

**SureserveGroup**

Interim results to 31 March 2020

# Interim results 2020



27 May 2020

## **Sureserve Group plc**

("Sureserve" or the "Group")

### **Unaudited Interim Results for the six months ended 31 March 2020 (H1 FY20)**

#### **Building profitable market share**

Sureserve, the compliance and energy services Group, is pleased to announce its interim results for the six month period ended 31 March 2020.

#### **Chairman's statement**

Bob Holt, Chairman of Sureserve Group commented

"Despite the very difficult economic circumstances facing the United Kingdom, the six months ended 31<sup>st</sup> March 2020 showed continued growth and an impressive improvement in profits from our businesses.

The results include the latter part of March where the country and our Scottish, Welsh and Smart Metering businesses were in lockdown as a result of the Covid-19 crisis.

All of our gas, water and electrical service businesses, classified as "key worker" status, carrying out predominantly emergency testing services, continue to operate to agreed protocols with key clients. We maintain open communications with our clients to ensure we are able to minimize the risks to our employees and position us to participate fully when we return to more normal work streams.

Our Scottish and Welsh operations in Energy Services, where we manage the Emerging Fuel Poverty programme for both governments and smart metering installation working for Big 6 energy companies, saw an immediate shut down in March.

Like most other businesses, it was with deep regret that we furloughed those employees who were not required to provide front line services. I would also like to thank those frontline employees for their commitment to deliver the emergency services in difficult conditions which our clients expect of us. I believe the team effort from the most junior to senior members of staff will hold the Group in good stead as we emerge from lockdown.

The Board felt it right and proper that it reduce its compensation for the period during which we have been receiving government support for the business by 20%.

I would also like to thank Peter Smith, our new Chief Financial Officer, and his team for their excellent work managing our working capital and thereby reducing our debt from £12.9m at the end of March 2019 to £3.5m at March 2020. Furthermore, at the time of writing, the Group is debt free with a modest net cash balance.

The Group has implemented a clear procedure for ensuring that all of our premises have undertaken a comprehensive risk assessment enabling all divisions of the group to recommence trading when the government determines it as safe to do so.

Our risk assessments have been created in consultation with our teams and clearly established control measures which we have put in place. Due to the nature of our organization and its various geographical locations, each business has undertaken this risk assessment in the desired format and all assessments have been reviewed and approved by the senior management teams and our SHEQ managers.

### Looking to the future

We are a business which is heavily dependent on government and local authority expenditure. It is still too early to evaluate the long-term impact of the massive government deficits that are being incurred and what effect this will have on us over the medium term.

Our businesses are, however, market leaders providing critical services to the public sector offering, we believe, competitive pricing and meeting the high standards of performance expected by our clients.

We also take comfort that we have a strong order book of £323.7m. The Group's financial position is now better than it has been for many years and we believe that, with a highly competitive cost basis, we can gain market share as we emerge out of what has been a most difficult time for the UK economy.

Traditionally the profitability of the Group is heavily weighted towards the second half of the trading year. Sadly, our Welsh and Scottish operations remain closed and there is as yet no indication from the Scottish and Welsh governments when they will resume.

England, on the other hand, is coming out of furlough so whilst our results will fall short of our original expectations for the year, we believe that the second half will show further progress."

### Financial overview

- Revenue up 7% to **£109.6m (H1 2019: £102.5m)**
- EBITA\*<sup>1</sup> up 27% to **£3.9m (H1 2019: £3.1m)**
- Profit before tax up 129% to **£2.6m (H1 2019: £1.1m)**
- Profit before tax before exceptional items and amortisation of acquisition intangibles up 35% to **£3.4m (H1 2019: £2.5m)**
- Earnings per Share (EPS) from continuing operations up 117% to **1.3p (H1 2019: 0.6p)**
- EPS excluding amortisation of acquisition intangibles and share based payments up 29% to **1.8p (H1 2019: 1.4p)**
- Operating cash conversion\*<sup>2</sup> of **88% (H1 2019: 51%)**
- Net debt\*<sup>3</sup> reduced to **£3.5m (31 March 2019: £12.9m)**
- Order book of **£323.7m** providing visibility of earnings with circa 90% covered in FY20

\*<sup>1</sup> EBITA is defined as operating profit before exceptional items and amortisation of acquisition intangibles. EBITA excludes the profit from Discontinued Operations.

