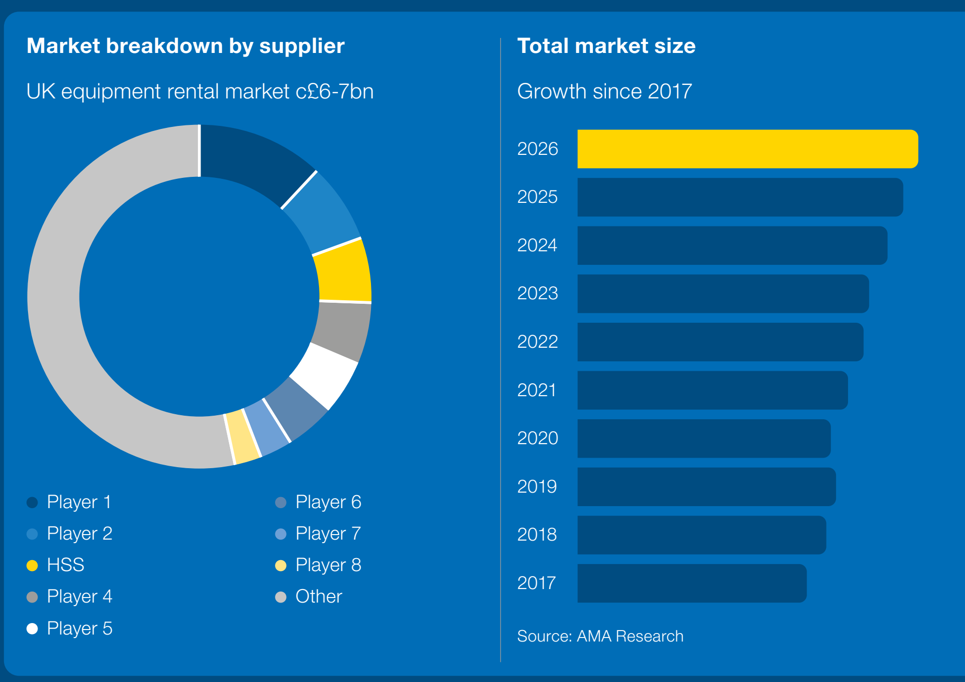
Locations with brown electricity contracts have come into scope late into 2023. This increase will be offset when the contracts are changed to green by the 2025 deadline.

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

2 Locations with brown electricity contracts have come into scope late 2023. This increase will be offset when the contracts are changed to green by the 2025 deadline

OUR MARKET

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



OUTLOOK

AMA Research | Part of Barbour ABI

Forecasts for the rental market point to growth

AMA Research forecast the market to reach £7.1bn by 2026, representing 4.7% compound annual growth rate (CAGR) between 2021 and 2026 See graph above

European Rental Association forecasts 2.7% growth in 2024 and 4.5% growth in 2025[1]

1 Source: S&P Global Market Intelligence/ERA Market Report 2023.

MARKET CHARACTERISTICS

Large, diverse and very fragmented

- The equipment hire market in the UK is large (c£6-7bn) but extremely fragmented, with the top ten hire companies accounting for one-third of the market.
- Analysis by AMA Research suggests the market has become more fragmented since 2017, when the top ten suppliers accounted for 36% of the market.
- Lack of differentiation and low barriers to entry make it difficult to consolidate using traditional fleet expansion or M&A activity.
- AMA Research estimates there are around 4,000 construction equipment hire companies in the UK operating approximately 6,000 outlets. These companies range from large multinational conglomerates to national chains, but most companies are small family-owned businesses.
- The industry is digitally immature with less than 3% of transactions conducted online.
- The equipment hire market in the UK is extremely diverse, offering a range of products from large earth-moving plant to small power tools.
- Suppliers tend to focus on either plant, small tools or specialist products and, outside the top ten suppliers, most of the others do not offer a nationwide service.
- Customers are therefore usually dependent on multiple suppliers to meet all their requirements.
- Customers serve a diverse set of end markets including new-build, infrastructure, repairs and maintenance, residential, commercial, industrial and many other non-construction markets.
- Customer activities range from small DIY projects to large civil engineering projects.

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

AMA Research November 2022

OUR MARKET CONTINUED

MARKET DRIVERS

We continue to respond to market drivers, making commitments to Net Zero, addressing changing customer needs and evolving our business model to macroeconomic conditions.

NET ZERO

We commit to making sustainable business decisions to protect our planet.

2040

Net Zero Carbon Target

Impact
- Customers are increasingly asking for alternative lower-carbon solutions
- Customers would like better visibility of the carbon footprint of their equipment
- Investors require more carbon disclosure

Our response
- We are working closely with our supply chain to expand our range of products
- In 2023 we launched customer carbon reporting on our ProService platform and will enhance this in 2024
- We have annual EcoVadis and CDP audits, and have had our Net-Zero plan approved by the SBTi

SELF-SERVICE

We use technology to give customers direct access to a wide range of products and services on a single self-service online platform.

1,000+

Customers self-serving

Impact
- Customers want access to construction-related products and services online
- Customers want full control and visibility of their orders, often requiring approval functionality online
- Self-service is increasingly popular ahead of traditional channels

Our response
- In 2023 we trialled our self-service platform with several large customers before rolling it out to our largest single customer
- We also trialled it with 500 smaller customers, before launching v2.0 in December
- We have since enabled self-onboarding and made it available to all customers

PURCHASING RATIONALISATION

Our goal is to give customers access to a full range of construction-related products and services, all in one place.

900+

Suppliers on our platform

Impact
- One-stop shop solutions allow customers to rationalise their supply chains and remove costs
- Single source solutions provide consistency of reporting
- Suppliers are attracted to the volumes we can offer by consolidating demand

Our response
- We have strengthened our supply chain over several years, offering a broader range of products and services
- In 2023, we launched new product verticals; building materials and 30,000 additional resale products
- We continue to expand our depth and breadth

HEALTH & SAFETY LEGISLATION

We support customers with high-quality equipment and a range of training solutions, so they can meet their H&S agendas.

1,000+

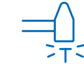
Safety training courses available

Impact
- H&S legislation has a key impact on customer working practices and demand for equipment
- Customers require the highest standards of safety and compliance
- Customers are increasingly requiring training for their workforce

Our response
- In 2023 we launched our digital service portal in our workshops to enhance quality standards
- We have expanded our training offering, with over 240 third party training companies complementing our in-house fulfilment

CONSTRUCTION OUTPUT

We have diversified our customer base by offering a wider range of services, making us more resilient to construction output.

4.9% 

Continued revenue growth

Impact
- Construction output is an important driver of equipment rental
- There is varying growth across sectors (commercial, housebuilding, infrastructure etc) depending on macroeconomic influences
- New-build is more cyclical than Repair & Maintenance

Our response
- Strong exposure to the Repair & Maintenance activity, through our facilities management and local trades customers, has provided recurring revenues
- Range expansion through our ProService business has provided access to a wide range of end-users in many different sectors

MACROECONOMIC FACTORS

We have evolved our operating model to be flexible to evolving market conditions.

89

Builders merchant locations

Impact
- Global market conditions have had a destabilising impact on UK economic performance
- Increased interest rates have suppressed investment, particularly impacting sectors such as housebuilding
- Inflationary pressures have impacted property costs

Our response
- We have continued to restructure our operating model to a lower, more flexible cost base
- We have closed 16 branches and opened 26 lower-cost, flexible builders merchants
- We have extended our rehire range, reducing the relative reliance on fleet capex

INVESTMENT CASE

1 ATTRACTIVE MARKET DYNAMICS

- The UK equipment hire industry is estimated to be c£6-7bn and its fragmented supply base provides an opportunity to grow share.
- The industry is digitally immature with less than 3% of orders estimated to be made via digital channels compared with 15%+ in other sectors. HSS's technology platform is well placed to take advantage of this growth opportunity.
- Customer and supplier requirements are converging with both groups of stakeholders trying to access the whole market, and demanding speed, accuracy and transparency. Our one-stop shop proposition, combined with our self-service technology, addresses these requirements.

CUSTOMER NEEDS

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

CONVERGING REQUIREMENTS ADDRESSED BY PROSERVICE, ENHANCED BY TECHNOLOGY

Access to the whole market
Suppliers' access to all customers, customers' access to all suppliers

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

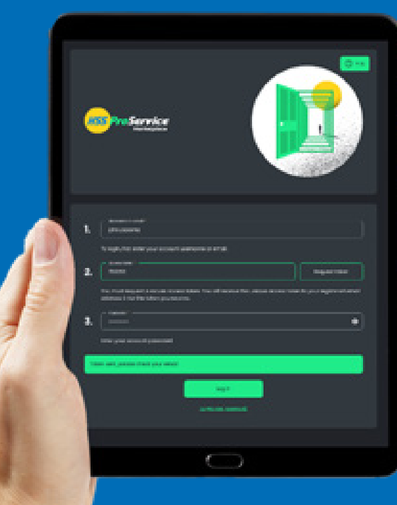
Information and insight
Transparency for customers, informed decisions for suppliers

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

SUPPLIER NEEDS

2 INNOVATIVE TECHNOLOGY

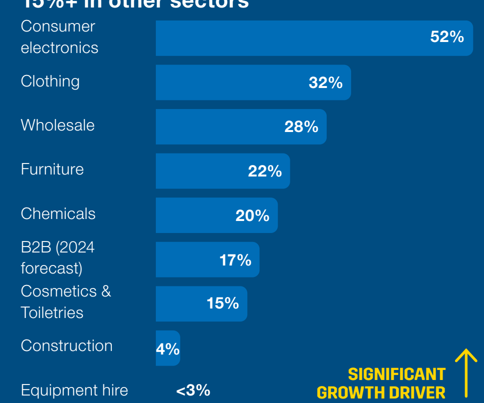
- We believe our integrated technology platform leads the industry, and our self-service functionality continues to differentiate us.
- Our colleagues have access to our entire range of equipment and services, so can offer the full one-stop shop to our customers.
- Our customers also have access to our entire range via our fully integrated self-service marketplace platform.
- Our suppliers use the technology to drive utilisation of their fleet and improve returns.
- The scalable nature of our technology allows us to add non-hire products and services to our offering.



3 SCALABLE MODEL

- Our unique operating model, comprising two distinct, yet complementary divisions, ensures complete clarity on objectives.
- Our ProService business focuses on customer acquisition and can be scaled without any capital investment in fleet. It has a hybrid sales model, with self-service technology for customers, complemented by a technology-enabled salesforce working in branches, builders merchants, in the field and in our central sales team in Manchester. The platforms provide access to over 900 suppliers covering a huge range of equipment and services.
- Our technology platform allows us to rapidly expand our supply chain and add new product verticals.
- In late 2023 we extended the capabilities of our platform with the rollout of version 2.0.
- Our Operations business focuses on customer service, efficiency, and Health & Safety. It has a flexible, low-cost model comprising a hub-and-spoke distribution network providing national delivery coverage from 38 CDCs. Our logistics are powered by Satalia route optimisation technology that minimises mileage, improves customer service and reduces our carbon footprint.
- Digital immaturity in the equipment hire sector is a significant growth driver for HSS.

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



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

4 STRONG, WELL-RECOGNISED AND TRUSTED BRAND

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

5 DRIVING SUSTAINABILITY

2040
Net Zero Carbon Target

- We have the circular economy at the heart of our business model, ensuring that equipment is used again and again by multiple customers who would otherwise have large amounts of poorly utilised equipment.
- We have a proven track record of reducing our building carbon footprint.
- We published our second ESG Impact Report this year, laying out our plans and objectives that will ultimately ensure we meet our Net Zero 2040 commitment.
- In 2023 we were awarded the EcoVadis Gold award, putting us in the top 5% of companies in our sector, and a reflection of our achievements to date and the clear ESG roadmap we have set out.
- Our plan to reduce GHG emissions was approved by the Science Based Targets Initiative (SBTi) in 2023.
- We launched our customer CO_2 reporting suite this year, rolling it out to several key accounts.

6 STRONG BALANCE SHEET

- Our leverage at 1.7x is well positioned to invest for future growth.
- Our ROCE at 16.2% is driven by growth in our capital-light Services segment and by leveraging insight tools to focus investment on high-demand, high-return hire fleet.

CHAIRMAN'S STATEMENT

Alan Peterson OBE
Chairman

DEAR SHAREHOLDER

The Group has delivered another year of good results, despite an uncertain economic backdrop, whilst continuing to invest in our strategy as we focus on being the market-leading, digitally-led brand for equipment services.

Our results

The Group has delivered further revenue growth and consistently high returns on capital. These results, which are outlined in more detail by our CFO, Paul Quested, in the Financial Review, have enabled a strong balance sheet to be maintained. As such, I am pleased to report a proposed final dividend payment of 0.38p reflecting the continued confidence the Board has in the management team and its execution of our strategy.

Our strategic progress

The Board and management team are pleased with the strategic progress the Group has made during FY23 and believe both divisions, ProService and Operations, are well placed going forward. ProService has developed a technology platform helping it to become what we believe is the leading marketplace for building services in the UK, aggregating buyers and sellers across a broad range of products and services. Operations has evolved its model, driving efficiency and reducing its impact on the environment whilst maintaining high levels of safety, quality and colleague engagement.

"I am pleased to report on another good year with the Group delivering a resilient performance set against a challenging and uncertain market."

Delivering growth
4.9%
Like-for-like growth

High returns on capital
16.2%
ROCE

Strong balance sheet
1.7x
Leverage

ESG

0.06
FY22: 0.02
RIDDOR frequency rate

0.24
FY22: 0.40
Lost Time Accident Frequency rate

2.92
FY22: 3.24
All Injury frequency rate

Read our ESG section on page 20

CHAIRMAN'S STATEMENT CONTINUED

"We have continued to invest in our vision of becoming the market-leading, digitally-led brand for equipment services, and our strategic progress this year sets us up well for the future."

Operations continues to be a leading national provider of hire equipment and the largest supplier to ProService.

I would like to highlight significant areas of progress in each of our businesses in FY23.

Starting with ProService, the team has made great progress with the development of our digital marketplace. In addition to our expansive equipment rental offering, we rolled out both new and wider ranges of non-rental products for our customers (we call them 'product verticals') in the areas of Equipment Sales and Building Materials, and in December we launched version 2.0 of our marketplace platform. With both developments, results have been positive and it is interesting to see customer and supplier behaviours evolve as we further deploy our technology. More details about our progress with self-service and new product verticals are provided by our CEO, Steve Ashmore, in his statement on page 11, and in the case studies on pages 17 to 19.

During FY23 the ProService team also completed the establishment of a Central Sales function in our office in Manchester, designed to reach more customers through a leaner model whilst improving cross-selling. We have proven that a centralised sales function, powered by data and enabled with technology, can deliver great customer service in an efficient way.

Moving on to Operations, the team has deployed new technology into our workshops, designed to improve quality standards, reduce customer exchanges and further improve our fleet efficiency and carbon footprint. In addition, the team has accelerated the transformation of our branch network into the builders merchant model that we first tested back in 2020. This model provides opportunity for growth, removes fixed costs, strengthens relationships with our Building Materials product vertical suppliers and delivers convenience for customers. You can read more about our builders merchant network in the case study on page 17.

The Group's ESG agenda continues to be very important for the Board, and I am pleased to say we have made some important progress this year. We had our Net Zero plan audited by the SBTi (Science Based Targets initiative) which approved them as being in line with the ambition to limit global warming to 1.5°C. During the year we have launched a new waste reduction project, published our second ESG Impact Report, launched customer CO_2 reporting and rolled out colleague ESG training. All this progress was recognised in the recent EcoVadis audit which resulted in our award of Gold status. You can read more about our ESG journey on pages 20 to 37.

The progress the teams have made in FY23 is impressive and reflects one of the Group's key values: to Make It Better.

Divestment of specialist Power business

On 7 March 2024, we announced the sale of our specialist Power businesses, ABird and Apex, to CES Global. This divestment strengthens our balance sheet and allows us to continue to focus on our customer proposition, technology development and operational excellence. Specialist power generation continues to be part of our customer proposition and CES Global will be a key supplier to our ProService division going forward.

Equipment Quality
We continue to operate a well-invested fleet with high safety and quality standards.

Our Board

The Group continues to benefit from a stable and experienced Board. We remain custodians of the HSS brand, supporting senior management with their strategic decisions, reviewing the Company's risk profile and monitoring progress in areas such as our ESG roadmap and technology development programme.

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

Dividends

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

Having considered the Group's outlook and financial position, and all stakeholders' interests, the Board is recommending a final dividend of 0.38p, making 0.56p for the full year. Assuming the dividend is approved at the Annual General Meeting, it will be paid on 2 July 2024 to shareholders on the register on 24 May 2024.

Outlook

We have seen another good year of strategic progress for the Group, delivering robust financial results in an uncertain economic environment. I would like to thank my fellow Board members for their support and express my gratitude to our colleagues for their ongoing commitment, hard work and contribution to our achievements over the year.

The strategic progress made across the Group this year, delivered by our colleagues and underpinned by our investment in technology, makes each of our two divisions well positioned for future growth.

Alan Peterson OBE
Chairman

30 April 2024

CHIEF EXECUTIVE OFFICER'S STATEMENT

Steve Ashmore
Chief Executive Officer

"The Group has delivered a solid performance alongside further strategic progress and I would like to extend my thanks to all my colleagues for their continued dedication and hard work over the last year."

We entered the year off the back of a strong set of results in FY22, with a robust balance sheet and a new operating model built around two divisions: ProService and Operations.
This foundation, combined with positive emerging KPIs from each business, gave us the confidence to accelerate investment in our strategy of becoming the market-leading, digitally-led brand for equipment services. We took this decision to continue our investment in operating costs for future growth against the backdrop of uncertainties in the wider UK economy. It is within this context that I can now reflect on a progressive year, during which we have delivered a resilient financial performance alongside significant investment in our strategy.

OUR YEAR IN SUMMARY

Strong financial performance

Our revenue growth has continued to outperform the market, with like-for-like revenues 4.9% ahead of the prior year, enabled through the ongoing expansion of our successful builders merchant network, early adoption of self-service and support from new product verticals. We have continued to expand our Central Sales team and develop our technology platform, investing £5.1m during the year. Whilst doing so, we have maintained a strong balance sheet and industry-leading returns, which Paul discusses in more detail in the Financial Review on pages 38 to 41.

Delivering growth

+12.0%
Services revenue

+0.5%
Rental revenue

Strategic opex investment for future growth

£5.1m

Self-service technology

Following successful self-service trials with a small number of large contractors in Q4 FY22, we decided to extend trials to over 500 small and medium sized customers in FY23. These trials have shown good results with strong adoption rates and significant growth in revenue from this set of customers. In December 2023 we launched version 2.0 of our self-service marketplace platform with new and improved functionality for customers and we are now rolling out this channel to more of our customers during FY24 (read more on page 18).

I believe that our self-service technology really differentiates us from the competition. It provides customers with a marketplace platform to access a wide range of building products and services, offering a single point of ordering and control. Results from the trials undertaken in FY23 show strong levels of interest from our customers, with the potential for improved loyalty as they get used to the convenience of a single, easy-to-use platform. We expect to see self-service rates increase markedly in FY24, creating the opportunity to significantly reduce the cost-to-serve thereafter.

CHIEF EXECUTIVE OFFICER'S STATEMENT CONTINUED

New product verticals

Our technology platform allows us to quickly launch new product verticals, enhancing the one-stop shop experience for customers, particularly for those using our self-service marketplace platform. In FY24 we launched two significant new product verticals, Equipment Sales and Building Materials, with both seeing good customer adoption. Our integrated technology platform means that these new products are readily available to customers across all channels, whether they choose to self-serve, visit a builders merchant or contact us via email or phone.

In Equipment Sales we partnered with Toolbank to provide an offering of over 30,000 tools, fittings, consumables and personal protective equipment (PPE) to our customers. Whilst relatively small in value compared with equipment hire, these resale products provide convenience for customers and add users to our marketplace which we believe will further enhance loyalty to ProService. We fulfilled orders for almost 1,000 customers by the end of the year, reflecting the power of our offering and the underlying demand for a one-stop shop in the building services market.

In Building Materials we already had a pre-established network of over 20 merchant partners keen to sell their products into our customer base.

c30,000

Equipment Sales SKUs on offer via ProService

We conducted a trial in H1 encouraging our salesforce to promote this offering to customers and setting up a small team to process resultant orders. Following a positive start we decided to make the offering available more widely. In September, we introduced a new 'Building Materials' tile on our technology platform, making it accessible to all customers whether they are self-serving through ProService or the hss.com website, or through our sales teams. By Q4 we were regularly generating over £75k of revenue per week from Building Materials, serving over 400 customers.

In FY24 we expect to gain further momentum in Equipment Sales and Building Materials sales, and intend to roll-out, other product verticals on our technology platform.

Central Sales

During H1 2023, we grew our Central Sales team demonstrating the benefit of a centralised model for greater customer reach, enhanced cross-selling and improved efficiency. Armed with our HSS ProPOS technology and driven by data, this team was given a portfolio of over 10,000, largely SME customers to manage. During the year this portfolio has delivered revenue growth 20 ppts ahead of other SME customers, at higher levels of productivity. Having proved this model we are now in the process of rationalising our overall sales acquisition and order-taking organisation, to drive further productivity benefits and enhanced customer experience.

Operational efficiency and customer service

Operations has had another successful year, continuing to deliver market-leading levels of customer service whilst striving for ongoing efficiency gains and carbon reduction.

Following the roll-out of Satalia route optimisation software in FY22, the Operations team has successfully trialled more new technology in FY23, the Digital Service Portal (DSP), which is designed to improve equipment standards, reduce customer downtime and lower our cost to serve. This year the team will be introducing QR coding for products in our fleet, which will mark the final step in our transition to a paperless operational transaction.

Builders merchants network

Our well-established builders merchant network delivered revenue growth on a same stores basis in excess of 20%, significantly ahead of the market. This variable, lower-cost model provides builders merchants' customers with a convenient solution to equipment hire, in addition to providing a great working environment for our colleagues. During FY23 we accelerated the transition from the traditional HSS branch network to builders merchants, opening a further 26 locations, which we look forward to seeing mature over the coming year.

In FY24 we will complete this network transition, opening further builders merchants in England, Wales, Scotland and Northern Ireland. Read more about our successful builders merchants network in the case study on page 17.

ESG roadmap

As Chair of our ESG Forum I am pleased to report that we have continued the successful delivery of our ESG roadmap, staying on track to achieve our Net Zero 2040 target as well as our near-term objectives. We continue to work with consultant, Sustainable Advantage, which monitors our progress, prioritises our activities and provides examples of best practice from other industries. We also engaged auditors EcoVadis and CDP, global leaders in ESG accreditation, to independently assess our progress.

Our achievements are once again detailed in the Sustainability section on page 20, but for now I would like to highlight three significant achievements:

1. We launched our customer CO_2 reporting suite, rolling it out to several key accounts. This reporting allows customers to understand the carbon footprint of their hiring activities and make better choices to reduce carbon.
2. In May 2023, the SBTi completed its audit of our plans to reduce GHG emissions and has approved them as being in line with the ambition to limit global warming by 1.5°C. We were the first in our sector to achieve this approval in May 2023.
3. In September we were delighted to be awarded Gold status by EcoVadis following its audit of our business. This puts us in the 95th percentile in our peer group and reflects the significant progress we have made.

During the year we also launched a new waste reduction programme, continued on our journey of fleet electrification, rolled out colleague ESG training, completed a Biodiversity impact assessment and completed over 250 supplier audits as part of our new ESG accreditation programme. We look forward to realising the benefits of these activities in the years to come.

You can read more about ESG in our second Impact Report published in June which is available on our website, alongside our Sustainability section later in this Annual Report (see page 20).

STRATEGY

We separated our business in FY22 with the creation of ProService and Operations: two distinct divisions to take advantage of our fragmented market and capitalise on customer and supplier requirements. Each division has a clear focus to advance their differentiated propositions, defined through their visions and strategic objectives.

CHIEF EXECUTIVE OFFICER'S STATEMENT
CONTINUED

ProService
To become the market-leading marketplace for building services

ProService has three strategic objectives:

1. **Enhance our market-leading proposition**
ProService addresses customers' demand for a one-stop shop. As such, we will continue to introduce new product verticals, expanding our offering within equipment hire and beyond into areas such as training and resale. We have been encouraged by the uptake of our equipment sales and building materials product verticals in FY23 and will increase activity here in FY24.

   Our in-house technology developers are constantly striving to improve the user journey for customers, suppliers and colleagues. Following the launch of ProService version 2.0 in December 2023, our team will be closely monitoring user behaviours with a view to optimising the self-service platform even further. This will include enhancing content, covering additional product photos, videos and 'how-to' guides. We will also drive ESG, showing customers carbon credentials of alternative products and offering carbon reporting.

2. **Expand both our buyer and seller network**
As we constantly strive for market-leading availability, we will deepen our seller base, both in equipment hire and new product categories. A specific area of focus for us in FY24 will be the ongoing expansion of our Training Plus network of third party trainers, offering courses well beyond technical equipment training.

   We will focus on brand promotion and improved messaging, to drive buyer and supplier loyalty. Buyer acquisition will be data driven and increasingly targeted at different customer segments.

   We will build on the progress made during FY23 with our supplier audit programme, helping to reduce upstream carbon footprint, increase buyer choice and improve carbon reporting.

3. **Drive self-service adoption**
We have seen strong appetite from customers for a self-service platform, both from market research and the trials carried out so far. It is now a priority for us to promote this self-service channel to all customers, drive improved engagement and enable greater loyalty. Alongside this we will streamline other channels to ensure a consistent, high-quality customer experience, which also results in a leaner cost-to-serve model, enabled by the centralisation and automation of activities.

Operations
To become the most efficient, high-quality rental operator in the UK

Operations has clear strategic objectives:

1. **Lead with ESG**
We will always prioritise the safety and wellbeing of our customers and colleagues, while continuing to pursue our Net Zero 2040 pledge (see page 20) alongside our shorter-term ESG objectives. There are many ongoing activities in this area (see later in our ESG section page 20). Priorities include reducing carbon footprint with ongoing distribution efficiencies together with further migration to electric vehicles (EVs). We also continue to prioritise the ongoing reduction in the carbon footprint of our physical network (linking to objectives 2 and 3 below).

2. **Optimise our network**
Our Operations business is currently completing the transition from fixed-cost, low-footfall traditional hire branches to variable, low-cost, high-footfall builders merchant locations. As this network is finalised it also provides an opportunity to optimise the distribution network that supports it.

3. **Focus on customer service**
We look to technology to improve our levels of service and efficiency. We will continue to leverage the benefits of our Satalia route optimisation software and explore the potential to introduce narrower time windows for customers. The roll-out of our DSP, which I mentioned earlier, will improve equipment standards and efficiency.

Divestment of specialist Power business
On 7 March 2024, we announced the sale of our specialist Power businesses, ABird and Apex, to CES Global. ABird and Apex have been a valued part of our Group business for a number of years, and will continue to provide an important element of our customer proposition as they will be a key specialist power generation supplier to ProService going forward. The teams at ABird and Apex have made an excellent contribution to the Group and I am confident that this change in ownership will give them the specialist support they need to continue to grow. For the HSS Group, the divestment creates yet more focus on technology development, enhanced customer focus and operational excellence. I would like to thank all my ex-colleagues at ABird and Apex for their contributions over the years, and wish them every success for the future.

OUTLOOK
Following significant strategic investment in FY23 the Group retains a healthy balance sheet and industry-leading returns. We continue to operate in a challenging UK economy, impacted by wider uncertainty in global markets, but our lower-cost, technology-enabled operating model positions us well. The investment we have made over the last 12 months puts us in a strong position to capitalise as markets recover.

Our self-service marketplace technology provides the foundation to drive customer loyalty and revenue growth, whilst providing opportunities to further optimise our operating model in future years. The scale of our customer and supplier networks sets us apart from other marketplace startups and our team continues to be highly engaged and motivated to deliver on our ambitions.

We enter 2024 with our business in great shape to continue taking market share and providing an alternative technology-driven, lower-cost operating model. Our one-stop shop proposition, combined with our self-service marketplace solution, provides customers with the opportunity to reduce their procurement costs which will be particularly relevant irrespective of market conditions.

We have made significant progress in recent years, transforming our customer proposition through the reorganisation of our business and the introduction of new technology. I believe these changes will deliver market share gains, enhanced customer service and greater productivity across the Group, as we leverage new product verticals, improved routes to market and our differentiated technology over the coming year. I am confident that this will deliver improved shareholder returns through progressive improvements in earnings per share. I remain excited about the prospects for the Group in FY24 and beyond.

I would like to thank all my colleagues once again for their efforts during FY23, and the continued support of our Chairman, the Board and all our Shareholders.

Steve Ashmore
Chief Executive Officer

30 April 2024

CHIEF EXECUTIVE OFFICER'S STATEMENT
CONTINUED

Q. What sets HSS apart?
I think the first thing here is our people. We really have a great team at HSS with high levels of engagement and an inherent desire to do the right thing for customers. On a daily basis I witness our values being reflected in the actions of my colleagues; they make it safe, they make it happen, they make it better and they make it together. There really is a strong team ethos and it feels like we're all part of a big family.

Then it's the technology we've been building. I'm very confident that no-one else in the industry has a technology platform like Brenda. It allows all our colleagues to sell our entire proposition on a simple to use, intuitive platform, similar to ordering things in our everyday lives on retail marketplace platforms. And as we roll out our self-service platform in 2024 more and more customers will have the same technology in their hands too, which I believe will drive loyalty and share of wallet.

Finally, I think our business model makes a difference. Having created two divisions, ProService and Operations, each is able to really focus on their part of the customer journey. ProService is our technology-driven, asset-light sales acquisition business which has been liberated to drive conversion rates and growth. Our Operations business meanwhile can focus on safety, efficiency and fulfilment. It's a great way of working and sets us apart from our competition.

Q. Where are your medium-term growth opportunities?
Our technology platform provides customers with rapid access to whatever they need, whether it's equipment hire or other building services products. It gives us the opportunity to offer new product verticals and expand our offering in response to customer requirements. We have made good progress in FY23 with the roll-out of building materials and equipment sales and I look forward to rolling out more products and services as we extend our proposition further. The ability to offer a one-stop shop to customers, all their requirements in one place, with the convenient touch of a button and with unrivalled availability and visibility is a great opportunity for growth.

I am convinced that our Operations business has the potential to really capitalise on the specialist expertise within its teams and the reputation it has as a leader in particular areas such as low-level access, lift-and-shift, siteworks and power tools. There are good opportunities across several end markets to drive growth from these categories.

Q. What improvements can you make for customers this year?
I think the roll-out of our self-service platform is going to be great for customers this year and a key growth driver for both ProService and Operations. Many customers use several hire companies to cover a broad range of services, which they can now access quickly and in one place, on our self-service platform. As customers get familiar with it, I expect them to consolidate more and more of their spend with us.

Our Operations business will continue to offer great service from its national hub-and-spoke delivery network, with improvements driven by technology such as Satalia route optimisation and our DSP. The roll-out of DSP this year is expected to improve our already high quality standards and minimise customer downtime.

Q. How have you kept colleagues engaged?
Colleague engagement and wellbeing has been a focus for our teams for a number of years and is reflected in our consistently high engagement survey participation and scores. In FY23 we continued to evolve our mental health agenda in response to colleague feedback, with initiatives such as Wellbeing Wednesdays and campaigns to support colleagues' financial education. We have prioritised pay increases to lower-paid colleagues, recognising that they are disproportionately more impacted by the cost of living crisis. 2023 also saw the launch of MyDiscounts which, in addition to the flexible employee benefits already on offer, gives colleagues access to a wide range of discounts available online and on the high street. We have also worked hard to foster greater diversity and inclusion through a range of management and colleague-led activity in support of our ED&I strategy (see more detail on the Our People section on pages 23-24).

Q. Have you made any improvements to your cyber security?
We have made great progress with our underlying IT infrastructure plan in FY23, especially around cyber security. We have made significant investment in upgrading our server infrastructure, put in place new security software and ramped up training and awareness amongst colleagues. In May this year I was pleased to see this progress recognised with the award of ISO 27001 accreditation to the business. This is great to have but we will not be complacent. We will continuously enhance our security, deploy new technology, upgrade our infrastructure and raise cyber security awareness levels amongst our stakeholders.

I extend a big thank you and well done to all those involved in our IT infrastructure plan during FY23.

"The roll-out of our self-service platform is going to be great for customers this year and a key growth driver for both ProService and Operations."

BUSINESS MODEL

Resources and relationships → **What we do and how we do it** → **Value created for stakeholders**

ACQUISITION MODEL

PROSERVICE

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

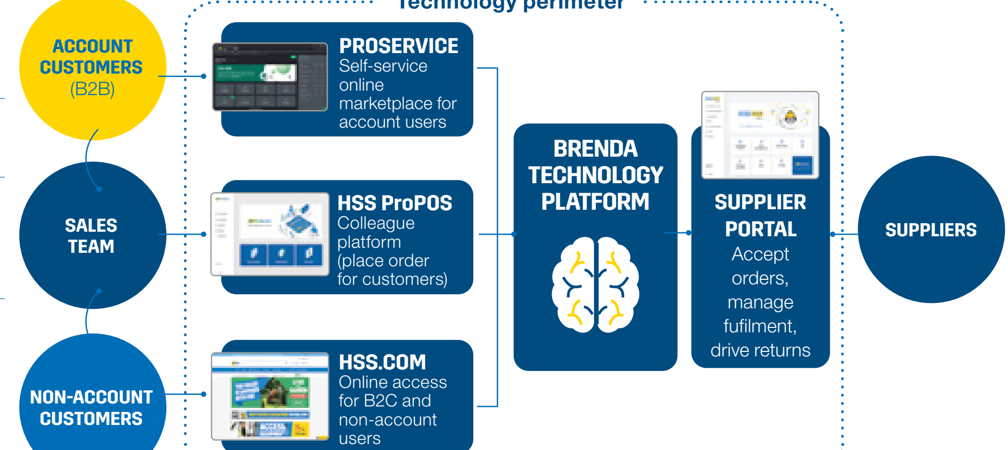
Read more about self-service and the new product verticals on pages 18-19

Well-trained salesforce
ProService has c900 colleagues.

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

Extensive supply chain
With access to around half of all equipment available for hire in the UK and over 900 supply partners.

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



Uniquely differentiated, technology-driven digital marketplace business, with potential to scale quickly.

FULFILMENT MODEL

OPERATIONS

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

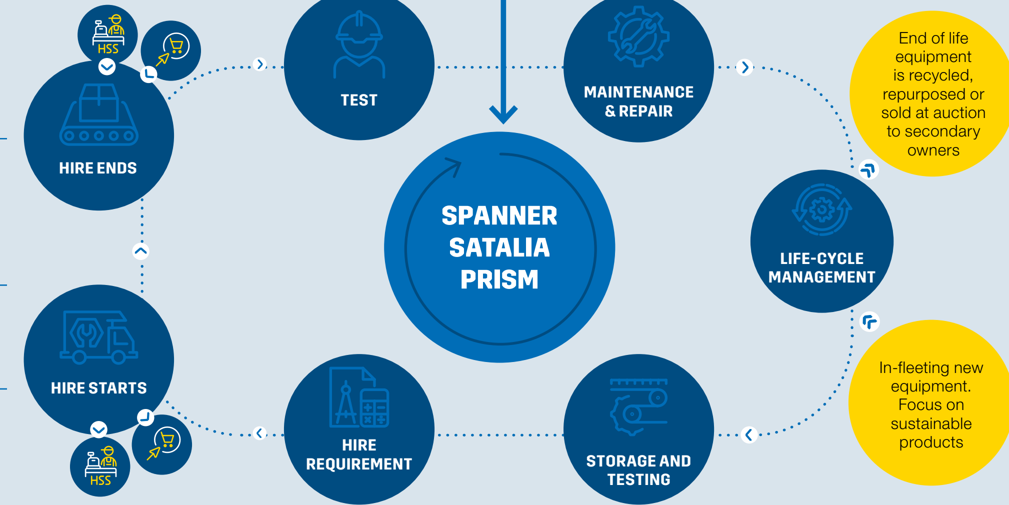
Read more about our operating model on page 8

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

Logistics expertise
Long-established, process-driven transport teams, operating from 38 CDCs, recently enhanced by new route optimisation software.

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

Engineering skills
100+ well-trained fitters and service technicians, enabled by Digital Services Portal, based in our locations or in mobile service vehicles.



Circular economy business, with leading customer satisfaction and returns on capital.

SHAREHOLDERS AND INVESTORS
Return on investment, growth potential, ESG leadership

Adjusted earnings per share (diluted)
1.25p

SUPPLIERS
Access to customers, volumes and data insight

Number of suppliers
900+

LENDERS
Confidence in financing repayments, ESG leadership

Net debt leverage (non-IFRS 16 basis)
1.2x

COLLEAGUES
Benefits, remuneration, tools to get the job done, engagement and inclusion

Colleague engagement score
74%

CUSTOMERS
Access to a broad range of equipment and services, ability to self-serve, ESG reporting

LOCAL COMMUNITIES AND THE ENVIRONMENT
Sustainable business practices, minimising environmental impact
EcoVadis Gold rating
95th percentile

Find out more about our operating model in the case studies on pages 17 to 19

OUR STRATEGY AT A GLANCE

Strategic Priorities	2023 Progress	2024 Focus	KPIs	Key Risks
PROSERVICE	**Vision:** To become the market-leading marketplace for building services			
1. Enhance our Market-leading Proposition	We launched new product verticals, expanding our offering in Equipment Sales, now offering over 30,000 Toolbank products to our customers, and launching Building Materials on our platform. Significant technology enhancements during the year led to the launch of ProService v2.0. We also introduced online carbon reporting to selected key accounts.	– Continued growth of Equipment Sales and Toolbank revenues – Development of more product verticals – Content development, including product photos, videos, 'how-to' guides and enhanced carbon reporting	REVENUE SERVICES REVENUE	Competitor challenge Strategy execution
2. Expand both our Buyer and Seller Networks	During 2023 we onboarded over 62 new hire suppliers in addition to 100 materials suppliers. We had a particular focus on innovation, extending our range with products such as the hydrogen lighting tower. We held regional innovation roadshows across the country, showcasing these products, with attendees from 30 suppliers and 60 customers.	– Further development of seller network and expansion of product range, focusing on sustainable products – Targeting new buyers with our marketplace proposition – Continued joint audit programme with sellers to ensure quality, safety and service standards	AVERAGE ORDER VALUE NUMBER OF SELLERS NUMBER OF BUYERS	Macroeconomic conditions Third party reliance (sellers)
3. Drive Self-Service Adoption	We developed our self-service platform with three major top-100 UK construction companies, before implementing it with our single largest customer in July. In Q4 we also trialled the platform with 500 smaller customers. Throughout the year, we used customer feedback to inform our technology roadmap, culminating in the launch of ProService v2.0 in December 2023.	– Launch of self-onboarding module on ProService platform – Integration of SnowPlow behavioural data technology to improve platform optimisation – Streamline all customer channels to ensure a consistent, high-quality customer experience	SELF-SERVICE ADOPTION REVENUE	Macroeconomic conditions Technology and IT infrastructure
OPERATIONS	**Vision:** To become the most efficient, high-quality rental operator in the UK			
1. Lead with ESG	We published our second ESG Impact Report, had our Net Zero plan approved by the SBTi, launched customer CO_2 reporting and rolled out colleague ESG training. Alongside many other ESG initiatives, this progress helped us move from EcoVadis Silver to Gold status, placing us in the 95th percentile of the industry.	– Develop customer CO_2 reporting further, rolling out to many more buyers – Enhance supply chain ESG monitoring and auditing, launching a new Responsible Sourcing project – SBTi Phase 2 submission, alongside further EcoVadis and CDP audits	ECOVADIS SCORE COLLEAGUE ENGAGEMENT RIDDOR RATE	Legal and regulatory requirements Safety ESG
2. Optimise our Network	Closure of 16 fixed-cost branches and the opening of 25 low variable-cost builders merchants. Continued like-for-like growth of 21% from builders merchants network.	– The further transition from traditional hire branches to builders merchants – Following this we will embark on the review and implementation of the CDC network optimisation opportunity	LIKE-FOR-LIKE MERCHANT GROWTH EBITA MARGIN ROCE	Inability to attract, train and retain personnel Third party reliance (builders merchants)
3. Focus on Customer Service	During FY23 we continued to leverage the benefits of our Satalia route optimisation technology, delivering more accurate delivery information to customers. Launched our DSP, driving compliance in our workshops and improving product quality standards.	– Roll out our DSP technology throughout our network – Deliver product quality improvement and resultant exchange rate reduction – Explore the potential to offer narrow time windows for customers	DELIVERY PERFORMANCE PRODUCT EXCHANGE RATE	Technology and IT infrastructure Customer service

Read more about these risks on pages 48 to 52

STRATEGY IN ACTION

REVENUE GROWTH AND CUSTOMER CONVENIENCE

THROUGH A LOWER AND MORE VARIABLE COST BASE

THE OPPORTUNITY

At the start of 2023 we had a network consisting of 38 CDCs from which we operate all our workshops and transport, 37 traditional HSS branches and a very successful set of 63 builders merchants. The builders merchant format was established in 2020, enabling us to reduce our branch network following the COVID-19 pandemic and shift to a variable cost base whilst offering customers the convenience of hiring with HSS in the same location that they buy their building materials. The performance of these locations has been very strong and the feedback from customers has been excellent, so in H2 2023 we decided to complete this transition.

What we did

We opened hire desks in 26 new builders merchants, taking our merchant network to 89 by the end of the year, and closed 16 traditional HSS branches. We retained colleagues, who either moved to the new builders merchants or into virtual branch manager roles. We expanded our partnerships with merchants such as Howarth Timber, Robert Price and Kellaway, and entered into a new partnership with Selco, opening four sites. In all locations we have deployed great colleagues, high-quality equipment and our industry-leading technology HSS ProPOS.

26
new builders merchants, taking our merchant network to 89 by the end of the year

21%
Same stores basis* revenue growth

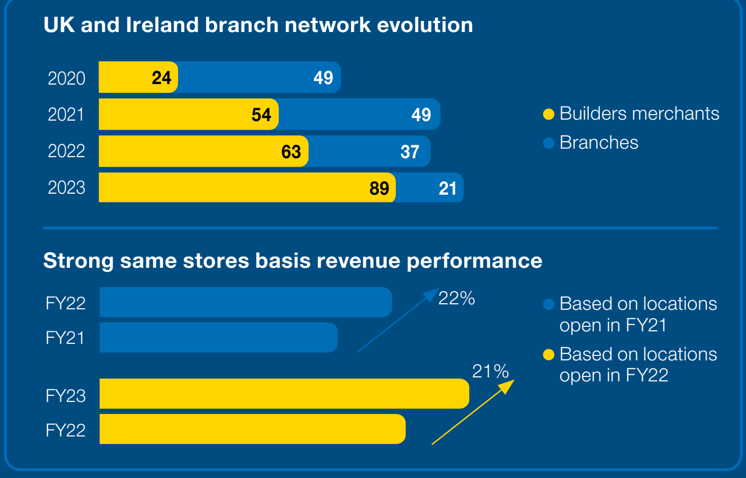
76%
Colleague engagement score in builders merchants

20x
Builders merchant location estimated access to footfall compared with traditional HSS branch

THE RESULTS

We estimate that our builders merchant locations provide access to customer footfall in excess of 20x compared to our traditional branches and during 2023 our builders merchants have delivered 21% growth on a same stores basis*.

Our independent colleague engagement survey highlighted that engagement is excellent in merchant locations (76% in merchants versus Group score of 74%). In 2024 we plan to complete the transition of our network, and beyond that, our extremely supportive merchant partners provide us with the opportunity for further growth.



* Stores and builders merchant locations open for comparable period in FY23 and FY22.

STRATEGY IN ACTION CONTINUED

DEPLOYING SELF-SERVICE

THE OPPORTUNITY

We know our customers want quick access to a wide range of products and they want to be in control of their orders with minimal fuss. To address these requirements we leveraged our technology, creating a self-service marketplace, ProService, which we deployed to some of our larger customers in late 2022 and early 2023. Following strong self-service adoption rates and great feedback from these customers, together with significant increases in activity, loyalty and spend, we decided to make this available to a broader range of customers in 2023.

What we did

We took feedback from the first self-service customers, continuously improving the platform, including workflow and feature enhancements. We also took internal learnings from our onboarding experience so that we could deploy the platform quickly to a larger number of customers. In June 2023 we set up a small field-based sales team to promote our self-service platform to mid-sized customers and in October we extended our roll-out to a further 500 smaller customers, leveraging our fully resourced Central Sales team in Manchester. In December 2023 we launched version 2.0 of our self-service platform with new and improved functionality.

1,000+
Buyers have self-served

250
Active customers per week

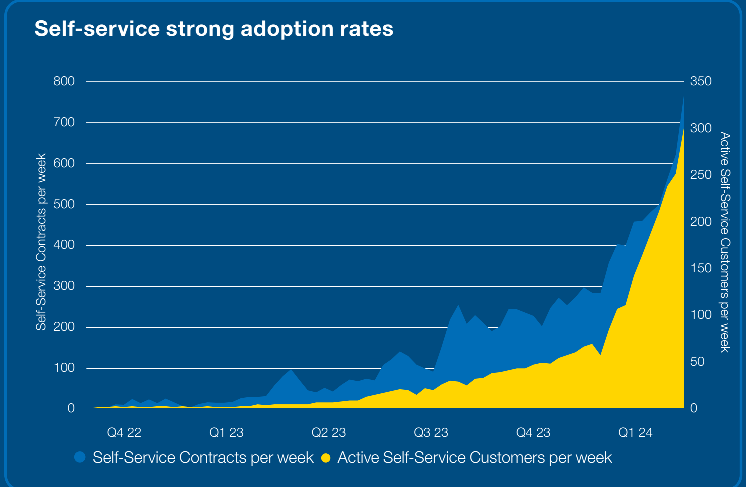
600+
Self-service contracts raised per week

48%
like-for-like growth

THE RESULTS

During trials we saw strong adoption rates of self-service, with 38% of customers targeted signing up to a platform demonstration and 25% of them self-serving during the trial. We have seen active customers and contracts raised on the platform more than double every 12 weeks. We now have over 250 active customers, raising over 600 contracts a week. The platform appears to be driving loyalty and improved share of wallet, with this channel experiencing revenue growth significantly ahead of other channels. We are now in the process of rolling out our self-service platform to a much wider audience and will continue to enhance the technology using our in-house tech team.

Self-service strong adoption rates



* The graph excludes the 2-week Christmas period.

STRATEGY IN ACTION CONTINUED

NEW PRODUCT VERTICALS

THE OPPORTUNITY

The building services market in the UK is extremely fragmented, not just for equipment hire but in other product verticals. Market research has shown that customers in this market value a one-stop shop and the opportunity to rationalise their supply chains, which has been reflected in the strong growth of our Services division for many years as it has continued to expand our hire offering. With this in mind, we have developed our technology platform, Brenda, in such a way that we can rapidly deploy additional product verticals to customers. In 2023 we took the opportunity to surface two new product verticals, Equipment Sales and Building Materials, on our technology platform.

What we did

For Building Materials we had a ready-made supply chain consisting of over 20 regional builders merchant partners where we have HSS trade counters. These partners have been keen to promote their products to our customers for some time, so we introduced a new category tile on our platform landing page and uploaded a catalogue of Building Material products. We also entered a commercial agreement with Toolbank to provide a range of over 30,000 products for purchase, from hand tools to PPE, surfacing a new Equipment Sales category tile on our platform.

£150k
Revenue per week in new products

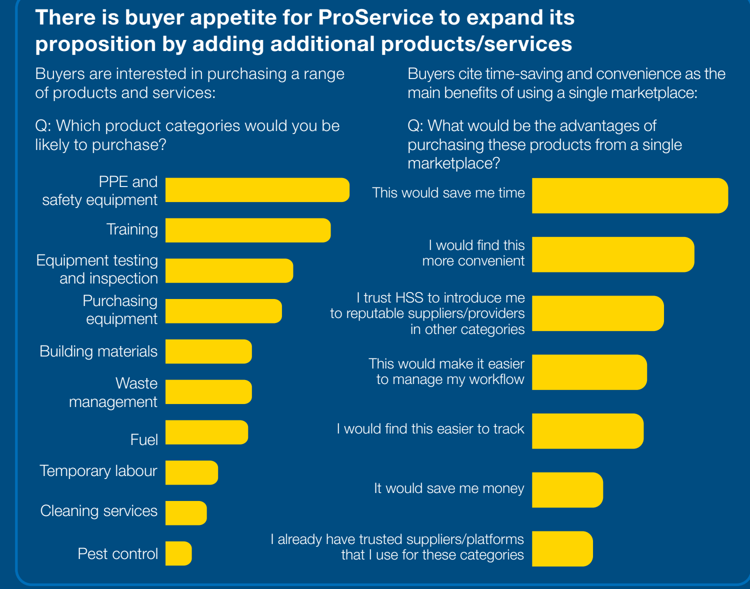
1,291
Unique buyers purchasing these new products in FY23

3,000+
Orders placed in FY23

£1,393
Average order value of Building Materials

THE RESULTS

We have seen strong adoption of these new verticals with nearly 1,000 customers using our Equipment Sales Toolbank offering and over 400 customers using our Building Materials offering in FY23. We are now regularly generating revenue of £150k per week across Equipment Sales and Building Materials, and importantly, these new verticals are increasing the frequency with which customers interact with us, which we expect to drive long-term loyalty. During 2024 as more customers use our self-service platform and awareness about these new verticals increases, we expect the growth from them to accelerate. We also plan to add more new product verticals throughout 2024 and beyond.



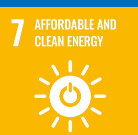
SUSTAINABILITY COMMITMENTS AND TARGETS

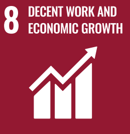
CLEAR COMMITMENT

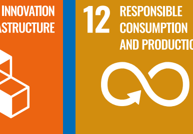
HSS has a strong desire to operate responsibly and sustainably and with the best interests of all our stakeholders and the planet in mind. We strive to build sustainability into everything we do and we always operate in the most transparent and ethical ways.

OUR SIX CORE SUSTAINABLE DEVELOPMENT GOALS (SDGS)

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







See our progress against our targets on page 37

ENVIRONMENT

Focused on our 2040 net-zero and climate change commitments

Our commitment

We have committed to reduce our scope 1, 2 and 3 CO_2 emissions to net-zero by 2040 (SBTi)[1]; we also commit to make sustainable business decisions to protect our planet.

Our targets

- Net zero by 2040
- Reduce scopes 1 and 2 by 35% by 2025
- SBTi targets approved in May 2023
- 40% of company cars to be EVs by 2025
- 100% of electricity from renewable sources by 2025
- 95% of waste diverted from landfill by 2025
- 20% of capex budget allocated to greener products by 2025

Material issues

- Climate change
- GHG reduction
- Greener alternatives
- Waste and resource management

UN SDGs and their targets

7: 7.2, 7.a
12: 12.1 to 12.8
13: 13.1, 13.2

1 See definition on page 137

SOCIAL

Putting people and local communities at the heart of what we do

Our commitment

We are committed to operating in a socially responsible way, encouraging creativity and diversity, and we aim to benefit the local communities we serve.

Our targets

- Zero RIDDOR environment
- Set up in 2023 an ED&I Committee and colleague ambassador group
- Achieve 90% equality ED&I data for all colleagues
- 25% female colleagues by 2025
- Create a Community Investment Policy by 2025
- Define, develop and launch ED&I strategy Group plan in 2023

Material issues

- Safety
- Colleague wellbeing
- ED&I
- Colleague engagement

UN SDGs and their targets

3.4, 3.6

8.5, 8.6, 8.8

9.3, 9.4

GOVERNANCE

Holding ourselves accountable

Our commitment

Recognising that stakeholders are increasingly asking for more transparency in business We are committed to operating in an ethical, transparent, safe, secure and fair way.

Our targets

- Set up ESG governance structure via ESG Committee by 2025
- Develop and disseminate an ESG policy by 2024
- Create ESG Strategy Roadmap with goals and targets by 2024
- Maintain ISO 27001 certification
- Track ESG credentials for 50% of supply chain partners by 2024
- 100% ECO products classified and labelled by 2025
- Achieve ISO 5001 energy management by 2025

Material issues

- Transparent and accountable
- Human rights
- Risk management
- Maturity path evolution

UN SDGs and their targets

11.6

15.1

SUSTAINABILITY CONTINUED

ENVIRONMENT

In FY23 we released our second ESG Impact Report. We have committed to publish this report annually so that we can keep ourselves accountable to the ESG vision, strategy and goals we have publicly set out.

This paperless report is available to anyone online and goes into detail about our ESG journey.

Read our ESG Impact Report here https://www.hsshiregroup.com/sustainability/reports/

OUR FOCUS SUB-GOALS

SDG No.

7.A Target – 40% Company car fleet electric by 2025

Achieved 27% in 2023; with cars currently on order will achieve the 2025 target

13.2 Target – 46.2% GHG Scopes 1 and 2 by 2030

With our current projects, we are on track to achieve this target.

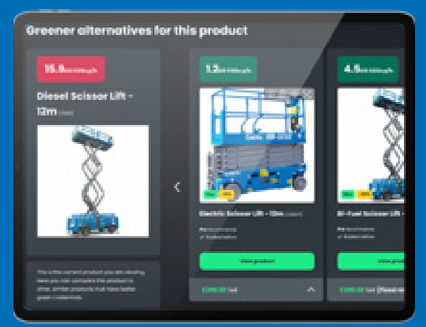
HOW WE ARE CONTRIBUTING

We remain committed to sourcing the latest products and are continually expand our offering. We continue to build on our greener alternatives offering, making it easier than ever for our customers to make environmentally conscious choices.

GREENER ALTERNATIVES

Another major achievement in 2023 was identifying greener alternatives to traditional fuel-based products that are commonly hired. Developing a database of over 63,000 products, we will implement a greener alternative product prompt for customers who elect to utilise our self-service platform, ProService.

This real-time, practical and seemingly relatively simple change will broaden our customers' knowledge and choices of the latest product innovations available via HSS. Customers can make informed, data-driven decisions on steps they can take to reduce their CO_2 emissions at product or contract level, real time.



SCIENCE BASED TARGETS INITIATIVE

In order to achieve our ambitious Net-Zero target date of 2040 we understand that we need to take a materiality-based approach to our ESG goals to drastically reduce our operational GHG emissions in an achievable glide-path.

In 2022 we made our submission to the SBTi. In May of 2023 we were one of the first UK/ROI-based companies in our sector to have our near-term targets validated. This means that our near and long-term emissions reduction targets, whilst drastic, are achievable. We've also committed to align with a 1.5ºC rise in global temperatures compared with pre-industrial levels through the Business Ambition for 1.5ºC campaign.

This achievement is a great milestone on the road to reaching our goals.

Net Zero Carbon Target

2040

ECOVADIS GOLD

In 2023 we again participated in the EcoVadis audit after previously being awarded Silver in our inaugural year. In 2023 our ESG progress was evidenced by our Gold award, which demonstrates the hard work and collaboration that many HSS colleagues have inputted to achieve this recognition. This Gold award puts us in the top 5% of EcoVadis accredited organisations globally on issues pertaining to the environment, ethics, labour and human rights, and sustainable procurement.

CUSTOMER CARBON REPORTING

Through continuous dialogue with our customers and suppliers on ESG elements we recognised that one of the biggest challenges facing industry at the moment is the lack of readily available, manufacturer-provided, Life Cycle Analysis (LCA) data. This data would enable all our stakeholders to have true visibility over the impact their business has on the environment.

Unfortunately, LCA data from manufacturers is not being produced quickly enough. This is why we conduct annual ESG audits of our entire supply chain to focus pressure upstream for various ESG information. However, in the meantime we have identified that the 'use' and 'transport' phases of an LCA have the most impact in our particular industry and have developed an in-house hybrid database of all the products we offer our customers.

Using this database, in 2023 we ran a series of pilot CO_2 reporting projects with a variety of different-sized customers. These pilots were delivered in collaboration with our customers and provided us with the opportunity to develop a refined in-house customer carbon reporting capability.

These unique tools allow our customers to make informed, data-driven decisions that allow them to meet their own emissions reduction targets. Following successful pilots, in 2024 we will add the customer carbon reporting functionality to customers who use ProService – our innovative self-service platform.

SUSTAINABILITY CONTINUED

ENVIRONMENT CONTINUED

ZERO WASTE TO LANDFILL

We recognise that in order to reach our ambitious goals, we need to go much further than just reducing our operational GHGs. A key area of focus for us is our zero waste to landfill ambition and we are aiming to achieve 95% landfill diversion by 2025.

To support this goal, we have developed a series of initiatives such as the introduction of dry mixed recycling bins in all our locations, and monthly reporting of all our waste streams to identify locations with unusually high levels of waste generation. Using league tables, respective business leaders have targeted conversations with locations to discuss practical changes that reduce our waste, in accordance with the waste hierarchy.

After two-way dialogue we developed mandatory e-learning training for all colleagues on waste management and reduction, so that everyone understands how they can play their part, and why it is important that they do – across every aspect of our business.

SUPPLIER SUSTAINABILITY RATING

We understand that applying pressure upstream on our supply chain is a vital part of our ESG journey. So that we are actively driving positive change within our industry, we now have a process that enables us to audit our entire supply chain on the progress of their own ESG journeys annually.

In 2023 we received an encouraging 68% response rate to our ESG audits and we hope to advance this further during 2024. Using this audit information, we have developed a weighted scoring system and have ranked our suppliers' ESG maturity, creating a benchmark from which to build on.

To support this, we have trained our procurement managers, supply chain managers and buyers on ESG elements and sustainable procurement.

To encourage more sustainable behaviour in our supply chain, in Q4 2023 we started to introduce a supplier tiering system. This system, supported by our revolutionary in-house self-service technology solution ProService, will offer commercial and financial incentives to reward suppliers that align with our ambitious ESG vision, strategy and goals, which in turn will benefit all our stakeholders.

HSS SITES, KEY BIO-DIVERSE AREA (KBA) REPORT

HSS has always fostered a strong reputation for effective governance which we feel is necessary for an ethical, profitable and environmentally sustainable business. This is one of the reasons that we submitted a voluntary Task Force on Climate-related Financial Disclosures (TCFD) report in 2022, a year prior to it being mandatory for our business.

With the Taskforce for Nature-related Financial Disclosures (TNFD) on the horizon we have produced our first ever HSS Sites Biodiversity Report. This report identifies whether our business has operational activities that are proximal to biodiversity sensitive areas and details our potential environmental risk, impact and mitigation measures.

This report provides an early indication of potential concerns regarding biodiversity, and serves to give guidance that can be used for informed decision-making within the group.

INNOVATION ROADSHOWS

At HSS we understand that technology is moving at an astonishing pace and new products are hitting the market at an almost constant rate; however, some are simply not suitable for the hire and construction market due to their extensive use and conditions on site. So that we remain at the forefront of suitable technological advancements we have continued with our now well-established innovation roadshows.

These regional roadshows aim to bring together HSS colleagues, customers, distribution suppliers and manufacturers to collaboratively meet, share knowledge and get hands-on experience of some of the new and innovative equipment available via HSS. In 2023 we held our first ever innovation roadshow in Belfast, Northern Ireland and look forward to expanding their reach even further in 2024 to the benefit of all our stakeholders.

Data shows that there has been a 73% average increase in orders for the new types of greener products showcased at these events.

FLEET

We have continued to make progress on our journey to transitioning our company car and operational fleet of vehicles into low-carbon alternatives or EVs where practicably possible, given current business requirements. In 2023, as vehicle leases expired, we moved to 69% of our company car fleet being either plug-in hybrid EVs (PHEV's) or EVs with a further 30% of vehicles with emissions of less than 120g CO_2. This means we are on target to achieve our 2030 goal to exceed 60% of our company car fleet being either PHEVs or EVs, and have already exceeded our 2025 goal of 40%.

Unfortunately, EV and PHEV technology still is not able to deliver the mileage we require to maintain our high level of customer service. However, we are taking action where we can; for example, we have converted 50% of our mobile engineer fleet to low-emission PHEV vans, and as the EV range improves we are investigating the trial of EV mobile fitter vans in our fleet.

Furthermore, we are actively exploring the possibility of converting current EV estate cars, on the fleet into mobile fitter vans and look forward to sharing our progress.

We aren't just stopping there: our partnership with Microlise means that we can monitor our drivers' habits and behaviours on the road, such as excessive acceleration and braking, all of which can potentially be unsafe, burn unnecessary fuel and potentially damage our brand reputation. This software enables our operation managers to review this data and have targeted conversations with our driver colleagues, so that we are completing jobs safely, economically and with reduced environmental impact.

Satalia AI is continuing to achieve benefits as we further embed it into our daily operations. Delivering better customer service, by providing more scheduled slots for our customers coupled with a lower carbon footprint by supplying real-time milage optimisation of our fleet.

SUSTAINABILITY CONTINUED

OUR PEOPLE

Our colleagues are at the heart of our business, and across our Group we are committed to creating a diverse and rewarding workplace for everyone.

Throughout 2023 we have continued to expand our engagement and wellbeing agenda, as well as further developing our ED&I strategy.

OUR FOCUS SUB-GOALS

SDG No.

8.6	Target – hire 30 new apprentices in 2023
	With talent pipeline hired 42 in 2023
3.4	Target – >70% colleague engagement Target – >80% total response rate
	Achieved 74% overall engagement score and a 89% response rate, which is industry leading

HOW WE ARE CONTRIBUTING

To see a more detailed overview of our 2040 net zero plans and how we are engaging with all our stakeholders please see our latest ESG impact report.

HEALTH AND SAFETY

Our health & safety governance is driven from the top down, with Steve Ashmore leading our Executive Health & Safety forum which meets quarterly. The forum reviews performance, processes and policy, and monitors colleague training and engagement activity, reporting back to the Board.

We have a zero-tolerance approach to health and safety across the Group, which centres on our three core pillars of correct PPE, robust safety training, and challenging unsafe behaviours in our locations.
Safety commitments form a key part of our colleague objectives, as well as management performance, and our senior leadership teams are responsible for driving localised activity within their own areas.

We have unfortunately seen an increase in RIDDORs for FY23, and we have taken immediate action to address these through communications and engagement activity such as safety weeks, forums, and a complete rebrand of our safety activity for roll-out in 2024. We are confident that we can improve this performance moving forward.

RIDDOR year on year rate

Year	Number of RIDDORs	RIDDOR frequency rate
2023	3	0.06
2022	1	0.02
2021	5	0.12
2020	2	0.04
2019	11	0.20

COLLEAGUE DEVELOPMENT

We are committed to ensuring that every colleague is given the training they need to excel in their role and develop their skills to build a career with HSS. We do this through a blended approach, with classroom-based and e-learning tailored to role and topic area.

As we further embedded the new Central Sales team we created in 2022, we rolled out bespoke training activities to support them in growing their confidence selling our Group proposition, with ongoing coaching and development from our Learning and Development team. We have also rolled these modules out to our wider salesforce e-learning.

This year we launched two new soft skill development programmes, aimed at developing our existing colleagues who we believe could be our future managers. 'Rising Stars' is aimed at colleagues in HSS Operations who we believe could be future team leaders. Through a series of workshops we helped them develop and learn new skills around communication, customer service, profit and loss, and people management. 'Introduction to Management' is aimed at helping new or existing managers grow their skills and confidence in their role, and this supplemented our existing 'Leaderships Development' programme which sees our current leadership teams training the next potential leaders in our business.

26
new e-learning modules

10
new bespoke induction packs tailored to role

897
face-to-face training courses completed

42
colleagues currently enrolled onto apprenticeship programmes, including Sales Executive Level 4, Lifting Equipment Apprenticeship Level 3 and Credit Controller Level 2 and 3

COLLEAGUE ENGAGEMENT

Our annual engagement survey is key to driving activity across our Group business, centrally and locally within individual teams, departments and locations. For 2023, we saw another strong response rate of 89% across the Group, and our engagement index remained high at 74%, significantly above the national average of 62%.

74%
engagement index in FY23

89%
response rate in FY23

These responses and comments feed action plans within the various areas of our business, driven by our leadership teams throughout the following year.

Keeping our colleagues informed on the progress and performance of our business is key to our engagement strategy. Alongside our weekly blog from Steve Ashmore, we ran our digital roadshow in December, inviting colleagues from across the Group to share their progress and projects from 2023. We also took the time to celebrate and reward those colleagues going above and beyond.

SUSTAINABILITY CONTINUED

OUR PEOPLE CONTINUED

HEALTH AND WELLBEING

Since we introduced our wellbeing strategy over six years ago, we have worked hard to adapt and shape the activity to what our colleagues want, as well as wider societal impacts. This year with the continued cost of living impacts, we have worked alongside our benefits partners, Salary Finance and Royal London, on campaigns around financial education, as well as introducing MyDiscounts, our new discount and cashback portal to help colleagues manage their day-to-day expenses.

In 2023 we have also utilised more of the data available to us, adapting communications activity to the topics raised by our Employee Assistance Programme feedback to ensure we are addressing topics that matter to colleagues in real time. This has helped us shape activity around seasonal depression, conflicts with colleagues and resilience.

We have seen an increase in colleague-led activity this year, with managers in our locations designing their own activity for Wellbeing Wednesdays, as well as peer-led mental wellbeing groups in Think Park. This demonstrates the impact on colleagues when we break down the stigma around talking about mental health, it allows them to feel more comfortable being their true selves at work and offer each other that peer support which can be so important.

ED&I – FOSTERING A DIVERSE WORKFORCE

The hire industry is traditionally very similar to the construction industry, with the majority of colleagues being white and male, but this is something we are dedicated to challenging.

To ensure a robust governance structure across all levels of our Group business, we have an ED&I steering committee, which comprises Executive and Managing Director-level leaders from across our business, as well as representatives from our HR and communications teams. This group is responsible for driving the ED&I strategy, escalating key areas and progress updates to the Executive Team and Board. This activity is fed by the ED&I council, made up of colleague volunteers from various different ethnicities, age groups and backgrounds, all passionate about driving ED&I activity and acting as diversity champions within their respective areas. These groups are actively shaping our strategy and activity, ensuring that colleague input is key to driving us forward in this important area.

This year we also committed to the Government's Disability Confident scheme, demonstrating our commitment to creating opportunities for everyone to feel welcome and comfortable within our business, and covering activity from recruitment and beyond.

CHARITIES AND COMMUNITIES

We are passionate about ensuring we have a positive impact within the many communities we work in across the UK and Republic of Ireland, and throughout the year we undertake a range of charitable initiatives driven by our colleagues and customers.

Working alongside our account customers such as Canary Wharf Contractors and Sir Robert McAlpine, we've supported Maggie's and Spread a Smile, working together on everything from comedy nights, golf events and five-a-side football matches. We've also been helping the next generation of football stars by sponsoring sports kit for kids teams such as St Mawgan Under 9's.

We also partnered with our partners at Lords Builders Merchants to go head to head in a charity football game to raise money for The UK Sepsis Trust.

At our head office in Manchester we've run various charity and engagement campaigns, such as Christmas Jumper day for Save the Children, and clothing collections for Cancer Research. Our colleagues input into this activity, and we ensure that we support a range of charities, nationally and locally.

These are just a few examples from 2023 which demonstrate our commitment to working alongside our customers, suppliers and colleagues to drive a positive impact within the communities we work in, and we look forward to continuing this work throughout 2024.

GENDER SPLIT

As we aim to increase our percentage of female colleagues across the Group to 25% by 2025, we have made some good progress in 2023.

Our industry is typically male dominated, but we have rolled out a number of initiatives to encourage more women into our business, adapting job descriptions and working patterns, as well as continuing the progress built by our Internal Women's Networking Group to open the discussion and drive activity to support our target of 25% by 2025. This is an area of focus we will continue to progress in 2024.

AIM HIRE

Our Aim Hire programme has significantly grown throughout 2023, creating opportunities for various groups to join our business. We signed the Armed Forces Covenant and are actively promoting roles for ex-military personnel, as well as the families of actively serving personnel who may be looking for work.

We have also seen positive growth in our activity working alongside various prisons to create opportunities for ex-offenders and people on release on temporary licence to join our business across a range of roles and locations. We have worked direct with a number of regional prisons, as well as alongside charities such as Inside Job to help create awareness of the roles and support we can offer and the dedicated colleagues we have welcomed into our business as a result of this programme.

> **"I would recommend HSS to anyone who has the motivation to change their life. I've had some really positive praise from my team, manager and customers, and I really enjoy my job. If HSS hadn't given me an opportunity, I don't know where I'd be right now."**

Aim Hire colleague who joined HSS post release

CLIMATE-RELATED FINANCIAL DISCLOSURES

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

HSS is committed to Climate-related Financial Disclosures (CFD) as set out in the UK Government 2022 regulations. We aim to be transparent to all our stakeholders on the risks we face and the way we strive to mitigate them. Using this format enables us to explain the process for responding to these challenges in a purposeful and comparable context. We have contracted the expertise of an independent ESG consultancy to aid us in our journey, as we continue to develop the methodology and coverage for targets and monitoring of risks and adaptation measures, as per our 2023 roadmap and onwards.

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

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

PLANNED IMPROVEMENTS TO CLIMATE-RELATED FINANCIAL MANAGEMENT IN 2024

We recognise that the management of climate change within a business is a relatively new practice globally, and integrating the financial impact of climate change on our business strategy will continually evolve. That is why at HSS we look to continuously improve our practices and capabilities; hence going forward we will undertake the following key actions, with the outputs integrated into our annual management accounts:

Review capabilities of governance and a more detailed gap analysis of ESG and climate change impacts on the business model.

Undertake further climate workshops with key HSS executives and cross-functions to validate the risks and opportunities of climate change on HSS's business model and strategy (short, medium and long term).

Develop and evolve a more detailed sector narrative on HSS's climate change.

Conduct a thorough socio-economic and physical modelling of HSS business. This would include selecting a relevant Impact Assessment Model and scenarios (e.g. NGFS, GCAM 5.3+ Net Zero Orderly, etc.).

These parameters would then be inputted into the financial model of the HSS business to identify the maximum financial impact for each scenario (Orderly, Disorderly and Hot House World) – this would include GDP, inflation, interest rate and any other key drivers (e.g. construction industry).

Focus on an assurance procedure for our risk management framework.

Review and update the targets and metrics for climate change management based on the above.

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

GOVERNANCE

At HSS, we recognise that investors, consumers and the public are increasingly demanding more transparency on how companies are governed. This is especially the case when it comes to climate change, with a clear and scientifically supported consensus on the threat posed by a warming planet and a strong enthusiasm for the business community to step up and do its part. The targets and actions detailed here provide clarity on the steps HSS is taking within the organisation to respond to the climate emergency. During 2022 we integrated climate risk into our business model, ensuring that we have in place a strong and resilient corporate governance regime. A detailed overview of the governance structure for ESG and climate-related touchpoints across HSS are on page 27, and Managing Climate Change Risks and Opportunities are on page 29.

Board leadership

HSS has embedded oversight of climate-related risks at the highest level of our company. The Board is accountable for assessing and managing climate-related risks and opportunities, supported by the EMT and the Risk and Assurance Director. This reflects the urgency with which we believe the climate emergency should be addressed, and also the emphasis that we have placed on tackling it. This approach ensures that the implications of climate-related risks and opportunities are considered in all of our decision making, strategic planning and business continuity plans. Ultimately, whenever the Board or the Board committees meet, climate change is a standing agenda item. This includes periodic quarterly reviews of the performance of the Company's climate metrics and targets, which the CEO is responsible and accountable for.

Board committees

To support the Board in addressing climate impacts, HSS will utilise its various Board committees to support the gathering of information and data. The Audit Committee will provide oversight to climate-related risks using current climate data and associated financial data, for example data to support the financial implications of climate risks and opportunities. We have added the various elements of climate risk into key risk 11 as on page 52, but in the future the various elements may either be integrated into our other principal key risk areas or added to a specific climate risk register as appropriate.

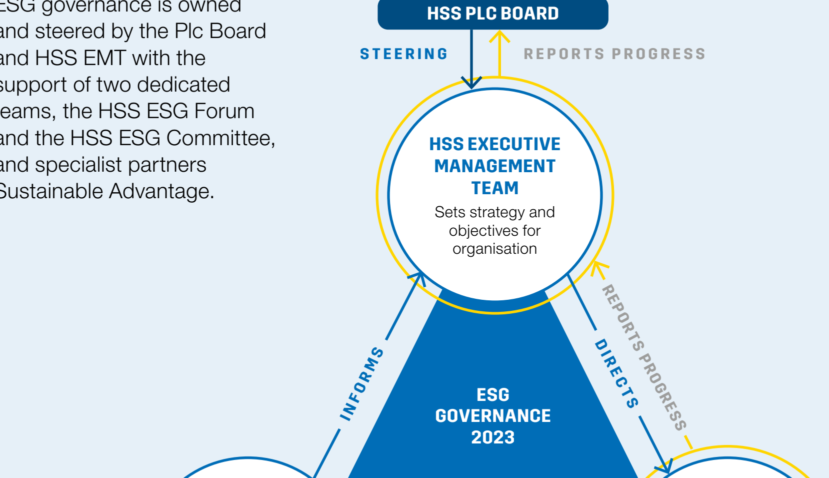
HSS's Remuneration Committee ensures that climate targets are embedded into our incentivisation scheme. This started in FY23 to include specific climate targets and goals in the management's incentivisation model and setting clear KPIs that impact executive compensation, promoting and rewarding sustainable value creation.

Management-level Oversight

The EMT has overall responsibility for handling day-to-day risk management. The Group's risk register is maintained by HSS's Risk and Assurance Director and is reviewed on a quarterly basis, enabling the EMT to advise the Board on how the company should adapt its business strategy by considering climate change risks and opportunities, following the identification of these by the ESG Committee.

EMBEDDING ESG GOVERNANCE THROUGHOUT THE GROUP

ESG governance is owned and steered by the Plc Board and HSS EMT with the support of two dedicated teams, the HSS ESG Forum and the HSS ESG Committee, and specialist partners Sustainable Advantage.



ESG Committee (ESGC)

The ESGC's overarching purpose is to ensure that HSS delivers on its ESG-related improvement commitments and to report monthly on the Group's progress against these commitments. This Committee identifies the climate-related risks and opportunities and integrates these into the Group's risk register for the EMT to review and advise the Board on. For example, the identification of the opportunity to 'increase in demand for climate change-related infrastructure equipment' was identified, with the potential impact assessed for the EMT to review and advise the Board on, see page 31 for summary of key risks and opportunities. The data came from two sources:

1. Initially, recommendations from the Sustainable Advantage ESG Review (Dec 2021) and now the annual audits.
2. Recommendations made by the monthly ESG Forum chaired by the CEO (established Q1 2022).

Note: we will consider the findings of our materiality assessment and on an ongoing basis will engage with stakeholders to capture their ESG-related requirements.

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

CLIMATE-RELATED GOVERNANCE

The following table provides an overview of the ESG and climate-related governance touchpoints across HSS.

Level	Body	Frequency	Climate-related agenda frequency	Purpose and responsibilities related to climate-related issues
THE BOARD	BOARD OF DIRECTORS	MONTHLY	QUARTERLY	– Oversees the Group's overall net zero and sustainability approach. – Responsible and accountable for the Net Zero pathway, sign-off by the SBTi, ESG strategy and communication to all staff once a year. – Sets overall risk appetite. Accountable for climate-related issues within the organisation, considering impact on business strategy, reviewing material related to climate-related risks and approving any changes that are included in the Board pack on quarterly basis.
BOARD SUB-COMMITTEES	AUDIT COMMITTEE	QUARTERLY	QUARTERLY	– Monitors the effectiveness of risk management and the control environment, reviewing and requesting detailed analysis on emerging risk areas, and directing and reviewing independent assurance. – Review of 11 risks across the business, (ESG including climate change is one of these).
BOARD SUB-COMMITTEES	REMUNERATION COMMITTEE			Embeds climate-related incentives into remuneration for senior leadership.
OPERATIONAL COMMITTEES	EXECUTIVE MANAGEMENT TEAM	MONTHLY	MONTHLY	– Ensures effective input into the risk and climate change registers, setting the risk framework. – Discussion of Board paper related to the above points (e.g. sustainability strategy). – Overall responsibility for handling day-to-day risk management. Monitoring – The Risk and Assurance Director reports and meets with the EMT monthly to review the findings of risk-based assurance activity. Risk-based assurance work is then reported to the Audit Committee on a quarterly basis for review. – HSS's Risk and Assurance Director maintains the Group's risk register which is reviewed in detail by the EMT on a quarterly basis, with changes to the risk landscape, assessment and mitigating actions agreed.
ESG OPERATIONS	ESG COMMITTEE	MONTHLY	MONTHLY	– Monitors trends and developments, identifies ESG risks and initiatives and advises the Group Board on any required changes to the Group's ESG strategies, goals and commitments. – Oversees and advises on environmental and social risks with a focus on climate risks and opportunities. – Advises on targets related to carbon emissions and offsetting. – Cross-functional expertise for the development of our ESG approach to ensure optimal outcomes for all stakeholders.

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

RISK MANAGEMENT PROCESS FOR CLIMATE CHANGE

Our approach to managing material climate risks and opportunities is continuously evolving. Our initial approach was predominantly based on a literature review and internal engagement with the EMT to identify potential risks and opportunities as outlined in the following sections. The EMT was then surveyed to prioritise and identify the likelihood and financial impact on the HSS business model. We will next undertake a strategic analysis through a workshop and then in our next Group management report include the results of the stakeholder workshop (conducted internally and facilitated by external consultants). We will engage with our customers to determine key market features, allowing us to further update our climate-related risks and opportunities.

We recognise the need to improve our EMT's capability on climate change; therefore we will provide training to our senior leadership team to support our business' understanding of the management of climate-related risks and opportunities. Training will also be extended to those assessing risks to ensure a better understanding of risks, impacts and methods that can be used to mitigate or reduce the remaining residual risks.

Identification of strategic climate change risks and opportunities

These two steps will be undertaken within the next year, to further enhance our climate risk management, based on advice from external consultants to improve robustness.

Desk-based research
Extensive literature review of how the sector will change over time based on different climate scenarios and potential risks and opportunities.

Strategic analysis
Understanding market features of our sector to identify the climate risks/ opportunities that impact the key factors of our business model.

Identification
From market features, identify climate risks and opportunities across our value chain and business model, given our current strategy over short (0-2yrs), medium (3-5yrs) and long (5-10yrs) term.

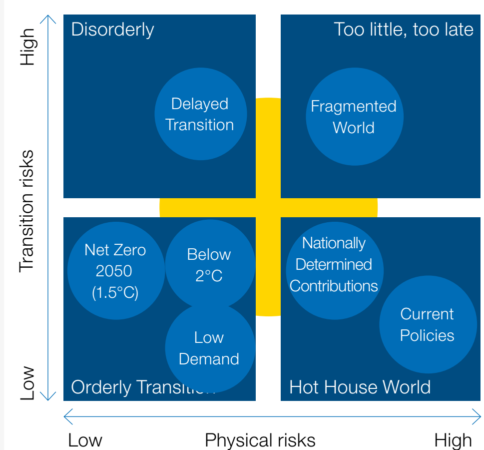
Survey prioritisation
Cross-functional strategic stakeholders surveyed to prioritise climate risks and opportunities based on impact and likelihood.

Analysis
Using current risk management framework with our cross-functional Directors (ESG, Risk and Assurance, Strategy) link risks and opportunities to revenues, costs, assets and liabilities.

Continuous review and monitoring
Integrate the risks and opportunities into our business strategy and risk management approach – iterate accordingly.

CLIMATE SCENARIO ANALYSIS

NGFS scenarios framework in Phase IV



We have undertaken our scenario analysis using the globally accepted climate models produced by the Network of Central Banks and Supervisors for Greening Financial Systems (NGFS). The NGFS framework provides a set of harmonised transition pathways that define policy, regulation and action around the decarbonisation transition and resultant global climate.

They are hypothetical constructs used to highlight critical strategic thinking rather than accurate predictions or forecasts. They represent bookends of plausible futures, not necessarily the most probable or desirable outcomes, and can be used to explore alternatives to current perspectives of 'business as usual', considering climate-related drivers, risks and opportunities.

For the transition risks and opportunities, we have used the two scenarios as below. These were chosen based on the Paris Climate Agreement pathway (<2°C) and a 'business as usual' scenario where temperatures are likely to continue on their current trajectory (>3°C) as a stress-test.

Orderly Transition scenario

Lower physical risks and moderated transition risks. This pathway assumes that global climate action begins quickly, investment is upfront and with relatively little regional variation. These were chosen based on Paris Climate Agreement pathway (<2°C) and a 'business as usual' scenario where temperatures are likely to continue on their current trajectory (>3°C) as a stress-test.

Hot House World scenario

The pathway assumes that some climate policies are implemented in some jurisdictions, but global efforts are insufficient to halt significant global warming. Critical temperature thresholds are exceeded, leading to severe physical risks and irreversible impacts such as sea-level rise.

BUSINESS ASSUMPTIONS

Business assumptions used in our analysis

As part of these climate scenarios we have assumed some key features across our scenarios; these include, but not limited to the following:

- Landlord contracts have a degree of flexibility (not tied into long-term leases).
- Multiple suppliers for same business stream.
- Proactive management of our asset base.
- Second-hand market for old fleet still exists.
- Expansion of our greener offerings.
- Construction market strength continues to grow in our service areas.

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

MANAGING CLIMATE CHANGE RISKS

Our EMT previously emphasised the importance of strengthening our risk management approach in relation to broader ESG risks. We have introduced initiatives over the past few years seeking to manage these ESG-related risks and opportunities. For example, we have undertaken a full net zero and glide-path assessment with a target date of 2040, used renewable energy in our operations wherever possible, increased supply chain engagement and reduced carbon emissions on a like-for-like basis.

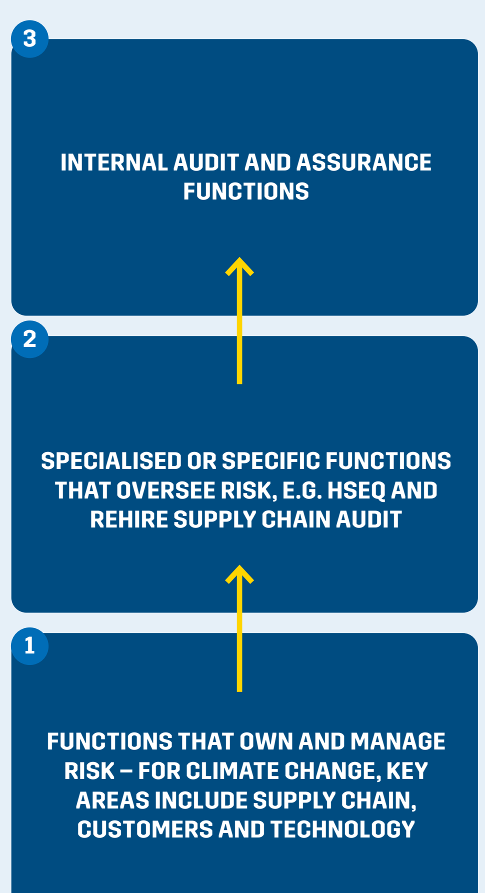
Integrating climate risk management into Business As Usual (BAU)

- The Risk and Assurance Director is responsible for the risk management framework and risk register. Risks are clearly described, impacts are considered, and controls or mitigation processes are suggested.
- The Risk and Assurance Director reports and meets with the EMT monthly to review the findings of risk-based assurance activity. Risk-based assurance work is then reported to the Audit Committee on a quarterly basis for review.
- In addition to the process above, we have undertaken surveys across our key functions informed by external sustainability consultants to determine the most material climate risks and opportunities, in collaboration with our EMT.

MANAGING CLIMATE CHANGE RISKS AND OPPORTUNITIES

HSS lines of defence

In addition to the strong risk management framework, we have embedded risk management into our culture through HSS values, which are vital in us achieving our strategy as well as mitigating the risks associated with it. The diagram below shows our three lines of defence and how climate change is integrated into this approach.



- The Risk and Assurance Director reports and meets with the EMT monthly to review the findings of risk-based assurance activity. Risk-based assurance work is then reported to the Audit Committee on a quarterly basis for review. Risks are clearly described, impacts ARE considered, and controls or mitigation processes are suggested.
- Climate-related risks are integrated in our BAU risk management approach and activities, where risks are identified through a variety of sources, both internal and external, to ensure that developing risk themes are considered. Management identifies the controls in place for each risk and assesses the impact and likelihood of the risk occurring, taking into account the effect of these controls, with the result being the residual risk (see page 27 for frequency of risk identification).
- In addition to the process above, we have undertaken surveys across our key functions informed by external sustainability consultants to determine the most material climate risks and opportunities, in collaboration with our EMT. These are reviewed and incorporated into our BAU risk management.

THE BOARD

- The Board has overall responsibility for the business strategy and managing the risk associated with its delivery, setting the risk appetite, tolerance and culture to achieve goals.

AUDIT COMMITTEE

- The Audit Committee plays a key supporting role through monitoring the effectiveness of risk management and the control environment, reviewing and requesting detailed analysis on emerging risk areas, and directing and reviewing independent assurance.

EXECUTIVE MANAGEMENT TEAM

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

ESG COMMITTEE

- Informed of risk and opportunities, to proactively mobilise management to address/ mitigate impacts.
- Quarterly ESG risk reviews instigated to ensure the Group's progresses on its journey to net zero.

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

STRATEGY AND RISK

Our strategy is to focus on three key objectives:

1. Continue to enhance our technology to meet the requirements of customers and suppliers alike, ensuring fast and frictionless user journeys, making equipment hire easier and less costly.
2. Grow our business organically without the deployment of incremental capital investment in fleet, in turn enhancing availability for customers and returns for suppliers.
3. Create further differentiation by enhancing our technology, whilst at the same time broadening and deepening our supplier network to drive greater availability and customer retention.

A comprehensive risk review is conducted annually in relation to climate-related risks and opportunities that could impact HSS's strategy and financial planning across the operations under different climate scenarios, and to identify any new events arising. This is centralised at Group level, with risks and opportunities identified at Group level for all subsidiaries. The scope of this review includes our UK geography in which we operate and key segments of the equipment rental market, including individual customers, SMEs and larger customers. The review identified ten transition and five physical potential risks and opportunities.

When assessing the potential risks and opportunities across our business, the impacts are recognised to be proportional over time, as both the weather and market change as a result of climate change. Given our operations are UK and Republic of Ireland only, the likelihood of several climate-related risks occurring simultaneously is moderate and those identified are unlikely to impact short-term finances or the ability to operate in a business as usual state. The risks and opportunities are considered over the short, medium and long term, referring to when the risk is likely to have an impact.

- **Short term** (0-2years)
  Aligns to HSS's immediate pipeline of projects, contracts and current asset investments and their associated climate-related risks and opportunities.
- **Medium term** (3-5 years)
  Aligns to longer-term projects and investments decisions with risks driven by government policy, infrastructure needs and market conditions.
- **Long term** (5-10 years)
  Focuses on factors that could impact HSS's business plans, and longer-term strategy and business resilience.

Survey prioritisation

Cross-functional strategic stakeholders were surveyed to prioritise climate risks and opportunities based on impact and likelihood.

When determining future risks and exposure to HSS's business, two future scenarios have been considered. The first is a 1.5°C climate scenario representing a transition to a low-carbon economy. Risks and the associated timeframes are more immediate, with the potential for accelerated policy changes and changing technology demands in favour of this transition. The second is a 4°C emission scenario pathway where the impact of climate change on physical risks in the UK would have a much greater impact on the business. The transition risks of failing to set and meet appropriate ESG goals are detailed on page 32. They include adverse reputational impact with stakeholders, limiting our ability to trade with customers thus leading to revenue reduction, deterring people from joining the business and affecting attractiveness to investors. Regulatory changes that impact the use of higher-emission equipment, transport methods or services would be detrimental to higher emission areas of the business and associated revenue streams. Emissions credentials may become more valuable to clients, customers and investors, leading to potentially higher administration costs and negatively impacting HSS's competitive advantage. It is also possible that low-carbon technologies could be operationally less profitable and/or customers continue to use high-emission products.