\*<sup>2</sup> Operating cash conversion is calculated before the effect of IFRS16

\*<sup>3</sup> Net debt is calculated before the effect of IFRS16

### Operational overview

- Core divisions of Compliance and Energy Services both delivered strong performances, with demand for services remaining solid. Continued reputation for delivery of quality services and market-leading positions in the highly-regulated public sector gas testing and energy management sectors
- Outstanding record of contract wins worth £124m during the period strengthening our position across the UK

### Outlook

- Well-placed to deliver a clear growth strategy in our market-leading gas services division
- 90% of FY2020 forecast revenue covered by the order book worth £323.7m, providing good visibility of non-volatile revenue streams. The nature of our work and clients is such that while we may see delays, we do not expect work to be cancelled
- The Group is well-positioned for further organic growth in a fragmented and regional market
- Despite the challenges of Covid-19, we expect the continuation of strong trading in FY20 maintaining the Group's momentum. The work we do on behalf of our clients is such that this will continue well into the future
- Increased opportunities to look for further growth from the current crisis, both with existing and future clients.

## **Enquiries**

### **Sureserve Group**

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## **Notes to editors**

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

The Group was founded in 1988 and is headquartered in Basildon and currently employs some 2,116 staff.

## **OPERATIONAL REVIEW**

The unprecedented situation presented by the Covid-19 pandemic and associated Government response has resulted in challenges for the Sureserve group and our operations, as with many others. The safety of our employees and customers has and will always be our absolute priority. Our focus has been the implementation of

numerous measures to ensure that we can serve our customers in a completely safe manner while protecting the wellbeing of colleagues and minimising virus spread risk. Throughout this period we have witnessed many encouraging examples of voluntary support and assistance by our key workers to communities and the individuals within them.

**Compliance** (66% of Group revenue / H1 FY19: 63%)

<b>Compliance: six months ended 31 March</b>	<b>Unaudited 6 months to 31 March 2020</b>	<b>Unaudited 6 months to 31 March 2019</b>	<b>Change</b>
Revenue (£m) *1	73.4	65.7	11.6%
EBITA (£m) *2	3.7	2.6	40.2%
EBITA margin	5.0%	4.0%	1.0ppts

\*1 Division revenue figures include revenue from intercompany trading which accounts for a total across both divisions of £1.1m in 2020 and £1.3m in 2019.

\*2 EBITA is defined as operating profit before exceptional items and amortisation of acquisition intangibles. EBITA excludes the profit from Discontinued Operations.

The Compliance division provides planned and responsive maintenance, installation and repair services predominantly to local authority and housing association clients, in the areas of domestic and commercial gas, fire and electrical, water and air hygiene, and lifts. These services cover clients' social housing and public building assets, as well as industrial and commercial properties. Gas services comprise around three quarters of the division and we believe we remain the largest player in this fragmented and typically localised market.

We are predominantly paid for service and repair work on a fixed price basis evenly through the year. The gas businesses (which as noted above encompass the majority of the division's revenues) have more call-outs during colder months, resulting in higher labour and materials costs, with this seasonality driving higher levels of profitability and cash generation in the warmer months when call-out rates are lower and a proportion of our engineers can be redeployed to jobs that yield further income. As a result, historically a significant proportion of the division's annual profit arises during the second half of the financial year, making the strong results in this current period even more pleasing. Revenue growth combined with a move to our targeted EBITA margin levels of 5% has seen a considerable step forward in our profits.

The division repeated previous strong period-on-period revenue growth of 11.6% to £73.4m (H1 FY19: £65.7m), driven by continued new contract wins and extensions in addition to ongoing regulatory pressures in the sector and growth within our fire protection business, demonstrating a continued improvement following work delivered by that team. Installation works again exceeded expectations in the first half of the year, which by adding to our improved contractual client base further strengthened our position. EBITA increased by 40.2% to £3.7m (H1 FY19: £2.6m). The additional profitability has been driven by a combination of two factors; increased revenues in comparison to the same period last year, with both gas and non-gas businesses showing consistent growth in revenue, and further positive EBITA performance driven from margins which arises from work mix including more commercial works in addition to efficiencies gained by the experienced management teams as scale continues to increase.

The division continued its excellent track record on new wins during the period with particular success within our Aaron Services business, including £8.4m of work over three years for gas boiler upgrades and electrical testing with Hinckley and Bosworth council, a repair and testing contract with Stonewater worth £4.0m and in addition significant framework acceptances with Efficiency East Midlands (up to £4.2m) and Fusion 21 (up to £5.0m, with

the other gas businesses also on the framework) for a range of gas and electrical works. Other significant wins in the division include £4.9m for Southern Housing and £3.9m with Your Housing for gas service and testing works, along with numerous other wins across the full range of workstreams.

We believe the medium and long-term outlook for our Compliance businesses remains strong, underpinned by high levels of long-term contracts and frameworks for which the division has continued to see high appointment levels. This is combined with an ongoing trend towards regulatory services and our client base largely of local authorities and housing associations provides us both continuity moving forward along with clients whom we regard as blue chip with minimal debtor risk.

In the short-term we, like many others, are experiencing uncertainty caused by the Covid-19 pandemic. The nature of our Compliance businesses is of core services including vital emergency repair and testing cover to our local authority and housing association customers, to ensure compliance with gas, electricity and building testing regulations. It is therefore crucial they continue to perform their essential services and this is why the Government has recognised many of our employees within their "key worker" classification.