In the medium term, risks include strain on supply chains impacting the ability to provide low-emission technology. Also increased competition for low-emission equipment could cause acquisition difficulties such as longer lead times. This could result in loss of revenue and loss of competitive advantage. Physical risks include increased flood risk to key sites or locations prone to flooding causing disruption to business operations ability to deliver provide services and the return of equipment.

In the longer term, damage to sites, assets and equipment with increasing summer temperatures and hottest days could put the workforce at greater health risk. We have detailed these risks, impact, timeframe, mitigation actions and opportunities on pages 32 and 33. We have also summarised the top-rated risks and opportunities on page 31.

NETWORK FOR GREENING THE FINANCIAL SYSTEM (NGFS) CLIMATE SCENARIOS OVERVIEW

Category/Future scenario	Orderly Net Zero 2050	Hot House World
SUMMARY	An ambitious and coordinated transition to low emissions, 1.5°C	Only current policies are preserved. Inwardly focused and climate-related targets out of focus.
TRANSITION RISKS NGFS socio-economic model (GCAM) – potential scenario could use going forwards	**NGFS GCAM 5.3+ Net Zero 2050** **+NIGEM NGFS v1.22**	**NGFS GCAM 5.3+ Current policies** **+NIGEM NGFS v1.22**
PHYSICAL RISKS Climate model (IPCC) and equivalent	Global Temperature increase by 2100: 1.5°C Model: SSP1-1.9 (RPC 2.6)	Global Temperature increase by 2100: >3°C Model: SSP3-7.0 (RPC 8.5)
POLICY REACTION	Immediate and smooth	Low
TECHNOLOGY CHANGE	Fast change	High
CARBON DIOXIDE REMOVAL	Medium to high use	Low
REGIONAL POLICY VARIATION	Medium to low use	High variation

NGFS GCAM & +NIGEM are multiple human and physical earth systems models & scenarios which have been brought together.

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

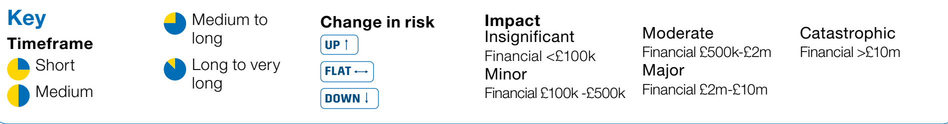
Key ● Opportunity ○ Risk

TOP-RATED CLIMATE-RELATED RISKS AND OPPORTUNITIES IN OUR STRATEGY

This page outlines the key risks and opportunities we have identified that may potentially impact our business and strategy over the short and medium term (next five years). Further information is found on pages 32 and 33 where the potential and actual impacts (minor, moderate and major) are defined. Note: we continue to monitor potential inputs to assess likely impacts.

Risk and opportunity theme	Shortlisted opportunity/risk	Potential impacts to the business	Mitigation/Action
EXPAND EXISTING REVENUE STREAMS FROM SUSTAINABLE CONSTRUCTION	– Opportunity to increase demand for climate change-related infrastructure equipment. – HSS is in a strong position to establish early supplier relationships, strengthening the ability to deliver new technology to new market segments.	– Increase revenue through target segments. – Create further differentiation by enhancing our technology. – HSS can become a market leader in low-emission technology, giving customers greater choice coupled with development of new areas of growth.	– Understand regulatory requirements and establish 'bridging and buffering' with suppliers, ensuring strong communication during physical climate events and having reserve suppliers as back-up.
TRANSITIONING OF PRODUCTS AND TECHNOLOGY TO LOWER-EMITTING ALTERNATIVES	– Opportunity to become a market leader in low-emission technology with potential new areas of growth.	– Increase in demand for climate change-related infrastructure equipment.	– Through surveys, understand customer preferences and develop low-carbon products and services, ensuring the HSS corporate strategy aligns with climate change mitigation and adaptation including optimising supply chain sustainability, transitioning to renewable energy sources and assessing operations and vulnerabilities.
	– Low-carbon technologies may be operationally less profitable and/or customers continue to use high-emission products. – Potentially higher admin costs and negative impact on competitive advantage if difficult to fulfil the demand.	– Short-term loss of revenue from current business areas if customers continue to demand high-emission products no longer provided by HSS at historical levels.	
INCREASED SEVERITY OF WEATHER EVENTS	– Opportunity for HSS to provide products and support services to regions affected by increased flooding.	– Increase revenue through this target segment.	– Conduct risk assessments around physical risks to operations; ensure the strategy includes adaptation planning using the scenarios detailed in the TCFD Report; and ensure that supply chain management is cognisant of the infrastructure upgrades necessary for increased physical risk.
	– Physical risks include strain on supply chains impacting the ability to provide low-emission technology, increasing the difficulty of acquisition or longer lead times. – Increased flooding risk to key sites or locations prone to flooding.	– Loss of revenue and loss of competitive advantage. – Disruption to business operations' ability to deliver or provide services and the return of equipment. – Strain on supply chains impacting the ability to provide low-emission technology.	
SUPPLY CHAIN	– Greater stakeholder interest in product, LCA and emissions data, compounded by supply chain moving slowly to provide relevant data. Provides HSS with an opportunity to become market leader in automated "real-time" customer reporting.	– Customers may exclude certain competitors who cannot provide this CO_2 & ESG related data.	– Deploy & develop the in house carbon reporting data & tools to further reduce risk & improve competitive advantage.
	– Emissions credentials will become more valuable to clients, customers and investors. Potentially higher administration costs and negative impact on HSS competitive advantage if we cannot fulfil these important emerging CO_2 needs.	– Reduced revenues in certain product lines where emissions data is not available to show impacts.	– Continue to work with supply chain partners to improve complete upstream transparency and the new customers requirements to receive this important ESG data.

CLIMATE-RELATED FINANCIAL DISCLOSURES
CONTINUED



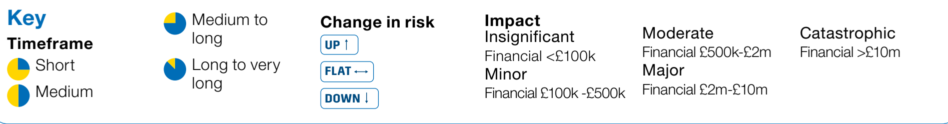
TRANSITIONAL AND PHYSICAL RISKS

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

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

		Change in risk	Risks	Impacts	Residual risk/opp: Short, medium and long term	Max financial impact (scale)	Business readiness/ mitigating activities
TRANSITIONAL RISKS (<2°C FUTURE)	POLICY AND LEGAL	FLAT ⟶	Further regulatory changes that impact the use of higher-emission equipment, transport methods or services.	This would only impact higher-emission areas of the business and associated revenue streams. This could also cause equipment and services such as diesel fuels and generators to become obsolete.	MEDIUM	Major	– Continuous research of any anticipated or new regulatory requirements.
		UP ↑	Greater stakeholder interest in emissions reporting compounded by some limitations in the availability and relevance of historical data within the supply chain and the understanding of the relationship between climate and traditional financial risks.	Emissions credentials will become more valuable to clients, customers and investors. Potentially higher administration costs and negative impact on HSS competitive advantage if we cannot fulfil.	MEDIUM	Moderate	– HSS is at the forefront of reporting and has a track record of disclosure around its impacts.
	TECHNOLOGY	UP ↑	Low-carbon technologies could be operationally less profitable and/or customers continue to use high-emission products.	Loss of revenue from current business areas if customers continue to demand high-emission products no longer provided by HSS at historical levels. This will be less likely in the low-carbon economy scenario as a result of policy and regulatory changes.	SHORT	Major	– HSS is well positioned to balance the transition from high-to low-emissions products.
		FLAT ⟶	Strain on supply chains impacting the ability to provide low-emission technology.	Increased competition for low-emission equipment, increasing the difficulty of acquisition or longer lead times. This could result in loss of revenue and loss of competitive advantage.	MEDIUM	Moderate	– A focus on supply chain 'bridging and buffering'.
	MARKET	FLAT ⟶	Increased energy and fuel prices could negatively impact demand for fuel-based products.	Increased fuel and energy costs could impact returns on fleet associated with fuel-based products.	MEDIUM	Moderate	– HSS can focus on customer demand.
		FLAT ⟶	Changes to costs for products and services, with focus on low-emission technology.	Potential for increased costs to customers if energy and new technology requirements pass through the value chain.	SHORT/MEDIUM	Major	– The market may resist these increased costs being passed on.
	REPUTATION	FLAT ⟶	The Company not meeting Science Based Targets (SBTs) and/or net zero commitments to reduce emissions.	A negative public image arising from issues related to ESG and climate change results in reduced demand for products and services. Impact extended to other stakeholders, investors and ratings agencies and reputation decreases as a result.	MEDIUM	Major	– HSS is committed to the emissions reduction targets and has a strategy in place and robust governance.
PHYSICAL RISKS	ACUTE	UP ↑	Increased flooding risk to key sites or locations prone to flooding.	Disruption to business operations, ability to deliver or provide services and return of equipment. Damage to sites, assets and equipment.	SHORT/MEDIUM/LONG	Minor	– Business Continuity Plan and Disaster Recovery Planning ensure that HSS has contingency plans for flooding – new sites are less vulnerable because of careful selection.
	CHRONIC	UP ↑	Increasing weather extremes (e.g. UK summer temperatures and hottest days).	This could put the workforce at greater health risk.	SHORT/MEDIUM/LONG	Minor	– H&S at HSS is paramount. Systems and procedures are in place to ensure that colleagues are well cared for in all conditions.

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED



CLIMATE-RELATED OPPORTUNITIES

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

		Change in risk	Opportunity	Impacts	Residual risk/opp: Short, medium and long term	Max financial impact (scale)	Business readiness/ mitigating activities
TRANSITIONAL OPPORTUNITIES (<2°C FUTURE)	POLICY AND LEGAL	FLAT ⟶	Regulatory changes to the use of high-emission technology or transport methods.	Opportunity to proactively implement ahead likely policy changes and secure new business areas for HSS.	MEDIUM	Major	– Deploy and evolve sustainable procurement and tracking policy. – Greener alternative products classified.
		UP ↑	Opportunity to highlight emissions reporting completed throughout the value chain to stakeholders and action taken to mitigate climate change.	Emissions credentials and reduction targets will become more valuable to clients, customers and investors. This is an area where HSS can add value can and maintain its position as a leader.	MEDIUM	Moderate	– Greener alternative products classified. – Mix of fuel sold through high-voltage output (HVO) generators.
	TECHNOLOGY	DOWN ↓	Increased demand for products and services with lower emissions and associated drop in demand for emissions-intensive counterparts.	HSS can become a market leader in low-emission technology, giving customers greater choice coupled with development of new areas of growth.	LONG	Moderate	– Greener alternative products classified and continue to grow our greener fleet.
		FLAT ⟶	Supply chain opportunity to secure relationships with low-emission technology providers.	HSS can establish early supplier relationships, strengthening the ability to deliver new technology.	LONG	Moderate	– Deploy and evolve sustainable procurement and tracking policy. – Engage with suppliers proactively to develop a greener ecosystem.
		DOWN ↓	Investment in low-emission technology.	Investment in this area allows for the ability to meet customer demand, emissions reduction targets and climate-related goals.	LONG	Minor	– Decarbonisation of low-emitting operations. – Capex budget allocated to sustainable products by 2025.
	MARKET	UP ↑	Increased fuel prices and price volatility affect operational costs and financial exposure.	Migration away from fuel dependency reduces exposure to fuel price fluctuations in the future.	MEDIUM	Moderate	– Mix of fuel sold through HVO generators. – Increased use of EVs (on track; fleet delay in global supply chain).
	REPUTATION	FLAT ⟶	The Company can become an industry/sector leader in climate reporting.	Enhances HSS's positive reputation, increasing the ability to retain and grow customer base with emphasis on lower-emission technology.	LONG	Major	– Deploy and evolve sustainable procurement and tracking policy. – Greener alternative products classified.
PHYSICAL OPPORTUNITIES (4-°C Future)	ACUTE	FLAT ⟶	Increased flooding risk to UK locations that are prone to flooding.	HSS can provide products and support services to regions affected by increased flooding.	LONG	Minor	– Greener alternative products classified by 2025 (including products that help mitigate/adapt to climate change).
	CHRONIC	FLAT ⟶	Increasing UK summer temperatures and increasing number of record breaking 'hottest days recorded'.	The Company can provide products and support services to regions affected by increasing temperatures .	LONG	Minor	– Greener alternative products classified by 2025 (including products that help mitigate/adapt to climate change).

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

Key
Timeframe
Near term
Medium term

TARGETS

HSS has set a near-term SBT to reduce our Scope 1, 2 and 3 emissions in line with the SBTi's Net-Zero Standard. We have committed to reducing absolute scope 1 and 2 GHG emissions by 46.2% by 2030 from a 2019 base year. In particular, we commit to increasing annual sourcing of renewable electricity from 7.6% in 2019 to 100% by 2030. This is aligned with a 1.5ºc emissions pathway. To go further, we have also committed to reducing absolute scope 3 GHG emissions by 27.5% by 2030 from a 2019 base year. These commitments are aligned with a well below 2 ºc emissions pathway. As a Group, we are committed to reaching Net-Zero by 2040 and in line with the net-zero Standard will be setting long-term SBTs in the near future.

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

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

To respond effectively, we must ensure that ESG-related risks are well understood across our organisation, and that we are able to evaluate progress against goals and measure success. That is why, since 2021, we have conducted a thorough review of our overall ESG performance and maturity across our whole business. We appointed an independent ESG consultancy to undertake a comprehensive assessment conducted by an external assessor, spanning over 90 ESG areas, providing us with a detailed overview and benchmark of our overall ESG maturity with tailored recommendations to improve performance in each critical area.

We have developed an additional number of KPIs that will help us in the short to medium term to improve the management of climate-related risks and opportunities across our business. The disposal of the Power business in FY24 does not materially impact the 2023 targets and the reporting for ESG. For GHG emissions there is no change as the Power business will be included under scope 3 in the future. For the other measures, in the future a restatement will occur as reporting is on a like for like basis.

Target	KPI	Relevance of KPI to business model (name-check climate risk above)	Monitors and assesses performance of KPI (incl. frequency)
ACCURATE MODELLING OF CLIMATE SCENARIOS ON HSS'S BUSINESS MODEL (Near term)	No. of risks/ opportunities modelled	Undertake more detailed financial modelling of climate risks using NGFS scenario IAMs socio-economic parameters. This will provide verification of the financial impacts of the transitional related risks and opportunities.	– ESG Managing Director will be responsible for updating the model every three years or whenever there are significant changes to the business model.
SUPPLY CHAIN AND CLIENT ENGAGEMENT (Medium term)	% of key suppliers engaged % of key clients engaged	Suppliers and clients engaged to understand changing market landscape to inform our capex investment profile of equipment.	– ESG Managing Director on an annual basis
DECARBONISATION OF ASSETS (Medium term)	% of assets that are categorised as low-emitting sources	Working with suppliers that have higher emitting intensity equipment to decarbonise our assets.	– ESG Managing Director on an annual basis
STRANDED ASSETS (Near term)	No. assets that are categorised as 'high risk' by stranded assets	Categorise equipment into high to low profile of potential/likelihood of stranded assets and what % is/is not net zero aligned (e.g.100% electric).	– ESG Managing Director on an annual basis

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

METRICS

HSS has set the following metrics and targets on a like-for-like basis to reduce exposure to climate-related risks (see box to right).

HSS is in the process of developing climate-related risks metrics associated with water, energy, land use, waste management and pollution where relevant and applicable. In FY21/22, we worked to develop a baseline for a range of metrics including GHG emissions, energy, and waste management.

In FY24, we are planning to expand the metrics that have a baseline, such as water, land use/ biodiversity and pollution. Additionally, we are beginning to assess and measure the climate-related opportunities and the resulting revenue earned from low-and zero-emissions equipment.

GHG emissions disclosure

At HSS, we use the Greenhouse Gas Protocol methodology to calculate our GHG emissions, which allows for aggregation and comparability across organisations and jurisdictions. From a 2019 base year, our historical GHG emissions disclosures will now also include scope 3 emissions. A full overview of our GHG emissions and energy consumption data for 2023 through to 2019 base year can be found in the table. All our targets and disclosures clearly specify the timeframe by which they will be realised, 2030, and the base year of 2019 against which they are measured.

Performance metric	Unit	2023	2022	2021	2020	2019	Notes
GHG EMISSIONS							
Total direct emissions (scope 1)	metric tonnes (t) CO_2e	9,385	10,083	9,821	9,787	12,386	Grey fleet mileage increased due to YoY business volume Increase
Total indirect emissions (scope 2) – location based	metric tonnes (t) CO_2e	1,255	1,011	1,312	1,965	3,073	5 extra sites have come into scope late 2023 driving 100% of the increase YoY
Total indirect emissions (scope 2) – market based	metric tonnes (t) CO_2e	108	6	188	–	2,840	5 sites have come into scope that will transfer to green contracts by 2025
Value chain emissions full (scope 3)	metric tonnes (t) CO_2e	137,399	149,423	53[a]	48[a]	147,101	
Total Gross carbon emissions	metric tonnes (t) CO_2e	148,038	160,517	11,133[a]	11,752[a]	162,560	
Total Net carbon emissions	metric tonnes (t) CO_2e	146,891	159,513	10,010[a]	9,835[a]	162,328	
GHG intensity	tCO_2e/£m rev (1&2)	3.90	3.38	4.77	4.18	10.44	Ratio based scope 1 & 2 only. 5 sites moved into scope that will transfer to green contracts by 2025
GHG intensity (All Scopes Full)	tCO_2e/£m rev (Full)	419	479	–[b]	–[b]	528	
ENERGY CONSUMPTION							
Total energy consumption	kilowatt hours (kWh)	6,212,302	5,842,499	6,904,183	9,428,951	11,806,259	Includes total electricity and gas
Total electricity	kilowatt hours (kWh)	5,605,168	5,227,177	6,177,136	8,921,521	11,079,212	5 extra sites have come into scope late 2023 driving 100% of the increase YoY
Total renewable electricity	kilowatt hours (kWh)	5,083,615	5,193,587	5,290,355	8,921,521	232	
Total gas	kilowatt hours (kWh)	607,134	615,322	727,047	507,430	727,047	
Total propane	kilogrammes (kg)	12,156	14,550	15,282	15,876	28,032	
WASTE							
Total waste consumption	metric tonnes (t)	1,322	3,500	1,094	1,033	1,522	2022 data includes catch-up from 2021
Diverted waste	metric tonnes (t)	655	1,568	647	652	919	2022 Slicker recycling catch-up from 2021
Landfill waste	metric tonnes (t)	126	107	123	94	147	
Recycled waste	metric tonnes (t)	381	1,718	216	240	393	2022 Slicker recycling catch-up from 2021
Reused waste	metric tonnes (t)	12	27	9	2	0	
Total reusable processed fuel oil	metric tonnes (t)	73	80	99	46	63	
Total hazardous waste (waste oil)	litre (l)	74,800	81,200	101,170	97,700	111,100	
Total waste to energy (incineration)	percentage (%)	50%	45%	57%	63%	60%	
Total waste to Landfill	percentage (%)	10%	3%	7%	9%	10%	
Total waste recycled	percentage (%)	34%	49%	31%	23%	26%	
Total reused waste	percentage (%)	0.9%	0.8%	0.5%	0.2%	0.0%	
Total processed fuel oil	percentage (%)	6%	2%	5%	4%	4%	
Landfill diversion rate	percentage (%)	90%	97%	93%	90%	90%	2022 impacted Slicker catch-up in 2021

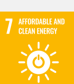
a 2020 and 2021 Partial scope 3 based on Streamlined Energy and Carbon Reporting (SECR) only.
b Data not calculated for these years due to Covid.
"-" = New KPI or Not recorded in the previous period.
Note: 2019 is the base year where full scope 3 calculations have been completed, 2019 Gross, Net emissions and GHG intensities were rebased with SBTi due to divestitures in 2021.

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

METRICS CONTINUED

Performance metric	Unit	2023	2022	2021	2020	2019	Notes
SOCIAL PERFORMANCE							
Total number of employees	FTEs and PTEs	2081	2027	1903	2330	2603	
Gender – female/total	% based on headcount	19%	16%	12%	15%	15%	Group-level data
Pay gap (mean)	percentage (%)	–16%	–10%	–10%	–1%	–1%	Group-level data
Pay gap (median)	percentage (%)	–3%	–4%	–8%	–7%	–7%	Group-level data
Ethnicity/total	% based on headcount	10%	11%	10%	10%	11%	
Colleague engagement score	percentage (%)	74%	75%	76%	75%	72%	
Total Recordable Frequency Rate (RIDDOR)	frequency rate	0.06	0.02	0.12	0.04	0.2	
Total number of RIDDORS	RIDDORs per FY	3	1	5	2	11	
Safety observations	logged observations	16,565	20,571	23,814	8,020	601	
Net Promoter Score	NPS score	–	44	38	44	45	FY23 data not available at time of print
Training courses delivered (all types)	number of courses delivered	25,305	23,203	21,489	–	–	Local reporting prior to 2021
Training hours (all colleagues, all types)	total number of hours	43,004	33,721	24,261	–	–	Local reporting prior to 2021
Training hours per colleague	average per colleague	21.0	16.2	11.9	–	–	
GOVERNANCE							
Training mandatory, standards compliance	% courses up to date	88%	87%	84%	–	–	
Whistleblowing incidents reported	incidents reported	3	5	1	5	9	
Supplier audits (ESG elements)	total number of audits	250	311	–	–	–	311 = 88% published in last report
Total number of audits (c/w ESG elements)	number of audits	250	311	–	–	–	New 2022 and evolving KPI
Tier 1 (ProPlatnium)	ratio % complete	94%	–	–	–	–	New 2023 and evolving KPI
Tier 2 (ProGold)	ratio % complete	74%	–	–	–	–	New 2023 and evolving KPI
Tier 3 (ProSilver)	ratio % complete	41%	–	–	–	–	New 2023 and evolving KPI
Tier 4 and 5 (Bronze and Approved)	ratio % complete	56%	–	–	–	–	New 2023 and evolving KPI
Total targeted audits	ratio % complete	68%	88%	–	–	–	New 2022 and evolving KPI
Dedicated budget for ESG (non-product)	budget allocated FY £k	245	146	119	110	–	Excluding Product Capex
Dedicated headcount for ESG	Full time headcount FY	3	2	1	0.5	–	

Note: ProApproved to ProPlatinum refers to a new 2023, 5-tier supplier tiering (including ESG maturity elements).



OUR FOCUS SUB-GOALS

SDG No.

7.2 Target – 100% renewable electric by 2025

Achieved 100% in 2022. In 2023 new sites came into scope that will also transition

13.1 Target – ESG and climate change risks integrated into Company risk management process

This was achieved early together with a voluntary TCFD submission in December 2022

HOW WE ARE CONTRIBUTING

To see a more detailed overview of our 2040 Net Zero plan and how we are engaging with all our stakeholders please see our latest ESG impact report

https://www.hsshiregroup.com/sustainability/reports/

CLIMATE-RELATED FINANCIAL DISCLOSURES CONTINUED

Key
- Ahead of target
- On target/track
- Off track, correction needed

METRICS VS NEAR TERM TARGETS BY SDG

Subject	Material issue	Core SDG	SDG No.	2030 near-term commitments/targets		2023 performance	Status	Commentary
CLIMATE ACTION AND RENEWABLE ENERGY	Climate change	13 CLIMATE ACTION	13.1	100%	Climate risks added to Group risk management framework	100%	Ahead of target	Running since voluntary submission in 2022
	GHG reduction		13.2	26%	Reduction in GHG scope 1 & 2 operations (45% by 2030)	38%	Ahead of target	2023: 26% is glide-path, ahead of trajectory
				7%	Reduction in GHG scope 3 (27% by 2030)	7%	Off track, correction needed	2023: 7% is glide-path, on trajectory
				100%	Near-term and net-zero 2040 SBTi validated	100%	Ahead of target	Completed in May 2023
	Promote the use of greener products and energy	7 AFFORDABLE AND CLEAN ENERGY	7.2	100%	Electricity is procured from 100% renewable energy sources by 2025	98%	Ahead of target	100% of sites completed in 2022. Q4 2023 5x new brown sites came into scope, will now transfer to green contracts
			7.a	40%	Company fleet to electric by 2025	27%	Ahead of target	Pandemic slowed vehicle supply chain, still on track with orders placed 2024
OUR COLLEAGUES AND OUR COMMUNITIES	Colleague wellbeing and engagement	3 GOOD HEALTH AND WELL-BEING	3.4	100%	Continuous evolution of our colleague wellbeing programme	100%	On target/track	In line with 2023 ESG maturity path action plan
			3.4	>70%	Maintain high colleague engagement levels	74%	Ahead of target	Good take-up and feedback in 2023
	Health and safety		3.9	>2	Targeting zero RIDDOR environment	3	Off track, correction needed	2023: one more than 2022, actions in place
				>16	Reduce the number of Lost Time safety incidents	9	Ahead of target	2023: 56% reduction over 2022
	Apprenticeships	8 DECENT WORK AND ECONOMIC GROWTH	8.6	>30	Targeted pipeline of new apprentices enrolled	42	Ahead of target	Strong talent pipeline enabled over achievement
	Equality, Diversity & Inclusion (DE&I)		8.5	25%	Total ratio of female colleagues by end of 2025	19%	On target/track	Making positive progress vs plans
				0%	Continue gender pay gap reporting	-2%	Ahead of target	2nd year with better than national average
DRIVING INNOVATION	Innovation-led change	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	9.4	20%	Capex budget allocated to sustainable products by 2025	20%	On target/track	Continue to grow our greener fleet and provide options for greener alternatives to customers
			9.4	100%	Greener alternative products classified by 2025	100%	Ahead of target	2023: Product phases 1-4 completed on time
				16%	Mix of fuel sold though HVO generators	6%	Off track, correction needed	Customer take-up of HVO slow due to price
OUR SUPPLY CHAIN	Reduction in packaging	12 RESPONSIBLE CONSUMPTION AND PRODUCTION	12.1 to 12.7	50%	Deploy and evolve sustainable procurement and tracking policy	50%	On target/track	2023: Policy, Comm's, tracking phases updated
				100%	Percentage of operations' used oil being recycled	100%	On target/track	Robust process in place all locations
	Zero waste to landfill			60%	Attain recycling and reuse rate across all HSS sites by 2025	20%	On target/track	Policies in place, all-colleagues mandatory training programmes launched in 2023
ESG	Training/Awareness		12.8	100%	Develop and deliver an evolving mandatory ESG training programme to all colleagues to improve ESG awareness	100%	Ahead of target	Programme launched in 2022, 4 modules rolled out
OUR COMMUNITIES WE LIVE AND WORK IN	Biodiversity		15.1	100%	Site coverage, Biodiversity Impact Assessment of all HSS locations near to KBA's, updated and evolved annually	100%		Completed first full assessment and report of all Company locations produced in 2023
	Impact		11.6					

FINANCIAL REVIEW

Paul Quested
Chief Financial Officer

"With continued investment in our marketplace strategy and strong balance sheet, we are well positioned for growth."

OVERVIEW

The Group has delivered a resilient financial performance in a challenging market. Revenue growth has outperformed the market with high returns consistently achieved, a strong balance sheet maintained and investment in our strategy stepped up.

Financial highlights

Continuing operations

Revenue
£349.1m
FY22: £332.8m

Adjusted EBITA
£24.3m
FY22: £32.0m

Leverage
1.7x
FY22: 1.3x

Adjusted EBITDA
£65.1m
FY22: £71.6m

Adjusted profit before tax
£11.9m
FY22: £21.0m

ROCE
16.2%
FY22: 22.8%

FY23 has been a resilient year for the Group against the backdrop of market uncertainty. Revenue growth of 4.9% has outperformed the market and, throughout a period of material strategic change, industry-leading returns and a strong balance sheet have been maintained. As always, this is testament to the hard work and commitment demonstrated by each and every colleague across the business.

Strategic investment has been centred around our marketplace business with £5.5m invested in the further development of our Brenda technology platform and £5.1m increased overhead including our Central Sales team, product expansion and in-housing senior technology leaders from the third party developer. This investment sets the Group up for future growth, building on already impressive Services performance with revenue growth of 12.0% in the year.

There has been continued focus on ensuring a leaner operating model. This included accelerating the transition from traditional branches to builders merchants. Exceptional costs of £2.2m were recognised in relation to these changes.

While profitability fell year on year, the strategic investment accounted for a material element of this reduction. The Board will always focus on maintaining the appropriate balance between shorter-term profitability and future growth.

Alongside our strong balance sheet, we now have our technology and organisation in place and, through the flexible, low-cost, scalable model we are well positioned to deliver improved returns in the future.

FINANCIAL REVIEW CONTINUED

Revenue

Group revenue grew by 4.9% to £349.1m (FY22: £332.8m), driven by 12.0% growth in our Services business and 0.5% growth in our Rental business.

Group revenue growth is one of our KPIs as, combined with estimates of market size and growth rates, it provides us with a measure of our market share. HSS's revenue recognition accounting policy includes the judgment that some of the Group's contracts with customers contain leases. Accordingly, the policy explains that the Group's hire and rehire revenue streams fall within the scope of IFRS 16 Leases. (see note 4 in the Consolidated Financial Statements).

Segmental performance

As disclosed in the Group's 2022 Annual Report, the Group completed a significant internal restructuring exercise to support its long-term strategic objectives. This included the creation of a new divisional structure, separating out the ProService and Operations businesses:

- ProService – Digital marketplace business focused on customer and supplier acquisition. Technology driven, extremely scalable and uniquely differentiated including training services.
- Operations – Fulfilment business including power generation, focused on health and safety and quality, with circular economy credentials, comprehensive national footprint and high customer satisfaction.

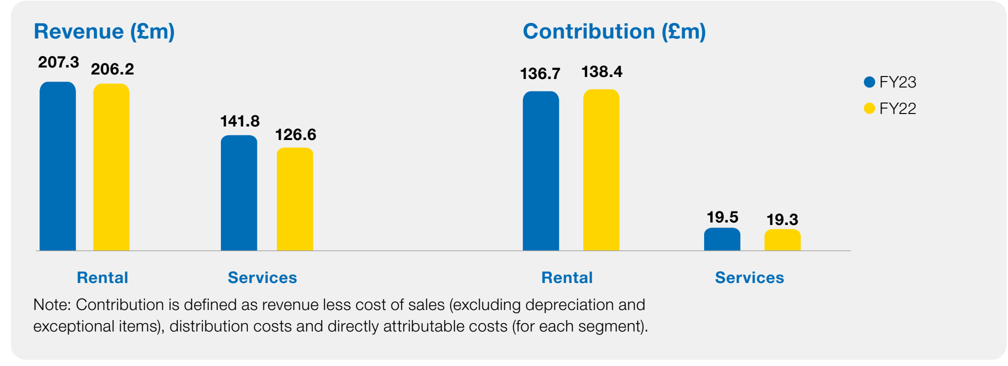
As a result of this, the Group's operating segments have changed from those presented in the prior year. Under IFRS 8 Operating Segments, comparatives should be restated when reportable segments change as a result of internal restructuring. The Group has not previously had the ability to reliably separate the results, assets and cash flows of the business between the ProService and Operations businesses. IFRS 8 allows for comparatives to be omitted where the information is unavailable and would involve excessive cost to create. The availability of information prior to the restructure is such that the Group is not able to present comparatives under the newly identified reportable segments.

To ensure that comparable segmental information is available to the users of the financial statements, the Group has presented two segmental reporting disclosures for the current period's results. After the period of transition for FY23, the Group will only present the newly identified reportable segments.

Further details are provided in note 5 of the Consolidated Financial Statements.

The table below provides the FY23 revenues, EBITDA and EBITA from our new segments. Central includes intercompany eliminations reflecting the high level of trading between Operations and ProService and central management costs.

£m	FY23 Revenue	FY23 Adjusted EBITDA	FY23 Adjusted EBITA
ProService	311.0	14.4	12.8
Operations	135.8	58.3	22.3
Ireland	27.4	6.9	3.9
Central	(125.1)	(14.5)	(14.7)
Total	**349.1**	**65.1**	**24.3**



Note: Contribution is defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs (for each segment).

To enable comparability we continue to disclose our old operating segments of Rental and Services.

Rental and related revenues

Rental revenues increased marginally by 0.5% to £207.3m (FY22: £206.2m) and accounted for 59% of Group revenue (FY22: 62%). The growth was underpinned by strong like-for-like performance through our builders merchants and targeted investment in high-demand product categories, which all performed well despite softening demand in certain buyer segments and the impact of mild weather on our seasonal product. Rental and related revenues is one of our KPIs.

Contribution, defined as revenue less cost of sales (excluding depreciation and exceptional items), distribution costs and directly attributable costs, of £136.7m (FY22: £138.4m) was down 1.3%, reflecting the mix of revenues towards larger customers, growth of lower-margin ancillary revenue and continued inflationary pressure on distribution costs.

Services

Services revenues increased by 12.0% to £141.8m (FY22: £126.6m), accounting for 41% (FY22: 38%) of Group revenue. Customers continue to value our one-stop shop marketplace proposition underpinned by our Brenda technology platform and large network of supply chain partners. Over recent years, we have consistently delivered double-digit revenue growth and our continued investment to make the customer experience even easier puts the Group in a positive position for the future.

Contribution from Services increased by 1.4% to £19.5m (FY22: £19.3m).

"Our Services revenues have consistently grown double-digit with customers valuing our one-stop shop marketplace proposition. The customer experience has continued to improve through ongoing development of our Brenda platform and expansion of our supply chain network."

FINANCIAL REVIEW CONTINUED

Costs

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

Our cost of sales increased by 9.3% to £180.0m (2022: £164.6m), mainly volume driven, with another year of double-digit growth in Services revenues.

Distribution costs increased by 4.7% to £31.7m (2022: £30.3m) mainly due to a combination of revenue growth and inflationary pressures impacting driver salaries, fuel and third party haulage.

Administrative expenses increased by 2.7% to £115.3m (2022: £112.3m) principally due to additional overhead investment to support delivery of the Group's strategy.

"We have maintained a strong balance sheet with £68.2m of combined liquidity from available cash and undrawn borrowing facilities at 30 December 2023. This will support continued investment in our strategy".

Leverage

1.7x

FY22: 1.3x

Adjusted EBITDA and Adjusted EBITA

Our Adjusted EBITDA for FY23 was £6.5m lower at £65.1m (FY22: £71.6m) with margins reduced to 18.7% (FY22: 21.5%), reflective of the mix of revenue towards Services and £5.1m (FY22: £0.8m) strategic investment for future growth. Adjusting for the strategic investment, underlying margin was 20.1%. Adjusted EBITDA and EBITDA margin are included in our KPIs.

Our Adjusted EBITA for FY23 was £24.3m (FY22: £32.0m), a combination of reduced EBITDA and increased depreciation. The increased depreciation is from £0.9m property, plant and equipment which is net of a £2.7m benefit from the extension of the useful economic life for Powered Access equipment and £0.3m right of use assets. Adjusted EBITA margin decreased 2.6pp to 7.0% (FY22: 9.6%). Adjusting for the strategic investment, underlying margin was 8.4%. Adjusted EBITA and EBITA margin are included in our KPIs.

Other operating income

Total other operating income of £0.1m (FY22: £0.5m) relates to sub-lease rental and service charge income related to non-trading properties. The value has reduced from FY22 as we have surrendered non-trading leases.

Operating profit

Our operating profit decreased by £4.5m to £19.9m (FY22: £24.4m). This was mainly due to strategic investment in the year.

Exceptional items

Our exceptional costs are summarised in the table below:

	FY23 £m	FY22 £m
Onerous property costs	0.8	(0.4)
Costs relating to branch network restructure	1.5	–
Costs relating to group restructure	0.2	3.2
Onerous contract	0.3	(0.4)
Total	**2.8**	2.4

Exceptional costs totalled £2.8m (FY22 £2.4m). This included £1.7m costs relating to restructuring, primarily from the further transition of moving from traditional branches to builders merchants. This compares with £3.2m in FY22 which included the costs to complete the Group's legal restructuring. The remaining costs of £1.1m relate to onerous contract and property provisions, which compare with exceptional credits from provision releases of £0.8m in FY22.

The total costs for accelerating the transition from traditional branches to builders merchants was £2.1m, £1.5m within costs relating to restructure and £0.6m within onerous property costs.

Finance costs

Net financial expense increased to £10.9m (FY22: £7.8m) due to UK base rate interest increases. These costs are summarised in the table below:

	FY23 £m	FY22 £m
Senior finance facility	5.3	3.0
Interest on hire purchase arrangements	0.8	1.0
IFRS 16 lease liabilities	3.6	2.9
Other	1.4	0.9
Total finance costs	**11.1**	7.8
Bank interest received	(0.2)	–
Net finance expense	**10.9**	7.8

Taxation

The Group had a tax charge for the year of £4.7m (FY22: tax credit of £3.9m). This represents £5.6m (FY22: £5.1m credit) deferred tax charge, partly offset by £0.8m (FY22: £1.2m charge) current tax credit. The change in deferred tax is partly from last year's move to a deferred tax asset based on a three-year recognition window rather than one year, followed by a FY23 reduction in deferred tax asset, reflecting a more cautious outlook based on macroeconomic uncertainty.

Deferred tax assets have been recognised to the extent that management considers it probable that tax losses will be utilised. In FY23 a three-year (FY22: three-year) recognition window has been applied.

FINANCIAL REVIEW CONTINUED

Reported and adjusted earnings per share
Our basic and diluted earnings per share, both on a reported and adjusted basis, reduced in FY23 driven by lower profits from the demand softness in certain end markets, reflective of the mix of revenue towards Services and £5.1m (FY22 £0.8m) strategic investment for future growth.

Capital allocation
Our goal is to create long-term shareholder value. In FY23 we have focused on investing in our marketplace business, providing a differentiated proposition in the market for both customers and suppliers. The foundations laid in FY23 set the Group up for future growth and improved shareholder returns.

Dividend
With a strong balance sheet and confidence in the strategy, the Board remains committed to a progressive dividend policy. As such a final dividend of 0.38p is recommended, bringing the full year to 0.56p, an increase of 4% over the prior year (FY22: 0.54p).

Capital expenditure
Additions to Intangible assets, property, plant and equipment and right of use hire equipment in the year were £40.2m (FY22: £43.8m). Investment in technology, principally in our Brenda platform to support future marketplace business growth, totalled £7.1m (FY22: £5.6m). This included £1.3m to acquire full IP of the source code underpinning the Brenda platform. Investment in hire fleet to support our Rental business was £30.6m (FY22: £32.7m) with decisions informed from our insight tools to maximise returns.

Return on capital employed
We believe that our ROCE remains market-leading. In FY23 we achieved 16.2% which was a decrease of 6.6% from FY22, but still comfortably in excess of our weighted cost of capital. A reduction was expected as we invested to support the future growth of the marketplace business, both in terms of overheads and software development. Our underlying ROCE excluding this investment was 19.6% (FY22: 23.3%). ROCE is one of our KPIs.

Trade and other receivables
Gross trade debtors increased 2% over FY23, following increased revenue throughout the financial year. There has been significant focus and improved performance on cash collections. However, with the ongoing macroeconomic uncertainty, we continue to adapt our processes and systems to mitigate this risk (refer to Principal Risk and Uncertainties on page 48) and have applied an adjusted risk factor to expected loss rates in determining the provision for impairment which increased the provsion by £0.7m (refer to note 18 to the Consolidated Financial Statements for more detail).

Provisions
Provisions reduced £2.7m to £18.6m (FY22: £21.3m). The vast majority of this reduction relates to the ongoing annual onerous contract payments to Unipart following the exit from the National Distribution and Engineering Centre in 2018. At 30 December 2023, the remaining balance on this provision was £6.8m.

Cash generated from operations
Net cash generated from operating activities was £20.2m, a decrease of £18.8m compared with FY22. The reduction is mainly from lower EBITA, higher interest costs and movements in working capital, including settlement of FY22 exceptional costs and the ESA award (Director's Remuneration Report page 65).

Leverage and net debt
Net debt increased £17.3m to £111.6m (FY22: £94.3m) and at 30 December 2023 the Group had access to £68.2m (31 December 2022: £84.0m) of combined liquidity from available cash and undrawn borrowing facilities. With the reduced Adjusted EBITDA and higher net debt, leverage increased to 1.7x (FY22: 1.3x). Leverage ratio is one of our KPIs.

Use of alternative performance measures to assess and monitor performance
In addition to the statutory figures reported in accordance with IFRS, we use alternative performance measures (APMs) to assess the Group's ongoing performance. The main APMs we use are Adjusted EBITDA, Adjusted EBITA, Adjusted profit before tax, Adjusted earnings per share, leverage (or Net Debt Ratio) and ROCE, which are included in our KPIs as set out on pages 4 and 5.

We believe that Adjusted EBITDA, a widely used and reported metric amongst listed and private companies, presents a 'cleaner' view of the Group's operating profitability for the year by excluding exceptional costs, finance costs, tax charges and non-cash accounting elements such as depreciation and amortisation.

Additionally, analysts and investors assess our operating profitability using the Adjusted EBITA metric, which treats depreciation charges as an operating cost to reflect the capital-intensive nature of the sector in which we operate. This metric was used in FY23 to calculate annual bonuses payable to Executive Directors.

The Adjusted profit before tax figure comprises the reported profit before tax, amortisation of customer relationships and brands-related intangibles as well as exceptional costs added back. This amount is then reduced by an illustrative tax charge at the prevailing rate of corporation tax (a blended rate of 23.5% has been used following the increase to 25% in April 2023) to give an Adjusted profit after tax.

Analysts and investors also assess our earnings per share using an Adjusted earnings per share measure, calculated by dividing Adjusted profit after tax by the weighted average number of shares in issue over the period. This approach aims to show the implied underlying earnings of the Group.

The calculation of Adjusted EBITDA and Adjusted EBITA can vary between companies, and a reconciliation of Adjusted EBITDA and Adjusted EBITA to operating profit and Adjusted profit before tax to profit before tax is provided in note 31 to the Consolidated Financial Statements. A reconciliation of reported profit per share to Adjusted earnings per share is provided in note 13 to the Consolidated Financial Statements.

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

We use ROCE to assess the return (the Adjusted EBITA) that we generate on the average tangible fixed assets and average working capital employed in each year. We exclude all elements of net debt from this calculation.

Post balance sheet events
On 7 March 2024, the Group sold ABird and Apex (the Power businesses) within the Group to a third party, CES Global. The businesses were sold for an enterprise value of £23.25m, with customary working capital and debt adjustments resulting in a cash consideration of £20.7m. Net assets disposed were £20.7m (including consolidation related intangibles of £6.4m) for a gain before transaction costs of £nil. In connection with the sale of the businesses the Group has incurred transaction costs of £0.7m in 2024. Subsequent to the sale, proceeds of £12.5m on the sale of the Power businesses were used to make a partial repayment of the Group's senior loan facility, reducing the total liability from £70.0m at the year end to £57.5m.

Based on the ongoing successful performance of the Group's builders merchant locations, the decision was made during FY23 to accelerate the migration to this lower variable cost model. To this end, in March 2024 the further closure of four branches located in England and Scotland was approved reducing ongoing costs by c£0.7m per annum, with expected exceptional costs of between £0.8m and £1.3m.

Refer to note 32 to the Consolidated Financial Statements for more detail.

Paul Quested
Chief Financial Officer

30 April 2024

SECTION 172 STATEMENT

Stakeholder engagement has remained positive throughout 2023.

THE BOARD'S APPROACH

- The Board recognises the importance of maintaining strong relationships with our stakeholders in order to create sustainable long-term value and encourages active dialogue and transparency with all of its stakeholder groups.
- We take time to engage with, and listen to, the views of our stakeholders in order to shape our decision making and to continue improving the way we do things. The Board exercises skill and judgement, taking into consideration the likely consequences of its decisions, to promote actions that lead to the long-term success of the Group.
- When developing strategy, the Board considers both the financial outcomes as well as the need to engage, and the potential impact on the Company's stakeholder groups. The Board strives to appropriately balance the effects of decision making on key stakeholder groups whilst always promoting the success of the Group for the benefit of its members as a whole.
- The Board consider the network restructure to be the only key decision in the year to meet the definition of such in accordance with S172. See the case study on page 45.

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

S172 duties	Read more	Pages
CONSEQUENCES OF DECISIONS IN THE LONG TERM	Our Business Model Our Strategic Framework Principal Risks and Uncertainties Going Concern Board Activities	15 16 48-52 58 59
INTERESTS OF EMPLOYEES	Non-Financial Information Statement Our People Employee Engagement Diversity and Inclusion Culture and Values	68 23-24 23 24 46
FOSTERING BUSINESS RELATIONSHIPS WITH SUPPLIERS, CUSTOMERS AND OTHERS	CEO's Statement Case Studies	11-14 17-19
IMPACT OF OPERATIONS ON THE COMMUNITY AND THE ENVIRONMENT	Sustainability Performance Energy and Emissions ESG Objectives	37 35 20
MAINTAINING HIGH STANDARDS OF BUSINESS CONDUCT	Non-Financial Information Statement Culture and Values Whistleblowing Anti-fraud, Bribery and Corruption Modern Slavery	68 46 58 53 58
ACTING FAIRLY BETWEEN MEMBERS	Shareholder Engagement Voting Rights	59 69

HOW THE BOARD FULFILS ITS S172 DUTIES

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

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

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

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

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

STAKEHOLDER ENGAGEMENT

SHAREHOLDERS AND INVESTORS

Our shareholders monitor the performance and governance of HSS and regular dialogue is crucial to ensure the Board is aware of their expectations.

Interests

- HSS's strategy and objectives
- Group performance and growth potential
- HSS's technology platforms, their progress and how they differentiate HSS from its peers
- Quality and effectiveness of the Group's governance
- HSS's ESG approach and strategy development
- Returns on share price and dividends
- Capital allocation

How we engaged

- The Chairman, CEO and CFO had regular, transparent communication with major shareholders through calls, emails and one-to-one meetings
- The AGM provided the opportunity for all shareholders to engage with the Board, both the Executive and the Non-Executive Directors. The success of the AGM from an engagement perspective is clearly dependent on shareholder turnout; this was marginally better in 2023 and we enjoyed engaging with those who did attend
- The ESG review led to the publication of HSS's ESG Impact Report for 2022/23 (available on the HSS corporate website) and our ongoing focus and ambition in this area led to an EcoVadis Gold award during 2023

Outcomes

- Strong support of our strategy
- Shareholders' ongoing confidence in the Group's ability to deliver shareholder value, albeit in difficult market conditions
- The Board is aware of investors' expectations on governance and ESG

SUPPLIERS

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

Interests

- Access to customers
- Transparency of orders and data insight, via an easy-to-use supplier portal
- Receiving payments within agreed credit terms
- Responsible and sustainable business practices

How we engaged

- Regular supplier review meetings to assess service performance and explore mutual growth opportunities
- We engaged with new suppliers during the year to expand our supplier network and introduce new product verticals
- Rehire suppliers continue to be onboarded to our supplier portal
- Audits of suppliers to ensure strong governance and health and safety standards

Outcomes

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

LENDERS

Our lenders provide HSS with the funding we need to deliver on our strategy and support our customers. We have continued to enjoy a strong and positive relationship with our lenders throughout FY23 and have communicated regularly.

Interests

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

How we engaged

- Met with lenders on a frequent basis to update on business performance
- Ad hoc discussions as required

Outcomes

- Continued support from actively engaged lenders throughout the year

STAKEHOLDER ENGAGEMENT CONTINUED

COLLEAGUES

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

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

Interests

- HSS's strategy and objectives during the next stage of our growth
- Embedding the changes arising from the split of our fulfilment and operations businesses and the progression of our network restructure
- Equality, Diversity & Inclusion (ED&I) and our approach to operating responsibly
- Employee benefits and remuneration
- Development opportunities and career progression
- Engagement with senior management
- Keeping our colleagues safe

How we engaged

- Regular updates during the year through the CEO blog, calls, company WhatsApp groups, emails and the annual executive roadshow, delivered online, all helped keep colleagues abreast of developments
- The annual colleague engagement survey was used to provide management with a strong understanding of colleagues' needs and concerns, allowing us to adapt our working practices based on their feedback
- Our bi-monthly Executive Health and Safety Forum and subsequent pulse surveys after health, safety and wellbeing events helped identify areas where more support was needed
- A wider number of colleagues have been involved in our ESG planning and initiatives to input their ideas, and ideas and requirements from other stakeholders
- A variety of colleagues involved in our ED&I Council

Outcomes

- Colleagues have a strong understanding of Company performance, strategy and our updated business model
- The Learning and Development team is continuing to update training programmes based on employee feedback to upskill colleagues and support career progression
- We continue to focus on supporting colleagues' health and wellbeing – including physical, mental and financial – along with widening our training and development opportunities and improving our benefits offer
- Annual engagement survey feedback

CUSTOMERS

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

Interests

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

How we engaged

- Feedback on our service provision through direct engagement with our sales teams, either face to face (including at Builders Merchants), phone calls or email, and through social media
- Indirect feedback on our service provision through Trustpilot and other review services
- Reviews of our customer app on Apple's and Android's respective app stores
- Regular social media updates on our blog and social media channels

Outcomes

- Reviews and direct feedback allowed us to continue to improve our digital offering to best suit customer needs
- Acceleration of network restructure

LOCAL COMMUNITIES AND THE ENVIRONMENT

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

Interests

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

How we engaged

- Participation with local charitable initiatives. A summary of our involvement with local communities is on page 24
- Consideration of environmental impact of closing branches and moving to Builders Merchant sites

Outcomes

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

STAKEHOLDER ENGAGEMENT CONTINUED

CASE STUDY

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

CONTEXT

HSS's business has continued to develop and move forward, as explained in our strategy sections. This has included the split of the fulfilment and operations businesses, significant growth of our sales proposition through builders merchants, development of a more office-based Central Sales team and driving customer and supplier interactions through our Pro portal, which has included introducing new product verticals. The builders merchant model was first tested in 2020 and accelerated in 2023 to further restructure the network by closing traditional branches and opening new sites with Builders Merchants. The Board has been mindful of how these developments would be viewed by different groups of colleagues within the business, aswell as other stakeholders.

CONSIDERATION OF S172 IMPACT BY THE BOARD IN ITS DECISION MAKING

Employees
The split of the fulfilment and operations businesses was carried out in 2022, therefore the action in 2023 was more around ensuring that change was embedded at the same time as growing further the Builders Merchants proposition. The Executive Team reported to the Board regularly on this and it was pleasing to note that no concerns were reported on a day-to-day basis, with colleagues continuing to work together in the same way as they always have done and welcoming new colleagues in Central Sales teams. For some HSS colleagues, moving into the busier environment of a Builders Merchant from a more traditional HSS branch was a new experience and helped to ensure that such colleagues were retained in the business. The feedback from colleagues has been very positive and, in some cases, removed the risk around lone working. HSS colleagues have enjoyed the environment and meeting new teams. This feedback was important for the Board and gave them confidence when determining to rationalise further branches and roll out further the Builders Merchant programme. As a result, all branch colleagues impacted by the network restructure in 2023 were retained in the business, save for one for whom moving sites was impractical and therefore left the business. Sales colleagues have also shown excitement around the expanded product offering and the Pro portal proposition and have used it as a tool to engage with customers and suppliers by providing live demonstrations.

Customers
The move to the Builders Merchant model and rationalising branches was considered by the Board in terms of its impact on customers. Such impact was viewed as positive since some traditional HSS branches had low customer footfall, compared to high footfall in the Builders Merchant sites. By offering tool and equipment hire in such sites, it was creating a new proposition for customers at those sites and therefore clear benefits.

Local communities and the environment
The Board considered that moving to the Builders Merchant model was an excellent opportunity for HSS to share resources with the Merchant (property internal space & parking, lighting, heating etc.) as well as offering a 'one stop shop' for Builders Merchant materials and equipment hire, rather than each business having separate sites, resulting in a positive impact on the environment. Impact on local communities was expected to be negligible.

Investors
One of the key drivers for the Board in moving to the Builders Merchant model was to create a lower cost business and therefore create value for shareholders.

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

The streamlining of the Company's business and continued development of its strategy around technology, service growth and network restructure is transformational and key to long-term sustainable success and improving shareholder returns, in the view of the Board.

This case study showed great support of our strategy from our colleagues, a fundamental stakeholder group in ensuring successful delivery.

RISK MANAGEMENT

MANAGING RISK AND UNCERTAINTY

"Risk management is embedded in our business culture, enabling the actions to be put in place at the right time as we evolve to a marketplace business."

Mark Shirley
Risk and Assurance Director

Effective risk management underpins everything we do at HSS, from strategy development to managing day-to-day activities. We employ a comprehensive risk management process to help the Group identify emerging risks, assessing impact and ensuring appropriate mitigating actions are put in place.

Ownership

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

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

Identification and assessment

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

Management identifies the controls in place for each risk and assesses the impact and likelihood of the risk occurring, taking into account the effect of these controls, with the result being the residual risk. This assessment is compared with the Group's risk appetite to determine whether further mitigating actions are required.

All risks have an overall EMT owner responsible for the day-to-day management. Health and safety and ESG are key areas in our industry and, as such, require collective ownership to continually improve. There is an established Executive Health and Safety Forum which is made up of the EMT, Operational Managing Directors and the Risk and Assurance Director. The forum meets bi-monthly (and more frequently if required) to review trends, incidents and issues. For ESG we have an ESG Committee that oversees improvement actions and monitors risk and opportunities, and the EMT reviews ESG progress on a monthly basis.

Monitoring

The Risk and Assurance Director reports and meets with the EMT monthly to review the findings of risk-based assurance activity. Risk-based assurance work is then reported to the Audit Committee on a quarterly basis for review.

Culture and values

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

How we manage risk

We adopt a three lines of defence model for managing risk, providing the Board and the EMT with assurance that risk is appropriately managed. This is achieved by dividing responsibilities as follows:

THE FIRST LINE OF DEFENCE
Functions that own and manage risk.

THE SECOND LINE OF DEFENCE
Functions that oversee or specialise in specific risk such as Health, Safety, Environment and Quality (HSEQ), Supply Chain Auditors, Performance Reporting, and Control Risk Self-Assessment (CRSA) audits undertaken by regional management.

THE THIRD LINE OF DEFENCE
Functions that provide independent assurance, in the HSS case primarily Internal Audit.

OUR VALUES

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

Macroeconomic risk

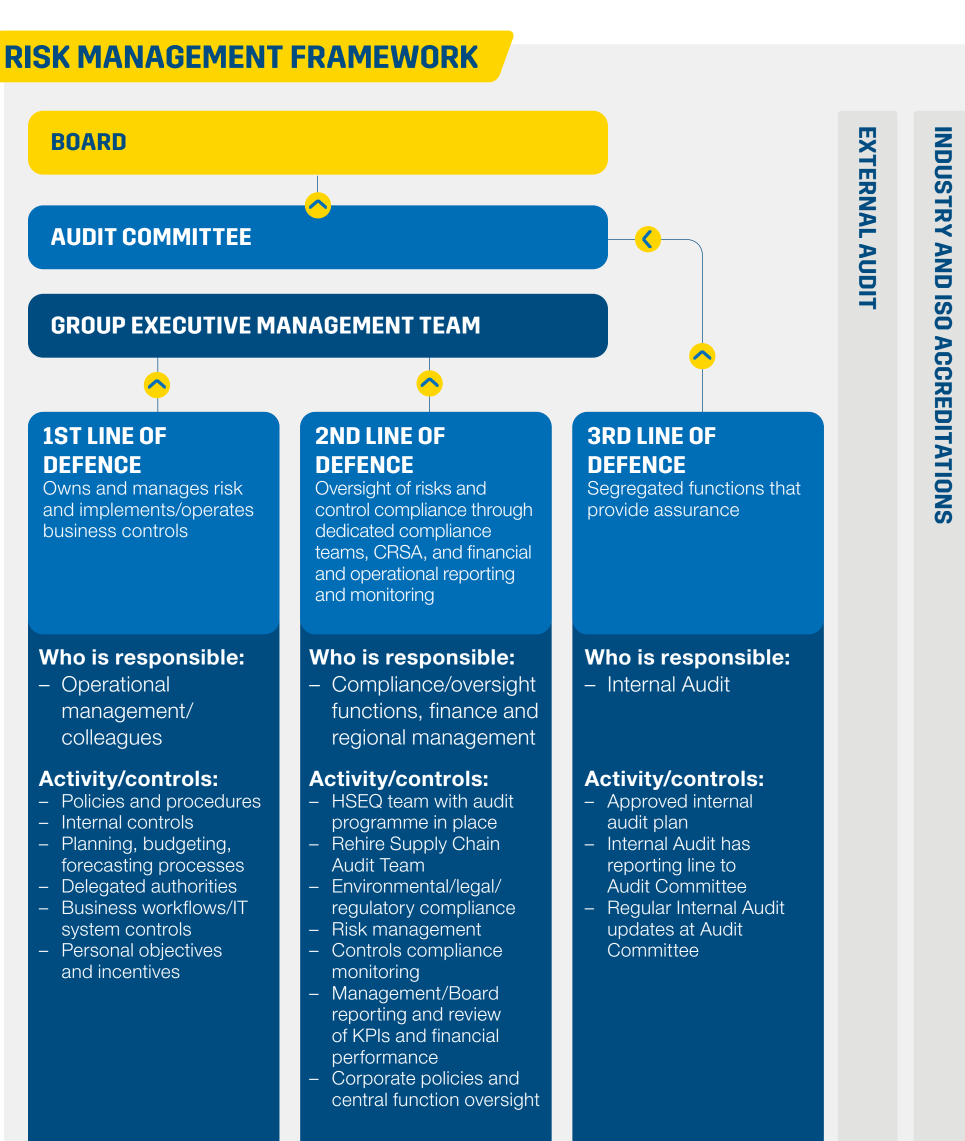
This risk continues to be one of the main risks facing the Group with a combination of domestic and global issues likely to impact UK growth and therefore demand. We have faced an unprecedented period of macroeconomic uncertainty over recent years, starting with Brexit and followed by a pandemic, international conflict, global inflationary pressures and resultant interest rate rises. While inflation pressure has started to ease, we recognise that escalating conflicts in 2024 have the potential to adversely affect energy costs and disrupt global shipping which could impact supply chain lead times and equipment costs.

We continue to focus on the direct impact of these macroeconomic conditions on the Group and the mitigating actions that can be taken. While the uncertainty continues to evolve, the Group's risk rating remains unchanged due to actions taken. The transition to a lower-cost and flexible operating model have been key in combating inflationary pressures and a higher cost of borrowing. Credit control systems and procedures continue to be enhanced, mitigating the risk of increased levels of customer insolvency.

ESG risk

ESG risk is integrated into our risk management process as part of the Group's commitment to the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), and climate-related risks and opportunities have been considered across multiple timeframes. These are covered in more detail on pages 20 to 37.

RISK MANAGEMENT CONTINUED



FY23 RISK MANAGEMENT DEVELOPMENTS

The focus in FY23 was on broadening the organisation's risk and assurance capacity and capability to increase coverage as well as ensuring flexibility to evolve with our changing business.

- Achieved ISO 27001 Information Security Management accreditation to enhance cyber risk management.
- Incident management and investigation training provided to all operational management and assurance team members to help improve standards and reporting.
- Revised branch standards (CRSA audits) performed by regional managers by aligning to Internal Audit specific location audits.
- Introduced new Central Sales audit, monitoring the standards of our Manchester-based team.
- Quarterly ESG risk reviews instigated to ensure the Group progresses on its journey to net zero.
- Implemented new supply chain policy with defined standards for third party suppliers and increased the size of the supply chain auditing team to ensure compliance with this policy.

FY24 PLANNED IMPROVEMENTS TO RISK MANAGEMENT PROCESS

The focus for FY24 will be on improving performance standards through broadened, focused and increased capacity alongside targeted activity on specific risk areas.

- Introduce balanced scorecards to evaluate locations and departments, using a blend of audit scores and performance data, with a focus on safety and standards. This will support the identification of improvement areas alongside recognition of good performance.
- Refresh the Group's safety brand through a combination of campaigns and enhanced targeted training linked to the balanced scorecard insight and recognition of role model behaviours.
- Implementation of enhanced, more dynamic credit governance processes including quarterly fraud and security reviews of trends and emerging threats, new process introduction and targeted training for customer-facing colleagues.
- Develop a new customer complaints module to give better insight into supply chain performance.
- Embed the supply chain audit process ensuring adherence to revised policy.
- Expand the frequency and depth of risk reviews of third party service suppliers, regularly assessing the security and contingency measures in place to ensure continuity of supply.

PRINCIPAL RISKS AND UNCERTAINTIES

Key risk	Description and impact	How we mitigate	What we have done in FY23
1. MACROECONOMIC CONDITIONS **Movement** **Owner:** Steve Ashmore Chief Executive Officer	The Group's sales and profits, either volume or price, are adversely impacted by any decline in the macroeconomic environment. International conflicts, inflationary pressures and the higher cost of borrowing lowers growth, affecting demand, supply chains and financial performance.	The Group is not over-exposed to any one area or segment. Ongoing monitoring and modelling of macroeconomic indicators and performance, both of which are reviewed regularly by the EMT. Lower and flexible cost operating model, mitigating against any downturn in future demand.	We have continued to maintain tight cost control measures, taking decisive action during the year in response to softness in certain customer segments whilst ensuring we adequately invest in the strategy and monitor implementation. We have reduced long-term costs in our operating model, including moving more standalone branches to builders merchants. The Group's Procurement team worked with suppliers to ensure that any supply chain disruption was minimised including, where appropriate, seeking alternative providers. Reverse stress-test impact of economic slowdown and higher interest rates. Mitigating action plans developed to respond to uncertain macroeconomic environment.
2. COMPETITOR CHALLENGE **Movement** **Owner:** Steve Gaskell Group Strategy Director	A highly competitive and fragmented industry, with the chance that increased competition could result in excess capacity, therefore creating pricing pressure and adverse impacts on planned growth.	Differentiated technology platforms, including fully integrated self-service interfaces for customers, suppliers and colleagues, providing fast and efficient user journeys. Through our continually expanding supply chain, the Group gives customers a one-stop shop providing access to a huge range of products and complementary services such as training courses. Our organisational structure allows for a strong focus on sales acquisition. We have a low-cost operating model, providing national coverage from a network of CDCs, builders merchants and traditional branches.	Following the creation of two distinct divisions in ProService and Operations, clearly defined visions and strategic objectives have been created for each, providing focus to advance their differentiated propositions. These are covered in more detail on page 15. Each division has delivered its strategic roadmap during the year, both based on technology investment to enhance the customer experience. The Group continues to monitor innovation outside of the equipment rental market to enable the propositions to further evolve.
3. STRATEGY EXECUTION **Movement** **Owner:** Steve Gaskell Group Strategy Director	Failure to successfully implement the Group's strategic plans alongside lower than expected realised benefits lead to reduced forecast financial performance in terms of revenue growth and cost savings.	A clearly defined and communicated strategic plan is in place. Clear governance structure, with defined accountabilities. Each strategic initiative is sponsored by an EMT member. Implementation of projects is monitored by the EMT, including resource allocation. Regular updates, including initiative specific deep dives, provided to the Board.	The Group has continued to implement against initiative milestones underpinning the strategic plan. Enhanced KPI reporting has been implemented to monitor delivery of expected benefits for each initiative and take appropriate actions to ensure that they remain on track.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key risk	Description and impact	How we mitigate	What we have done in FY23
4. CUSTOMER SERVICE **Movement** **Owner:** Tom Shorten Chief Commercial Officer	The provision of the Group's expected service levels depends on its ability to efficiently transport the hire fleet across the network to ensure it is in the right place, at the right time and of the appropriate quality. Management of customer relationships is important to ensure appropriate payment is received for the quality of service provided. Any disruption in supply, quality or relationship management can reduce revenue and drive additional costs into the business.	National reach and presence through CDCs, branches, builders merchant partners and online. Diverse range of rehire suppliers provides ongoing flexibility to ensure continuity of supply for customers. Clear business continuity plans to maintain supply. Extensive and continued training to ensure testing and repair quality standards are maintained. Audits and reporting covering quality, contracts and complaints. Business accreditations are maintained, including ISO 9001, providing customers with confidence in the quality of the services provided.	Extensive training put in place for all new colleagues. The Digital Service Portal was introduced to digitally capture images of equipment serviced and repaired, helping to improve quality and enhance training for colleagues working in engineering roles. A central team to manage pricing was introduced (trading desk) to improve consistency on pricing and discounts.
5. THIRD PARTY RELIANCE **Movement** **Owner:** Tom Shorten Chief Commercial Officer	A significant amount of Group revenue is derived from the Services business which is dependent on the performance of third party service providers. Other third parties, such as builders merchants, are an increasingly important part of the operating model. If any third parties become unable to provide reliable equipment, refuse to fulfil their obligations or violate laws or regulations, there could be a negative impact on the Group's operations leading to an adverse impact on profitability and reputation.	Third party rehire suppliers are subject to rigorous onboarding processes. Each supplier is subject to demanding service level agreements with performance monitored on an ongoing basis. The wide and diverse range of rehire suppliers provides flexibility to select those who meet required service levels. Extensive commercial and risk assessment process undertaken before and after entering into a relationship with a builders merchant or opening a new location.	Given the importance of the Brenda platform to the Group strategy, we brought the third party developers and technical teams who have worked on the technology development in-house. This provides greater control and reduces third party reliance. The majority of our remaining traditional HSS branches were migrated to the builders merchant model. This included the introduction of new partners, all subject to our extensive assessment process. An enhanced supply chain policy was introduced for third party rehire suppliers. This included a supplier tiered risk assessment dependent upon type of equipment provided and was supported by investment in supply chain assurance with two new dedicated auditors employed and an expanded audit programme.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key risk	Description and impact	How we mitigate	What we have done in FY23
6. IT INFRASTRUCTURE **Movement** = **Owner:** Paul Quested Chief Financial Officer	The Group requires an IT system that is appropriately resourced to support the business. An IT system malfunction may affect the ability to manage operations and distribute hire equipment and service to customers, affecting revenue and reputation. An internal or external security attack could lead to a potential loss of confidential information and disruption to transactions with customers and suppliers.	Third party specialists are used to assess the appropriateness of IT controls, including the risk of malicious or inadvertent security attacks. Firewalls, antivirus software, endpoint detection and clean-up tools are used to protect against malicious attempts to penetrate the business IT environment and remove malware or similar agents. Procedures to update supplier security patches. Multi-factor Authentication login security technology in place for all colleagues remotely accessing the Group's systems. Regular disaster recovery tests conducted and appropriate back-up servers to manage the risk of primary server failure. Cross-departmental Data Governance team to ensure that business processes are, and continue to be, adequate. Ongoing resilience and penetration testing.	The cyber security plan continues to evolve to counter emerging threats and was externally recognised with the award of Cyber Essentials certification and ISO 27001 accreditation. Investment has continued in IT infrastructure including the completion of the first phase of our server upgrade plan and improved business continuity such as enhanced data and systems back-up procedures. Further security enhancements to systems including reduced phishing risk through email gateway implementation and expanding Single Sign On (SSO) protocols across other Group systems. Raised cyber security awareness across all colleagues through innovative communication and revised mandatory training. Monthly phishing simulations were run to assess effectiveness.
7. FINANCIAL **Movement** **Owner:** Paul Quested Chief Financial Officer	To deliver its strategic goals the Group must have access to funding at a reasonable cost. Some customers may be unwilling or unable to fulfil the terms of their rental agreements. Bad debts and credit losses can arise due to service issues or fraud. Unauthorised, incorrect or fraudulent payments may lead to financial loss or delays which could affect relationships with suppliers and lead to a disruption in supply. High inflation leads to base interest rate increases and therefore adversely impacts cash flow.	Working capital management with cash collection targets (which roll up into our net debt KPI). Extensive credit checking for account customers with strict credit control over a diversified customer base. Comprehensive risk reporting including regular detailed credit limit reviews. Credit insurance in place to minimise exposure to larger customer default risk. Investigation team focused on minimising the Group's exposure to fraud. Clearly defined authorisation matrix governing payments and amendments.	The inherent risk increased due to higher levels of customer insolvency. Our comprehensive mitigating actions mean there is no movement in the residual risk. Our strong balance sheet, lower debt and underlying interest cost mitigated the impact of higher interest costs, with every 1% increase in the base rate increasing the interest charge by c£0.7m. The Group is evolving to a more dynamic, system-led credit governance approach. During the year this included the implementation of credit checking functionality at the point of order.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key risk	Description and impact	How we mitigate	What we have done in FY23
8. INABILITY TO ATTRACT, TRAIN AND RETAIN PERSONNEL **Movement** **Owner:** Max Morgan Group HR Director	The Group needs to ensure the appropriate human resources are in place to support the existing and future growth of the business. Failure to attract and retain the necessary high-performing colleagues could adversely impact financial performance. Global inflationary pressures impact ability to retain colleagues.	Market rates are regularly benchmarked to ensure competitive pay and benefits packages. Training for colleagues is provided at all levels to build capability and improve compliance. Training is role related and behaviour focused, via blended learning. Colleague engagement surveys are conducted, with actions taken as a result of feedback. Recruitment programmes working with third parties such as prisons offering opportunities to ex-offenders, Initiatives such as Earn as you Learn.	Continued evolution of our wellbeing strategy based on improved data and insight from third party partners. This provided greater understanding of the challenges being experienced by different demographics and job roles to inform specific actions. Differentiated pay awards were implemented during the year, focused on giving lower-paid colleagues more to offset inflationary pressures. A new discounts platform was launched, providing all colleagues access to discounts on everyday items. Colleague development has been broadened with wider apprenticeship and leadership development offerings. Ensured we remain an attractive inclusive employer by evolving our ED&I agenda and governance, the Aim Hire programme (targeting multiple individuals including ex-military and ex-offenders) and more diversified employer branding.
9. LEGAL AND REGULATORY REQUIREMENTS **Movement** **Owner:** Daniel Joll General Counsel	Failure to comply with applicable law and regulation could have severe ramifications, including reputational damage and/or financial loss or penalty.	Robust governance is maintained within the Group, including a strong financial structure, assurance provision from internal and external audit, and employment of internal specialist expertise supported by suitably qualified and experienced external practitioners. Training and awareness programmes focusing on a variety of key topics such as anti-bribery, anti-modern slavery, anti-facilitation of tax evasion, data protection legislation, ED&I and price collusion have all been in place during 2023. Whistleblowing process in place providing colleagues with the ability to raise non-compliance issues, which the Company Secretary discusses with the Audit Committee and the Board.	Continued focus on ESG activities, leading to further awards for the Group. Increased mandatory training programme with particular focus on cyber security and the social element of ESG. Voluntarily liquidated various subsidiaries, simplifying the Group structure as well as reducing administrative burden and compliance requirements.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key risk	Description and impact	How we mitigate	What we have done in FY23
10. SAFETY **Movement** = **Owner:** Steve Ashmore Chief Executive Officer	The Group operates in industries where safety is paramount for colleagues, customers and the general public. Failure to maintain high safety standards could lead to the risk of serious injury or death.	Clear Health and Safety policy with ongoing risk management and monitoring of accidents and incidents. Health and Safety leadership forum chaired by the CEO and comprising senior managers with responsibility for setting direction and monitoring progress. Fully skilled HSEQ team and internal investigators providing assurance and support. Mandatory training programmes for higher-risk activities. The Group is ISO 45001 Health and Safety accredited.	Incident management and investigation training was provided to all operational management and assurance team members to help improve coverage as well as standards and reporting. Worked with the Group's new insurance provider to identify improvement opportunities based on third party best practice. Safety communication has increased with four dedicated safety weeks held to promote safe working. Use of telematics to improve road safety, highlighting how a vehicle is being driven and providing insight to operational management for actions to be taken. Whilst RIDDORS have unfortunately increased by two, our other category of serious accident Lost Time have significantly reduced. The management team were given the target of reducing serious accidents, which they have done by 26%.
11. ESG **Movement** = **Owner:** Tom Shorten Chief Commercial Officer	If the Group fails to set and meet appropriate ESG goals, there may be an adverse reputational impact with stakeholders and it could limit ability to trade with customers. This could result in revenue reduction, deterring people from joining the business and limiting attractiveness to investors. More detail on ESG and Climate-related Financial Disclosures (CFD) is contained on pages 20 to 37.	The Group has a comprehensive set of procedures in place to minimise adverse environmental impact, including procurement of electricity from renewable sources, third party monitoring of utility consumption and waste management. Procedures are in place to manage social and governance risks, many of which are covered in key risks 8, 9 and 10. The Group is ISO 14001 Environmental Management accredited. An ESG Committee that oversees improvement actions and monitors progress. Monthly Board updates on ESG progress.	SBTi targets were submitted and approved with the action plan to deliver net zero on track. These are monitored by the Board and the EMT. The Group's second ESG Impact Report was published in June 2023. ESG credentials were assessed externally by EcoVadis, which has upgraded our rating and awarded the HSS Group 'Gold status' for 2022/23, placing HSS in the top 5% of companies assessed. Started an assessment of how our sites impact on biodiversity. This led to the production of the HSS Sites Biodiversity Report, identifying whether the business has operational activities near biodiverse sensitive areas and potential environmental risk, impact and mitigation measures.

The Strategic Report on page 2 to 52 was approved by the Board of Directors on 30 April 2024 and is signed on its behalf by:

Steve Ashmore
Director

30 April 2024

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

Alan Peterson OBE
Chairman

On behalf of the Board, I am pleased to present the corporate governance report for 2023. Strong governance remains a priority for us as we continue to execute our strategy.

OVERVIEW OF THE YEAR

The Board, committees, senior managers and colleagues across the business have continued to maintain high standards as we work together to deliver our strategy, with a particular focus on the safety of each other and our customers.

The split of our fulfilment and operations businesses has been closely monitored and well implemented. We are proud of the Group's ESG programme and the progress that has been made, particularly achieving EcoVadis Gold status during the year.

Our Health and Safety Forum has continued to be of great importance, as we remain dedicated to providing safe kit and sites for our colleagues and customers. Road safety as we deliver kit to our customers will be an area of focus during 2024.

It has been another busy year for the committees of the Board, summarised in their respective reports and included in the following pages.

Board evaluation and colleague engagement

I am pleased to report that the findings of our 2023 internal Board and committee evaluation show that our Board continues to be impressed with the management and direction of the business. Board members consider that they are well informed on the activities of the business and able to contribute their considerable skills and experience through the Board and committee meeting setting. On the engagement side, I have been particularly pleased to see the ever-growing range of colleague wellbeing activities and initiatives to ensure our people feel both valued and cared for. ED&I has been an area of focus in 2023, with a council of colleagues set up and a training module rolled out during the year.

Further details are provided in the report on page 24.

The Nomination Committee is recommending that all Board Directors are re-elected at our Annual General Meeting (AGM).

As a Board, we look carefully at the feedback from our annual colleague engagement survey; as well as monitoring morale and wellbeing in the business, this helps us to monitor the development of our culture and also how colleagues feel about development opportunities within HSS. We had a high number of colleagues completing the survey in FY23, with some encouraging results and some areas to focus on; more details on this are on page 23.

Senior management

We have had good continuity again amongst senior management during 2023, as well as some very impressive colleagues developing strongly and looking to move into more senior roles. We have strengthened our digital team during the year and there is real excitement in the business around their achievements in the development of our digital platforms.

Legislative/regulatory matters and related training for colleagues

The Directors and senior management are informed of notable legal and regulatory changes via a combination of internal legal, audit professionals and external advisers.

The Group's Data Governance team monitors day-to-day data protection issues in the business, including monitoring recent legislative changes moving through Parliament.

The Group continues to promote, to both customers and suppliers, the importance of doing business in an ethical way. An anti-slavery and human trafficking statement for FY22 was published during 2023, with the FY23 statement to follow in 2024. We have increased audits of our supplier base during 2023.

The Company's Code of Ethics (available at hsshiregroup.com) outlines our commitment to operating in an ethical and responsible manner, with honesty, integrity, openness and respect for human rights. Our support for these fundamental principles is reflected in our policies and actions towards our colleagues, customers, suppliers and the communities we operate in. The Code specifically sets out the Company's position on modern slavery and anti-bribery, areas on which we continue to train our colleagues and reinforce important messages. The Code and the policies underpinning it are regularly reviewed by senior management in light of changing business and regulatory requirements.

Governance Code

The Company continues to apply the QCA Code and reports on that basis.

Equality and diversity policy

As reported last year, 2022 saw the re-design and launch of our Group-wide ED&I strategy. Colleagues across the business undertake an ED&I training module in a face-to face environment. The module focuses on key topics such as unconscious bias, discrimination and the diversity challenge within the wider industry. The module is complemented by mandatory manager and colleague e-learning.

AGM

It is our intention, once again, to hold our AGM at the Hilton Garden Inn, Hatton Cross, at 11.00am on 26 June 2024.

Alan Peterson OBE
Chairman
30 April 2024

BOARD OF DIRECTORS

Alan Peterson OBE
Chairman

9 years and 3 months

NO N

External roles
- Honorary Colonel Army Cadets, Wales

Past roles include
- Chairman, BBI Diagnostics Group
- Non-Executive Chair, Veezu Group
- Executive Chairman, Enterprise Group Holdings
- Chairman, NSPCC Wales Appeal Board
- Non-Executive Chairman, Pattonair Holdings Limited
- Non-Executive Chairman, Azelis Holdings SA
- Chairman Supervisory Board, Refresco BV
- Managing Director, Rockware Group
- Chief Executive Officer, Meyer International plc
- 3i's first Industrialist in Residence, 2001 to 2005

Skills and experience
- Chair/Chief Executive
- M&A
- Digital
- Strategy
- Construction services
- Supply chain & logistics
- Manufacturing
- Sales and marketing
- Infrastructure
- Retail

Steve Ashmore
Chief Executive Officer

6 years and 9 months

NO

External roles
- None

Past roles include
- Managing Director, Brammer UK
- Managing Director, Wolseley UK
- Various senior management positions, Exel

Skills and experience
- M&A
- Digital
- Strategy
- Construction services
- Supply chain & logistics
- Manufacturing
- Sales and marketing
- Infrastructure

Paul Quested
Chief Financial Officer

7 years and 7 months

NO

External roles
- None

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

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

Amanda Burton
Senior Non-Executive Director

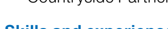
9 years and 3 months

YES R A N

External roles
- Senior Independent Director, Elevate Services Inc.
- Non-Executive Director & Chair of Remuneration Committee, Post Office Limited
- Chair, Green Light Trust

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

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



Doug Robertson
Non-Executive Director

9 years and 3 months

YES A R N

External roles
- Non-Executive Director and Chair of Audit Committee, Mpac Group plc
- Non-Executive Director and Chair of Audit Committee, Zotefoams plc

Past roles include
- Finance Director, SIG plc
- Finance Director, Umeco plc
- Finance Director, Seton House Group Limited
- Managing Director, Tesa Group
- Various senior financial and business positions, Williams plc

Skills and experience
- M&A
- Strategy
- Chief Financial Officer
- Construction services
- Supply chain & logistics
- Manufacturing

Thomas Sweet-Escott
Non-Executive Director

9 years and 3 months

NO

External roles
- Partner, Exponent Private Equity LLP

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

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

Daniel Joll
Group General Counsel & Company Secretary

7 years and 3 months

NO ALL

External roles
- None

Past roles include
- Senior Legal Adviser, Sky plc
- Senior Corporate Lawyer, Watson, Farley & Williams LLP

Skills and experience
- Corporate Law
- Commercial Law
- M&A
- Public Companies and Capital Markets
- Private Equity
- Governance
- Dispute Resolution
- Insurance

KEY

Tenure on Board

Independent

YES

NO

N Nomination Committee

A Audit Committee

R Remuneration Committee

Committee Chair

ALL Secretary for all Committees

CORPORATE GOVERNANCE

LEADERSHIP

KEY ROLES AND RESPONSIBILITIES

Responsible for:

CHAIRMAN
Alan Peterson OBE

- ensuring that the conduct of the Group is in accordance with high standards of integrity and probity;
- the leadership and overall effectiveness in directing the Company, including demonstrating objective judgement and promoting a culture of openness and debate;
- ensuring a clear structure for the operation of the Board and its committees;
- setting the Board agenda in conjunction with the Company Secretary, Chief Executive Officer and Chief Financial Officer;
- ensuring that the Board receives accurate, relevant and timely information about the Group's affairs; and
- ensuring regular engagement with major shareholders and other stakeholders.

CHIEF EXECUTIVE OFFICER
Steve Ashmore

- developing the Group's strategy for consideration and approval by the Board;
- implementing the agreed strategy;
- day-to-day management of the Group's operations; and
- being accountable to, and reporting to, the Board on the performance of the business.

SENIOR INDEPENDENT NON-EXECUTIVE DIRECTOR
Amanda Burton

- being an alternative contact for shareholders at Board level other than the Chairman;
- acting as a sounding board for the Chairman;
- if required, being an intermediary for Non-Executive Directors' concerns; and
- reviewing the Chairman's performance.

The Senior Independent Non-Executive Director carries out the duties of a Senior Independent Director for the purposes of compliance with the QCA Code.

BOARD AND COMMITTEE STRUCTURE

The Board focuses on:

- leadership;
- risk assessment and management;
- strategy, including ESG;
- performance; and
- monitoring safety, values and standards.

In addition, there is a formal schedule of matters reserved for the Board.

The committees each have full terms of reference which can be found on the Company's website at hsshiregroup.com/investor-relations/corporate-governance.

Non-Executive Directors

The number of Non-Executive Directors and their range of skills and experience is kept under review and was formally reviewed as part of the Board evaluation.

Read more on page 56

CORPORATE GOVERNANCE CONTINUED

GOVERNANCE FRAMEWORK

Chairman

Alan Peterson OBE

Responsible for:
- ensuring that the conduct of the Group is in accordance with high standards of integrity and probity;
- the leadership and overall effectiveness in directing the Company, including demonstrating objective judgement and promoting a culture of openness and debate;
- ensuring a clear structure for the operation of the Board and its committees;
- setting the Board agenda in conjunction with the Company Secretary, Chief Executive Officer and Chief Financial Officer;
- ensuring that the Board receives accurate, relevant and timely information about the Group's affairs; and
- ensuring regular engagement with major shareholders and other stakeholders.

THE BOARD

Comprises six Directors, of whom four are Non-Executive, two of whom, Amanda Burton and Doug Robertson, are considered independent. The Board is supported by the Company Secretary.

Role
- Lead the Group.
- Promote the long-term sustainable success of the Company, generating value for shareholders and contributing to wider society.
- Oversee risk management and internal controls.
- Oversee strategy, including ESG.
- Oversee the Executive Management Team.
- Monitor performance.
- Set values and standards aligned with culture and encourage engagement.

EXECUTIVE MANAGEMENT TEAM

Chief Executive Officer, Chief Financial Officer, Chief Commercial Officer, Group HR Director, Chief Revenue Officer, Managing Director of Ireland, Group Strategy Director, Group General Counsel & Company Secretary.

Role
- Define and implement Group strategy.
- Operational management of the Group.

COMPANY SECRETARY

Daniel Joll

Role
- Support and advise the Board and committees (in a dual legal and company secretarial function).

AUDIT COMMITTEE

Comprises Independent Non-Executive Directors, chaired by Doug Robertson, supported by the Company Secretary.

Role
- Monitor financial reporting.
- Monitor audit.
- Monitor effectiveness of risk management and internal controls.

Find out more in the Audit Committee Report on page 61

REMUNERATION COMMITTEE

Comprises Independent Non-Executive Directors, chaired by Amanda Burton, supported by the Company Secretary.

Role
- Determine and review appropriate Board and senior executive remuneration policies and structures.
- Determine appropriate remuneration packages for the Board and senior executives.
- Review workforce remuneration and related policies, and the alignment of incentives and rewards with culture.

Find out more in the Directors' Remuneration Report on page 65

NOMINATION COMMITTEE

Comprises Non-Executive Directors, including two Independent Non-Executive Directors, chaired by Alan Peterson OBE, supported by the Company Secretary.

Role
- Advise the Board on composition, membership and succession planning.
- Advise the Board on Board and senior appointments (taking into account skills, knowledge, experience, independence and diversity).
- Oversee Board evaluation, including determining and monitoring actions.
- People – promote the right culture and engagement, colleague development, ED&I and wellbeing.

Find out more in the Nomination Committee Report on page 60

CORPORATE GOVERNANCE CONTINUED

ATTENDANCE AT BOARD AND COMMITTEE MEETINGS OF WHICH EACH DIRECTOR IS A MEMBER HELD DURING FY23

Director	Board (of 9)	Audit Committee (of 7)	Remuneration Committee (of 6)	Nomination Committee (of 2)
Executive Directors				
Steve Ashmore	9	N/A	N/A	N/A
Paul Quested	9	N/A	N/A	N/A
Non-Executive Directors				
Alan Peterson OBE	9	N/A	N/A	2
Amanda Burton	9	7	6	2
Doug Robertson	9	7	6	2
Thomas Sweet-Escott	8	N/A	N/A	N/A

All the individuals who were Directors as at 31 December 2023 offer themselves for re-election at the next AGM of HSS Hire Group plc to be held at 11.00a.m. on 26 June 2024.

The biographical details of each of the Directors, including details of their other directorships and relevant skills and experience, are on page 54 of this Annual Report and are also set out in the Notice of AGM.

The Board recommends that shareholders approve the resolutions to be proposed at the AGM relating to the re-election of all of the Directors.

Terms and conditions and time commitments

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

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

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

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

Conflicts of interest

Exponent and the Exponent Shareholders currently control 33.43% of the Company's issued shares.

Thomas Sweet-Escott is a partner at Exponent and Alan Peterson OBE has a long-standing business relationship with Exponent. The Group trades on an arm's length basis with certain Exponent portfolio companies.

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

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

EFFECTIVENESS

Board composition

The Board and committees are considered to have an appropriate range of experience, skills and knowledge to fulfil their duties. Profiles of each of the members of the Board are provided on page 54.

The four Non-Executive Directors, Alan Peterson OBE, Amanda Burton, Doug Robertson and Thomas Sweet-Escott, represent a majority of Board members and provide a broad range of skills and experience.

The two Executive Directors, Steve Ashmore and Paul Quested, bring a variety of sector experience to the Board. Amanda Burton and Doug Robertson are considered independent. They are members of the Audit, Remuneration and Nomination Committees of the Board. The Remuneration Committee is chaired by an Independent Non-Executive Director, Amanda Burton. The Audit Committee is chaired by an Independent Non-Executive Director, Doug Robertson.

Appointments to the Board

The Nomination Committee, which is composed entirely of Non-Executive Directors, is responsible for any future appointments to the Board. The Nomination Committee is chaired by the Chairman of the Board, Alan Peterson OBE. By virtue of the fact that the majority of its members are Independent Non-Executive Directors, the Nomination Committee is considered independent.

CORPORATE GOVERNANCE CONTINUED

Board evaluation

Internal evaluation of the Board and of our committees was carried out as detailed on page 60.

Board training

As part of induction, any new Directors receive training from the Company's sponsors/brokers in relation to their responsibilities as a Director of a listed company. The Board also receives regular updates on legal and regulatory developments through the course of a financial year as reflected in the Chairman's Introduction on page 53.

Access to information and support

The Board is provided with an agenda, supporting papers and documentation ahead of each Board and/or Committee meeting to allow them time to read, review and consider the information and analysis presented. The Board also receives ad hoc updates on matters if required outside of the formal Board meeting timetable. The Board has access to the Company Secretary and can request independent advice at the Company's expense where it believes it is appropriate and valuable to do so. Senior management is frequently invited to present at Board meetings as deemed appropriate, and the Board can access such colleagues at any time.