The division is experiencing some delays in accessing certain residential and communal properties to undertake work as a result of the Government measures and guidance given in response to the Covid-19 outbreak, including social distancing and travel restrictions. Some local authority customers have, where work is considered of a lower priority or not essential, chosen to defer certain elements. We believe that following the temporary uncertainty and disruption to the market our mix of customer and services remains strong and longer-term the demand for these works and underlying fundamentals will underpin our future prospects when conditions recover. As a market leader in gas testing we believe the opportunities will be forthcoming as a result of other failing contractors.

#### **Energy Services** (34% of Group revenue / H1 FY19: 37%)

<b>Energy Services: six months ended 31 March</b>	<b>Unaudited 6 months to 31 March 2020</b>	<b>Unaudited 6 months to 31 March 2019</b>	<b>Change</b>
Revenue (£m) *1	37.3	38.0	(2.0%)
EBITA (£m) *2	1.9	1.9	1.6%
EBITA margin	5.2%	5.0%	0.2ppts

\*1 Division revenue figures include revenue from intercompany trading which accounts for a total across both divisions of £1.1m in 2020 and £1.3m in 2019.

\*2 EBITA is defined as operating profit before exceptional items and amortisation of acquisition intangibles. EBITA excludes the profit from Discontinued Operations.

Energy Services undertakes a range of energy efficiency services for social housing and private homes through two businesses:

- Everwarm delivering insulation and heating, energy efficient technologies including electrical vehicle charging points, battery storage and solar PV, including works within non-domestic properties. Everwarm combines these services with providing carbon emissions savings for energy companies, enabling them to meet their legislative targets. The insulation operations are driven by seasonal influences, as we are unable to render or use fixing glue necessary for insulation at lower temperatures. As a result, we typically experience a far larger number of productive working days in summer,

compared to winter months, with the result that this business also sees higher revenues and margins in H2 each year.

- Providor, a leading national installer of smart meters (operating as a meter asset manager and meter operator), working for several "Big 6" and challenger utilities, who are required to install smart meters in every home in England, Wales and Scotland. The business is experienced in the ongoing UK-wide government roll-out, previously beset by delays and technology challenges around deployment of newer "SMETS2" meter assets. As we have previously advised it was announced that the deadline for installation had been extended to 2024 to allow a more realistic timeframe for delivery. While an expected impact is that overall roll-out costs for the industry may continue to rise, we believe a benefit from this revised timetable will be seen in more consistent volumes to allow more deliverable and sustainable installation levels in coming years. Approximately one third of the 55m total meters within the roll-out have now been installed as smart, with a significant market opportunity remaining.

The division showed period-on-period revenue reduction of 2.0% to £37.3m (H1 FY19: £38.0m), reflecting some revenue reductions within the Everwarm business partly offset by an increase in smart meter installation work in Providor reflecting previous contract wins and consistency in delivery as mentioned in previous updates. EBITA margin improved to 5.2% on the lower revenues (H1 FY19: 5.0%). Results included operational improvements from the prior interim period with continued positive performance in smart metering, which had a profitable H1 trading position for the first time, in addition to a small profit within our Welsh Arbed joint venture (prior year had been a mobilisation phase as previously advised). An overall decrease in profitability of the Everwarm business, due to a combination of the reduction in revenues, some impact from mix of works and a shortfall from the Covid-19 impact on March trading, offset those benefits. We saw relative consistency in the Scottish Warmworks joint venture trading performance.

The largest win for the division has seen extension of our services to the central belt of Scotland (SPOW) region with Scottish Power, offering further smart metering installation services with estimated total contract value of up to £24m. Further significant awards were within the Everwarm business and included £5.4m of air source heat pump installation works for E.ON, up to £10.7m with Argyll Community Housing Association for a mix of external wall insulation and air source heat pump installation in addition to a £1.9m award with Waverley Housing Association for a mix of improvement measures including insulation. The Everwarm business was also placed on the Fusion 21 framework, which is believed to represent a significant opportunity for future energy efficiency works.

Providor remains focused on existing contract delivery; and following the clarity now provided on the Government smart meter roll-out extension, had signaled our intent to review new contract opportunities. This represents an opportunity to strengthen further, particularly following commencement of SMETS2 meter technology installations, with consistency generally expected within volumes up to 2024. Previously awarded agreements and an evaluation of existing contracts and potential extensions give us confidence over future delivery. We have been working well with Scottish Power as a key client in both the sector and across the division for a number of years and are delighted this strong relationship has resulted in extending our service offering to include their SPOW region. This is also geographically attractive to the Sureserve Group given the pre-existing base in Bathgate within established Energy Services operations. We consider this a key demonstration of our ongoing service delivery to extend reach with an existing customer.