ACCOUNTABILITY

Financial and business reporting

The Directors are responsible for preparing the Annual Report and Financial Statements in accordance with applicable law and regulations. As set out in the Directors' Responsibility Statement (see page 71), the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess HSS's position and performance, business model and strategy.

Risk management and internal control

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

The principal risks and uncertainties facing the Company and how these are being managed/mitigated are detailed on pages 48 to 52.

The Group's risk management and internal control system is designed to manage the risks facing the Group and safeguard its assets. No system of internal control can provide absolute assurance against material misstatement or loss. The Group's system is designed to provide the Directors with reasonable assurance that issues are identified on a timely basis and are dealt with appropriately.

The Audit Committee (whose composition, remit and report are set out on page 56 and pages 61 to 64) assists the Board in reviewing the effectiveness of the Group's risk management and internal controls, including financial, operational and compliance controls and its risk management systems. This is carried out with the assistance of the Chief Financial Officer and the Risk and Assurance Director and supported by the findings of specific projects/investigations completed by the internal audit team, which are presented to the Audit Committee during the financial year.

Whistleblowing

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

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

Modern Slavery Act 2015

The Group published its Modern Slavery Act statement for the 2022 financial year on its website during the first six months of 2023, in accordance with guidelines.

Going concern

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

In summary, taking into account the adequacy of the Group's debt facilities, its ability to deploy mitigating actions where appropriate and the principal risks and uncertainties (see pages 48 to 52) and, after making appropriate enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future and have not identified a material uncertainty in this regard. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements included within this Annual Report.

Statement on disclosure of information to the auditor

The Directors who held office as at 30 April 2024 each confirm that:

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

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Remuneration

The Remuneration and Audit Committees are composed exclusively of Independent Non-Executive Directors, able to judge and achieve an appropriate balance between incentivising Executive Directors and the potential impact on the Company's risk profile.

The Remuneration Committee (whose composition, remit and report are set out on page 56 and pages 65 to 67 sets the policy for and terms of executive remuneration.

CORPORATE GOVERNANCE CONTINUED

RELATIONS WITH SHAREHOLDERS AND OTHER CAPITAL PROVIDERS

Shareholder engagement

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

The Company's engagement activities during FY23 are detailed on pages 43 to 45.

The Company reports its financial results to shareholders twice a year, with the publication of its Annual and Half-Year Financial Reports. Shorter, less detailed trading updates are also provided to the market periodically.

All of the above-mentioned reports are made available for download to shareholders in the investor relations section of the Company's website, hsshiregroup.com/investor-relations

Annual General Meeting

The Company's AGM is planned to be held at 11.00a.m. on 26 June 2024. Details of the resolutions proposed and being voted on are included in the Notice of AGM provided to shareholders and are also available on the Group's website, www.hsshiregroup.com. Shareholders should refer to the Notice of Meeting and any further updates provided in the 'News and Resources' section at hsshiregroup.com regarding the 2024 AGM.

OVERVIEW OF THE BOARD'S WORK DURING FY23

The Board met nine times during FY23, being a combination of scheduled and ad hoc meetings to discuss the Group's special projects undertaken through the year.

Regular agenda items for the Board included, and will include in FY24:

- health and safety;
- operational and financial performance;
- ESG;
- risk management and the risk register;
- reviewing, setting and approving strategy;
- colleague/stakeholder/shareholder engagement, values and culture;
- finance and banking arrangements;
- major capital expenditure;
- governance around special projects; and
- evaluation of acquisition/disposal opportunities (as applicable).

The Board delegates authority to the following Committees and receives updates on their activities at each Board meeting:

- Audit Committee;
- Remuneration Committee; and
- Nomination Committee.

SIGNIFICANT SHAREHOLDERS

Based on TR-1 notifications received, the parties who hold 3% or more of the issued share capital of the Company as at 6 April 2024 are as follows:

Name	Number of ordinary shares of 1p	% holding
Exponent[1]	235,681,708	33.43
Ravenscroft (CI) Limited[2]	207,796,558	29.48
Lombard Odier Investment Managers	41,504,391	5.89
Hestia Investments NV	39,000,000	5.53
Merchant Capital	28,326,000	4.02

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

2 Ravenscroft (CI) Limited is an investment services provider regulated by the Guernsey Financial Services Commission and Jersey Financial Services Commission, which holds certain shares on behalf of Ravensworth International Limited.

Details of Directors' interests in the Company's ordinary share capital are provided in the Directors' Remuneration Report on page 67.

NOMINATION COMMITTEE REPORT

Alan Peterson OBE
Committee Chairman

ROLES AND RESPONSIBILITIES

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

Its key responsibilities include:

- leading a formal, rigorous and transparent process for Board appointments and making recommendations to the Board;
- reviewing the structure, size and composition of the Board, including its skills, knowledge, independence and diversity (including of gender, social and ethnic backgrounds, and cognitive and personal strengths) and making recommendations to the Board;
- succession planning, including overseeing the development of a diverse pipeline for succession;
- strategic issues and commercial changes affecting the Group and the market in which it operates;
- Board and sub-committee performance evaluation; and
- stakeholder engagement.

DEAR SHAREHOLDER

On behalf of the Nomination Committee (the Committee), I am pleased to present our report for the 2023 financial year.

Our approach

The Committee's primary purpose is to ensure that the Group has the best possible leadership and clear plans for Director and senior management succession alongside colleague development and engagement. Its primary focus is therefore to concentrate upon the strength of the Board and the selection of the best candidates for posts, based on objective criteria.

Policy on diversity

In performing its activities through the year, the Committee has applied the Group's ED&I policy, which it believes is appropriate for application at all levels of the business, including Board and senior management appointments and succession planning. Further detail on the Group's ED&I policy is provided on page 24.

Activities

The Committee had two scheduled meetings in 2023.

At the meeting held in February 2023, the actions for the findings of the internal Board evaluation in respect of FY22 were considered and the resulting actions for 2023, as reported in the 2022 Annual Report and set out below, were agreed. Other agenda items included review and approval of the Company's Section 172 statement and review and approval of the Committee's terms of reference.

At the meeting held in December 2023, key colleagues and the shape of the future organisation were discussed, including discussions around competitor challenge in the market. An engagement and wellbeing update was also provided.

The actions for 2023 agreed by the Committee have been reviewed by the Committee and also by the Board, noting in particular as follows:

- Stakeholder interests and engagement – generally the same methods of engagement had been utilised as the previous year. Shareholder attendance at the 2023 AGM was low, but the Board hoped to welcome greater numbers in 2024. Colleague engagement through focus on wellbeing continues to be excellent.
- Succession planning – strong performance through the year from existing senior managers and some strong new talent continues to shine through.
- ESG programme – the Committee continues to be impressed with progress in this area, which is described in more detail on pages 20 to 24.

Board evaluation

The FY23 Board evaluation comprised an internal evaluation of the Board using feedback collated from Board members' responses to an evaluation questionnaire. The questionnaire addressed the key requirements of the QCA Code in relation to the Board and its sub-committees, including each Committee's terms of reference, composition, independence and frequency of meetings. Additional questions focused on leadership, diversity, the relationship between the Executive and Non-Executive Directors, the role of the Chairman, workforce engagement, issues of material importance concerning the Group, such as the ESG programme, and information on the Group's risk management systems. The responses to the questionnaire were summarised and shared with the Board and discussed as appropriate.

The Committee and Board are mindful of the fact that the Independent Directors are now in the ninth year of their terms. The QCA Code notes that the fact that a director has served for more than nine years does not automatically affect independence and the Board has noted that the tenure of senior management is significantly less.

The Board has considered whether the length of tenure of the Independent Directors has affected or is likely to affect their ability to be objective; the Board reviewed this alongside business and matters which had been presented to the Board for discussion during the year and considered that good levels of challenge and debate remain at Board level, supporting the view that independence remains. Key investors are aware of this position and are supportive of it. It was further noted that all Directors are up for re-election at the 2024 AGM, as they have been at each AGM since the Company's listing in 2015.

Looking ahead

In 2024, the Committee has two scheduled meetings and any additional meetings will be arranged as required.

Having considered feedback from the Board (following the FY23 Board evaluation) and colleagues, and progress made against previous objectives, the Committee considered it appropriate to focus on the following action areas during 2024:

- Stakeholder interests and engagement
  - Colleagues – encourage more direct engagement with the Board at Board meetings or through other channels.
  - Shareholders – continue to consider new/alternative ways of engaging with stakeholders.
- Recruitment and Succession planning – review and strengthen digital/marketplace expertise in the Group, particularly at the top level. Evaluate Board and management structures for the business divisions.
- ESG programme – keep driving this forward, leveraging the excellent progress made, particularly with the EcoVadis Gold award.

Alan Peterson OBE
Committee Chairman
30 April 2024

AUDIT COMMITTEE REPORT

Doug Robertson
Committee Chairman

ROLES AND RESPONSIBILITIES

The Committee has responsibility for overseeing the financial reporting and internal financial and risk management controls of the Company, as well as maintaining an appropriate relationship with the external auditor and reporting its findings and recommendations to the Board.

Its key responsibilities include:

- receiving and reviewing the Annual Report and Accounts, Half-Year Financial Statements and all related public financial announcements, and advising the Board on whether the Annual Report and Accounts are fair, balanced and understandable;
- receiving and reviewing reports from the external auditor;
- monitoring the external auditor's effectiveness and independence and approving its appointment and its terms of engagement;
- monitoring the effectiveness of the Group's risk management system;
- reviewing the effectiveness of the Group's system of internal financial controls and internal control and compliance systems, in relation to the financial reporting process (see page 62) and advising the Board as appropriate; and
- overseeing the Group's procedures for detecting fraud and whistleblowing arrangements.

FY23 has been another busy year for the Committee as the Group balanced strategic investment for future growth against the backdrop of a challenging macroeconomic environment.

DEAR SHAREHOLDER

On behalf of the Audit Committee (the Committee), I am pleased to present our report for the 2023 financial year.

The Committee has reviewed the contents of the FY23 Annual Report and Accounts and advised the Board that it considers the report to be fair, balanced and understandable, and provides the information necessary for readers to assess the Company's position and performance, business model and strategy.

It has been a busy year for the Committee, as HSS navigated the challenging macroeconomic environment while continuing to invest in and make progress with its technology-led strategy. Against the backdrop of continued inflationary pressures, higher interest rates and demand softness in certain customer segments, the Group has delivered a resilient and profitable performance while maintaining a robust balance sheet. The strategic investment made during the year puts the Group in a strong position for when markets recover. The Committee also continued to fulfil its core areas of responsibility.

Core activities

The Committee met seven times in FY23. One of the seven meetings was held in person and six were conducted via videoconference. All members attended the FY23 meetings.

The Committee's core activities during FY23 included, and will include in FY24:

- reviewing and challenging management's assumptions and enhancing disclosure in areas of judgement and estimates within the notes to the Financial Statements;
- establishing that the Annual Report, taken as a whole, is fair, balanced and understandable via review of the document and gaining an understanding as to how it was completed;
- reviewing internal control systems and policies;
- regular review of the work and findings of the internal audit function;
- considering risk management systems;
- reviewing the risk register; and
- meeting with the external auditor, agreeing its audit plan and assessing its findings.

Ad hoc activities

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

- detailed review and challenge to ensure robustness of going concern modelling throughout the year (see next pages);
- reviewing and confirming the Company's capacity to pay an interim and final dividend;
- monitoring the inflationary pressures and the impact on our colleagues;
- reviewing revenue recognition policies in response to the IFRIC's decision on substantive substitution rights, when identifying whether a contract contains a lease;
- reviewing the work carried out investigating stock losses and, where appropriate, improving operational processes and subsequent recovery via customer charges;
- reviewing the work carried with the change in group operational segmental reporting;
- reviewing the work carried out for the assessment of new Cash Generating Units for impairment process;
- evaluating the judgements and change in accounting estimates for capitalised software and hire equipment;
- reviewing the Group's rehire supply chain auditing policy and assessing progress against the agreed plan;
- questioning, then agreeing to the change in BDO audit partner;
- reviewing and approving the Group's tax strategy and policy; and
- assessing and approving the three-year plan for the Internal Audit function.

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

AUDIT COMMITTEE REPORT CONTINUED

External financial reporting

The Committee is responsible for monitoring and reviewing the Financial Statements and reviewing compliance with legal, regulatory and statutory requirements, giving consideration to the provisions of the QCA Code.

The Committee reviewed the Annual and Half-Year Financial Statements along with trading and market updates released during the year. This year there was a continued focus on the appropriateness of estimates and judgements as well as the following significant areas:

- Hire stock existence and valuation
- Operating segments review
- Cash generating unit review
- Carrying value of goodwill and other intangible and tangible assets
- Revenue recognition – cut-off, sales rebate and credit note provisions
- Debtor recoverability
- Share option schemes and management incentives generally
- Management assessment of going concern
- ESG factors including the mandatory CFD reporting
- Exceptional items
- Capitalisation of software costs
- IFRS 16 Leases
- Network restructuring
- Property dilapidations

These areas are identified as significant due to their complexity, size, level of judgement required and/or potential impact on the Financial Statements and our strategy.

An overview of each of these areas is set out on the next pages:

Hire stock existence and valuation

Rental income earned on materials and equipment held for hire which is owned by the Group (hire stock) remains a large component of the Group's revenues. As such, the existence of hire stock is important to the ongoing ability of the Group to generate revenue from its assets. Certain of the Group's funding arrangements are also linked to specific assets or asset classes. The Committee has therefore given careful consideration to the controls in place to verify the physical existence, the useful economic lifes of asset classes and appropriate valuation of hire stock, together with the processes for verifying the reliability of the accounting systems and records and we have concluded that appropriate systems are in place.

Operating segments review

Following the legal and organisational change (July 2022 and January 2023 respectively) the Group revised its reportable operating segments to ProService, Operations, Ireland and Central. After careful consideration and appropriate challenge, the Committee concluded the new segments to be reflective of how the business is now managed, consistent with revised internal reporting and in line with IFRS 8.

Given that the Group is not able to present comparatives under the newly identified reportable segments, FY23 segmental reporting also includes the historical segments Rental, Services and Central. After this period of transition, the Group will only present the newly identified reportable segments. The Committee deemed the supporting disclosures as appropriate.

Cash generating unit (CGU) review

The Committee concluded HSS Core UK and allocated goodwill should be separated into HSS ProService and HSS Core Operations which has resulted in four CGUs: HSS ProService, HSS Core Operations, HSS Core – Ireland and HSS Power.

The allocation of goodwill between HSS ProService and HSS Core Operations was based upon the CGU's VIU.

The Committee concluded this was in line with IAS 36.

Carrying value of goodwill and other intangible and tangible assets

The carrying value of goodwill, intangible and tangible assets was tested as part of year-end reporting. At the interim reporting date, a review was carried out which confirmed there was no impairment required. A full review was performed at the year-end date.

The Group's methodology has been consistent with that used in FY22, with the exception of the change in goodwill allocation (noted above) and the change in useful economic lifes for some assets (see page 86), taking account of market outlook, risk-adjusted discounted future cash flows, sensitivities and other factors which may have a bearing on impairment considerations. As a result of this work, the Committee has concluded that no impairments are required to goodwill or intangibles and that the changes to depreciation related to tangible assets are appropriate.

Revenue recognition – cut-off, sales rebates and credit note provisions

The Committee examined the procedures and controls in place to ensure that the reporting and recognition of revenue, especially for open hires over the year end, and also the recognition of any revenue-related rebate accruals or credit note provisions, is appropriate and complete. Following these reviews, the Committee has concluded that the procedures, controls and provisions are adequate.

The Committee also considered the requirements of IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases as part of its review of revenue recognition in response to the IFRIC's decision on substantive substitution rights (see IFRS 16 Leases page 63).

Debtor recoverability

The Committee reviewed the methodology and judgements applied in arriving at the Group's expected credit loss provisions in relation to trade debtors and accrued income, and in particular the risk weighting applied to historical loss rates to reflect the uncertain economic climate. The Committee also reviewed the disclosures made in this regard and concluded these were complete and accurate.

AUDIT COMMITTEE REPORT CONTINUED

Share option schemes and management incentives generally

During the year the Group made a restricted stock grant to certain senior managers. With the payment of the ESA cash incentives to the Executive Directors, the 2020 restricted stock grants for these individuals were forfeited. The remaining 2020 restricted stock grants vested, with the award of shares being subject to a two-year holding period (refer to the Directors' Remuneration Report on pages 65 to 67 for further details).

The Value Creation Plan (VCP) is a key area of judgement and is explained further on page 87. All the facts and circumstances were reviewed in considering whether a VCP provision was required at 30 December 2023.

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

Management assessment of going concern

Once again, the Committee has spent a significant amount of time in FY23 reviewing and challenging the Group's forecasts and advising the Board on going concern throughout the year, particularly when approving the Half-Year Financial Statements and entity statutory accounts.

As at 30 December 2023, the Group's financing arrangements include a fully drawn senior finance facility of £70.0m, an undrawn revolving credit facility of £19.0m and undrawn overdraft facilities of £6.0m. Cash at the balance sheet date was £31.9m providing liquidity headroom of £56.9m (2022: £72.7m). Both the senior finance facility and revolving credit facility are subject to net debt leverage and interest cover financial covenant tests every quarter. At the financial year end, the Group had 43% and 53% headroom against these covenants (2022: 57% and 99%) respectively.

With regard to the assessment of going concern, the Committee has reviewed the Group's cash flow forecasts, taking into account strategic initiatives and sensitivity analysis based on the possible changes in trading performance in an uncertain market environment. The Group's base case for the 14 months to 28 June 2025 takes into account strategic initiatives and trading performance in an uncertain market environment.

The Board has considered various downside scenarios including a 'reasonable worst case' driven by macroeconomic downturn reducing demand with decline in our revenue generated from the Group's owned assets, lower than historic growth from third party supply (rehire) rental revenue, our strategic cost initiatives deliver less than planned, wage inflation is above forecast, rehire margins are lower than forecast and there is an increase in debtor days. This reasonable worst case scenario has been modelled without mitigating actions and the Group is forecast to maintain headroom against its working capital requirements and financial covenants within the assessment period.

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

ESG factors including CFD reporting

As is noted below, the Committee reviewed the Group's position on the risk presented by ESG factors generally, but also regarding financial reporting matters and the mandatory CFD reporting. This included input into the Group's published ESG Impact Report. ESG is covered in more detail on pages 20 to 37.

Exceptional items

The Committee reviewed with management the items classified as exceptional during the year. Exceptional items principally related to costs associated with the strategy to migrate from traditional hire branches to a lower and variable cost builders merchant model. The Committee concluded that, given the size and nature of these items, and the associated disclosures in the notes to the Financial Statements, the approach adopted in respect of exceptional items is appropriate.

Capitalisation of software costs

The Group continues to invest in internally generated software, most significantly in the development of Brenda, our platform on which all transactions in the ProService business are raised and managed. The Committee scrutinised FY23 capitalisation costs for Brenda and other projects, concluding the treatment was appropriate and in line with IAS 38 and Standard Interpretations Committee (SIC)-32.

IFRS 16 Leases

IFRS 16 is a complicated standard and HSS has a number of leases creating material positions on the balance sheet. The Committee has reviewed the Group's accounting and disclosures related to IFRS 16 and the IFRIC's decision on substantive substitution rights when identifying whether a contract contains a lease. The outcome of this review was that the Group's hire and rehire revenue contracts have been judged to include a lease and therefore are within the scope of IFRS 16. The contracts in question are all less than 12 months, accordingly a short-term exemption is applied and revenue from operating leases is being accounted for on a straight-line basis over the hire period in a manner identical to the straight line discharge of a performance obligation under IFRS 15 (see note 4 in the Consolidated Financial Statements for more details).

External auditor

The Committee oversees the Group's relationship with BDO and formally reviews the relationship, policies and procedures to ensure its independence. BDO also reports to the Committee on the steps it has taken through the year to safeguard its independence and to comply with the relevant professional and regulatory requirements. The BDO partner in charge of the audit is Ian Clayden, taking over the role this year from Sophia Michael who stood down on 16 November 2023 due to other commitments. The maximum term for which a partner in charge can perform the role is five years.

BDO has been auditor to certain companies within the Group for 19 years since its appointment in respect of the 2004 year end, with the lead audit partner being rotated on a regular basis, most recently this year as noted above. The last tender for the audit of HSS Hire Service Group Limited and its subsidiaries occurred in 2005.

BDO has been auditor to HSS Hire Group plc, for nine years, following its incorporation in January 2015. It is the Group's intention to put the audit out to tender at least once every ten years. The Company has therefore complied with the relevant provisions of the Competition and Markets Authority Final Order on the statutory audit market and the Statutory Auditors and Third Country Auditors Regulations 2016 (SI 2016/649) and the transitional arrangements therein for the year ended 30 December 2023.

During the year, the Committee has reviewed and agreed the scope of BDO's work, its audit fees and terms of engagement for the Half-Year Financial Statements review and full-year FY23 audit. The fees for both audit and non-audit services paid to BDO are set out in note 9 to the Consolidated Financial Statements.

AUDIT COMMITTEE REPORT CONTINUED

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

The Committee also reviewed the effectiveness of the external audit process during the year and noted ongoing improvements compared with prior financial years. This assessment was based on the Committee's interaction with BDO at Committee meetings, during separate meetings between the Audit Committee Chair and audit partner and through feedback from the Group Finance team on its interaction with BDO. As a result of this exercise, the Committee has satisfied itself that BDO continues to provide an effective external audit service to the Company and its subsidiaries, and the Committee has made a recommendation to the Board that a resolution for the re-appointment of BDO be proposed at the AGM.

Non-audit work and independence

The Committee maintains a policy for non-audit services provided by the Group's external auditor which segregates services into Permitted Engagements, Excluded Engagements and Potential Engagements. The policy is available on the Group's website at hsshiregroup.com/investor-relations/corporate-governance. The policy is designed to ensure that in the event the Group's external auditor is engaged to provide non-audit services the provision of those services does not impair, nor can it be seen to impair, the external auditor's independence and objectivity.

During FY23, BDO provided non-audit-related services to the Group; these totalled £50,000 representing 4.8% of the total fees payable to BDO. The non-audit fees relate to reviewing the interim financial reporting and the annual lender reporting. Notwithstanding the non-audit fees, the Committee concluded that the independence of the external auditor has not been compromised in any way.

Risk management and internal controls

An overview of the Company's approach to risk management and internal controls through FY23, together with a summary of the principal risks facing the Group, is provided on pages 46 to 52.

During FY23, the Committee reviewed the overall risk management and internal control framework, the work and role of the internal audit team and the underlying process for capturing and reporting risk and control data.

This assessment was assisted through the provision of various documents through the year by the Chief Financial Officer, Risk and Assurance Director and other senior personnel in the head office functions. These documents included but were not limited to quarterly risk management summary documents, which assess any changes in risk profiles, descriptions and ratings through the year; and quarterly summaries of work completed and planned by the internal audit team, assessing both areas of risk and the existing controls in place. In addition, the Committee has completed a review of the three-year plan for the internal audit function to ensure that it continues to cover the full scope of HSS activities as the business and wider environment continue to develop.

It is pleasing to note that the Group continued to have a sharp focus on the management of risk in the year. During the year ISO 27001 Information Security Management accreditation was achieved to enhance cyber security risk management and a new Central Sales team audit, monitoring the standards of our Manchester-based team was introduced. The Committee has kept abreast of developments in both areas and supported the focus on these important topics.

As a result of this review, and the work streams undertaken through the year, the Committee has satisfied itself that the Group has an appropriate risk management and internal control framework in place. This work will continue in FY24.

Financial reporting and preparation of accounts

The main features of the Group's risk management and internal controls in respect of financial reporting and the preparation of accounts are:

- a comprehensive annual business planning and budgeting process, subject to Board approval, through which risks are identified and considered;
- a single financial reporting system within which actual and forecast results are compared with approved budgets on a monthly basis and reviewed by the Board;
- Group accounting policies, which are regularly reviewed and reported against at Audit Committee; and
- an investment evaluation process to ensure operating and capital expenditure is properly approved.

Whistleblowing

The Committee believes that appropriate arrangements and policies are in place to facilitate the proportionate and independent investigation and implementation of appropriate follow-up action in relation to confidential concerns raised by staff via the whistleblowing process (see page 58). The Committee confirmed the steps taken to ensure awareness of the policy and process across the business remained in place and conducted a review of the Group's whistleblowing register.

Meeting schedule

The Committee meets at least four times a year at appropriate times in the financial reporting and audit cycle. Additional meetings can be scheduled where deemed necessary by the Chairman. The external auditor, Chief Financial Officer and Risk and Assurance Director are normally invited to attend a number of these meetings. Other members of the senior management team attend as invited and as appropriate to the content matter being discussed.

Doug Robertson
Committee Chairman

30 April 2024

INTRODUCTION TO THE DIRECTORS' REMUNERATION REPORT

Amanda Burton
Chair of the Remuneration Committee

ROLES AND RESPONSIBILITIES

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

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

DEAR SHAREHOLDER

I am pleased to present, on behalf of the Board, our Directors' Remuneration Report for the 2023 financial year, which comprises two sections:

- This annual statement;
- The Annual Report on Remuneration, which provides details of the amounts earned by Directors in respect of FY23.

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

Similar to last year, the Directors' Remuneration Report is subject to an advisory vote at the June 2024 AGM. The Remuneration Committee believes the advisory vote provides a greater degree of accountability and provides shareholders a say on executive pay.

FY23 salary increase

Executive Directors received a 3% salary increase effective from 1 July 2023. The average salary increase for the wider workforce was 5%. Salary increases were tapered with higher increases (in % of salary terms) awarded to lower-paid colleagues.

The Non-Executive Directors received a small fee increase.

FY23 performance and variable pay outcome

As explained on page 66, no bonus was paid in FY23 as the threshold Adjusted EBITA was not met.

The Group has made good progress against its strategic initiatives during the year and is well placed for future growth. However, the challenging macroeconomic environment has impacted trading during the year and the Group achieved Adjusted EBITA of £24.3m which was below the threshold Adjusted EBITA target.

ESA Plan

As disclosed in our 2021 and 2022 Directors' Remuneration Reports, the Executive Directors were granted one-off cash-based awards under an Existing Schemes Award Plan (ESA Plan) on 25 February 2021. The awards vested on 1 January 2023. Details are set out on page 66.

Reward for FY24

Executive Director salaries

In line with the salary review timetable for all other employees, the Executive Directors' salaries will be reviewed during June 2024, with any changes taking effect from 1 July 2024. Any increase is expected to be modest and will be at most in line with the range of salary increases awarded to other colleagues in the Group.

Incentive arrangements

No changes are proposed to the maximum opportunity of the annual bonus, which will remain at 100% of salary.

The Executive Directors currently participate in a Value Creation Plan (VCP) and, while this plan remains in place, will not be granted any long-term incentive arrangements during FY24.

Colleague engagement and wellbeing

With our colleagues at the heart of our business, we believe that colleague engagement is key to our success, and we have continued to build on our colleague voice and feedback channels to ensure wider workforce remuneration is considered when determining executive pay. A colleague dashboard that provides key information on workforce demographics and wider workforce pay and reward is reviewed annually by the Committee.

We continue to develop our colleague wellbeing agenda across our three core pillars: Mental, Physical and Financial. Our WeCare Health solution, launched in 2022, provides colleagues and their families with access to a range of support across a spectrum of wellbeing, including access to counselling, physical fitness schemes and stopping smoking support.

Conclusion

We aim to provide clear and transparent reporting on executive remuneration, taking into account good governance practice amongst larger AIM listed companies. I look forward to receiving your support at our 2024 AGM, where I will be available to respond to any questions shareholders may have on this Directors' Remuneration Report or in relation to any of the Committee's activities.

Amanda Burton
Chair of the Remuneration Committee

30 April 2024

DIRECTORS' REMUNERATION REPORT

ANNUAL REPORT ON REMUNERATION

Single figure total table of Director remuneration

The following table sets out total remuneration for each Director in respect of FY23 and FY22:

	Salary and fees		Benefits[1]		Pension		Annual bonus		ESA Plan[2]		Total remuneration	
	£000s FY23	£000s FY22	**£000s FY23**	£000s FY22	**£000s FY23**	£000s FY22	**£000s FY23**	£000s FY22	**£000s FY23**	£000s FY22	**£000s FY23**	£000s FY22
Steve Ashmore[3]	**392**	380	**4**	3	**31**	31	**–**	142	**2,194**	–	**2,621**	556
Paul Quested[3]	**283**	274	**11**	16	**24**	24	**–**	102	**1,370**	–	**1,688**	416
Alan Peterson OBE	**160**	155	**–**	–	**–**	–	**–**	–	**–**	–	**160**	155
Amanda Burton	**53**	52	**–**	–	**–**	–	**–**	–	**–**	–	**53**	52
Douglas Robertson	**53**	52	**–**	–	**–**	–	**–**	–	**–**	–	**53**	52
Thomas Sweet-Escott[4]	**40**	40	**–**	–	**–**	–	**–**	–	**–**	–	**40**	40

1 The taxable value of benefits received in the year, which are principally medical insurance and company car allowance.
2 As disclosed in our 2021 and 2022 Directors' Remuneration Reports, the Executive Directors were granted one-off cash-based awards under an Existing Schemes Award Plan (ESA Plan) on 25 February 2021. The awards vested on 1 January 2023 as the continued employment and liquidity threshold conditions were met. The liquidity threshold required that the aggregate of all cash, available and undrawn revolving credit facilities, and available and undrawn overdraft facilities be on average at least £20m in the six months ended 31 December 2022. Steve Ashmore and Paul Quested received a cash payment of £2,194,037 and £1,370,254 respectively in January 2023.
3 Steve Ashmore's salary was increased by 3% from £386,096 to £397,679 with effect from 1 July 2023. Paul Quested's salary was increased by 3% from £278,409 to £286,761 with effect from 1 July 2023.
4 Thomas Sweet-Escott's fee is paid directly to Exponent.

FY23 annual bonus

The maximum annual bonus opportunity for FY23 was equal to 100% of salary. The bonus was subject to Adjusted EBITA (50%), total revenue (10%), core hire rental revenue (10%), the reduction in overdue debt (20%), the reduction in accidents (5%) and waste to landfill diversion (5%) performance measures. These measures reflect the KPIs of the business and support the strategy of growth, profit improvement and our continued focus on health and safety and sustainability. Furthermore, payment of any bonus was subject to the achievement of a threshold Adjusted EBITA target.

The Group has made good progress against its strategic initiatives during the year and is well placed for future growth. However, the challenging macroeconomic environment has impacted trading during the year and the Group achieved Adjusted EBITA of £24.3m which was below the threshold Adjusted EBITA target of £32.4m. Therefore no bonus was paid to the Executive Directors.

The following table sets out performance against the targets:

Performance measure	Proportion of bonus determined by measure	Threshold performance (25%)	Target performance (50%)	Maximum performance (100%)	Actual performance	Actual performance (% of salary)[1]
Adjusted EBITA	50%	£32.4m	£33.7m	£38.6m	£24.3m	0%
Total revenue	10%	£332.5m	£340.8m	£385.5m	£349.1m	0%
Core hire rental revenue	10%	£156.9m	£160.0m	£163.2m	£207.3m	0%
Overdue debt	20%	£16.1m	£15.7m	£14.0m	£15.9m	0%
Number of Lost Time Accidents	5%	20	18	14	5	0%
Waste to landfill diversion	5%	89%	90%	93%	88%	0%
Total	100%					0%

1 As the threshold Adjusted EBITA target of £32.4m was not met no bonus was paid.

DIRECTORS' REMUNERATION REPORT
CONTINUED

Payments made to former Directors and payments for loss of office during FY23
There were no payments made to former Directors and no payments made for loss of office during FY23.

Directors' share interests
The Chief Executive Officer is expected to build up and maintain a shareholding in the Company equivalent in value to at least 200% of annual salary, and other Executive Directors are expected to build up and maintain a shareholding in the Company equivalent in value to at least 125% of annual salary. Since joining the Group in May 2017, Steve Ashmore has built his shareholding in the Company to 31% of annual salary. Since joining the Group in August 2016, Paul Quested has built his shareholding in the Company to 9% of annual salary.

The interests of the Directors and their connected persons in the Company's ordinary shares as at 30 December 2023 were as follows:

	Shares owned outright as at 30 December 2023
Executive Directors	
Steve Ashmore	1,068,560
Paul Quested	219,916
Non-Executive Directors	
Alan Peterson	2,408,955
Amanda Burton	110,118
Douglas Robertson	29,362

As at 30 April 2024, the Company has not been advised of any changes to the interests of the Directors and their connected persons as set out in the table above.

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

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

Resolution	Votes for	% of vote	Votes against	% of vote	Votes withheld
Directors' Remuneration Report (2023 AGM)	504,706,516	99.97%	153,392	0.03%	24,079

Advisers to the Remuneration Committee
During FY23, the Committee received independent advice from Deloitte LLP in relation to the Committee's consideration of matters relating to Directors' remuneration. Deloitte is a founder member of the Remuneration Consultants Group and as such voluntarily operates under its Code of Conduct in relation to executive remuneration in the UK.

Approval
This report was approved by the Board on 30 April 2024 and signed on its behalf by:

Amanda Burton
Chair of the Remuneration Committee

30 April 2024

DIRECTORS' REPORT AND OTHER STATUTORY DISCLOSURES

The table below details where certain other information, forming part of the Directors' Report, can be found within this Annual Report:

Information	Location within Annual Report
Dividends	Chairman's Statement (page 10)
Directors' powers	Page 68
Directors' indemnities	Page 68
Statement on disclosure of information to the auditor	Corporate Governance (page 58)
Greenhouse gas emissions	ESG section (pages 20 and 24)
Political donations and expenditure	Page 68
Financial instruments	Page 68
Events and developments impacting the Company	Page 68
Acquisition of own shares	Page 68
Equality and diversity	Page 68
Employee engagement	Pages 23 and 69
Impact of change of control/takeover bid	Page 69
Directors' interests	Directors' Remuneration Report (page 67)
Share capital	Note 24 to the Consolidated Financial Statements (page 121)
Restrictions on share transfers	Page 69
Significant shareholders	Relations with shareholders (page 59)
Shares related to employee share schemes	Page 69
Voting rights and restrictions	Page 69
Agreements between holders of securities	Page 69
QCA Corporate Governance Code	Page 53
Risk management and principal risks and uncertainties	Pages 46 to 52
Matters of strategic importance	Page 16

DIRECTORS' POWERS

At the AGM held on 21 June 2023, the Directors were granted authority to allot ordinary shares in the Company (or grant rights to subscribe for or convert any security into ordinary shares) and were further authorised to allot and issue a number of shares on a non-pre-emptive basis. No ordinary shares have been allotted and issued under these authorities since 21 June 2023 to the date of this report.

At the AGM to be held on 26 June 2024, shareholders will be asked to renew the Directors' power to allot shares, grant rights to subscribe for or convert any security into shares or buy back shares in the Company and to renew the disapplication of pre-emption rights.

DIRECTORS' INDEMNITIES

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

POLITICAL DONATIONS AND EXPENDITURE

At the AGM held on 21 June 2023, the Company and its subsidiaries were authorised to make certain political donations or incur political expenditure. No political expenditure was made by the Company or its subsidiaries during FY23 year (FY22: £nil).

FINANCIAL INSTRUMENTS

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

EVENTS AND DEVELOPMENTS IMPACTING THE COMPANY

The likely future developments of the Company and Group are referred to in the Chief Executive Officer's Statement on page 11 in the Strategic Report.

ACQUISITION OF OWN SHARES

At the AGM held on 21 June 2023, the Company was authorised to make market purchases of up to 105,748,193 of its ordinary shares. The Company has made no purchases of its own ordinary shares pursuant to this authority. This authority expires at the close of the 2024 AGM. A special resolution will be proposed at this year's AGM to authorise the Company to make market purchases of up to 105,748,193 ordinary shares.

EQUALITY AND DIVERSITY

The Group is committed to promoting diversity and creating a positive and supportive working environment for all colleagues. We aim to attract, engage and develop a diverse workforce reflective of the communities we serve, with a target of 25% female workforce by 2025. Maintaining awareness of diversity and having respect for all forms part of our colleague training.

The Group's policy is to recruit based on competence, experience and skills. No candidates, whether internal or external, will be discriminated against in respect of age, gender, sexual orientation, disability, race, religion, or beliefs, or on any other criteria unrelated to an individual's ability to perform in a role. We promote an inclusive culture, through initiatives such as our Internal Women's Networking Group, and campaigns around International Women's Day and Pride amongst others, as well as ensuring equal opportunities for all colleagues. We encourage colleagues to reach their full potential through open dialogue to calibrate performance, and identify and implement additional training needs.

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

DIRECTORS' REPORT AND OTHER STATUTORY DISCLOSURES CONTINUED

EMPLOYEE ENGAGEMENT

The Company is committed to communicating and engaging with colleagues and uses a variety of channels to do so.

Full details of our colleague and stakeholder engagement activities are included in the Strategic Report, on pages 2 to 52.

IMPACT OF CHANGE OF CONTROL/TAKEOVER BID

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

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

Funding agreement	Summary of change of control provision
Senior finance facility	Following a change of control, the Group would be required to offer to repay the outstanding sums, including an amount to cover accrued and unpaid interest which would be dependent on the remaining term.
Revolving credit facility	Following a change of control, all outstanding amounts, together with accrued interest, would become immediately due and payable.
Hire purchase arrangements (from various finance providers)	Certain of the Group's hire purchase arrangements have conditions where a change of control could lead to early repayment.

In addition, there are a number of commercial agreements which either the Company or a subsidiary of the Company is party to which are terminable upon a change in control of the Company or the Group following a takeover. None of these are deemed to be significant in terms of their potential impact on the business of the Group as a whole. On a change of control, options and awards granted to senior managers under the Company's share plans may vest and become exercisable, subject to the extent to which any applicable performance conditions have been met at that time, as may the VCP awards granted to certain senior executives, as announced on 25 February 2021.

RESTRICTIONS ON SHARE TRANSFERS

Certificated shares

The Board may, in its absolute discretion, refuse to register the transfer of a certificated share which is not a fully paid share, provided that the refusal does not prevent dealings in shares in the Company from taking place on an open and proper basis. The Board may also refuse to register the transfer of a certificated share unless the instrument of transfer is (i) lodged, duly stamped (if stampable), at the office or at another place appointed by the Board accompanied by the certificate for the share to which it relates and such other evidence as the Board may reasonably require to show the right of the transferor to make the transfer; (ii) is in respect of one class of share only; and (iii) is in favour of not more than four transferees.

Uncertificated shares

Subject to the provisions of the Uncertificated Securities Regulations 2001, the Board may permit the holding of shares in any class of shares in uncertificated form and the transfer of title to shares in that class by means of a relevant system and may determine that any class of shares shall cease to be a participating security.

SHARES RELATED TO EMPLOYEE SHARE SCHEMES

No shares have been issued in relation to employee share schemes, although options have been issued under the senior management long-term incentive schemes (as detailed earlier), some of which have vested and are in a holding period.

VOTING RIGHTS AND RESTRICTIONS

Subject to the rights or restrictions set out below or detailed in the Notice of AGM, on a show of hands every member who is present in person shall have one vote and on a poll every member present in person or by proxy shall have one vote for every share of which he/she is the holder.

No member shall be entitled to vote at any general meeting in respect of a share unless all monies presently payable by him/her in respect of that share have been paid.

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

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

DIRECTORS' REPORT AND OTHER STATUTORY DISCLOSURES CONTINUED

APPOINTMENT AND REPLACEMENT OF DIRECTORS

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

Under the Relationship Agreement, Exponent is able to appoint a Non-Executive Director to the Board for so long as the Exponent Shareholders are entitled to exercise or to control the exercise of 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. Mr Sweet-Escott is the current appointee. In addition, in accordance with the Relationship Agreement, Exponent has appointed an observer to attend Board meetings. Ravensworth International Limited (Ravensworth) has the right to appoint an observer to the Board, who can attend but not vote. This right will continue for so long as Ravensworth owns or controls 20% or more of the issued share capital of the Company.

At every AGM all Directors at the date of the Notice of AGM shall retire from office and resolutions for the re-appointment of those Directors who wish to be re-appointed shall be put to the meeting. All appointments are subject to the Company's Articles of Association and the annual re-election by shareholders.

The Company may remove any Director from office, and appoint another person in place of a Director removed from office, both by ordinary resolution.

A person ceases to be a Director as soon as:

- he/she ceases to be a Director by virtue of any provision of the Act or is prohibited from being a Director by law;
- he/she is subject to a bankruptcy order or compounds with his/her creditors generally;
- he/she becomes physically or mentally incapable of acting as a Director and may remain so for more than three months;
- he/she resigns or retires;
- he/she is absent for more than six consecutive months without permission of the Board from meetings of the Board held during that period and the Board resolves that his/her office be vacated; or
- he/she receives notice signed by not less than three-quarters of the other Directors stating that person should cease to be a Director.

AMENDMENTS TO THE COMPANY'S ARTICLES OF ASSOCIATION

The Company's Articles of Association may only be amended by the passing of a special resolution at a general meeting of shareholders.

APPROVAL OF THE DIRECTORS' REPORT

The Directors' Report on pages 68 to 70 was approved by the Board of Directors on 30 April 2024 and is signed on its behalf by:

Steve Ashmore
Director

30 April 2024

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and the Financial Statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Financial Statements for each financial year. Under that law the Directors are required to prepare the Group Financial Statements in accordance with UK adopted international accounting standards in conformity with the requirements of the Companies Act 2006 and have elected to prepare the Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting standards and applicable law). Under company law the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Company and of the profit or loss for the Group for that period.

In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether they have been prepared in accordance with UK adopted international accounting standards, subject to any material departures disclosed and explained in the financial statements;
- prepare the Financial Statements on the going concern basis unless it is inappropriate to presume that the Group or Parent Company will continue in business; and
- prepare a Directors' Report and a Strategic Report which comply with relevant laws and regulations, along with the requirements of the Companies Act 2006.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the Financial Statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial Statements are published on the Company's website in accordance with legislation in the UK governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the Financial Statements contained therein.

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

OPINION ON THE FINANCIAL STATEMENTS

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 December 2023 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of HSS Hire Group Plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 30 December 2023 which comprise Consolidated Income Statement, the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated and Company Statements of Changes in Equity, the Consolidated Statement of Cash Flows and notes to the Consolidated and Company financial statements, including a summary of material accounting policies.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and UK adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards, including with Financial Reporting Standard 100 Application of Financial Reporting Requirements (FRS 100), Financial Reporting Standard 101 Reduced Disclosure Framework (United Kingdom Generally Accepted Accounting Practice).

BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs(UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remain independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and the Parent Company's ability to continue to adopt the going concern basis of accounting included:

- Assessment of the internal forecasting processes to ascertain whether the projections used are:
  - prepared by appropriate personnel who have appropriate understanding of the business' strategy, customer base and expected performance; and
  - reflective of the potential impacts of the Group's strategic initiatives and sensitivity of the Group's trading performance to the ongoing inflationary pressures within the wider economy and the uncertain market environment.
- Review of the forecasts and challenge of the key assumptions against prior year, the current economic environment and our knowledge of the business and its sector;
- Challenge of the appropriateness of the reasonably possible downside scenarios, including a "reasonable worst case", and consideration of whether other scenarios (or specific events) might be appropriate to incorporate into the assessment;
- Review of the assessment of other downside scenarios, including challenge of assumptions used, to analyse: the levels of revenue reduction; the levels of wage inflation; the availability of any mitigating actions, including cost reduction; and an increase in debtor days that could be sustained without breaching banking covenants; and
- Consideration of the adequacy of the disclosures in the financial statements against the requirements of the accounting standards and consistency of the disclosure against the specific risks posed and scenarios that the Directors have considered in reaching its going concern assessment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group and the Parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

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

OVERVIEW

Coverage

91% (2022: 92%) of Group profit before tax

100% (2022: 100%) of Group revenue

90% (2022: 91%) of Group total assets

Key audit matters

	30 December 2023	31 December 2022
Hire stock	×	✓
Revenue recognition (rebates)	×	✓
Revenue recognition (existence, accuracy, classification and presentation)	✓	×
Software capitalisation	✓	×

Revenue recognition (rebates) – this is now included within a wider Revenue recognition (existence, accuracy, classification and presentation) key audit matter.

Hire stock – this is no longer a key audit matter following comfort obtained in the prior year with regard to the controls over and accuracy of reconciliation between the fixed asset registers and hire stock listing per the hire management application.

Materiality

Group financial statements as a whole

£1.2m (2022: £1.2m) based on 5% of adjusted earnings before interest, tax, amortisation and exceptional items (2022: 6% of adjusted profit before tax, exceptional items and amortisation of customer relationships and brands)

AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including the Group's system of internal control, and assessing the risks of material misstatement in the financial statements. We also addressed the risk of management override of internal controls, including assessing whether there was evidence of bias by the Directors that may have represented a risk of material misstatement.

We identified two reporting units which, in our view, we considered to be significant components of the Group due to their size or their risk characteristics. These along with the parent company were subject to a full scope audit.

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

Climate change

Our work on the assessment of potential impacts of climate-related risks on the Group's operations and financial statements included:

- Enquiries and challenge of management to understand the actions they have taken to identify climate-related risks and their potential impacts on the financial statements and adequately disclose climate-related risks within the annual report;
- Our own qualitative risk assessment taking into consideration the sector in which the Group operates and how climate change affects this particular sector; and
- Review of the minutes of Board, Audit Committee meeting and other papers and other papers related to climate change and performed a risk assessment as to how the impact of the Group's commitment as set out in the Climate Related Financial Disclosures section of the annual report may affect the financial statements and our audit.

We assessed the completeness of disclosures in the financial statements or alignment with the Companies Act 2006 regulatory requirements.

We challenged the extent to which climate-related considerations, including the expected cash flows from the initiatives and commitments have been reflected, where appropriate, in the Directors' going concern assessment.

We also assessed the consistency of managements disclosures included as Climate Related Financial Disclosures within the strategic report on pages 25-37 with the financial statements and with our knowledge obtained from the audit.

Based on our risk assessment procedures, we did not identify there to be any Key Audit Matters materially impacted by climate-related risks.

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

Key audit matters

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

Key audit matter		How the scope of our audit addressed the key audit matter
Revenue recognition (classification and disclosure) Refer to: Note 2 Critical accounting estimates and judgements: Recoverability of trade receivables; Identification of operating segments and cash generating units; Determining whether an arrangement constitutes a lease. Note 4 Accounting policies for Revenue recognition and Trade and other receivables – Credit note provision. Note 5 Segment reporting. Note 18 Trade and other receivables.	The Group has multiple revenue streams, derived from the hire or sale of owned or third-party assets, with varying characteristics that can impact on recognition, measurement and disclosure. These include, but are not limited to: – the requirement to differentiate between revenues recognised in accordance with IFRS 15 and IFRS 16; – consideration of principal vs agent for resale activities; – the recognition of accrued revenue amounts; – the recognition of revenue rebates; – accuracy and completeness of credit note provisions; and – various disclosure requirements including, but not limited to segmental reporting and disaggregation of revenue. During the year, the directors have also revised the basis of the Group's operating segments (for internal management reporting and statutory financial reporting) and reassessed its accounting policies for equipment hire and rehire and related activities in response to the IASB's approval of the IFRIC's March 2023 agenda decision on "Definition of a lease – substitution rights (IFRS 16 Leases)", resulting in certain revenues being recognised in accordance with IFRS 16 rather than IFRS 15. Given the nature and complexity of revenue, and the potential impact on users of the financial statements, we considered there to be a significant risk arising in respect of the existence, accuracy classification and presentation of revenue across various revenue streams. As a result of the aggregate of the above judgements, we considered revenue recognition to be a key audit matter.	Our procedures included, but were not limited to, the following: – Assessing and challenging management's revenue recognition accounting policies across the Groups different revenue streams by reference to IFRS 15 and IFRS 16, including consideration of principal vs. agent, and by testing a sample of revenue entries to supporting documentation to test that these have been consistently applied when recognising revenue throughout the year. – Comparing, for consistency, management's identified operating segments of the Group to the presentation of the operating results of the Group as reviewed by the Chief Operating Decision Makers (being the Board of Directors) for their assessment of performance and allocation of resources. – Understanding and challenging whether individual operating segments have a right to be presented on an aggregated basis. – Assessing whether disaggregation of revenue disclosures within the financial statements is consistent with the requirements of IFRS 15. – Agreeing the segmental reporting and revenue financial disclosures to the underlying financial records of the Group. – Assessing the revenue disclosures for completeness, accuracy and compliance with the requirements of IFRS 8, IFRS 15 and IFRS 16. – For a sample of accrued amounts, agreeing accrued income to contract, proof of goods or services being provided in the period, and evidence of customer invoicing was post year end. – For accrued income for cash customers, considering if accrued income and revenue has been accurately recorded and appropriately disclosed. – Assessing the design and implementation of controls related to inputs to revenue rebate calculations. – For a sample of revenue rebates, recalculating the rebate accrual by reference to the rebate agreement and sales values per management's sales systems. – For a sample of revenue rebates, comparing the rebate accrual to expectations developed from prior year rebates as a percentage of revenue, and sales values in the current year. – For a sample of revenue rebates, tracing settlement of opening rebate accruals and challenging the validity of any unsettled amounts. – Assessing the basis of calculation of credit note provisions as well as challenging assumption therein and testing a sample of inputs to the calculation. **Key observations:** As a result of our procedures, we did not identify any indications to suggest that management's judgements over revenue recognition policies or the financial statement disclosures with regard to revenue are inappropriate or non-compliant with relevant international accounting standards.

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

Key audit matter		How the scope of our audit addressed the key audit matter

Software capitalisation
 	
Refer to:
 	
Note 2 Critical accounting estimates and judgements: Capitalisation of internally developed intangible assets.
 	
Note 4 Accounting policies: Intangible assets – Software development costs.
 	
Note 14 Intangible assets.
	The Group has capitalised £7.1m of software development as intangible fixed assets during FY2023, including expenditure invoiced by third parties and capitalised internal payroll costs.
	
	The majority of capitalised costs are in relation to ProService self service platform which was first introduced to a small group of customers and further rolled out in December 2023 to a wider group of customers.
	
	Software costs per IAS 38 are incurred in either the Research or Development phases of projects up until the point at which the software is brought into use.
	
	Capitalised costs need to demonstrate compliance with the recognition requirements of IAS 38 (while also considering guidance from SIC 32) which includes the need to demonstrate that they are separable and are expected to derive future economic benefit.
	
	On account of the need for appropriate, and potentially subjective, judgement with regard to the nature of expenditure, and the resulting allocation of costs between capitalised and expensed amounts, we considered capitalisation of software development costs to be a key audit matter.
		Our procedures included, but were not limited to, the following:
		
		– Evaluating the Group's accounting policy in respect of development costs capitalised during the period, to check that their recognition and measurement principles adhere to IAS 38 and SIC 32.
		– Assessing the consistent application of the Group's accounting policy and related estimates and judgements were appropriate.
		– Obtaining an understanding of the procedures and controls in place for the determination and quantification of the amount to be capitalised.
		– Understanding the nature and timing of launch and roll-out of developed software to customers through examining board minutes, discussion with the technical development team regarding time spent and agreeing the timings of project launches to sales data/other internal reports.
		– With respect to development costs capitalised, we:
		  – Corroborated a sample of capitalised costs to underlying supporting documentation which included:
		    – a sample of employee contracts and payroll records: agreeing their role description to be directly attributable to development activities and challenging the associated amount of time spent on development activities;
		    – a sample of non-payroll related transactions to underlying third party invoices and details of work performed.
		  – Considered consistency of projects capitalised with the strategic objectives of the Group.
		
		Key observations
		Based on our audit procedures, we consider that the capitalisation of software development cost in the year is reasonable.

OUR APPLICATION OF MATERIALITY

We apply the concept of materiality both in planning and performing our audit, and in evaluating the effect of misstatements. We consider materiality to be the magnitude by which misstatements, including omissions, could influence the economic decisions of reasonable users that are taken on the basis of the financial statements.

In order to reduce to an appropriately low level the probability that any misstatements exceed materiality, we use a lower materiality level, performance materiality, to determine the extent of testing needed. Importantly, misstatements below these levels will not necessarily be evaluated as immaterial as we also take account of the nature of identified misstatements, and the particular circumstances of their occurrence, when evaluating their effect on the financial statements as a whole.

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

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

	Group financial statements		Parent company financial statements	
	2023	2022 £m	2023 £m	2022 £m
Materiality	1.2	1.2	1.1	1.1
Basis for determining materiality	6% of adjusted earnings before interest, tax, amortisation and exceptional items (adjusted EBITA).	6% of adjusted profit before tax, being profit before tax, exceptional items and amortisation of customer relationships and brands.	90% of Group materiality	90% of Group materiality
Rationale for the benchmark applied	We considered adjusted EBITA to be the most appropriate measure for the basis of materiality given it is a key performance indicator for the Group and we believe this more appropriately reflects the Group's underlying performance. Adjustments are detailed in note 32 to the financial statements.	We considered adjusted profit before tax to be the most appropriate measure for the basis of materiality given it is a key performance indicator for the Group and we believe this more appropriately reflects the Group's underlying performance. Adjustments are detailed in note 32 to the financial statements.	We used our judgement to allocate materiality, including taking account of aggregation risk.	We used our judgement to allocate materiality, including taking account of aggregation risk.
Performance materiality	0.8	0.8	0.7	0.7
Basis for determining performance materiality	70% of materiality	65% of materiality	70% of materiality	65% of materiality
Rationale for the percentage applied for performance materiality	In setting our performance materiality, we considered a number of factors including the expected total value of known and likely misstatements (based on past experience and other factors) and management's attitude towards proposed adjustments.			

Component materiality

For the purposes of our Group audit opinion, we set materiality for each significant component of the Group, based on a percentage of between 67% and 83% (2022: 75%) of Group materiality dependent on the size and our assessment of the risk of material misstatement of that component. Component materiality ranged from £110k to £1,080 (2022: £123k to £1,080k). In the audit of each component, we further applied performance materiality levels of 70-75% (2022: 65-80%) of the component materiality to our testing to ensure that the risk of errors exceeding component materiality was appropriately mitigated.

Reporting threshold

We agreed with the Audit Committee that we would report to them all individual audit differences in excess of £48k (2022:£48k). We also agreed to report differences below this threshold that, in our view, warranted reporting on qualitative grounds.

OTHER INFORMATION

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Financial Statements other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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

OTHER COMPANIES ACT 2006 REPORTING

Based on the responsibilities described below and our work performed during the course of the audit, we are required by the Companies Act 2006 and ISAs (UK) to report on certain opinions and matters as described below.

Strategic report and Directors' report	In our opinion, based on the work undertaken in the course of the audit: – the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and – the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements. In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' report.
Matters on which we are required to report by exception	We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion: – adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or – the Parent Company financial statements are not in agreement with the accounting records and returns; or – certain disclosures of Directors' remuneration specified by law are not made; or – we have not received all the information and explanations we require for our audit.

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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

Extent to which the audit was capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

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

Non-compliance with laws and regulations

Based on:

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

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

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

Our procedures in respect of the above included:

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

Fraud

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

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

Based on our risk assessment, we considered the areas most susceptible to fraud to be inappropriate calculation or omission of revenue adjustments, including, but not limited to, revenue rebates; allocation of revenues and results to operating segments; manual adjustments to hire stock; inappropriate capitalisation of software development costs; recognition and measurement of exceptional items; recognition and measurement of impairments to goodwill and other intangible assets; or through inappropriate journals entries.

Our procedures in respect of the above included, but were not limited to:

- For revenue – see Key audit matter above.
- For software development costs – see Kay audit matter above
- For hire stock – we tested the operating effectiveness of key controls in respect of the existence and value of hire stock, including authorisation of additions; we performed a 3-way reconciliation between the hire stock listing, the fixed asset registers and the accounting records, and for the reconciling items we have confirmed the reasonableness of the methodology applied by management by agreeing a sample of entries to supporting documentation.
- Testing a sample of journal entries throughout the year, which met a defined risk criteria, by agreeing to supporting documentation, and
- Involvement of forensic specialists in the audit to assist in identifying areas at risk of fraud;

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

Fraud (continued)

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

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

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

USE OF OUR REPORT

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

Ian Clayden (Senior Statutory Auditor)
For and on behalf of BDO LLP, Statutory Auditor
London, UK
30 April 2024

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

CONSOLIDATED INCOME STATEMENT

FOR THE YEAR ENDED 30 DECEMBER 2023

		Year ended 30 December 2023			Year ended 31 December 2022		
	Note	**Underlying £000s**	**Exceptional items (note 7) £000s**	**Total £000s**	Underlying £000s	Exceptional items (note 7) £000s	Total £000s
Revenue	5	**349,110**	**–**	**349,110**	332,777	–	332,777
Cost of sales		**(179,978)**	**–**	**(179,978)**	(164,647)	–	(164,647)
Gross profit		**169,132**	**–**	**169,132**	168,130	–	168,130
Distribution costs		**(31,747)**	**–**	**(31,747)**	(30,325)	–	(30,325)
Administrative expenses		**(112,888)**	**(2,498)**	**(115,386)**	(109,554)	(2,774)	(112,328)
Impairment loss on trade receivables and contract assets	18	**(2,183)**	**–**	**(2,183)**	(1,667)	–	(1,667)
Other operating income	6	**49**	**41**	**90**	8	539	547
Operating profit		**22,363**	**(2,457)**	**19,906**	26,592	(2,235)	24,357
Net finance expense	8	**(10,573)**	**(353)**	**(10,926)**	(7,650)	(176)	(7,826)
Profit before tax		**11,790**	**(2,810)**	**8,980**	18,942	(2,411)	16,531
Income tax (charge)/credit	12	**(4,743)**	**–**	**(4,743)**	3,946	–	3,946
Profit for the financial period		**7,047**	**(2,810)**	**4,237**	22,888	(2,411)	20,477
Alternative performance measures (£000s)							
Adjusted EBITDA	31			**65,136**			71,572
Adjusted EBITA	31			**24,306**			31,965
Adjusted profit before tax	31			**11,915**			20,966
Earnings per share (pence)							
Adjusted basic earnings per share	13			**1.29**			2.41
Adjusted diluted earnings per share	13			**1.25**			2.34
Basic earnings per share	13			**0.60**			2.90
Diluted earnings per share	13			**0.58**			2.83

The notes on pages 85 to 129 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 DECEMBER 2023

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Profit for the financial period	**4,237**	20,477
Items that may be reclassified to profit or loss:		
Foreign currency translation differences arising on consolidation of foreign operations	**(231)**	332
Other comprehensive (loss)/gain for the period	**(231)**	332
Total comprehensive profit for the period attributable to owners of the Group	**4,006**	20,809

The notes on pages 85 to 129 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 DECEMBER 2023

	Note	**Year ended 30 December 2023 £000s**	Year ended 31 December 2022 £000s
ASSETS			
Non-current assets			
Intangible assets	14	**152,982**	147,867
Property, plant and equipment	15	**93,183**	87,775
Of which – Hire equipment	*15*	***81,191***	*73,613*
Of which – Non-hire equipment	*15*	***11,992***	*14,162*
Right of use assets	16	**51,811**	51,813
Of which – Hire equipment	*16*	***2,592***	*2,736*
Of which – Non-hire equipment	*16*	***49,219***	*49,077*
Deferred tax asset	23	**2,012**	7,515
		299,988	294,970
Current assets			
Inventories	17	**3,823**	3,779
Trade and other receivables	18	**93,441**	86,068
Cash and cash equivalents		**31,931**	47,709
		129,195	137,556
Total assets		**429,183**	432,526

	Note	**Year ended 30 December 2023 £000s**	Year ended 31 December 2022 £000s
EQUITY			
Share capital	24	**7,050**	7,050
Share premium	24	**45,552**	45,552
Foreign exchange translation reserve		**(653)**	(422)
Other reserves		**97,780**	97,780
Retained earnings		**33,456**	32,503
Total equity		**183,185**	182,463
LIABILITIES			
Current liabilities			
Trade and other payables	19	**85,317**	88,302
Lease liabilities	20	**14,548**	13,182
Borrowings	21	**5,545**	5,168
Provisions	22	**4,816**	4,258
Current tax liability		**–**	290
		110,226	111,200
Non-current liabilities			
Lease liabilities	20	**42,822**	43,110
Borrowings	21	**79,015**	78,591
Provisions	22	**13,753**	17,045
Deferred tax liabilities	23	**182**	117
		135,772	138,863
Total liabilities		**245,998**	250,063
Total equity and liabilities		**429,183**	432,526

The notes on pages 85 to 129 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 30 April 2024 and were signed on its behalf by:

Paul Quested
Director

30 April 2024

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 DECEMBER 2023

	Share capital £000s	Share premium £000s	Merger reserve £000s	Foreign exchange translation reserve £000s	Retained earnings £000s	Total equity £000s
At 2 January 2022	7,050	45,552	97,780	(754)	12,273	161,901
Profit for the period	–	–	–	–	20,477	20,477
Foreign currency translation differences arising on consolidation of foreign operations	–	–	–	332	–	332
Total comprehensive profit for the period	–	–	–	332	20,477	20,809
Transactions with owners recorded directly in equity:						
Dividends paid (note 29)	–	–	–	–	(1,198)	(1,198)
Share-based payment charge (note 25)	–	–	–	–	951	951
At 31 December 2022	**7,050**	**45,552**	**97,780**	**(422)**	**32,503**	**182,463**
Profit for the period	**–**	**–**	**–**	**–**	**4,237**	**4,237**
Foreign currency translation differences arising on consolidation of foreign operations	**–**	**–**	**–**	**(231)**	**–**	**(231)**
Total comprehensive profit for the period	**–**	**–**	**–**	**(231)**	**4,237**	**4,006**
Transactions with owners recorded directly in equity:						
Dividends paid (note 29)	**–**	**–**	**–**	**–**	**(3,877)**	**(3,877)**
Share-based payment charge (note 25)	**–**	**–**	**–**	**–**	**593**	**593**
As at 30 December 2023	**7,050**	**45,552**	**97,780**	**(653)**	**33,456**	**183,185**

The notes on pages 85 to 129 form part of these Financial Statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 DECEMBER 2023

	Note	**Year ended 30 December 2023 £000s**	Year ended 31 December 2022 £000s
Profit for the financial period		**4,237**	20,477
Adjustments for:			
– Tax	12	**4,743**	(3,946)
– Amortisation	9	**1,943**	5,314
– Depreciation	9	**33,673**	35,494
– Accelerated depreciation relating to hire stock customer losses and hire stock write-offs	9	**6,653**	3,951
– Accelerated depreciation of other property, plant and equipment and right of use assets	9	**1,459**	–
– Loss on disposal of property, plant and equipment and right of use assets	9	**2,504**	486
– Lease disposals	9	**(1,795)**	(324)
– Loss on disposal of intangibles	9	**–**	59
– Capital element of receipts from net investment in sublease		**143**	255
– Share-based payment charge	25	**593**	951
– Foreign exchange loss/(gain) on operating activities		**(23)**	35
– Finance expense	8	**10,926**	7,826
Changes in working capital (excluding the effects of disposals and exchange differences on consolidation):			
– Inventories		**(44)**	(1,097)
– Trade and other receivables		**(5,767)**	(6,616)
– Trade and other payables		**(2,327)**	9,472
– Provisions		**(3,192)**	268
Net cash flows from operating activities before purchase of hire equipment		**53,726**	72,605

	Note	**Year ended 30 December 2023 £000s**	Year ended 31 December 2022 £000s
Net cash flows from operating activities before purchase of hire equipment		**53,726**	72,605
Purchase of hire equipment		**(22,789)**	(24,538)
Cash generated from operating activities		**30,937**	48,067
Interest paid		**(9,550)**	(6,836)
Income tax repaid		**(1,183)**	(2,220)
Net cash generated from operating activities		**20,204**	39,011
Cash flows from investing activities			
Proceeds on disposal of non-hire property, plant and equipment	9	**541**	–
Purchases of non-hire property, plant, equipment and software	14,15	**(10,090)**	(10,571)
Net cash used in investing activities		**(9,549)**	(10,571)
Cash flows from financing activities			
Dividends paid		**(3,877)**	(1,181)
Facility arrangement fees		**(35)**	(35)
Capital element of lease liability payments		**(15,729)**	(15,140)
Capital element of hire purchase arrangement payments		**(6,703)**	(6,644)
Net cash used in financing activities		**(26,344)**	(23,000)
Net (decrease)/increase in cash and cash equivalents		**(15,689)**	5,440
Net effects of foreign exchange on cash and cash equivalents		**(89)**	–
Cash and cash equivalents at the start of the year		**47,709**	42,269
Cash and cash equivalents at the end of the year		**31,931**	47,709

The notes on pages 85 to 129 form part of these Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 DECEMBER 2023

1. BASIS OF PREPARATION

a) Reporting entity

The Company is a public limited company which was listed on the London Stock Exchange up until 14 January 2021, when the Group's ordinary shares of one pence each were admitted to trading on AIM. The Company is incorporated under the Companies Act 2006, and domiciled in the United Kingdom. The address of the Company's registered office is Building 2, Think Park, Mosley Road, Manchester, M17 1FQ. These Consolidated Financial Statements comprise the Company and its subsidiaries (the Group).

b) Statement of compliance

The Group Financial Statements of HSS Hire Group plc have been prepared in accordance with International Financial Reporting Standards as adopted by the UK (IFRS) and the Companies Act 2006.

The Directors have taken advantage of the option within Section 390 of the Companies Act 2006 to prepare their Financial Statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts cover the 52-week period from 1 January 2023 to 30 December 2023 (2022: 52-week period from 2 January 2022 to 31 December 2022).

c) Functional and presentational currency

These Financial Statements are presented in pounds sterling (£), which is the Group's presentational currency. The functional currency of the parent and subsidiaries is pounds sterling, except for HSS Hire Ireland Limited that is incorporated in the Republic of Ireland, which has the euro as its functional currency.

All amounts have been rounded to the nearest thousand, unless otherwise indicated.

d) Basis of preparation

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

e) Going concern

At 30 December 2023, the Group's financing arrangements consisted of a fully drawn senior finance facility of £70.0m, an undrawn revolving credit facility (RCF) of £19.0m and undrawn overdraft facilities of £6.0m. Cash at the balance sheet date was £31.9m providing liquidity headroom of £56.9m (2022: £72.7m). Both the senior finance facility and RCF are subject to a net debt leverage and interest cover financial covenant tests each quarter. At the financial year end the Group had 44% and 54% headroom against these covenants respectively (2022: 57% and 134% respectively). The Directors have prepared a going concern assessment up to 28 June 2025, which confirms that the Group is capable of continuing to operate within its existing facilities and can meet its covenant tests during that period.
With regard to the assessment of going concern, the Directors have reviewed the Group's cash flow forecasts, taking into account strategic initiatives and sensitivity analysis based on the possible changes in trading performance in an uncertain market environment.

The Directors have considered the impact of the expiration of the Group's Senior Finance Facility in November 2025, shortly after the end of the going concern assessment period. The Directors expect to refinance before the expiration date, with no impact on going concern.

The Board has considered various downside scenarios including a 'reasonable worst case' driven by macroeconomic downturn and assumes reducing demand with decline in our revenue generated from the Group's owned assets, lower than historic growth from third party supply (rehire) rental revenue, our strategic cost initiatives deliver less than planned, wage inflation is above forecast, rehire margins are lower than forecast and there is an increase in debtor days.

This reasonable worst case scenario has been modelled without mitigating actions and the Group is forecast to maintain headroom against its working capital requirements and financial covenants within the assessment period.

Whilst the Directors consider that there is a degree of subjectivity involved in their assumptions, taking into account the adequacy of the Group's debt facilities, its ability to deploy mitigating actions where appropriate and the principal risks and uncertainties (see pages 48 to 52) and, after making appropriate enquiries, they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Financial Statements included within this Annual Report.

f) Basis of consolidation

Subsidiaries are all entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred.

Unless merger accounting has been adopted in specific circumstances, the Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred to former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date with any gains or losses arising from such re-measurement recognised in the income statement.

Any contingent consideration is measured at fair value at the acquisition date. If the contingent consideration is classified as equity then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the fair value of contingent consideration are recognised in the income statement. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

In preparing these Financial Statements, management has made judgements, estimates and assumptions that affect the application of the Group's accounting policies and the reported amount of assets, liabilities, income, expenses and other disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. The estimates and underlying assumptions are reviewed on an ongoing basis.

Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new or further information. Such changes are recognised in the year in which the estimate is revised.

Key assumptions about the future and key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities over the next year are set out below.

a) Estimates

Useful economic life and residual value of tangible assets (significant estimate)

The period of benefit for the property, plant and equipment employed in the business is a significant estimate. This estimate is made using information from historic disposal rates and proceeds as well as the level of fully depreciated assets in service in the business. If assets significantly exceed, or fail to meet these estimates, there is a risk this could significantly affect the depreciation charge in a future period.

Sensitivity analysis has not been carried out in relation to the useful economic life and residual value of assets held for hire due to the volume of the items involved and that multiple systems are used by the Group to record property, plant and equipment. Instead, the Directors regularly review useful economic lives and residual values to ensure that the depreciation charge is appropriate, such a review was undertaken in the current period and these estimates revised. The impact of the changes was a reduction in depreciation expense of £2.7m. More detail is included within note 4 and note 15.

Useful economic life of intangible assets (significant estimate)

Similarly to the estimate above, the same estimation method applies concerning the period of benefit for the Group's acquired and internally generated intangible assets. Inaccuracy in the estimate could lead to a significant change in the associated amortisation charge in a future period. Changes to the estimates for the useful lives of software intangible assets were made during the year. The impact of the change was a reduction in amortisation expense of £2.7m. More detail can be found within note 4 and note 14.

The Directors have assessed the brands of ABird and Apex and estimated that they have useful economic lives of 20 years. The Directors have also estimated the useful economic lives of customer relationship intangible assets recognised on the acquisition of Hero Acquisitions Limited and Apex Generators Limited as being 10 years. Further details of the net carrying value of intangible assets are given in note 14.

Impairment of goodwill, intangible assets, property, plant and equipment and right of use assets (significant estimate)

To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the relevant asset and its eventual disposal. Actual outcomes could vary from these estimates of discounted future cash flows. Calculations of the discounted future cash flows for these assets require assumptions in respect of the appropriate discount rate, the long-term growth rate, the rate of inflation and also short-term performance and cash flows.

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

Dilapidations provisions

The timing and amount of future cash flows relating to lease dilapidations are subject to estimation uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and, in some cases, third party surveyors' reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change.

The amount recognised is the estimated cost of future dilapidations, discounted to net present value. Since the cash outflow can take place many years in the future, the carrying amount of the provision is reviewed regularly and adjusted to take account of changing facts and circumstances, including the age and condition of the property, experience of actual spend on similar properties, third party surveyors' reports, specific lease obligations, market practice generally and agreements reached with landlords in respect of a given property. Changes in the estimated timing of dilapidations or dilapidations cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment. The unwinding of the discount on the dilapidations provision is included as a finance expense. Further details of the assumptions and sensitivities are given in note 22.

Recoverability of trade receivables

Estimates are required in assessing the recoverability of overdue trade receivables and determining whether a provision against those receivables is required. The Group monitors the risk profile of debtors and makes provisions for amounts that may not be recoverable based on past default experience and on the Directors' assessment of the economic environment. The recoverability of overdue receivables is considered together with the sales credit note provision.

The Group makes a provision for credit notes raised and expected to be raised after the end of the reporting period that relate to customer income recognised before the end of the period. The Group's bad debt and credit note provisions are disclosed in note 18.

Discount rates for leases

The Group has assessed that the interest rate implicit in the lease is not readily determinable for leases other than hire fleet financed via the lines agreed for that purpose with the Group's lenders. The Group therefore uses an incremental borrowing rate for all other leases, taking advantage of the IFRS 16 expedient available to apply a single rate to leases of similar characteristics.

The incremental borrowing rate in use is between 5.7% and 6.1% for property, vehicles and equipment for internal use. These rates are adjusted for properties based on the level of risk driven by geographic region or age. Further details on the lease liabilities are given in note 20.

b) Judgements

Identification of operating segments and cash generating units (significant judgement)

The Group created a new legal entity structure in the previous year, which was designed to mirror the target operating model and separate the business into HSS ProService and HSS Operations. As part of this move, in the current year, the internal reporting presented to the Chief Operating Decision Maker (CODM) was changed to reflect the new operating model and as a result the operating segments within the Group have changed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS CONTINUED

The identification of operating segments involves judgement to ensure that they are aligned to the internal reporting provided to the CODM. Included as part of this judgement is the determination that the CODM for the Group is the Board of Directors, rather than any individual Director.

As part of the changes to the Group's structure and segments, the CGUs identified as part of the impairment review process have been revised accordingly.

This judgement is significant on the basis that incorrect identification of CGUs could lead to the failure to identify an impairment where the recoverable amount identified through a value in use calculation is performed for a group of assets that is larger than appropriate. Impairment testing is discussed within note 14.

Capitalisation of internally developed intangible assets (significant judgement)

The Group incurs material costs in association with the development of internal intangible assets, which are only capitalised where the criteria in IAS 38 have been met. There exists a judgement in respect of the continuous development cycle used to develop certain software assets and what activities qualify for recognition as an intangible asset. The only intangible asset where this judgement is significant is the Group's 'Brenda' platform, which underpins the ProService operating segment.

The specific judgement is whether the project in question creates a future economic benefit or whether it is more akin to maintenance. The Group only capitalises development activity that is expected to yield a future economic benefit, examples of which include generation of additional revenue, reduction in costs or the creation of efficiencies from which the Group is expected to benefit. Details of the amounts capitalised in respect of internal development costs can be found in note 14.

Recognition of deferred tax assets (significant judgement)

The assessment of future taxable profits against which to recognise tax losses as a deferred tax asset is a significant judgement. This assessment required judgement in respect of the sufficiency of internal forecasts as a basis for the recognition of losses against anticipated future taxable profits. The judgement surrounds the number of future periods against which to recognise losses; however, estimation is also required in parallel with this judgement. The Group is required to use estimates in the creation of the forecasts of those future taxable profits.

This judgement takes into account the recent operational restructuring of the group and the performance during H2-23 which saw increased week-to-week variations in sales caused by the wider macro economic environment.

In the current year, the Directors have concluded that as the forecasting period has not changed, there is insufficient certainty regarding future taxable profits to recognise more than three years' worth of losses. Accordingly the estimate basis has not been revised and is consistent with the previous year.

The level of recognised and unrecognised deferred tax assets are discussed in further detail in note 23.

Property lease term judgments as a lessee

The lease term for contracts in the scope of IFRS 16 where the Group is acting as a lessee will correspond to the duration of the signed contracts, except in cases where the Group is reasonably certain that it will exercise contractual termination or extension options.

For property, the Group's policy is to use the full lease term (as opposed to first exercisable break date) for trading branches, Customer Distribution Centres (CDCs) and offices unless there is an intention to exit the property at the reporting date.

For properties which are occupied beyond lease end date, liabilities are calculated based on specific extension clauses if they exist. Where they do not, the Group reviews leases at least twice annually and extends for a maximum of six months provided notice has not been served by the Group or relevant landlord.

For properties which are no longer trading, costs, including dilapidations provisions, are provided for on the assumption that leases will not be surrendered before the first exercisable break date because management believes that it is very difficult to make such an estimate of early surrender reliably. Therefore, a prudent view is taken, which could lead to release of provisions in the event an early surrender is obtained. Given the tenures and values involved, any similar judgements applied to vehicle and equipment leases are immaterial.

Determining whether an arrangement constitutes a lease

Any arrangement that is dependent on the use of a specific asset or assets should be accounted for as a lease. The Directors have concluded that the Group's contracts with customers are dependent on the use of a specific asset or group of specific assets and that these contracts contain leases. Materially all of these contracts with customers are short-term leases expected to be accounted for as operating leases.

Indefinite life intangible assets

The HSS brand was first established in the late 1950s and therefore, given its longevity, the Directors consider this to have an indefinite life and it is not amortised, but instead subjected to annual impairment testing. Further details of the impairment reviews undertaken, assumptions and sensitivities are given in note 14.

Exceptional items

Exceptional items are disclosed separately in the income statement where it is deemed necessary to do so to provide further understanding of the underlying financial performance of the Group.

Exceptional items are items of income or expense that have been shown separately due to the significance of their nature or amount; the accounting policy can be found in note 4, along with additional details on the value and nature of items classified as exceptional in note 7.

Value Creation Plan

On 25 February 2021 a VCP award was granted to the Executive Directors and one senior manager. The VCP is triggered by an Exit Event (as defined in the rules of the scheme), with award value being calculated by reference to an increase in market value of the Group's equity. The Directors and the Remuneration Committee have considered the likelihood of such an event being triggered prior to the lapsing of the VCP and, after weighing up all of the facts and circumstances that they were aware of as at 30 December 2023, deemed this improbable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

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

Standards issued and effective beginning on 1 January 2023

The new standards, interpretations and amendments that are effective for the first time for the financial period beginning 1 January 2023 are detailed below:

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

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

Standards issued and effective beginning on or after 1 January 2024

The new standards, interpretations and amendments that are effective for the first time for the financial periods beginning 1 January 2024 are detailed below:

- Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases);
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements);
- Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements); and
- Supplier Finance Arrangements (Amendments to IAS 7 Statement of Cash Flows and IFRS 7 Financial Instruments: Disclosures).

4. ACCOUNTING POLICIES

a) Revenue recognition

The Group's activities consist of supplying hire and equipment services within the UK and the Republic of Ireland.

Hire and rehire activities

The Group's hire revenue and rehire activities, which represent the majority of the Group's revenue, are accounted for as being within the scope of IFRS 16.

In interpreting and applying IFRIC guidance (issued April 2023) with regards to substantive substitution rights of suppliers, hire and rehire contracts are considered to fall into the scope of IFRS 16, as opposed to IFRS15 as determined in prior years. This is because the substitution rights that the Group have are not considered substantive. As such, where the hire period is less than 12 months and the short-term lease exemption can be applied, income is treated as revenue from operating leases, rather than finance leases. The Group's contracts with customers are materially all within a period of less than one year and are all considered to be short term leases in nature.

Revenue is recognised on contracts with customers for hire and rehire activities on a straight-line basis over the duration of the hire period to ensure that revenue is recognised evenly as the hire period progresses. The hire period in question commences when the equipment is available for use by the customer, either at the point of collection or delivery. The hire period is deemed to end either; on return or notification that it the equipment is ready for collection, subject to a minimum notice period.

Unlike hire revenue, where the Group uses its own hire equipment, rehire activities are where the Group arranges for an equipment hire of third party hire stock to fulfil a contract with its own end customer. In these instances, the Group is acting as both a lessee under a head-lease and sublessor to the end customer. The cost of these head leases to the Group which are each less than 12 months at inception are recognised evenly over the hire period and included within cost of sales.

Transaction prices for hire and rehire revenues are separately identifiable based on internal list prices, net of any discounts included within the contract with the customer.

Damage waivers entered into by customers are treated as lease components of the hire and rehire contracts. As such they are recognised in the same manner as the associated lease.

Hire and rehire customers that pay cash will pay a deposit to secure the hire, for which the charges are settled on return of the equipment. Account customers pay 30 days from the end of the month of invoice, or to such terms as have been specifically negotiated, up to a maximum of 90 days from the end of the month of invoice.

Resale and ancillary revenue to hire (including fuel and consumables)

Approach to revenue recognition, including the satisfaction of performance obligations

Resale revenues relate to a sole performance obligation in respect of the sale of goods to customers and are recognised on a point in time basis when control is deemed to have transferred. This transfer of control occurs either when the goods are collected or have been delivered to a customer's premises.

Hire delivery, installation and collection charges are considered to be unbundled from the lease and therefore recognised on a point in time basis under IFRS15. For rehire, the delivery is bundled within the lease cost charged by the supplier and therefore there is no associated revenue from HSS customers recognised by the Group.

Transaction price allocated to this obligation is separately identifiable based on the internal list prices net of any discounts included within the contract with the customer.

Significant payment terms

Customers for resale and ancillary revenue settle in the same manner as hire and rehire customers.

Damaged/lost hire stock compensation

Approach to revenue recognition, including the satisfaction of performance obligations

In circumstances where a customer loses or damages the equipment they have on hire, the Group is entitled to reclaim the costs of repair or the replacement cost in case of loss, which may be partially mitigated by pre-arranged damage waiver (see above). Revenue is recognised on a point in time basis at the point the loss or damage is identified and quantified. Revenue recognised is equal to the consideration to be received for the loss or damage.

Significant payment terms

Settlement is at the point the reimbursement cost is finalised for cash customers and under normal settlement terms for account customers.

Ex-hire fleet asset sales

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

The Group sells certain items of hire stock which are no longer being used in operations but which remain functional or have a scrap value that can be realised. The sole performance obligation in question for this income stream is the transfer of control of these assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

4. ACCOUNTING POLICIES CONTINUED

Revenue is recognised when control is transferred on a point in time basis. The point at which control is deemed to have transferred is when the goods are either delivered or collected.

Significant payment terms
Settlement is due either before or at the point of collection of the asset being sold to the customer, unless specific credit terms have been agreed.

Training course income
Approach to revenue recognition, including the satisfaction of performance obligations
Training course income represents a single performance obligation, being the delivery of training courses or support services. This performance obligation is discharged over time with revenue recognised evenly throughout the duration of the course being provided.

Significant payment terms
For account customers, settlement is in arrears in accordance with their normal settlement terms, all other customers pay in advance.

Other revenue related policies
The Group's hire and rehire contracts include multi-element arrangements, however, the Group's income streams are all deemed to have directly observable standalone selling prices and no estimation or judgement is required in the allocation of transaction price. Certain customers may receive contractual discounts, which are allocated evenly across all performance obligations unless contractual terms specify which performance obligations are subject to discounts.

Contractual rebates for customers are recognised as a separate liability and included within other creditors. The Group reviews estimated rebate provisions at each reporting period based on revenue levels with relevant customers.

The Group makes an adjustment to revenue for expected returns and contract corrections. An estimate of this impact is treated as a correction to the asset's carrying value and deducted from trade receivables. This adjustment is calculated by reference to an expected loss rate which is determined based on historic levels of credit notes issued to the Group's customers.

b) Cost of sales, distribution costs and administrative expenses

The Group presents expenditure on operating activities in the Consolidated Income Statement under the headings cost of sales, distribution costs and administrative expenses.

Cost of sales include direct costs associated with the Group's principal business of equipment hire. Such costs include cost of reselling plant and equipment, consumables, maintenance, depreciation, amortisation, asset write-offs and disposals.

For rehire activities, the cost of the head-leases from suppliers are recognised evenly over the hire period and included within cost of sales, having adjusted for expected contractual rebates from the supplier. The groups operating lease expense as a lessee for hire stock, included within note 9 of the financial statements, has been restated to reflect the IFRIC guidance discussed in note 4a.

Distribution costs primarily comprise vehicle costs and transportation staff wages.

Administrative expenses primarily comprise staff costs, property costs, amortisation, the costs of acquisitions and other head office costs.

c) Property, plant and equipment

The Group presents separately on the face of the Consolidated Statement of Financial Position property plant and equipment for hire and non-hire purposes as the Group believes this level of disaggregation is helpful for the reader of the financial statements.

In respect of measurement after recognition, the Group applies the cost model to all property, plant and equipment.

Useful economic life and residual value of assets
The Group's policy for applying useful economic lives and residual values of assets has been determined through applying historical experience and taking into consideration the nature of assets, their intended use and achieved values on sale when disposed.

All depreciation recorded by the Group is calculated using the straight-line method and the estimated useful lives of the Group's classes of asset are as follows:

Material and equipment held for hire:
- Tools and general equipment – between two and ten years.
- Powered access – between five and ten years.
- Power generation – between five and fifteen years (2022: between five and ten years).

Non-hire assets:
- Leasehold properties – over unexpired period of lease.
- Plant and machinery – between two and ten years.

The Group reviews its depreciation estimates annually. During the year, as part of this routine review, the Group revised the useful economic lives of assets included within the 'material and equipment held for hire' class of property, plant and equipment. The Group have also considered the level of disposals and write offs for these assets, as well as their period of service in the business and anticipated remaining useful economic lives.

As a result of this review, certain assets' useful lives were extended but remained within the original estimates as disclosed in note 4f of the Group's 2022 Annual Report, with one exception.

The Group's powered access equipment had previously been depreciated over between five and ten years but has been revised to between five and fifteen years from the start of the current period.

The impact of this change was a reduction in depreciation for these assets of £2.7m during the current financial year.

Materials and equipment held for hire are written off over their useful economic lives to their residual value, which is estimated at between 20% of cost and nil. Residual values are only applied to powered access and power generation assets.

As noted above in 'damaged/lost hire stock compensation' within revenue, income arising from a customer losing or irreparably damaging hire stock is recognised within revenue. Derecognition of the asset's net book value is recognised in cost of sales, thereby generating the gain or loss on disposal within gross profit.

In respect of other items of property, plant and equipment, the derecognition of any net book value, along with any consideration received are recognised within administrative expenses, except for vehicles which are recognised in distribution costs.

Depreciation
For the purpose of calculating Adjusted EBITDA and Adjusted EBITA, depreciation, as disclosed on the face of the income statement, includes: the depreciation charge for property, plant and equipment and on right of use assets; the net book value of hire stock losses and write-offs; the net book value of other fixed asset disposals less any proceeds on those disposals; impairments of right of use assets; the net book value of right of use asset disposals, net of the lease liability disposed of; and the loss on disposal of sub-leases.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

4. ACCOUNTING POLICIES CONTINUED

d) Intangible assets

Intangible assets acquired in a business combination

The Group has recognised brands and customer relationships from historic acquisitions separately from the Goodwill arising. Brands are valued using the relief from royalty method and customer relationships are valued using the excess of earnings method. The HSS brand was first established in the late 1950s, and therefore, given its longevity, the Directors consider this to have an indefinite life and it is not amortised, but instead subjected to annual impairment testing. This judgment is included in more detail within note 2.

All other brands and customer relationships are amortised on a straight-line basis over their useful economic life. The Directors have assessed that the brands of ABird and Apex have useful economic lives of 20 years. The Directors have estimated the customer relationship intangible assets recognised on the acquisition of Hero Acquisitions Limited and Apex Generators Limited as having useful economic lives of 10 years. The useful lives of intangible assets are considered a significant estimate and discussed further in note 2. All amortisation is charged to administrative expenses.

Software development costs

The Group capitalises certain development expenditure that is deemed to meet the criteria within IAS38 for capitalisation. The Group also recognises that there is a significant judgment in respect of this capitalisation and this is discussed further in note 2.

Costs to develop software are capitalised when necessary and directly attributable to creating, producing or preparing software to be capable of operating in the manner intended and which is expected to generate a future economic benefit.

Costs to develop content for software designed to advertise and promote the Group's products and services, or the costs of maintaining the software are expensed when incurred.

The Group's policy has always been to capitalise only those software as a service ('SaaS') costs which are associated with the customisation and configuration of software and which give rise to or enhance an identifiable intangible asset. All other costs associated with SaaS arrangements are expensed straight line over the period of benefit and included within administrative expenses.

During the year, as part of a routine review of the useful lives of assets, the Group considered how the new Operations and ProService divisional structure impacted the intended use and by extension, the useful economic lives of certain intangible assets. Specifically, the Group considered their core operating systems used by Operations and ProService; Spanner and Brenda, including any associated intangible assets.

Following an extensive review process, the Directors revised the estimated useful economic lives of both assets from four to ten years. The Directors consider this reflects the most reliable estimate of the minimum period of operation for the systems in their current form. The impact of this change was a reduction in amortisation for these assets of £2.7m during the current financial period.

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

The Group reviews for impairment annually or more frequently if there is an indication of impairment to ensure that assets are not carried above their estimated recoverable amounts.