Within Everwarm, carbon prices remained largely stable during the period however volumes remain impacted by the transition to "ECO3" which has proven challenging due to changes in measure types and qualifying property. We continue to work through this period and believe we are well-placed to deliver on behalf of our Utility partners despite the ongoing challenges, particularly given the volumes are now becoming more consistent.

Our Warmworks joint venture delivering the Warmer Homes Scotland initiative for the Scottish Government saw ongoing operationally strong performance and client delivery. The Scottish Government's flagship Home Energy Efficiency Programme for Scotland ("HEEPS") continued to perform well in the first half, bringing a diversified installation portfolio, focusing on central heating, boiler improvements and other energy efficiency installation

measures.

The Arbed 3 programme for the Welsh Government via our joint venture with the Energy Saving Trust, focused on improvements to households likely to be living in severe fuel poverty, is ongoing. In the reporting period the contract moved to the delivery of more regular monthly installation performance, and while timings for specific schemes remain variable, contributed a positive six months of performance comparing favourably to the mobilisation period in the comparable results last year.

Whilst our Energy business remains strong with an extremely positive future outlook, as evidenced by both trading performance and recent wins, the short-term has seen impacts from Government action to address the impact of the Covid-19 outbreak. The Energy division has not been afforded the same "key worker" status as seen in our Compliance businesses due to a combination of our services delivered and devolved government approaches around continuation of works, particularly in Scotland. This has resulted in what we believe to be a short-term reduction in trade within both Energy businesses and joint ventures for which we are navigating through a range of measures. These include the application for appropriate government support, customer and supplier negotiations and the implementation of any necessary cost control procedures to best mitigate the impact of the situation.

### **New wins and order book**

The Board is encouraged that high bidding success rates continue to be achieved by the Group. Contract wins in the period totalled £124m, contributing to a period-end order book of £323.7m. This represented a 7.7% decrease on the comparative period (31 March 2019: £350.5m). The order book is consistent with our previously stated view around our targeted efforts on long term contracts that provide opportunities to deliver profitably in our core areas. We believe our order book remains strong across the group and given the timing of award, the figures stated do not include Scottish Power smart metering win as mentioned above. We continue to focus on securing contracts with long term visibility and robust value and this is an area we intend to invest in going forward.

## **FINANCIAL REVIEW**

The Group had a strong half year posting an EBITA of £3.9m (H1 2019: £3.1m).

During the six months to 31 March 2020, the Group adopted IFRS16, using the modified retrospective approach which means that comparatives are not required to be restated. The impact on the income statement are noted in the table below, with comparability to H1 2019.

Whilst Group revenue and cash are unaffected by the adoption of IFRS16, the following areas are impacted:

- Operating profit before exceptional and other items has increased by £0.1m. Lease payments are now reflected as a reduction in the lease liabilities. Conversely there is an increase in depreciation, and interest on finance lease obligations
- Operating expenses (lease costs) have decreased by £2.3m
- Depreciation charges increased by £2.2m
- Finance costs increased by £0.15m such that the overall impact on profit before tax of adopting IFRS16 has been a decrease of £0.1m
- The statement of financial position recognises £8.3m right of use assets and £8.3m lease liabilities on transition.
- Total indebtedness therefore increases, although this does not have an impact on the Group's covenants, which are measured on an historic GAAP basis

A reconciliation of EBITA and adjusted EBITA pre-IFRS16 to profit before tax for the period is provided below:



	Unaudited six months ended 31 March 2020			Unaudited six months ended 31 March 2019
	As reported	IFRS16 impact	Pre IFRS16	
	£'000	£'000	£'000	£'000
<b>Operating profit before exceptional items and amortisation of acquisition intangibles</b>	<b>3,932</b>	<b>89</b>	<b>3,843</b>	<b>3,095</b>
Amortisation of acquisition intangibles	(800)	-	(800)	(1,367)
<b>Operating profit</b>	<b>3,132</b>	<b>89</b>	<b>3,043</b>	<b>1,728</b>
Finance expense	(614)	(148)	(466)	(609)
Investment income	39	-	39	-
<b>Profit before tax</b>	<b>2,557</b>	<b>(59)</b>	<b>2,616</b>	<b>1,119</b>

Group revenue increased by 6.9% to £109.6m (H1 2019: £102.5m), mainly reflecting an increase in revenues in the Compliance division, whose revenues increased by 11.6% to £73.4m (H1 2019: £65.7m). Revenues in Energy Services decreased by 2.0% to £37.3m (H1 2019: £38.0m). These divisional revenue figures include revenue from intercompany trading which accounts for a total of £1.1m (H1 2019: £1.3m).