Testing for impairment

For the purpose of impairment testing, all assets, including goodwill arising from business combinations are allocated to one or more of the cash generating units ('CGUs') that are expected to benefit from the synergies of the combination.

Goodwill is specifically attributed to a CGU where possible, however where this is not possible goodwill has been historically allocated to those CGUs using a value in use ('VIU') based allocation.

A CGU is the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash flows of other assets or CGUs. The identification of CGUs is included in note 2 as a significant judgment and the Group's CGUs have changed in the period alongside the changes to the Group's operating segments. The Group operates a network of sales locations supported by Customer Distribution Centres ('CDCs') which means that there is a significant inter-dependence between all trading locations and the hire stock within the business. Because of this 'hub and spoke' model, the individual locations or hire stock assets are not independent of the cash flows from the other assets across the Group. Accordingly, CGUs cannot be identified at an asset or branch level and instead are a higher level that approximate relatively closely to the Group's operating segments.

The carrying value of a CGU is compared against its recoverable amount, which is the higher of its value in use and the fair value less costs of disposal. The Group's value in use estimates are made using Board approved detailed budgets which are extended into a three-year plan, with long term growth rates applied for the fourth and fifth years of the model before a terminal value is applied from year five onwards which incorporates long term growth rates.

f) Trade receivables and contract assets

Contract assets relate to the Group's right to consideration for work completed but not billed at the reporting date and consist of accrued income. Contract assets are transferred to trade receivables when an invoice has been issued, at which point the right to payment becomes unconditional. The Group has provisions against both trade receivables and contract assets.

Recoverability of trade receivables and contract assets

The provision for impairment of trade receivables and contract assets consists of a provision for impairment and a credit note provision (see note 18).

Provision for Impairment

The provision for impairment represents a provision against expected credit losses and the Group applies the IFRS 9 simplified approach of using a lifetime provision for trade receivables and contract assets based upon past default experience. Trade receivables and contract assets are grouped based on similar credit risk and ageing.

The estimated credit loss rates are based on historical loss rates and then adjusted for current and forward-looking macroeconomic factors affecting the Group's operating environment.

Receivables over two years past their due date are expensed in their entirety and written back to the income statement if subsequently recovered. The creation and release of bad debt provisions are charged or credited to administrative expenses.

Where material, impairment losses are disclosed on the face of the income statement as a standalone line item.

Credit Note Provision

The Group's credit note provision (recorded against revenue) reflects the amount of future credit notes expected to be issued in respect of invoices included within trade receivables at the balance sheet date. The provision is based on a retrospective review of the levels at which credit notes have been raised in the past twelve months to create a loss rate which, is then applied against the Group's full year revenue to arrive at the provision.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

4. ACCOUNTING POLICIES CONTINUED

Where the Group anticipates credit notes in respect of the rehire revenue stream, there is an associated receivable in respect of the credit note the Group will receive from the third-party supplier. The receipt of these credit notes by the Group are deemed to be virtually certain under the terms the Group has with its supply chain and give rise to a reimbursement asset (recorded against cost of sales) from a supplier, which will be recognised and included within other debtors.

Credit note provisions are charged against revenue, with reimbursement assets credited against cost of sales.

g) Provisions

The Group has recognised provisions under three categories, details of which are included below. Additional information on the assumptions and sensitivities associated with estimates used in provisions are given in note 22.

Onerous property costs

Provisions have been made for onerous property costs (excluding lease costs) on non-trading stores, Customer Distribution Centres and unused office space within the Group's property portfolio. Trading stores form part of a wider network of assets and are not judged to be onerous at an individual level, as they contribute to the wider network. The only exception is where a store is being closed as part of restructuring.

Provisions for onerous property costs relate to the current value of contractual liabilities for future rates payments and other unavoidable non-lease costs to the first exercisable break clause under the related lease. These provisions are recognised on a property-by-property basis. The carrying amount of the onerous property costs provision will be affected by changes in the discount rate and property disposals.

Dilapidations provisions

The provision recognised in respect of dilapidations expenditure is based on Management's experience and understanding of the commercial retail property market, alongside third-party surveyors' reports commissioned for specific properties in order to determine a best estimate of the future outflow of funds.

The Group adjusts dilapidations provisions to take account of changing facts and circumstances, including the age and condition of the property, experience of actual spend on similar properties, third party surveyors' reports, specific lease obligations, market practice generally and agreements reached with landlords in respect of a given property.

An amount equal to the provision for dilapidation is capitalised on inception of the lease arrangement within tangible fixed assets and depreciated over the life of the lease. Changes in the estimated timing of dilapidations or cost estimates are dealt with prospectively by recording an adjustment to the provision and a corresponding adjustment to property, plant and equipment.

Given the level of estimation associated with this provision, it is included within note 2, where estimation uncertainty is considered in more detail.

Onerous contract provisions

The Group maintains a provision for a single onerous contract where an agreement for committed future payments was reached as part of an arrangement to terminate a contract. As the committed future payments exceed any economic benefit associated with the contract, they have been discounted to their present value and included as a provision.

The unwinding of any discounts included within provisions are included as a finance expense in the consolidated income statement.

h) Share capital and reserves

Ordinary shares

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

Retained earnings

The Group's retained earnings represent the accumulated profits, losses and distributions of the Group.

Foreign exchange translation reserve

The foreign exchange translation reserve represents cumulative exchange differences arising from the translation of foreign operations and the movement is reported in other comprehensive income.

Merger reserve

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

i) Current and deferred income tax

Tax is recognised in profit or loss, except that a charge attributable to an item of income or expense recognised as other comprehensive income or to an item recognised directly in equity is also recognised in other comprehensive income or directly in equity respectively.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation, however no provisions have been made in respect of uncertain tax positions at the balance sheet date.

The Group's tax position includes significant balances of recognised and unrecognised losses brought forward, including amounts in respect of corporate income restriction rules, where the utilisation brought forward amounts are more complex. Deferred income tax assets in respect of these losses are recognised only to the extent that it is probable that future taxable profits will be available against which the losses or temporary differences can be utilised.

The Group's assessment of losses expected to be utilised against future taxable profits has been calculated by reference to a three-year forecasting horizon (2022: three-years). The determination of whether or not probable future taxable profits will exist against which to recognise a deferred tax asset, is a significant judgment and discussed further within note 2. The amount of losses utilised may vary where future taxable profits differ from expectations.

The Group operates in the UK and Republic of Ireland and accordingly, may have balances with different tax authorities. This means current and deferred tax balances cannot always be netted off, unless they relate to the same tax authority and there is both a right and expectation that these can be settled on a net basis.

j) Defined contribution pension schemes

The Group operates employee-optional stakeholder retirement schemes which are defined contribution schemes. For employees within the scheme, both employees and employers are required to make contributions, with the employer's contributions for each employee determined by the level of contribution made by the employee within the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

4. ACCOUNTING POLICIES CONTINUED

k) Share-based payments

Share-based payment transactions in which the Group receives goods or services as consideration for its own equity instruments are accounted for as equity-settled share-based payments. The grant date fair value of the share-based payment granted to employees is recognised as an employee expense, with a corresponding increase in equity, over the period that the employee becomes unconditionally entitled to the awards. The fair value of the options granted is measured using an option valuation model, taking into account the terms and conditions upon which the options were granted, and is charged to the income statement on a straight-line basis over the vesting period of the award.

The amount recognised as an expense is adjusted to reflect the actual number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

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

l) Leases

As a lessee

Discussion of leasing activities for hire and rehire revenue generating activities is discussed in note 4a and 4b.

The Group relies upon leases to help support its investment in hire stock assets, as well as entering into lease arrangements for its property and vehicle requirements.

Where the Group obtains control of the assets prior to entering a lease or hire purchase agreement the asset is initially recognised in property, plant and equipment at the date control is obtained.

Upon entering a lease or hire purchase agreement an assessment of whether the IFRS 15 conditions of sale and leaseback are met is undertaken. Where it is concluded that these conditions are met, the asset is transferred to right of use (‘ROU’) assets and the related liabilities included in lease liabilities.

Where it is concluded that these conditions are not met the asset remains in property, plant and equipment and the corresponding liability is presented in borrowings. Accordingly, the Group has both ROU assets and property, plant and equipment arising from contracts that contain a lease.

The interest rate implicit in the lease will be readily identifiable in certain leases only. Accordingly, the Group has to discount other leases using an incremental borrowing rate, this primarily applies to the Group’s property and vehicles.

The Group’s incremental borrowing rate is the rate the Group would have to pay to borrow the funds necessary to obtain an asset of similar value, over a similar term and with similar security to the ROU asset in a similar economic environment.

Judgments exist around the extension and termination options that are included within certain property lease contracts. This judgment regarding the lease term is discussed in more detail in note 2.

Certain hire stock assets, accounted for as right of use assets, have a useful life in excess of their lease term and accordingly, when the life of the lease ends, the asset is transferred from ROU assets to property, plant and equipment. This transfer reflects the end of the right of use arrangement and the outright ownership of the asset.

As a lessor

Discussion of leasing activities for rehire lessor accounting is included in note 4b.

In some limited instances, the Group acts as a sublessor for certain property head leases where the Group has exited the property and it has become onerous. In these instances only does the Group recognise a net investment in the sublease on the balance sheet in accordance with IFRS 16.

m) Exceptional items

The Group chooses to present certain items as exceptional because it believes that the separate presentation of these amounts provides a useful insight into the underlying results, but these should always be considered in combination with other statutory and GAAP measures. Transactions are designated as exceptional only when they meet the following criteria:

- They are judged to be significant, either in their nature or value, to a user of the financial statements;
- They have been directly received or incurred in respect of a major change to the business which is not reflective of the underlying performance of the Group; and,
- They are not expected to recur or become a recurring source of cost or income in the future.

Once a transaction or activity is designated as exceptional, all associated future cash inflows and outflows are also classified as exceptional unless, in the future, it is determined that these cash inflows or outflows should now be treated as underlying. This is to ensure consistency between periods for users of the financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

5. SEGMENT REPORTING

As disclosed in the Group's 2022 Annual Report, the Group completed a significant internal restructuring exercise to support its long-term strategic objectives. This included the creation of a new divisional structure, separating out the ProService and Operations businesses:

- ProService – Digital marketplace business focused on customer and supplier acquisition. Technology driven, extremely scalable and uniquely differentiated including training services.
- Operations – Fulfilment business including power generation, focused on health and safety and quality, with circular economy credentials, comprehensive national footprint and high customer satisfaction.

Since the start of the current financial period the Group's Chief Operating Decision Maker, identified as the Board of Directors, has changed its internal reporting to reflect the two divisions that have been created.

As a result of this, the Group's operating segments have changed from those presented in the prior year. Under IFRS 8 Operating Segments (IFRS 8), comparatives should be restated when reportable segments change as a result of internal restructuring. The Group has not previously had the ability to reliably separate the results, assets and cash flows of the business between the Operations and ProService divisions. IFRS 8 allows for comparatives to be omitted where the information is unavailable and would involve excessive cost to create. The availability of information prior to the restructure is such that the Group are not able to present any comparatives under the newly identified reportable segments. To ensure that comparable segmental information is available to the users of the Financial Statements, the Group has presented two segmental reporting disclosures for the current period's results. After the period of transition for FY23, the Group will only present the newly identified reportable segments.

The reportable segments identified in the previous period were 'Rental (and related revenue)' and 'Services'. Rental (and related revenue) comprises the rental income earned from owned tools and equipment, including powered access, power generation and HVAC assets, together with directly related revenue such as resale (fuel and other consumables), transport and other ancillary revenues. Services comprise the Group's rehire business and training business. These ceased to be reportable segments in FY23 and will not be presented in the FY24 Annual Report.

The Group continues to present separately the costs relating to central management within the 'Central' heading in the disclosure. This segment also includes the elimination of revenue between trading segments. Under the new divisional structure, it is possible to allocate more costs against the relevant underlying segments and accordingly the level of central costs shown within this category has fallen, making it not comparable with the former 'Central' heading used by the Group.

All segment revenue, operating profit, assets and liabilities are attributable to the principal activity of the Group, being the provision of tool and equipment hire and related services in, and to customers in, the United Kingdom except for the HSS Operations – Ireland segment whose revenues are derived from customers in the Republic of Ireland. No single customer represented more than 10% of Group revenue in the current year (2022: none).

	Year ended 30 December 2023				
	ProService £000s	Operations – UK £000s	Operations – Ireland £000s	Central £000s	Total £000s
Equipment hire and related revenue	264,934	122,615	23,305	(116,933)	293,921
Sale of goods and related services	26,593	13,231	4,130	(8,213)	35,741
Other services rendered	19,448	–	–	–	19,448
Total revenue	**310,975**	**135,846**	**27,435**	**(125,146)**	**349,110**
Adjusted EBITDA	14,407	58,299	6,920	(14,490)	65,136
Less: Depreciation	(1,573)	(36,023)	(3,067)	(167)	(40,830)
Adjusted EBITA	12,834	22,276	3,853	(14,657)	24,306
Less: Amortisation					(1,943)
Less: Exceptional items (non-finance)					(2,457)
Operating profit					19,906
Net finance expenses					(10,926)
Profit before tax					8,980

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

5. SEGMENT REPORTING CONTINUED

The timing of the satisfaction of performance obligations as it relates to revenue recognition is shown below:

	Year ended 30 December 2023				
	ProService £000s	Operations – UK £000s	Operations – Ireland £000s	Central £000s	Total £000s
Revenue from operating leases	236,446	100,727	20,913	(97,280)	260,806
Revenue recognised at a point in time	55,081	35,119	6,522	(27,866)	68,856
Revenue recognised over time	19,448	–	–	–	19,448
Total revenue recognised	310,975	135,846	27,435	(125,146)	349,110

Central includes the elimination of revenue between trading segments, the largest being between Operations – UK and ProService, along with central management costs to support the businesses.

	Year ended 30 December 2023				
	ProService £000s	Operations – UK £000s	Operations – Ireland £000s	Central £000s	Total £000s
Additions to non-current assets					
Property, plant and equipment	458	26,081	5,539	–	32,078
Right of use assets	3,037	15,100	741	309	19,187
Intangibles	5,718	1,340	–	–	7,058
Net book value					
Property, plant and equipment	649	82,242	10,292	–	93,183
Right of use assets	4,477	44,311	2,601	422	51,811
Intangibles	71,613	73,859	7,510	–	152,982
Deferred tax assets				2,012	2,012
Current assets				129,195	129,195
Current liabilities				(110,226)	(110,226)
Non-current liabilities				(135,772)	(135,772)
Net assets					183,185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

5. SEGMENT REPORTING CONTINUED

Included within intangible assets is goodwill of £115.9m. Historically, the Group's goodwill has been allocated to HSS Core – UK, HSS Core – Ireland and HSS Power. Under the newly identified reporting segments, the Group has now allocated HSS Core – UK goodwill between ProService and HSS Core Operations of £38.0m and £64.3m respectively. There has been no change to the goodwill allocated to HSS Core – Ireland or HSS Power; see note 14 for more information regarding Goodwill.

	Year ended 30 December 2023 (Historic segments)			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Total revenue from external customers	207,273	141,837	–	349,110
Contribution	136,661	19,532	–	156,193
Branch and selling costs			(62,055)	(62,055)
Central costs			(29,002)	(29,002)
Adjusted EBITDA				65,136
Less: Exceptional items (non-finance)			(2,457)	(2,457)
Less: Depreciation and amortisation	(23,052)	(1,488)	(18,233)	(42,773)
Operating profit				19,906
Net finance expenses				(10,926)
Profit before tax				8,980
Income tax charge				(4,743)
Profit after tax				4,237

	Year ended 30 December 2023 (Historic segments)			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	29,551	11	2,516	32,078
Right of use assets	1,062	753	17,372	19,187
Intangibles	–	5,718	1,340	7,058
Net book value				
Property, plant and equipment	81,191	115	11,877	93,183
Right of use assets	2,592	1,008	48,211	51,811
Intangibles	138,097	11,751	3,134	152,982
Deferred tax assets			2,012	2,012
Current assets			129,195	129,195
Current liabilities			(110,226)	(110,226)
Non-current liabilities			(135,772)	(135,772)
Net assets				183,185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

5. SEGMENT REPORTING CONTINUED

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

	Year ended 31 December 2022			
	Rental (and related revenue) £000s	Services £000s	Central £000s	Total £000s
Additions to non-current assets				
Property, plant and equipment	30,436	49	5,461	35,946
Right of use assets	2,220	521	7,672	10,413
Intangibles	3,052	35	2,505	5,592
Net book value				
Property, plant and equipment	73,613	138	14,024	87,775
Right of use assets	2,736	614	48,463	51,813
Intangibles	145,430	67	2,370	147,867
Deferred tax assets			7,515	7,515
Current assets			137,556	137,556
Current liabilities			(111,200)	(111,200)
Non-current liabilities			(138,863)	(138,863)
Net assets				182,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

6. OTHER OPERATING INCOME

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Property sublease rental and service charge income	90	547

During the year, the Group received sublet rental income of £0.1m (2022: £0.5m) on vacant properties.

7. EXCEPTIONAL ITEMS

Items of income or expense have been shown as exceptional either because of their size or nature or because they are outside the normal course of business. As a result, during the year ended 30 December 2023 the Group has recognised exceptional items as follows:

	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Year ended 30 December 2023 £000s
Onerous property costs	838	(41)	42	839
Costs relating to branch network restructure	1,467	–	–	1,467
Costs relating to group restructure	221	–	–	221
Onerous contract	(28)	–	311	283
Total	**2,498**	**(41)**	**353**	**2,810**

During the year ended 31 December 2022, the Group recognised exceptional items analysed as follows:

	Included in administrative expenses £000s	Included in other operating income £000s	Included in finance expense £000s	Year ended 31 December 2022 £000s
Onerous property costs	112	(539)	26	(401)
Costs relating to group restructure	3,182	–	–	3,182
Onerous contract	(520)	–	150	(370)
Total	2,774	(539)	176	2,411

Exceptional items incurred in 2023 and 2022

Costs related to onerous properties: branch and office closures

In October 2020, the Group announced a decision to permanently close 134 stores as part of an acceleration of strategy. Since that date the Group has been working to agree exits from these and pre-existing closed stores. In the current year, expenses incurred in respect of historic closures included within exceptional items were £0.2m (2022: credit of £0.4m). In the prior year, the credit related primarily to sublet rental income received where properties have been sublet; amounts from sublet rental income are included within other operating income.

Also included within onerous property costs during the current year are the costs to create provisions for the UK branch network restructure discussed in more detail below. The costs of creating these provisions amounted to £0.6m (2022: £nil). Amounts in respect of accelerated depreciation arising on the exit of these trading locations is included within the costs relating to restructuring category.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

7. EXCEPTIONAL ITEMS CONTINUED

Costs related to group restructure

In the previous year, the Group completed the legal separation of HSS ProService. The majority of the costs associated with this separation were incurred in the prior year, a total of £0.2m of residual costs were incurred in the current year (2022: £3.2m). Costs associated with the separation in the prior year include a detailed strategy refresh, working with third party advisors to develop the growth plans for HSS ProService and evaluate opportunities to create greater shareholder value.

Costs related to branch network restructure

During the current year, the Group took the strategic decision to migrate the remaining UK HSS branches to the Builders Merchant model. The impact of the change includes the closure of 16 branches during the current year, with additional closures approved by the Board subsequent to the year-end (see note 32). This strategic initiative is expected to generate annual cost savings of c£1m and all impacted colleagues have been redeployed to new locations.

The total costs incurred in respect of the UK branch network restructure were £1.5m (2022: £nil). These costs materially all relate to accelerated depreciation on the exit of these trading locations (see note 9). These costs are incurred where useful economic life estimates for assets at these branches, which cannot be repurposed elsewhere, have been revised downwards to the expected closure date.

Onerous contract

The Group maintains a provision to cover the expected outflows related to its onerous contract with Unipart for the NDEC operation which ceased in early 2018 (note 22). The liability at the balance sheet date is £6.8m (2022: £9.8m). The discount rate used to calculate the present value of the provision is the five-year UK gilt rate of 3.98% (2022: 3.62%). Application of the new discount rate at the balance sheet date resulted in a credit to the income statement of £28k (2022: credit of £368k), recognised as exceptional in line with the original provision. An interest charge (discount unwind) of £0.3m (2022: £0.2m) was recognised through exceptional finance costs.

8. NET FINANCE EXPENSE

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Interest on senior finance facility	**5,278**	3,041
Debt issue costs	**506**	473
Interest on lease liabilities	**3,620**	2,907
Interest on hire purchase arrangements	**775**	1,001
Unwind on discounted provisions	**693**	150
Interest on other bank loans and overdrafts	**169**	254
Other interest payable	**83**	–
Gross finance expense	**11,124**	7,826
Bank interest receivable	**(198)**	–
Net finance expense	**10,926**	7,826

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

9. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Amortisation of intangible assets (see below for details)	1,943	5,373
Depreciation (see below for details)	40,830	39,608
Operating lease rentals:		
– land and buildings	63	136
– motor vehicles and equipment for internal use	2,105	1,740
– hire stock	88,907	84,555
Write-off of inventory (note 17)	338	–
Property sublease rental income (note 6)	(90)	(547)
Foreign currency translation gains	53	(147)
Auditors' remuneration		
– audit of Group and Company Financial Statements	158	148
– audit of subsidiary Financial Statements	823	773
– other audit-related assurance services	50	57
	1,031	978

The Group presents depreciation in aggregate with any gains or losses on disposal for the purposes of calculating certain adjusted performance measures, full definitions are included within note 4c and note 31. Below is a reconciliation of the Group's definition of depreciation and amortisation from notes 15 and 16 to the income statement and adjusted performance measures across the asset categories:

	Year ended 30 December 2023			Year ended 31 December 2022		
Amounts charged in respect of depreciation	Property, plant and equipment £000s	Right of use assets £000s	Total £000s	Property, plant and equipment £000s	Right of use assets £000s	Total £000s
Depreciation (notes 15,16)	19,075	14,598	33,673	20,588	14,906	35,494
Accelerated depreciation relating to hire stock customer losses and hire stock write offs (notes 15,16)	6,371	282	6,653	3,497	454	3,951
Loss on disposal of non-hire property, plant and equipment before proceeds (notes 15,16)	283	2,762	3,045	619	413	1,032
Accelerated depreciation on exit of trading locations (notes 15,16)	516	943	1,459	–	–	–
Total depreciation per notes	26,245	18,585	44,830	24,704	15,773	40,477
Less: proceeds on disposal of non-hire property, plant and equipment	(541)	–	(541)	–	–	–
Less: profit on surrender of leases	(120)	(1,675)	(1,795)	(546)	(324)	(870)
Total depreciation per income statement and statement of cash flows	25,584	16,910	42,494	24,158	15,449	39,607
Less: depreciation included within exceptional items	(525)	(1,139)	(1,664)	–	–	–
Total depreciation for use in calculating adjusted performance measures (note 31)	25,059	15,771	40,830	24,158	15,449	39,607

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

9. OPERATING PROFIT CONTINUED

Amounts charged in respect of amortisation	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Amortisation of intangible assets (note 14)	**1,943**	5,314
Write-offs (note 14)	**–**	59
Total amortisation	**1,943**	5,373

10. EMPLOYEES

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

	Year ended 30 December 2023 Number	Year ended 31 December 2022 Number
Distribution	**392**	386
Hire stock and inventory maintenance	**213**	237
Sales and administration	**1,519**	1,414
Total average number of people employed by the Group	**2,124**	2,037

The aggregate remuneration costs of these employees were as follows:

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Wages and salaries	**75,371**	73,729
Social security costs	**8,144**	7,721
Pension costs	**2,424**	2,176
Share-based payment expense	**593**	951
Total charged to Consolidated Income Statement	**86,532**	84,577

During the year, remuneration costs of £1.4m (2022: £1.3m) were capitalised in association with internal software development. In addition, costs associated with the in-fleeting of hire equipment of £0.7m (2022: £1.1m) were also capitalised. These amounts have been included in the disclosures above.

IAS 24 Related Party Disclosures (IAS 24) requires the Group to disclose all transactions and outstanding balances with the Group's key management personnel. IAS 24 defines key management personnel as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether executive or otherwise) of that entity. The key management personnel of the Group comprise the Executive Directors along with senior managers from central support services and divisional and regional operations.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

10. EMPLOYEES CONTINUED

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

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Wages and salaries	**3,157**	2,943
Bonus	**–**	827
Other pension costs	**151**	162
Share-based payment expense	**428**	1,202
Total charged to Consolidated Income Statement	**3,736**	5,806

11. DIRECTORS' REMUNERATION

The remuneration costs of the Group's Directors were:

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Aggregate emoluments	**996**	972
Bonus	**–**	244
Pension costs	**55**	55
Directors' emoluments	**1,051**	1,271
Share-based payment expense	**–**	229
Total charged to Consolidated Income Statement	**1,051**	1,500

Included within aggregate emoluments above is the fee of £40,000 (2022: £40,000) for one Director (2022: one) that is paid to Exponent Private Equity LLP (note 28).

In addition to the amounts included above and discussed further in the Directors Remuneration Report, amounts were payable under the Group's ESA Plan to the Directors of £3,564k (2022: £Nil) of which £2,194k (2022: £nil) was payable to the highest paid director. These amounts were charged to the Consolidated Income Statement in previous periods and accordingly no charge was included in the current period.

The remuneration of the highest paid Director was:

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Aggregate emoluments	**396**	383
Bonus	**–**	142
Pension costs	**31**	31
Director's emoluments	**427**	556
Share-based payment expense	**–**	133
Total charged to Consolidated Income Statement	**427**	689

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

12. INCOME TAX CHARGE

a) Analysis of tax charge/(credit) in the year

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Current tax (credit)/charge		
UK corporation tax on the result for the year	236	1,495
Adjustments in respect of prior years	(1,061)	(299)
Total current tax (credit)/charge	(825)	1,196
Deferred tax charge/(credit) for the year		
Deferred tax charge/(credit) for the year	4,935	(5,493)
Deferred tax impact of change in tax rate	(27)	(40)
Adjustments in respect of prior years	660	391
Total deferred tax credit (see note 23)	5,568	(5,142)
Income tax charge/(credit)	4,743	(3,946)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

12. **INCOME TAX CHARGE** CONTINUED

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

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

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Profit before tax	**8,980**	16,531
Profit before tax multiplied by the effective standard rate of corporation tax of 23.5% (2022: 19.0%)	**2,110**	3,141
Effects of:		
Unprovided deferred tax movements on short-term temporary differences and capital allowance timing differences	**(2,715)**	(2,530)
Adjustments in respect of prior years	**(402)**	92
Expenses not deductible for tax purposes	**283**	1,096
Derecognition/(recognition) of brought forward tax losses and temporary timing differences	**6,485**	(5,367)
Utilisation of unrecognised tax losses brought forward	**(739)**	(449)
Differential in oversees tax rates	**(252)**	–
Foreign tax suffered	**–**	111
Impact of change in tax rate	**(27)**	(40)
Income tax charge/(credit)	**4,743**	(3,946)

The charge of £0.3m (2022: £1.1m) arising in respect of expenses not deductible is mainly attributable to costs associated with share options awarded to some employees, the Group exiting property leases and removing dormant entities from the Group structure. This amount has decreased in the current year due to the lower level of properties exited during the previous year. The charge of £6.5m (2022: credit of £5.4m) arises from the reduction in deferred tax assets in respect of the utilisation of forecast losses in the three-year (2022: three-year) recognition window. More details regarding the judgements associated with recognition of deferred tax assets are included within note 2.

c) Factors that may affect future tax charge

The standard rate of UK corporation tax increased to 25% from 1 April 2023. The increased rate has been used to calculate the above deferred tax disclosures.

At 30 December 2023 the Group had an unrecognised deferred tax asset relating to losses of £21.1m (2022: £13.1m). The gross value of this balance at 30 December 2023 was £84.5m (2022: £52.3m).

At 30 December 2023 the Group also had an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £3.1m (2022: £9.8m). The gross value of this balance at 30 December 2023 was £12.5m (2022: £39.4m).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

13. EARNINGS PER SHARE

Basic earnings per share:

	Profit after tax £000s	Weighted average number of shares 000s	Earnings per share Pence
Year ended 30 December 2023	**4,237**	**704,988**	**0.60**
Year ended 31 December 2022	20,477	704,988	2.90

Basic earnings per share is calculated by dividing the result attributable to equity holders by the weighted average number of ordinary shares in issue for that year.

Diluted earnings per share:

	Profit after tax £000s	Diluted weighted average number of shares 000s	Earnings per share Pence
Year ended 30 December 2023	**4,237**	**728,238**	**0.58**
Year ended 31 December 2022	20,477	723,950	2.83

Diluted earnings per share is calculated using the profit for the year divided by the weighted average number of shares outstanding assuming the conversion of potentially dilutive equity derivatives outstanding, being market value options, nil-cost share options (LTIP shares) and restricted stock grants, as disclosed in note 25.

All of the Group's potentially dilutive equity derivative securities were dilutive for the purpose of diluted earnings per share in both 2023 and 2022.

The following is a reconciliation between the basic earnings per share and the adjusted basic earnings per share:

	Year ended 30 December 2023 Pence	Year ended 31 December 2022 Pence
Basic earnings per share	**0.60**	2.90
Add back:		
Exceptional items per share[1]	**0.40**	0.34
Amortisation of customer relationships and brands per share[2]	**0.02**	0.29
Tax charge/(credit) per share	**0.67**	(0.56)
Charge:		
Tax charge at prevailing rate	**(0.40)**	(0.56)
Adjusted basic earnings per share	**1.29**	2.41

1 Exceptional items per share is calculated as total exceptional items divided by the weighted average number of shares in issue through the year.
2 Amortisation of customer relationships and brands per share is calculated as the amortisation charge on customer relationships and brands divided by the weighted average number of shares in issue through the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

13. EARNINGS PER SHARE CONTINUED

The following is a reconciliation between the diluted earnings per share and the adjusted diluted earnings per share:

	Year ended 30 December 2023 Pence	Year ended 31 December 2022 Pence
Diluted earnings per share	**0.58**	2.83
Add back:		
Exceptional items per share[1]	**0.39**	0.33
Amortisation of customer relationships and brands per share[2]	**0.02**	0.28
Tax charge/(credit) per share	**0.66**	(0.55)
Charge:		
Tax charge at prevailing rate	**(0.40)**	(0.55)
Adjusted diluted earnings per share	**1.25**	2.34

1 Exceptional items per share is calculated as total finance and non-finance exceptional items divided by the diluted weighted average number of shares in issue through the year.
2 Amortisation of customer relationships and brands per share is calculated as the amortisation charge on customer relationships and brands divided by the diluted weighted average number of shares in issue through the year.

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

	Year ended 30 December 2023 Weighted average number of shares 000s	Year ended 31 December 2022 Weighted average number of shares 000s
Basic	**704,988**	704,988
LTIP share options (note 25)	**3,003**	3,843
Restricted stock grant (note 25)	**20,164**	15,036
Company Share Option Plan (CSOP) options (note 25)	**83**	83
Diluted	**728,238**	723,950

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

14. INTANGIBLE ASSETS

	Goodwill £000s	Customer relationships £000s	Brands £000s	Software £000s	Total £000s
Cost					
At 1 January 2023	**115,855**	**25,400**	**22,585**	**32,764**	**196,604**
Additions	**–**	**–**	**–**	**7,058**	**7,058**
Disposals	**–**	**–**	**–**	**(360)**	**(360)**
At 30 December 2023	**115,855**	**25,400**	**22,585**	**39,462**	**203,302**
Amortisation					
At 1 January 2023	**–**	**25,291**	**327**	**23,119**	**48,737**
Charge for the year	**–**	**91**	**34**	**1,818**	**1,943**
Disposals	**–**	**–**	**–**	**(360)**	**(360)**
At 30 December 2023	**–**	**25,382**	**361**	**24,577**	**50,320**
Net book value					
At 30 December 2023	**115,855**	**18**	**22,224**	**14,885**	**152,982**

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

14. INTANGIBLE ASSETS CONTINUED

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

	Goodwill £000s	Indefinite life brands £000s	Other brands £000s	Customer relationships £000s	Total £000s
Allocated to					
HSS Core Operations	**64,328**	**–**	**–**	**–**	**64,328**
HSS ProService	**37,964**	**21,900**	**–**	**–**	**59,864**
HSS Core – Ireland	**7,510**	**–**	**–**	**–**	**7,510**
HSS Power	**6,053**	**–**	**324**	**19**	**6,396**
At 30 December 2023	**115,855**	**21,900**	**324**	**19**	**138,098**

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

The remaining life of intangible assets other than goodwill and indefinite life brands is between nil and 11 years (2022: nil and 12 years). For the purpose of calculating Adjusted EBITDA and Adjusted EBITA, amortisation is calculated as the total of the amortisation charge for the year and the loss on disposal of intangible assets. For the purpose of calculating Adjusted profit before tax, amortisation of customer relationships and brands is calculated as the total amortisation charge for the year and the loss on disposal of customer relationships and brands.

The Group tests property, plant and equipment, right of use assets, goodwill and brands for impairment annually and considers at each reporting date whether there are indicators that impairment may have occurred. In identifying indicators of impairment management considers current market capitalisation, asset obsolescence or closure, adverse trading performance and any other relevant wider economic or operational factors.

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

As part of this process and first disclosed in the Group's interim Financial Statements, the Goodwill historically allocated to HSS Core – UK had to be allocated to HSS ProService and HSS Core Operations for the first time. This was done using a VIU-based allocation and the table above shows the allocation between CGUs. The identification of segments, CGUs and the allocation of the Goodwill balance is all considered to be part of a significant judgement in the current year (see note 4).

The recoverable amounts of the goodwill and indefinite life brands, which are allocated to CGUs, are estimated from VIU calculations which model pre-tax cash flows for the next five years (2022: five years) together with a terminal value using a long-term growth rate. The key assumptions underpinning the recoverable amounts of the CGUs tested for impairment are those regarding the discount rate, long-term growth rate, forecast EBITDA and capital expenditure including cash flows required to maintain the Group's right of use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

14. INTANGIBLE ASSETS CONTINUED

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

- Cash flows were derived based on the budget for 2024 and model for the following two years (to the end of 2026).
- Operational activity then had a long-term growth rate applied to reflect expectations of spend in the following years, giving a model of five years in total after which a terminal value was calculated. The long-term growth factor used was 2.0% for each of the CGUs (2022: 2.0%).
- A pre-tax discount rate of 13.3% (2022: 12.2%), calculated by reference to a weighted average cost of capital based on an industry peer group of quoted companies and including a 3.1% premium reflective of the Group's market capitalisation (2022: 2.0%).

An impairment may be identified if changes to any of the factors mentioned above become significant, including under-performance of the Group against forecast, negative changes in the UK tool hire market or a deterioration in the UK economy, which would cause the Directors to reconsider their assumptions and revise their cash flow projections.

Based on the VIU modelling and impairment testing, the Directors do not consider an impairment charge to be required in respect of any of the property, plant and equipment, goodwill or indefinite life brand assets carried in the balance sheet at 30 December 2023 for any of the CGUs. The Directors carried out sensitivity analysis on various inputs to the models, including growth rates and discount rates, which did not result in an impairment charge for any CGU. The level of headroom in all CGUs except HSS Power was sufficient that the Directors did not believe a reasonably possible change could trigger an impairment.

In respect of HSS Power, as discussed in more detail in note 32, further evidence became available subsequent to the balance sheet date for the recoverable amount of the CGU, as the HSS Power business was sold on 8 March 2024. As the carrying value of goodwill allocated to HSS Power would be measured as the higher of the value in use calculation and the fair value less costs of disposal, even if estimates used in the value in use calculation changed unfavourably, the evidence for the fair value less costs of disposal would be sufficient to confirm that no impairment was required at the balance sheet date.

The Directors also noted that the market capitalisation of the Group at the balance sheet date was below the consolidated net asset position – which is an indicator that an impairment may exist. On consideration of various factors, including the concentrated shareholder base and recent shareholder and investor activity, they concluded that an impairment was not required in this regard.

The following tables summarise the results of sensitivity testing and scenario modelling on the headroom from impairment testing in respect of the Group's CGUs in the current and prior period:

	At 30 December 2023			
	HSS ProService	**HSS Core Operations**	**HSS Power**	**HSS Operations – Ireland**
Headroom between VIU and carrying value before sensitivity	**£25.3m**	**£31.5m**	**£2.2m**	**£10.9m**
Discount rate required to eliminate the headroom above	**16.3%**	**15.7%**	**14.5%**	**19.7%**
Long-term growth rate required to eliminate the headroom above	**(2.0%)**	**(1.4%)**	**0.4%**	**(7.8%)**
The permanent reduction in EBITDA before an impairment would be triggered	**9.2%**	**5.6%**	**3.1%**	**14.2%**
Headroom with 0% long-term growth and an increase of 1% to the discount rate before mitigating actions	**3.3m**	**(£0.3m)**	**(£2.0m)**	**£5.5m**

	At 31 December 2022		
	HSS Core – UK	HSS Power	HSS Core – Ireland
Headroom between VIU and carrying value before sensitivity	£229.5m	£8.4m	£16.4m
Discount rate required to eliminate the headroom above	22.2%	16.1%	21.8%
Long-term growth rate required to eliminate the headroom above	(14.5%)	(3.4%)	(13.8%)
The reduction in EBITDA before an impairment would be triggered	26.6%	10.0%	18.3%
Headroom with 0% long-term growth and an increase of 1% to the discount rate	£139.1m	£2.4m	£9.8m

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

15. PROPERTY, PLANT AND EQUIPMENT

	Land & buildings £000s	Plant & machinery £000s	Materials & equipment held for hire £000s	Total £000s
Cost				
At 1 January 2023	35,045	29,196	174,508	238,749
Transferred from right of use assets	–	–	372	372
Transferred to right of use assets	–	–	(483)	(483)
Additions	1,680	847	29,551	32,078
Disposals	(724)	(8,128)	(22,753)	(31,605)
Re-measurement	(216)	–	–	(216)
Foreign exchange differences	(26)	(3)	(141)	(170)
At 30 December 2023	35,759	21,912	181,054	238,725
Accumulated depreciation				
At 1 January 2023	23,957	26,122	100,895	150,974
Transferred from right of use assets	–	–	323	323
Transferred to right of use assets	–	–	(380)	(380)
Charge for the year	2,531	1,248	15,296	19,075
Disposals	(444)	(8,124)	(16,382)	(24,950)
Accelerated depreciation on exit of trading locations	507	9	–	516
Foreign exchange differences	(12)	–	(4)	(16)
Transfers	–	(115)	115	–
At 30 December 2023	26,539	19,140	99,863	145,542
Net book value				
At 30 December 2023	9,220	2,772	81,191	93,183

During the year, as part of a routine review of the useful lives of assets, the Group revised the useful economic lives of assets included within the “material and equipment held for hire” class of property, plant and equipment. As part of this review, the Group has considered the levels of disposals and write-offs for these assets, as well as their period of service in the business and anticipated remaining useful economic lives. The result of this review was that certain assets’ useful lives were extended but remained within the original estimates as disclosed in note 4 to the Group’s 2022 Consolidated Financial Statements, with one exception.

The Group’s powered access equipment had previously been depreciated over between five and ten years but has been revised to between five and fifteen years from the start of the current period; this was due to evidence that this equipment was being consistently used for a period in excess of its original estimate. The total impact of the change was a reduction in depreciation for these assets of £2.7m in the current financial period; the impact on future periods is expected to be materially the same as the current year subject to the impact of future additions and disposals. All changes to estimates have been applied prospectively.

Accelerated depreciation on exit of trading locations relates to additional depreciation charged as a result of reductions to specific useful economic lives when branches cease operations early, see note 7 for more details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

15. PROPERTY, PLANT AND EQUIPMENT CONTINUED

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

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

The transferred from right of use category represents the acquisition of right of use assets at expiry of the lease in cases where the title is transferred to the Group. Impairment testing performed on non-current assets can be found in note 14, which includes the impairment review of intangible assets.

Included within property, plant and equipment are assets against which charges have been registered as security against their acquisition through hire purchase arrangements. The total value of assets subject to these securities at the balance sheet date was £20.5m (2022: £19.3m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

16. RIGHT OF USE ASSETS

	Property £000s	Vehicles £000s	Equipment for internal use £000s	Equipment held for hire £000s	Total £000s
Cost					
At 1 January 2023	56,895	31,613	520	3,606	92,634
Additions	5,243	12,882	–	1,062	19,187
Re-measurements	(608)	–	–	–	(608)
Transferred to property, plant and equipment	–	–	–	(372)	(372)
Transferred from property, plant and equipment	–	–	–	483	483
Disposals	(8,558)	(16,573)	(520)	(645)	(26,296)
Foreign exchange differences	(37)	(14)	–	–	(51)
At 30 December 2023	52,935	27,908	–	4,134	84,977
Accumulated depreciation					
At 1 January 2023	20,540	18,909	502	870	40,821
Transferred to property, plant and equipment	–	–	–	(323)	(323)
Transferred from property, plant and equipment	–	–	–	380	380
Charge for the period	6,625	6,976	18	979	14,598
Accelerated depreciation on exit of trading locations	943	–	–	–	943
Disposals	(6,787)	(15,582)	(520)	(364)	(23,253)
At 30 December 2023	21,321	10,303	–	1,542	33,166
Net book value					
At 30 December 2023	31,614	17,605	–	2,592	51,811

Accelerated depreciation on exit of trading locations relates to additional depreciation charged as a result of reductions to specific useful economic lives when branches cease operations early, see note 7 for more details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

16. RIGHT OF USE ASSETS CONTINUED

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

The transferred to property, plant and equipment category represents the acquisition of right of use assets at expiry of the lease in cases where the title is transferred to the Group. The results of the impairment review for property, plant and equipment are included in note 14.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

17. INVENTORIES

	30 December 2023 £000s	31 December 2022 £000s
Inventories	2,759	3,045
Inventory spares	1,206	1,419
Total inventories	3,965	4,464
Provision for impairment	(142)	(685)
Inventories	3,823	3,779

	30 December 2023 £000s	31 December 2022 £000s
Provision for impairment of inventories		
Balance at the beginning of the year	685	600
Additions	24	171
Utilisation	(567)	(86)
Balance at the end of the year	142	685

The cost of inventories recognised as an expense and included in cost of sales is £18.1m (2022: £23.4m) and includes the write-off of inventories to the value of £0.3m (2022: £nil).

18. TRADE AND OTHER RECEIVABLES

	30 December 2023				31 December 2022			
	Gross £000s	Provision for impairment £000s	Provision for credit notes £000s	Net of provision £000s	Gross £000s	Provision for impairment £000s	Provision for credit notes £000s	Net of provision £000s
Trade receivables	76,620	(3,607)	(5,528)	67,485	77,308	(3,343)	(5,554)	68,411
Accrued income	13,318	(103)	–	13,215	10,543	(106)	–	10,437
Total trade receivables and contract assets	89,938	(3,710)	(5,528)	80,700	87,851	(3,449)	(5,554)	78,848
Net investment in sublease	569	–	–	569	712	–	–	712
Other debtors	5,846	–	–	5,846	3,493	–	–	3,493
Prepayments	6,326	–	–	6,326	3,015	–	–	3,015
Total trade and other receivables	102,679	(3,710)	(5,528)	93,441	95,071	(3,449)	(5,554)	86,068

Included in other debtors is £2.8m (2022: £1.0m) relating to tax receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

18. TRADE AND OTHER RECEIVABLES CONTINUED

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

	30 December 2023 Provision for impairment £000s	**30 December 2023 Provision for credit notes £000s**	31 December 2022 Provision for impairment £000s	31 December 2022 Provision for credit notes £000s
Balance at the beginning of the period	**(3,449)**	**(5,554)**	(3,931)	(3,225)
Increase in provision	**(2,183)**	**(4,166)**	(1,667)	(6,278)
Utilisation	**1,922**	**4,192**	2,149	3,949
Balance at the end of the period	**(3,710)**	**(5,528)**	(3,449)	(5,554)

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

30 December 2023	**Current £000s**	**0-60 days past due £000s**	**61-365 days past due £000s**	**1-2 years past due £000s**	**Total £000s**
Trade receivables and contract assets	**73,810**	**7,594**	**7,031**	**1,503**	**89,938**
Expected loss rate (%)	**0.6%**	**2.4%**	**24.1%**	**90.6%**	**4.1%**
Provision for impairment	**469**	**184**	**1,696**	**1,361**	**3,710**

31 December 2022	Current £000s	0-60 days past due £000s	61-365 days past due £000s	1-2 years past due £000s	Total £000s
Trade receivables and contract assets	71,292	7,747	7,262	1,550	87,851
Expected loss rate (%)	0.9%	2.8%	20.9%	69.4%	3.9%
Provision for impairment	638	218	1,517	1,076	3,449

Contract assets consist of accrued income which is invoiced to customers in the next financial period.

The bad debt provision is estimated using the simplified approach to expected credit loss methodology and is based upon past default experience and the Directors' assessment of the current economic environment for each of the Group's ageing categories.

The Directors have given specific consideration to the macroeconomic uncertainty leading to pressures on businesses facing staff and material shortages and, more latterly, increased inflation. At the balance sheet date, similar to 2022, the Group considers that historical losses are not a reliable predictor of future failures and has exercised judgement in increasing the expected loss rates across all categories of debt. In so doing the Group has applied an adjusted risk factor of 1.25x (2022: 1.25x) to reflect the increased risk of future insolvency. In so doing the provision has been increased by £0.7m (2022: £0.7m) from that which would have been required based on loss experience over the past two years. As in the prior year, historical loss rates have been increased where debtors have been identified as high risk with a reduction applied to customer debt covered by credit insurance.

The total amount expensed was £3.0m (2022: £3.1m). Unless the counterparty is in liquidation, these amounts are still subject to enforcement actions.

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

The combined provisions for bad debt and credit notes amount to 10.3% of trade receivables and contract assets at 30 December 2023 (2022: 10.2%). A 0.5% increase in the combined provision rate would give rise to an increased provision of £0.4m (2022: £0.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

19. TRADE AND OTHER PAYABLES

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Current		
Trade payables	**50,410**	41,693
Other taxes and social security costs	**4,631**	4,718
Other creditors	**1,020**	2,010
Accrued interest on borrowings	**716**	534
Accruals	**27,204**	38,689
Deferred income	**1,336**	658
	85,317	88,302

All deferred income relates to goods and services to be provided to customers in the next financial period.

20. LEASE LIABILITIES

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Lease liabilities – Current	**14,548**	13,182
Lease liabilities – Non-current	**42,822**	43,110
	57,370	56,292

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

		30 December 2023	31 December 2022
Equipment for hire	Fixed	**10.6 to 19.1%**	11.1 to 19.1%
Other	Fixed	**5.7 to 6.1%**	3.5 to 6.0%

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

	30 December 2023	31 December 2022
Lease liabilities	**6.4%**	6.1%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

20. LEASE LIABILITIES CONTINUED

The lease liability movements are detailed below:

	Property £000s	Vehicles £000s	Equipment for hire and internal use £000s	Total £000s
Lease liability movement				
At 1 January 2023	**39,268**	**13,472**	**3,552**	**56,292**
Additions	**5,167**	**12,955**	**1,126**	**19,248**
Re-measurements	**(720)**	**–**	**–**	**(720)**
Unwind of discount	**2,320**	**764**	**536**	**3,620**
Payments (including interest)	**(9,483)**	**(7,924)**	**(1,942)**	**(19,349)**
Disposals	**(584)**	**(1,091)**	**–**	**(1,675)**
Foreign exchange differences	**(28)**	**(18)**	**–**	**(46)**
At 30 December 2023	**35,940**	**18,158**	**3,272**	**57,370**

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

The Group's leases have the following maturity profile:

	30 December 2023 £000s	31 December 2022 £000s
Less than one year	**17,735**	16,227
Two to five years	**37,765**	36,798
More than five years	**13,375**	15,133
	68,875	68,158
Less interest cash flows:	**(11,505)**	(11,866)
Total principal cash flows	**57,370**	56,292

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

20. LEASE LIABILITIES CONTINUED

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

	30 December 2023 £000s	31 December 2022 £000s
Less than one year	**14,548**	13,182
Two to five years	**31,737**	30,690
More than five years	**11,085**	12,420
	57,370	56,292

21. BORROWINGS

	30 December 2023 £000s	31 December 2022 £000s
Current		
Hire purchase arrangements	**5,545**	5,168
Non-current		
Hire purchase arrangements	**9,930**	9,978
Senior finance facility	**69,085**	68,613
	79,015	78,591

The senior finance facility is stated net of transaction fees of £0.9m (2022: £1.4m) which are being amortised over the loan period.

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

	30 December 2023 £000s	31 December 2022 £000s
Hire purchase arrangements	**15,475**	15,146
Senior finance facility	**70,000**	70,000
Revolving credit facility	**–**	–
	85,475	85,146

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

The Group had undrawn committed borrowing facilities of £36.3m at 30 December 2023 (2022: £36.3m), including £11.3m (2022: £11.3m) of finance lines to fund hire fleet capital expenditure not yet utilised. Including net cash balances, the Group had access to £68.2m of combined liquidity from available cash and undrawn committed borrowing facilities at 30 December 2023 (2022: £84.0m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

21. BORROWINGS CONTINUED

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

			30 December 2023	31 December 2022
Hire purchase arrangements	Floating	percentage above NatWest base rate	**2.2 to 2.5%**	2.3 to 2.9%
Senior finance facility	Floating	percentage above SONIA	**3.0%**	3.0%
Revolving credit facility	Floating	percentage above SONIA	**3.0%**	3.0%

The margin above of 3.0% that applies to the senior finance facility and revolving credit facility is subject to a ratchet mechanism, the output of which ranges from 2.75% to 3.50%. The specific margin to apply is dependent on the Group's net leverage position and updated quarterly based on the latest position.

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

	30 December 2023	31 December 2022
Hire purchase arrangements	**7.7%**	6.0%
Senior finance facility	**8.2%**	6.4%
Revolving credit facility	**8.2%**	6.4%

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

The Group's borrowings have the following maturity profile:

	30 December 2023		31 December 2022	
	Hire purchase arrangements £000s	Borrowings £000s	Hire purchase arrangements £000s	Borrowings £000s
Less than one year	**6,333**	**5,733**	5,718	2,235
Two to five years	**10,805**	**75,096**	10,670	74,245
	17,138	**80,829**	16,388	76,480
Less interest cash flows:				
Hire purchase arrangements	**(1,663)**	**–**	(1,242)	–
Senior finance facility	**–**	**(10,829)**	–	(6,480)
Total principal cash flows	**15,475**	**70,000**	15,146	70,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

22. PROVISIONS

	Onerous property costs £000s	Dilapidations £000s	Onerous contracts £000s	Total £000s
At 1 January 2023	**117**	**11,380**	**9,806**	**21,303**
Additions	**492**	**230**	**–**	**722**
Utilised during the period	**(60)**	**(508)**	**(3,289)**	**(3,857)**
Unwind of discount	**5**	**377**	**311**	**693**
Impact of change in discount rate	**–**	**907**	**(28)**	**879**
Unused amounts reversed	**–**	**(1,153)**	**–**	**(1,153)**
Foreign exchange	**–**	**(18)**	**–**	**(18)**
At 30 December 2023	**554**	**11,215**	**6,800**	**18,569**
Of which:				
Current	**271**	**1,477**	**3,068**	**4,816**
Non-current	**283**	**9,738**	**3,732**	**13,753**
	554	**11,215**	**6,800**	**18,569**

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

22. PROVISIONS CONTINUED

Onerous property costs

The provision for onerous property costs represents the current value of contractual liabilities for future rates payments and other unavoidable costs (excluding lease costs) on leasehold properties the Group no longer uses. The additions of £0.5m (2022: £nil) and the release of the provision of £nil (2022: £0.1m) have been treated as exceptional and are included in the property cost charge of £0.8m (2022: credit of £0.1m) (note 7). These additions relate primarily to the UK branch network restructure discussed further in note 7. The releases in the prior year are the result of early surrenders being agreed with landlords – the associated liabilities are generally limited to the date of surrender but provided to the date of the first exercisable break clause to align with recognition of associated lease liabilities.

The liabilities, assessed on a property-by-property basis, are expected to arise over a period of up to six years (2022: four years) with the weighted average period expected for onerous property costs being 2.64 years (2022: 2.73 years). The onerous property cost provision is discounted at a rate of 3.48% (2022: 3.62%), representing a short-term risk free rate based upon UK 5-year GILT rates. Sensitivity analysis has not been conducted due to the immaterial nature of the remaining provision.

Dilapidations

An amount equal to the provision for dilapidation is recognised as part of the asset of the related property. The timing and amounts of future cash flows related to lease dilapidations are subject to uncertainty. The provision recognised is based on management's experience and understanding of the commercial retail property market and third party surveyors' reports commissioned for specific properties in order to best estimate the future outflow of funds, requiring the exercise of judgement applied to existing facts and circumstances, which can be subject to change. The estimates used by management in the calculation of the provision take into consideration the location, size and age of the properties. The weighted average dilapidations provision at 30 December 2023 was £8.61 per square foot (psf) (2022: £8.83 psf). The increase is mainly due to a revision of the £ psf estimates in line with actual expenditure on the exit of properties. Estimates for future dilapidations costs are regularly reviewed as and when new information is available. Given the large portfolio of properties, the Directors do not believe it is useful or practical to provide sensitivities on a range of reasonably possibly outcomes on a site-by-site basis. Instead consideration is given to the impact of a sizeable shift in the average rate. A £1.00 psf increase in the dilapidations provision would lead to an increase in the provision at 30 December 2023 of £1.2m (2022: £1.1m).

The dilapidations provisions have been discounted depending on the remaining lease term and the rate is based on the 5 or 10 year UK gilt yields of 3.48% and 3.54% respectively (2022: 3.62% and 3.7% respectively). A 1% increase in both the discount rates at 30 December 2023 would decrease the dilapidations provision by £0.5m (2022: £0.6m). The inflation rate applied in the calculation of the dilapidations provision was 5% for year 1 and thereafter 2.5% (2022: 5% for year 1 and a 2.5% average used thereafter).

The aggregate movement in additions, releases and change in discount rate of has generated a net decrease of £0.1m (2022: increase of £1.1m) to property, plant and equipment through asset additions, re-measurements and disposals.

Onerous contract

The onerous contract represents amounts payable in respect of the agreement reached in 2017 between the Group and Unipart to terminate the contract to operate the NDEC. Under the terms of that agreement, at 30 December 2023 £6.8m is payable over the period to 2026 (2022: £9.8m) and £3.3m has been paid during the year (2022: £3.3m). The provision has been re-measured to present value by applying a discount rate of 3.98% (2022: 3.62%). A 1% increase in the discount rate at 30 December 2023 would decrease the provision by £0.1m (2022: £0.2m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

23. DEFERRED TAX

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

Deferred tax asset/(liability)	Other temporary timing differences £000s	Tax losses £000s	Property, plant and equipment and other items £000s	Acquired intangible assets £000s	Total £000s
At 1 January 2023	**–**	**7,367**	**148**	**(117)**	**7,398**
(Charge)/credit to the income statement	**1,130**	**(6,485)**	**(244)**	**31**	**(5,568)**
At 30 December 2023	**1,130**	**882**	**(96)**	**(86)**	**1,830**

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

Deferred tax assets have been recognised to the extent that management considers it probable that tax losses will be utilised. Due to trading losses in prior years, the Directors expect to phase in the recognition of taxable losses expected to be utilised in the medium and long term as they can better assess the probability of their utilisation. The level of losses to be utilised is measured by reference to the Board approved budget and 3-year plan, which, is also used to determine value in use for the Group's cash generating units, as discussed in note 14. In the year ended 30 December 2023 a three-year (2022: three-year) recognition window has been applied.

The net deferred tax liability on property, plant and equipment and other items, and the deferred tax liability on acquired intangible assets, are stated after offset of deferred tax assets from available tax losses of £2.9m (2022: £0.3m) and £5.5m (2022: £5.5m) respectively.

At 30 December 2023 the Group had an unrecognised deferred tax asset relating to losses of £21.1m (2022: £13.1m). The gross value of the balance at 30 December 2023 was £84.5m (2022: £52.3m).

At 30 December 2023 the Group also had an unrecognised deferred tax asset relating to temporary differences on plant and equipment, intangible assets and provisions of £3.1m (2022: £9.8m). The gross value of the balance at 30 December 2023 was £12.5m (2022: £39.4m).

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

At 30 December 2023 £0.1m (2022: £0.1m) of the deferred tax liability is expected to crystallise after more than one year.

24. SHARE CAPITAL

The number of shares in issue and the related share capital and share premium are as follows:

	Ordinary shares Number	Ordinary shares £000s	Share premium £000s
At 1 January 2023 and 30 December 2023	**704,987,954**	**7,050**	**45,552**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

25. SHARE-BASED PAYMENTS

The Group operates a number of share-based payment schemes as part of its reward and retention strategies. The key points of each of the Group's share schemes for grants up to 30 December 2023 are summarised below. All disclosure relates to both the Group and the Company.

Value Creation Plan

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

The Directors and the Remuneration Committee have considered the likelihood of such an event being triggered prior to the lapsing of the VCP and, after weighing up all of the facts and circumstances that they were aware of as at 30 December 2023, deemed this improbable.

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

Restricted stock grant

On 6 May 2022, 29 April 2021 and 7 July 2020 restricted stock grants (RSGs) were awarded to eligible colleagues. The options will vest subject to the colleagues satisfying a two-year service condition. To the extent it vests, each award will, ordinarily, be released to the participant at the end of a further two-year holding period. The awards were valued as the grant-date share price, adjusted for anticipated dividends payable.

During the current year, on 24 May 2023, 6,929,674 (2022: 6,491,208) additional restricted stock grants were awarded to eligible colleagues. These options were subject to the same terms as the existing RSGs described above, with an estimated total fair value of £963k (2022: £1,029K), using a weighted average share price of 13.9p (2022: 15.85p). There are no market conditions associated with the RSGs, only the service condition described above and no exercise price is payable on these options. There were no other significant inputs or estimates included in the fair value estimated for these options and the exercise price is nil.

During the year, 2,054,718 of the Group's 2020 RSGs lapsed, with 3,423,032 of the options from 2020 outstanding at the period end. The RSG balance at the period end of 22,134,296 is made up of 3,423,032 issued in 2020, 5,290,382 issued in 2021, 6,491,208 issued in 2022 and 6,929,674 issued in 2023.

Long-Term Incentive Plan

On 4 June 2019 share awards under the Long-Term Incentive Plan (LTIP) were issued to eligible colleagues in the form of nil-cost options over ordinary shares. During the previous year the LTIP options partially vested on the announcement of the results for the 2021 financial year and will, ordinarily, be released to the participant at the end of a further two-year holding period. The results for 2021 were announced in April 2022, the end of the holding period at which point the shares are exercisable, will therefore be April 2024. The awards were valued at the grant-date share price, adjusted for anticipated dividends payable.

On the same dates as the LTIP awards, tax-qualifying share options were granted as part of the LTIP awards (CSOP options) via a Company Share Option Plan approved by HM Revenue and Customs (HMRC). Each CSOP option is subject to the same performance targets as apply to the nil-cost options part of the LTIP and will vest and be released at the same time as the nil-cost options. The exercise price of the CSOP option is 30p. If a CSOP option is exercised as a gain, the number of shares that may be delivered under the associated LTIP award will be reduced at exercise by the same value to ensure that the total pre-tax value of the original LTIP award delivered to the participant is not increased by the grant of the CSOP option.

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

During the prior year, 2,493,055 of the Group's LTIPs lapsed, with 3,002,533 of the LTIPs outstanding at the end of the current and prior periods.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

25. SHARE-BASED PAYMENTS CONTINUED

The table below reconciles the options outstanding during the year ended 30 December 2023:

	LTIP Number	RSG Number	CSOP Number
Outstanding at 1 January 2023	**3,002,533**	**17,259,340**	**83,333**
Granted	**–**	**6,929,674**	**–**
Lapsed or cancelled	**–**	**(2,054,718)**	**–**
Cash settled	**–**	**–**	**–**
Outstanding at 30 December 2023	**3,002,533**	**22,134,296**	**83,333**
Weighted average remaining contractual life, years	**5.4**	**8.2**	**5.4**
Weighted average fair value of options granted, pence	**35.9**	**18.0**	**–**

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

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

The total charge for the year relating to employee share-based payment plans during the year ended 30 December 2023 was £593,000 (2022: £951,000), all of which related to equity-settled share-based payment transactions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

26. FINANCIAL INSTRUMENTS

Financial risk management

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

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

Market risk

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

Interest rate risk

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

The Group is only exposed to interest rate risk on its leases in respect of hire stock assets and its variable interest borrowings, such as the senior finance facility and revolving credit facility. The Directors continue to monitor developments in market interest rates on a regular basis. The effect of a 1% increase in interest rates on the Group's variable loans would lead to an increase in the interest charge of £0.9m (2022: £0.8m).

Interest rate sensitivity

The table below demonstrates the sensitivity to reasonably possible changes in interest rates on income and equity for the year when this movement is applied to the carrying value of financial assets and liabilities present at 30 December 2023:

	Profit before tax		Equity	
Effect of:	**30 December 2023 £m**	31 December 2022 £m	**30 December 2023 £m**	31 December 2022 £m
100 basis points increase	**0.9**	0.8	**0.9**	0.8
200 basis points increase	**1.7**	1.7	**1.7**	1.7

Refinancing risk

The Group manages its refinancing risk by not letting its borrowings run to their maturity. The Group successfully refinanced in November 2021 with the new senior finance facility and revolving credit facility due to expire on 8 November 2025.

Foreign exchange risk

Foreign exchange risk is the risk of a change in the Group's cash flows due to a change in foreign currency exchange rate. The Group is exposed to foreign currency exchange rate risk on the cash flows and carrying values of its Republic of Ireland subsidiary. Given the relatively small size of the Republic of Ireland operations compared with the Group, the Directors do not consider this to be a significant risk to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

26. FINANCIAL INSTRUMENTS CONTINUED

Credit risk

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

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

The Group has policies in place to manage potential credit risk from trade receivables. Customer credit terms are determined using independent rating agency data and regularly updated to reflect any changes in customer circumstances or trading conditions. If no independent rating is available an internal assessment is made of the credit quality of the customer, taking into account their financial position and past trading history with the Group. The Group has entered into a credit insurance policy to cover potential losses from receivables with customers subject to the value and age of the balance owed which further reduces the Group's exposure to credit risk. The Directors do not expect any significant losses of receivables that have not been provided for as shown in note 18.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group regularly monitors forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities (note 21) at all times so that borrowing limits or covenants on borrowing facilities are not breached.

The financial covenant in place on the Group's senior finance and revolving credit facilities at 30 December 2023 is to maintain leverage (calculated as net debt divided by Adjusted EBITDA as calculated each month on a cumulative last-12-month basis) at less than 3.0 times (2022: 3.0 times) and interest cover (calculated as Adjusted EBITDA divided by net finance charges as calculated each month on a cumulative last-12-months basis) at more than 4.0 times (2022: 4.0 times).

Asset risk

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

Capital management

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

The Group defines capital as equity, as shown in the statement of financial position, plus net debt (total borrowings less cash) and seeks to achieve an acceptable return on gross capital.

The Group manages its capital structure using a number of measures and taking into account its future strategic plans. Such measures include ensuring the Group maintains sufficient liquidity and compliance with a bank covenant. In addition to the cash that the Group has generated from its operations, during recent years the Group conducted a capital raise, completed the strategic disposal of certain subsidiaries, renegotiated its debt structure including a senior finance facility, and secured shorter-term bank borrowing through a revolving credit facility.

Fair value

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

27. COMMITMENTS AND CONTINGENCIES

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

Sublease rental income	30 December 2023 £000s	31 December 2022 £000s
Within one year	**195**	226
Between two and five years	**294**	431
After five years	**224**	269
	713	926

In the prior period, sublet income relating to transactions between wholly owned Group companies of £1,532k was included incorrectly within the amounts received under non-cancellable operating leases. These amounts have been updated above in respect of 2022.

The Group has contracted to purchase items of property, plant and equipment that it has not received at the reporting date to the value of £2.3m (2022: £5.0m).

28. RELATED PARTY TRANSACTIONS

Ultimate parent entity

The Group is an associate of Exponent Private Equity LLP. During the year Exponent Private Equity LLP charged the Group fees of £40,000 (2022: £40,000) of which £40,000 was outstanding at 30 December 2023 (2022: £40,000).

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

Key management personnel

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

29. DIVIDENDS

During the year the following dividends were declared and paid:

	30 December 2023 £000s	31 December 2022 £000s
2022 Interim dividend of 0.17p per ordinary share paid during the prior year	**–**	1,198
2022 Final dividend of 0.37p per ordinary share paid during the current year	**2,608**	–
2023 Interim dividend of 0.18p per ordinary share paid during the current year	**1,269**	–
Total dividends paid during the year	**3,877**	1,198

Subsequent to the year end, on 30 April 2024, a final dividend of 0.38p per share was approved by the Board. This will be paid in cash during July 2024 and has an ex-dividend date of 23 May 2024.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

30. NOTE SUPPORTING THE STATEMENT OF CASH FLOWS

	At 1 January 2023 £000s	Cash flows £000s	Other non-cash movements £000s	At 30 December 2023 £000s
Cash and cash equivalents	47,709	(15,689)	(89)	31,931
Non-current borrowings, excluding hire purchase arrangements[1]	(68,613)	35	(507)	(69,085)
Hire purchase arrangements, including interest[2]	(15,146)	7,479	(7,808)	(15,475)
Lease liabilities, including interest[3]	(56,292)	19,348	(20,426)	(57,370)
Total	(92,342)	11,173	(28,830)	(109,999)
Accrued interest on borrowings	(534)	5,096	(5,278)	(716)
Debt issue costs[1]	(1,387)	(35)	507	(915)
Net debt[4]	(94,263)	16,234	(33,601)	(111,630)

	At 2 January 2022 £000s	Cash flows £000s	Other non-cash movements £000s	At 31 December 2022 £000s
Cash and cash equivalents	42,269	5,440	–	47,709
Non-current borrowings, excluding hire purchase arrangements[1]	(68,166)	35	(482)	(68,613)
Hire purchase arrangements, including interest[2]	(15,100)	7,069	(7,115)	(15,146)
Lease liabilities, including interest[3]	(61,465)	18,588	(13,415)	(56,292)
Total	(102,462)	31,132	(21,012)	(92,342)
Accrued interest on borrowings	(271)	2,780	(3,043)	(534)
Debt issue costs[1]	(1,834)	(35)	482	(1,387)
Net debt[4]	(104,567)	33,877	(23,573)	(94,263)

1 Non-current borrowings, excluding hire purchase arrangements, are stated net of debt issue costs.
2 Cash flows include interest payments of £0.8m (2022: £0.4m).
3 Cash flows include interest payments of £3.6m (2022: £3.4m).
4 Calculation of net debt includes accrued interest on borrowings and excludes deduction for debt issue costs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

31. ALTERNATIVE PERFORMANCE MEASURES

Earnings before interest, tax, depreciation and amortisation (EBITDA) and Adjusted EBITDA, earnings before interest, tax and amortisation (EBITA) and Adjusted EBITA and Adjusted profit before tax are alternative, non-IFRS and non-Generally Accepted Accounting Practice (GAAP) performance measures used by the Directors and management to assess the operating performance of the Group.

EBITDA is defined as operating profit before depreciation and amortisation. For this purpose depreciation includes: depreciation charge for the year on property, plant and equipment and on right of use assets; the net book value of hire stock losses and write-offs; the net book value of other fixed asset disposals less the proceeds on those disposals; impairments of right of use assets; the net book value of right of use asset disposals, net of the associated lease liability disposed of; and the loss on disposal of subleases. Amortisation is calculated as the total of the amortisation charge for the year and the loss on disposal of intangible assets. Exceptional items are added back to EBITDA to calculate Adjusted EBITDA.

EBITA is defined by the Group as operating profit before amortisation. Exceptional items are added back to EBITA to calculate Adjusted EBITA.

Adjusted profit before tax is defined by the Group as profit before tax, amortisation of customer relationships and brands-related intangibles as well as exceptional items.

The Group discloses Adjusted EBITDA, Adjusted EBITA and Adjusted profit before tax as supplemental non-IFRS financial performance measures because the Directors believe they are useful metrics by which to compare the performance of the business from period to period and such measures similar to Adjusted EBITDA, Adjusted EBITA and Adjusted profit before tax are broadly used by analysts, rating agencies and investors in assessing the performance of the Group. Accordingly, the Directors believe that the presentation of Adjusted EBITDA, Adjusted EBITA and Adjusted profit before tax provides useful information to users of the Financial Statements.

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

Adjusted EBITDA is calculated as follows:

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Operating profit	**19,906**	24,357
Add: Depreciation (note 9)	**40,830**	39,607
Add: Amortisation of intangible assets (note 9)	**1,943**	5,373
EBITDA	**62,679**	69,337
Add: Exceptional items (note 7)	**2,457**	2,235
Adjusted EBITDA	**65,136**	71,572

Adjusted EBITA is calculated as follows:

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Operating profit	**19,906**	24,357
Add: Amortisation of intangible assets (note 9)	**1,943**	5,373
EBITA	**21,849**	29,730
Add: Exceptional items (note 7)	**2,457**	2,235
Adjusted EBITA	**24,306**	31,965

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

31. ALTERNATIVE PERFORMANCE MEASURES CONTINUED

Adjusted profit before tax is calculated as follows:

	Year ended 30 December 2023 £000s	Year ended 31 December 2022 £000s
Profit before tax	**8,980**	16,531
Add: Amortisation of customer relationships and brands (note 14)	**125**	2,024
Profit before tax and amortisation of customer relationships and brands	**9,105**	18,555
Add: Exceptional items (finance and non-finance) (note 7)	**2,810**	2,411
Adjusted profit before tax	**11,915**	20,966

32. POST BALANCE SHEET EVENTS

Sale of Power businesses

Subsequent to the year end, on 7 March 2024, the Group sold ABird Superior Limited, ABird Limited and Apex Generators Limited (together the ‘Power’ businesses within the Group) to a third party, CES Global. The businesses were sold for an enterprise value of £23.25m, with customary working capital and debt adjustments resulting in a cash consideration of £20.7m. Net assets disposed were £20.7m (including consolidation related intangibles of £6.4m) for a gain before transaction costs of £nil. In connection with the sale of the businesses the Group has incurred transaction costs of £0.7m in 2024.

The disposed entities contributed £26.5m revenues to the group, and management expect to retain a majority of the revenues on an ongoing basis through a continuing supplier agreement between ProService and the disposed entities.

Subsequent to the sale, proceeds of £12.5m on the sale of the Power businesses were used to make a partial repayment of the Group’s senior loan facility, reducing the total liability from £70.0m at the year end to £57.5m.

UK branch network

Based on the ongoing successful performance of the Group’s builders merchant locations, the decision was made during FY23 to accelerate the migration to this lower variable cost model. To this end, in March 2024 the further closure of four branches located in England and Scotland was approved. This change will reduce ongoing costs by c£0.7m per annum with expected exceptional costs of between £0.8m and £1.3m, the majority of which are property related.

Dividends

As disclosed in note 29, subsequent to the year end, on 30 April 2024, a final dividend of 0.38p per share was approved by the Board. This will be paid in cash during July 2024 and had an ex-dividend date of 23 May 2024.

COMPANY STATEMENT OF FINANCIAL POSITION

FOR THE YEAR ENDED 30 DECEMBER 2023

	Note	30 December 2023 £000s	31 December 2022 £000s
ASSETS			
Non-current assets			
Investments	3	**285,385**	284,792
Current assets			
Other receivables	4	**963**	498
Cash		**9,878**	13,610
		10,841	14,108
Total assets		**296,226**	298,900

	Note	30 December 2023 £000s	31 December 2022 £000s
EQUITY			
Share capital	6	**7,050**	7,050
Share premium	6	**45,552**	45,552
Merger reserve		**97,716**	97,716
Retained earnings	7	**145,761**	148,389
Total equity		**296,079**	298,707
LIABILITIES			
Current and total liabilities		**147**	193
Total equity and liabilities		**296,226**	298,900

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

The Company made a post-tax profit for the year of £656,000 (2022: £128,000).

The notes on pages 132 to 134 form part of these Financial Statements.

The Financial Statements were approved and authorised for issue by the Board of Directors on 30 April 2024 and were signed on its behalf by:

Paul Quested
Director

30 April 2024

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 DECEMBER 2023

	Share capital £000s	Share premium £000s	Merger reserve £000s	Retained earnings £000s	Total equity £000s
At 2 January 2022	7,050	45,552	97,716	148,508	298,826
Profit and total comprehensive income for the year	–	–	–	128	128
Transactions with owners recorded directly in equity:					
Dividends paid	–	–	–	(1,198)	(1,198)
Share-based payments	–	–	–	951	951
At 31 December 2022	7,050	45,552	97,716	148,389	298,707
Profit and total comprehensive income for the year	**–**	**–**	**–**	**656**	**656**
Transactions with owners recorded directly in equity:					
Dividends paid	**–**	**–**	**–**	**(3,877)**	**(3,877)**
Share-based payments	**–**	**–**	**–**	**593**	**593**
At 30 December 2023	**7,050**	**45,552**	**97,716**	**145,761**	**296,079**

The notes on pages 132 to 134 form part of these Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 30 DECEMBER 2023

1. ACCOUNTING POLICIES

HSS Hire Group plc (the Company) is a company incorporated and domiciled in the United Kingdom. The Company's registered office is Building 2, Think Park, Mosley Road, Manchester, M17 1FQ.

a) Reporting entity

HSS Hire Group plc Limited was incorporated on 7 January 2015 as a private company limited by shares in the United Kingdom and re-registered as a public limited company on 19 January 2015. The Company listed its shares on the London Stock Exchange on 9 February 2015. On 14 January 2021, HSS moved its share trading from the Main Market on the London Stock Exchange to AIM.

The Company's principal activity is to act as the ultimate holding company for a group of companies whose principal activities are the supply and hire of equipment and associated services.

b) Statement of compliance

The Company Financial Statements have been prepared in accordance with Financial Reporting Standard 100 Application of Financial Reporting Requirements (FRS 100), Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101) and the Companies Act 2006.

Disclosure exemptions adopted

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

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

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

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

The Directors have taken advantage of the option within Section 390 of the Companies Act 2006 to prepare their Financial Statements up to a date seven days either side of the Company's accounting reference date of 31 December, and these accounts therefore cover the 52-week period from 1 January 2023 to 30 December 2023 (2022: 52-week period from 2 January 2022 to 31 December 2022).

The Company complies with the accounting policies defined in notes 1 to 4 to the Consolidated Financial Statements on pages 85 to 92 except as noted below.

c) Merger reserve

The merger reserve is the amount arising on the difference between the nominal value of the shares issued on acquisition of the subsidiary companies and the Company value of the interest in subsidiaries. The merger reserve arises where more than 90% of the shares in a subsidiary are acquired and the consideration includes the issue of new shares by the Company, and therefore the Company adopts merger relief under the Companies Act 2006.

d) Investments

Investments in subsidiaries that arose from a reorganisation of the Group structure that satisfies the criteria set out in IAS 27 Separate Financial Statements have been measured as the carrying amount of its share of the equity items shown in the separate Financial Statements of the original parent at the date of reorganisation. Subsequent additions are included in the statement of financial position at cost. Impairments are recognised if events or changes in circumstances indicate that the carrying value may not be recoverable.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Recoverability of investments and intercompany receivables

Judgements are required in assessing the recoverability and timing of investments and intercompany receivables and determining whether impairments of those investments and receivables are required. Judgements are based on historical performance as well as forecasts. The Company monitors the recoverability of such investments and receivables and recognises impairments for amounts that may not be recoverable. Further details of the net carrying value of investments and intercompany receivables are given in notes 3 and 4 respectively.

3. INVESTMENTS

	£000s
At 1 January 2023	284,792
Additions	593
At 30 December 2023	**285,385**

Additions comprise equity-settled share-based payment awards offered to employees in subsidiary companies of £0.6m.

At 30 December 2023 the Company's subsidiaries, including those held indirectly through direct subsidiaries, are:

Company	Holding	Country of incorporation	Principal activity	Ordinary shares held
Hampshire Topco Limited	Direct	United Kingdom	Intermediate holding company	100%
Hero Acquisitions Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Finance Limited	Indirect	United Kingdom	Intermediate holding company	100%
ABird Superior Limited	Indirect	United Kingdom	Intermediate holding company	100%
HSS Hire Service Group Limited	Indirect	United Kingdom	Hire and equipment services	100%
ABird Limited	Indirect	United Kingdom	Hire and equipment services	100%
Apex Generators Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Training Limited	Indirect	United Kingdom	Training services	100%
1st Collection Services Limited	Indirect	United Kingdom	Dormant	100%
HSS Hire Limited	Indirect	United Kingdom	Dormant	100%
HSS ProService Limited	Indirect	United Kingdom	Hire and equipment services	100%
HSS Hire Ireland Limited	Indirect	Republic of Ireland	Hire and equipment services	100%

The registered office of the subsidiaries listed above is Building 2, Think Park, Mosley Road, Manchester, M17 1FQ, except for the following:

Apex Generators Limited, 5th Floor Sutherland House, 149 St Vincent Street, Glasgow, G2 5NW, Scotland.

HSS Hire Ireland Limited, DAC Beachcroft, Three Haddington Buildings, Percy Place, Dublin 4, DO4 T253, Ireland.

On 17 January 2023, Hampshire Midco Limited, Hampshire Bidco Limited, HSS Hire Service Holdings Limited and HSS Financing Limited entered into members voluntary liquidation.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 30 DECEMBER 2023

4. OTHER RECEIVABLES

Current	30 December 2023 £000s	31 December 2022 £000s
Amounts due from Group undertakings	937	475
Prepayments	26	23
	963	498

Amounts due from Group undertakings are unsecured, interest free and repayable on demand.

5. OTHER PAYABLES: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 December 2023 £000s	31 December 2022 £000s
Accruals	129	177
Other creditors	18	16
	147	193

6. SHARE CAPITAL

The details of the Company's share capital are set out in note 24 to the Consolidated Financial Statements.

7. PROFIT AND LOSS ACCOUNT

As permitted by Section 408 of the Companies Act 2006 the Company has elected not to present its own profit and loss account for the year. The auditor's remuneration for audit and other services is disclosed in note 9 to the Consolidated Financial Statements.

8. RELATED PARTY TRANSACTIONS

The Company's related party transactions are set out in note 28 to the Consolidated Financial Statements.

9. FINANCIAL INSTRUMENTS

Details of the Group's financial instruments policies are set out in note 26 to the Consolidated Financial Statements.

10. EMPLOYEE AND DIRECTOR COSTS

The Directors are the only employees of the Company. Their costs are borne by a subsidiary company, HSS Hire Service Group Limited. Details of the Directors' remuneration are set out in note 11 to the Consolidated Financial Statements.

ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION

Annual General Meeting

The Company's Annual General Meeting will be held at 11.00 am on 26 June 2024 at Hilton Garden Inn, Hatton Cross, TW6 2SQ. Details of the resolutions proposed and being voted on are provided in the Notice of AGM provided to shareholders and available for download at the Group website, hsshiregroup.com. Shareholders are invited to attend in person. Should matters change updates will be provided via the 'News and Resources' section at hsshiregroup.com

Share Fraud and Boiler Room Scams £000s

Many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. Share scams are often run from 'boiler rooms' where fraudsters cold-call investors offering them worthless, overpriced or even non-existent shares.

These operations are commonly known as 'boiler room fraud'. The 'brokers' (callers) can be very persistent and extremely persuasive. They often have websites to support their activities, their advice and the companies they purport to represent. It is not just novice investors who have been duped in this way; many of the victims have been successfully investing for several years.

Shareholders are cautioned to be very wary of any unsolicited advice, offers to buy shares at a discount, sell your shares at a premium or offers of free company reports.

If you are offered unsolicited investment advice, discounted shares, a premium price for shares you own, or free company or research reports, you should take these steps before handing over any money:

- Record the name of the person and organisation contacting you.
- Check the Financial Conduct Authority (FCA) Register at www.fca.org.uk/register to ensure they are properly authorised.
- Use the details on the FCA Register to contact the firm.
- Call the FCA Consumer Helpline on 0800 111 6768 if there are no contact details on the Register or you are told they are out of date.
- If you receive telephone calls, emails, letters purporting to be from HSS Hire Group plc or from companies endorsed by HSS Hire Group plc and you are unsure if they are legitimate, please contact our shareholder helpline for clarification (0371 384 2030 or +44 (0)121 415 7047 (overseas)).
- If the caller persists, hang up.

Please note that should you use an unauthorised firm to buy or sell shares or other investments, you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme (FSCS) if things go wrong.

If you are approached about a share scam you should tell the FCA using the online share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm where you can find out about the latest investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768.

If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040 or online at: www.actionfraud.police.uk

Further information on this or similar activity can be found at www.cityoflondon.police.uk/citypolice within the Fraud section.

Forward-Looking Statements

This document contains certain forward-looking statements concerning the Group's business, financial condition, results of operations and certain aspects of the Group's plans, objectives, assumptions, projections, expectations or beliefs with respect to these items. Forward-looking statements are sometimes, but not always, identified by their use of a date in the future or such words as 'anticipates', 'aims', 'due', 'could', 'may', 'will', 'should', 'expects', 'believes', 'intends', 'plans', 'potential', 'targets', 'goal' or 'estimates'.

Forward-looking statements involve known and unknown risks, uncertainties and other factors, which may cause the Group's actual financial condition, performance and results to differ materially from the plans, goals, objectives and expectations set out in the forward-looking statements included in this document. Accordingly, readers are cautioned not to place undue reliance on forward-looking statements.

By their nature, forward-looking statements relate to events and depend on circumstances that will occur in the future and are inherently unpredictable. Such forward-looking statements should, therefore, be considered in light of various important factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements. These factors include, among other things: changes in the economies and markets within which the Group operates; changes in the regulatory regime within which the Group operates; changes in interest and, to a lesser extent, exchange rates; the impact of competitor pricing behaviour; the occurrence of major operational problems; the loss of major customers; contingent liabilities; and the impact of legal or other proceedings against, or which otherwise affect, the Group.

No assurance can be given that the forward-looking statements in this document will be realised; actual events or results may differ materially as a result of risks and uncertainties facing the Group. Subject to compliance with applicable law and regulation, the Company does not intend to update the forward-looking statements in this document to reflect events or circumstances after the date of this document, and does not undertake any obligation to do so.

ADDITIONAL INFORMATION CONTINUED

FINANCIAL CALENDAR

Annual General Meeting

26 June 2024

COMPANY INFORMATION

Registered Office:
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Email: investors@hss.com

Website: hsshiregroup.com

Registered number: England and Wales,
No. 9378067

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Daniel Joll

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DEFINITIONS AND GLOSSARY

The following is a list of commonly used terms in the industry or the Annual Report and Accounts.

Term	Definition
'ABird' or 'ABird Power Solutions'	ABird Superior Limited and its wholly owned subsidiary, ABird Limited
'Act'	the Companies Act 2006, as amended
'Adjusted EBITA'	EBITA adjusted to add back exceptional items
'Adjusted EBITDA'	EBITDA adjusted to add back exceptional items
'Adjusted EPS'	EPS adjusted to exclude exceptional items and amortisation and after charging the prevailing rate of corporation tax
'Apex'	Apex Generators Limited
'B2B'	business-to-business
'Colleague'	Directors and employees of HSS
'Company'	HSS Hire Group plc
'1.5°C Commitment'	to keep global warming to no more than 1.5°C. As called for in the Paris Agreement, emissions need to be reduced by 45% by 2030 and reach net zero by 2050
'Core Hire Rental Revenue'	revenue associated only with the rental of owned assets in the HSS Operations business. This excludes revenues from specialist hire businesses (ABird and Apex), and sales ancillary to the rental such as transport, resale etc.
'CSOP'	Company Share Option Plan
'Customer Distribution Centres' or 'CDCs'	locations across the UK from which we deliver items of our core hire equipment direct to customer sites, manage the collection of equipment from customer sites at the end of the hire period and undertake testing and repair of larger non-specialist equipment
'EBITA'	earnings before interest, tax and amortisation
'EBITDA'	earnings before interest, tax, depreciation and amortisation
'EcoVadis'	globally recognised assessment platform, rating businesses' sustainability based on four categories: environmental impact, labour, & human rights standards, ethics, & procurement practices
'EMT'	Executive Management Team
'EU'	European Union
'Exponent'	the investment funds managed by Exponent Private Equity LLP or, when otherwise indicated or where the context otherwise requires, Exponent Private Equity LLP in its own right
'Exponent Shareholders'	Exponent Private Equity Partners GP II LP, Exponent Havana Co-Investment Partners GP Limited and Exponent Private Equity Founder Partner GP II Limited
'Group'	together, HSS Hire Group plc and its direct and indirect subsidiaries
'Hire stock'	assets held by the Group for the purposes of hiring to customers, being those assets included within the category 'Materials & equipment held for hire' within the Group's property, plant and equipment and right of use assets
'HSS'	the group of companies within the HSS Hire Group
'HSS Hire Group plc'	HSS Hire Group plc (company number 9378067) whose registered office is at Building 2, Think Park, Mosley Road, Manchester, M17 1FQ
'IFRS'	International Financial Reporting Standards, as adopted by the United Kingdom
'initial public offering' or 'IPO'	the initial public offering and admission of the ordinary share capital of HSS Hire Group plc to the premium listing segment of the Official List of the UK Listing Authority and to trading on London Stock Exchange's Main Market for listed securities under the ticker 'HSS' on 9 February 2015
'Ireland'	the Republic of Ireland
'LTIP'	long-term incentive plan. A reward system designed to reward colleagues' long-term performance either by the grant of awards which are subject to defined performance conditions, which include Adjusted EPS and ROCE, or by the grant of restricted stock
'National Distribution and Engineering Centre' or 'NDEC'	operation opened in Cowley, Oxfordshire in March 2016 to centralise and industrialise the testing, maintenance and repair of our fast-moving core hire fleet upon return from customer use. Once deemed fit-for-hire, equipment is moved back into the local branch and CDC network. Activity terminated in April 2018 with the move back to branch-led processes
'Net debt'	the total indebtedness of the Group including senior finance facility, revolving credit facility, lease liabilities, hire purchase arrangements, drawings on the revolving credit facility, any accrued interest on these items and any overdraft net of any cash in the Group
'Net Zero'	Means to be GHG carbon neutral in absolute terms with no large scale offsetting by 2040. This is approved in line with the SBTi 1.5ºC pathway since May 2023
'Near term'	Companies must set near-term science-based targets to roughly halve emission before 2030. This is the most effective, scientifically-sound way of limiting global temperature rise to 1.5°C
'Official List'	the Official List of the FCA
'QCA'	Quoted Companies Alliance
'Restricted stock'	conditional awards of shares under the LTIP which vest subject to continued employment and the Remuneration Committee's assessment of overall business performance over the vesting period
'Return on capital employed' or 'ROCE'	calculated as Adjusted EBITA divided by average capital employed. Capital employed is total assets except intangible assets, derivatives, and cash less current liabilities except current debt items
'Revolving credit facility' or 'RCF'	revolving credit facility made available pursuant to the Revolving Credit Facility Agreement (£25.0m) dated 9 November 2021 which expires in 2025
'RIDDOR(s)'	the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995. Within our KPIs we report our RIDDOR rate, which is calculated as: the number of RIDDOR incidents x 100,000, divided by the number of hours worked
'SBTi'	Science Based Targets initiative (SBTi) is a corporate climate action organisation that enables companies and financial institutions worldwide to play their part in combating the climate crisis
'SDG'	UN Sustainable Development Goals, 17 goals in total. A universal call to action to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity
'Sustainable Advantage'	an independent specialist ESG, energy and waste consultancy, supporting our disclosures across multiple ESG reporting frameworks
'TUPE'	Transfer of undertakings (protection of employment)
'UK'	the United Kingdom of Great Britain and Northern Ireland

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www.hsshiregroup.com