Group EBITA increased by 27.0% to £3.9m (H1 2019: £3.1m), reflecting an increase in EBITA in the Compliance division of 40.2% to £3.7m (H1 2019: £2.6m) and an increase in EBITA in Energy Services of 1.6% to £1.9m (H1 2019: £1.9m). Central costs were £1.7m (H1 2019: £1.4m).

We reported an operating profit of £3.1m (H1 2019: £1.7m), after £0.8m of amortisation charges for acquisition intangibles (H1 2019: £1.4m). The reduction in amortisation reflected the fact that we have taken amortisation charges in prior periods, meaning we are amortising a reduced base of intangible assets.

Net interest expense was £0.6m (H1 2019: £0.6m), which represented the interest charged on our debt facilities (net of finance income), together with the amortisation of debt issue costs, which totaled £0.4m (H1 2019: £0.6m). The H1 2020 figures includes £0.15m interest in relation to the adoption of IFRS16 (H1 2019: £nil).

#### Discontinued operations

Profits from discontinued operations amounted to £0.1m (H1 2019: £nil)

Discontinued activities represent the Group's Construction and Property Services divisions which were sold on 17 August 2018 and Orchard (Holdings) UK Limited which was sold in September 2017. The profits for the six-month period to 31 March 2020 on disposal of discontinued operations comprise:

- £0.1m profit on sale of Orchard (Holdings) UK Limited from reassessment of the fair value of consideration receivable

On 20 December 2019, Mapps Group Limited, the acquirer of Lakehouse Contracts Limited and Foster Property Maintenance Limited, went into liquidation. We are in active dialogue with the liquidators and our advisors, in the hope of securing an early resolution.

#### **Tax**

The effective tax rate for the period was 19%, compared with a statutory rate of corporation tax of 19%. We expect a full year effective tax rate of 19%.

#### **Earnings per share**

Basic earnings per share from continuing operations were 1.3 pence (H1 2019: 0.6 pence), based on profit after tax from continuing operations of £2.1m (H1 2019: £0.9m).

Adjusted earnings per share from continuing operations excluding amortisation of acquisition intangibles and share based payments were 1.8 pence (H1 2019: 1.4 pence), based on adjusted profit after tax from continuing operations excluding amortisation of acquisition intangibles and share based payments of £2.9m (H1 2019: £2.3m).

Our statutory profit for the period was £2.2m (H1 2019: £0.9m). Based on the weighted average number of shares in issue during the year of 158.9m, this resulted in basic earnings per share of 1.4 pence (H1 2019: 0.6 pence).

#### **Cash flow performance**

Our adjusted operating cash flow (see note 11), before the IFRS16 adjustment, for the period was an inflow of £3.4m (H1 2019: £1.6m), reflecting an operating cash conversion of 88% (H1 2019: 51%). We calculate operating cash conversion as cash generated from continuing operations, excluding the cash impact of exceptional items and amortisation of acquisition intangibles, divided by operating profit before exceptional items and amortisation of acquisition intangibles. We believe this measure provides a consistent basis for comparing cash generation consistently over time.

On a statutory basis, including the effect of IFRS16, we saw an operating cash inflow of £6.3m (H1 2019: outflow of £1.8m), representing a cash conversion of 160% inflow (H1 2019: outflow of 57%).

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

The management of working capital is a continued focus. This includes accrued income, debtors and creditors. We manage these balances within our banking facilities. However, we recognise the importance of supporting our supply chain. We have ensured that we have paid our suppliers as normal.

#### **Net debt**

At 31 March 2020, the Group had net debt excluding the effect of IFRS16 of £3.5m (31 March 2019: £12.9m). However, this represents a snapshot in time and the weighted average revolving credit facility drawdown in the period was £9.7m (H1 2019: £15.3m).

The total net debt including the effect of IFRS16 is £9.9m, this is based upon a £6.4m adjustment for IFRS16.

#### **Banking arrangements**

We had drawn £10.0m at 31 March 2020 (31 March 2019: £14.5m) under our revolving credit facility (excluding

borrowing costs). At the date of issuing this report we had drawn £6.5m (excluding borrowing costs), with a net cash, before finance lease liability of £4.3m; National Westminster Bank ('NatWest') continues to be an excellent and supportive partner.

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

We are confident that our banking facilities provide sufficient support in managing our corporate affairs and provide sufficient capacity to plan for future growth, particularly in bidding with confidence on new contracts.

### Statement of financial position

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

There was a reduction of £0.8m in goodwill and other intangibles, mainly due to £0.8m amortisation charge of acquisition intangibles.

Net current assets (excluding cash, borrowings and lease liabilities) stood at £7.1m at 31 March 2020 (31 March 2019: £8.2m). Net current assets stood at £10.1m at 31 March 2020 (31 March 2019: £9.6m).

The principal movements in working capital are noted below;

Working capital	Unaudited	Unaudited	Audited
	31 March 2020	31 March 2019	30 September 2019
	£'000	£'000	£'000
Trade receivables	28.3	23.3	17.9
Accrued income	9.6	15.1	17.6
Trade payables	(23.6)	(23.7)	(21.1)
Accruals	(7.6)	(7.8)	(8.0)
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### Risks

The Board considers strategic, financial and operational risks and identifies actions to mitigate those risks. Key risks and their mitigation were disclosed on pages 29 to 31 of the Annual Report for the year ended 30 September 2019.

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

The Group have implemented a clear procedure for ensuring that all of our premises have undertaken a comprehensive Risk Assessment in line with returning to work.

By adhering to Government Guidance and the steps we, as a responsible collective Group have proactively taken, we advocate that all our colleagues stay alert by:-

- Maintaining social distancing measures at all times - 2 metres apart where possible;

- Ensuring they thoroughly wash/clean their hands regularly - adequate hand washing facilities and/or sanitising products are made available to all colleagues;
- By agreement with Line Manager and HR Department, work from home where appropriate;
- Limiting contact with other people, where at all possible;
- Office rotas are in place to prevent too many people from being in small spaces;
- Phased working time and/or hours;
- One-way systems around our larger offices with different entry/exit points;
- Wearing a face covering when they are in an enclosed space where it is difficult to socially distance e.g., on public transport

Our Risk Assessments have been created in consultation with our colleagues and clearly establish the control measures we have put in place. Due to the nature of our organisation and its various geographical locations, each Business has undertaken this Risk Assessment in the desired format - however all assessments have been reviewed and approved by the Senior Management Teams and our SHEQ Managers.

### Going Concern statement

The Directors acknowledge the Financial Reporting Council's 'Guidance on the going concern basis of accounting and reporting on solvency and liquidity risks' issued in April 2016. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review.

In assessing the Group and Company's ability to continue as a going concern, the Board reviews and approves the annual budget, three-year plan and a rolling 12 month forecast, including forecasts of cash flows, borrowing requirements and covenant headroom. The Board reviews the Group's sources of available funds and the level of headroom available against its committed borrowing facilities and associated covenants. The Group's financial forecasts, taking into account possible sensitivities in trading performance including the potential impact of Covid-19, indicate that the Group will be able to operate within the level of its committed borrowing facilities and within the requirements of the associated covenants for the foreseeable future. NatWest remains supportive of the Group and in December 2018, the Group renewed its banking facilities to provide an overdraft facility of £5,000,000 together with a revolving credit facility of £25,000,000, which runs to 31 January 2022. The Directors have a reasonable expectation that the Group and Company have adequate resources to continue their operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis of accounting in preparing the Interim report.

## CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March 2020

		Unaudited six months ended 31 March 2020	Unaudited six months ended 31 March 2019	Audited year ended 30 September 2019
	Notes	£'000	£'000	£'000
<b>Revenue</b>	2	<b>109,551</b>	102,476	212,066
Cost of sales		<b>(92,029)</b>	(88,130)	(179,188)
<b>Gross profit</b>		<b>17,522</b>	14,346	32,878

Other operating expenses		<b>(13,736)</b>	(11,622)	(23,953)
Share of results of joint venture		<b>146</b>	371	429

<b>Operating profit before exceptional items and amortisation of acquisition intangibles</b>	2	<b>3,932</b>	3,095	9,354
Exceptional costs	3	-	-	(225)
Amortisation of acquisition intangibles		<b>(800)</b>	(1,367)	(2,735)

<b>Operating profit</b>		<b>3,132</b>	1,728	6,394
Finance expense		<b>(614)</b>	(609)	(1,051)
Investment income		<b>39</b>	-	-

<b>Profit before tax from continuing operations</b>	2	<b>2,557</b>	1,119	5,343
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Taxation	4	<b>(498)</b>	(218)	(1,154)
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<b>Profit for the period attributable to the equity holders of the Group from continuing operations</b>		<b>2,059</b>	901	4,189
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**Discontinued operations**

Profit for the period from discontinued operations		<b>128</b>	-	848
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<b>Profit for the period attributable to the equity holders of the Group</b>		<b>2,187</b>	901	5,037
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**Earnings per share from continuing operations**

Basic	6	<b>1.3p</b>	0.6p	2.7p
Diluted	6	<b>1.3p</b>	0.6p	2.6p

**Earnings per share from continuing operations and discontinued operations**

Basic	6	1.4p	0.6p	3.2p
Diluted	6	1.4p	0.6p	3.2p

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2020

		Unaudited As at 31 March 2020	Unaudited As at 31 March 2019	Audited As at 30 September 2019
	Notes	£'000	£'000	£'000
<b>Non-current assets</b>				
Goodwill		42,357	42,406	42,357
Other intangible assets		1,416	3,701	2,171
Property, plant and equipment		1,302	1,483	1,344
Right-of-use assets	7	6,296	-	-
Interest in joint venture		614	675	732
Deferred tax asset		603	195	467
		<b>52,588</b>	48,460	47,071
<b>Current assets</b>				
Inventories		3,276	3,034	3,059
Trade and other receivables		45,015	45,846	42,068
Cash and cash equivalents	9	6,273	1,407	2,452
		<b>54,564</b>	50,287	47,579
<b>Total assets</b>		<b>107,152</b>	98,747	94,650
<b>Current liabilities</b>				

Trade and other payables		<b>40,045</b>	38,902	36,698
Lease liabilities	9	<b>3,279</b>	53	54
Provisions	10	<b>465</b>	1,549	415
Income tax payable		<b>634</b>	192	242
		<b>44,423</b>	40,696	37,409
<b>Net current assets</b>		<b>10,141</b>	9,591	10,170
<b>Non-current liabilities</b>				
Loans and borrowings	8,9	<b>9,810</b>	14,199	9,755
Lease liabilities	9	<b>3,106</b>	34	-
Provisions	10	<b>3,287</b>	3,813	3,195
		<b>16,203</b>	18,046	12,950
<b>Total liabilities</b>		<b>60,626</b>	58,742	50,359
<b>Net assets</b>		<b>46,526</b>	40,005	44,291
<b>Equity</b>				
Called up share capital		<b>15,895</b>	15,754	15,895
Share premium account		<b>25,318</b>	25,318	25,318
Share-based payment reserve		<b>586</b>	776	538
Own shares		<b>(290)</b>	(290)	(290)
Merger reserve		<b>20,067</b>	20,067	20,067
Retained earnings		<b>(15,050)</b>	(21,620)	(17,237)
<b>Equity attributable to equity holders of the Group</b>		<b>46,526</b>	40,005	44,291

## CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2020

	Share capital £'000	Share premium account £'000	Share- based payment reserve £'000	Own shares £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
<b>At 1 October 2017 (audited)</b>	15,753	25,314	776	(290)	20,067	(11,378)	50,242
Loss for the period	-	-	-	-	-	(12,154)	(12,154)
<b>At 31 March 2018 (unaudited)</b>	15,753	25,314	776	(290)	20,067	(23,532)	38,088
Profit for the period	-	-	-	-	-	1,799	1,799
Dividends paid (note 5)	-	-	-	-	-	(788)	(788)
<b>At 30 September 2018 (audited)</b>	15,753	25,314	776	(290)	20,067	(22,521)	39,099
Issue of shares (exercise of options)	1	4	-	-	-	-	5
Profit for the period	-	-	-	-	-	901	901
<b>At 31 March 2019 (unaudited)</b>	15,754	25,318	776	(290)	20,067	(21,620)	40,005
Issue of shares (exercise of options)	141	-	-	-	-	(141)	-
Profit for the period	-	-	-	-	-	4,136	4,136
Dividends paid	-	-	-	-	-	(394)	(394)
Share based payments	-	-	544	-	-	-	544



Reserve transfer	-	-	(782)	-	-	782	-
<b>At 30 September 2019 (audited)</b>	<b>15,895</b>	<b>25,318</b>	<b>538</b>	<b>(290)</b>	<b>20,067</b>	<b>(17,237)</b>	<b>44,291</b>
Profit for the period	-	-	-	-	-	2,187	2,187
Share based payments	-	-	48	-	-	-	48
<b>At 31 March 2020 (unaudited)</b>	<b>15,895</b>	<b>25,318</b>	<b>586</b>	<b>(290)</b>	<b>20,067</b>	<b>(15,050)</b>	<b>46,526</b>

## CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 March 2020

	Notes	Unaudited six months ended 31 March 2020 (post IFRS16 adjustment) £'000	Unaudited six months ended 31 March 2019 £'000	Audited year ended 30 September 2019 £'000
<b>Cash flows from operating activities</b>				
Cash generated from / (used in) operations	11	6,292	(1,752)	5,539
Interest paid		(540)	(467)	(914)
Interest received		39	-	-
Taxation		(242)	511	(34)
<b>Net cash generated from / (used in) operating activities</b>		<b>5,549</b>	<b>(1,708)</b>	<b>4,591</b>
<b>Cash flows from investing activities</b>				
Receipt of deferred consideration on prior period disposals		930	916	910
Purchase of property, plant and equipment		(283)	(334)	(631)
Purchase of intangible assets		(232)	(300)	(403)
Sale of property, plant and equipment		3	13	86
<b>Net cash generated from / (used in) investing activities</b>		<b>418</b>	<b>295</b>	<b>(38)</b>
<b>Cash flows from financing activities</b>				

Proceeds from Issue of Shares	-	-	5
Dividend paid to shareholders	-	-	(394)
Proceeds from bank borrowings	-	1,500	-
Repayment of bank borrowings	-	-	(3,000)
Lease payments	(2,146)	(57)	(89)
Finance issue costs	-	(328)	(328)
<b>Net cash (used in) / generated from financing activities</b>	<b>(2,146)</b>	<b>1,115</b>	<b>(3,806)</b>
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>3,821</b>	<b>(298)</b>	<b>747</b>
Cash and cash equivalents at beginning of year	<b>2,452</b>	1,705	1,705
<b>Cash and cash equivalents at end of year</b>	<b>6,273</b>	<b>1,407</b>	<b>2,452</b>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

### For the six months ended 31 March 2020

#### 1. Basis of preparation

The results presented in this report are unaudited and they have been prepared in accordance with the recognition and measurement of International Financial Reporting Standards ('IFRS') as adopted by the EU that are expected to be applicable to the financial statements for the year ending 30 September 2020 and on the basis of the accounting policies to be used in those financial statements. The figures for the year ended 30 September 2019 are extracted from the statutory accounts of the group for that period. The condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements and should be read in conjunction with the Group's annual financial statements, being the statutory financial statements for Sureserve Group plc, as at 30 September 2019, which have been prepared in accordance with IFRS as adopted by the European Union.

The condensed consolidated financial statements for the six months ended 31 March 2020 do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2019 have been approved by the Board of Directors and delivered to the Registrar of Companies. These accounts, which contained an unqualified audit report under Section 495, did not include a reference to any matters to which the auditor drew attention by way of emphasis of matter and did not contain a statement under Section 498 (2) or (3) of the Companies Act 2006.

#### **Significant accounting policies**

The accounting policies adopted in the preparation of the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 September 2019, with the exception of those noted below;

**IFRS 16**

IFRS 16 'Leases' was issued in January 2016 and is effective for accounting periods beginning on or after 1 January 2019. It has been applied by the Group from 1 October 2019 under the modified retrospective approach, applying the short term and low value lease exemption.

Under IFRS 16, leases have been recognised as a lease liability and a right of use asset. These lease liabilities were measured at the present value of the remaining lease payments based on a range of values approximating the Group's incremental borrowing rate as at 1 October 2019 of 4.01%. The range that is being used is between 3.01% and 4.51% depending on the type of asset. The associated right of use assets for all leases were measured at the amount equal to the lease liability.

This has had a material impact on the Group's consolidated statement of financial position, as can be seen from the extract below:

	Unaudited six months ended 31 March 2020			Unaudited six months ended 31 March 2019
	As reported	IFRS16 impact	Pre IFRS16	
	£'000	£'000	£'000	£'000
Right-of-use assets	6,296	6,296	-	-
Lease liabilities (current)	(3,279)	(3,249)	(30)	(53)
Lease liabilities (non-current)	(3,106)	(3,106)	-	(34)
Income tax payable	(634)	12	(646)	(192)
<b>Net assets</b>	<b>46,526</b>	<b>(47)</b>	<b>46,573</b>	<b>40,005</b>

**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

For the six months ended 31 March 2020

**1. Basis of preparation (continued)**

The effect on operating profit before exceptional and other items has increased by £0.1m. Lease payments are now reflected as a reduction in lease liabilities. Conversely there is an increase in depreciation and interest on lease obligations.

A reconciliation of EBITA and adjusted EBITA pre-IFRS16 to profit before tax for the period is provided below:

	Unaudited six months ended 31 March 2020			Unaudited six months ended 31 March 2019
	As reported	IFRS16 impact	Pre IFRS16	
	£'000	£'000	£'000	£'000
<b>Operating profit before exceptional items and amortisation of acquisition intangibles</b>	<b>3,932</b>	<b>89</b>	<b>3,843</b>	<b>3,095</b>
Amortisation of acquisition intangibles	(800)	-	(800)	(1,367)
<b>Operating profit</b>	<b>3,132</b>	<b>89</b>	<b>3,043</b>	<b>1,728</b>
Finance expense	(614)	(148)	(466)	(609)
Investment income	39	-	39	-
<b>Profit before tax</b>	<b>2,557</b>	<b>(59)</b>	<b>2,616</b>	<b>1,119</b>

Cash is unaffected by the adoption of IFRS16, but as noted on the extract of the Statement of Cash Flows below, cash generated from operating activities has increased being offset by a decrease in the cash used in financing activities:

	Unaudited six months ended 31 March 2020			Unaudited six months ended 31 March 2019
	As reported	IFRS16 impact	Pre IFRS16	
	£'000	£'000	£'000	£'000
Net cash generated from / (used in)				

operating activities	5,549	2,122	3,427	(1,708)
Net cash generated from investing activities	418	-	418	295
Net cash (used in) / generated from financing activities	(2,146)	(2,122)	(24)	1,115
<b>Net increase / (decrease) in cash and cash equivalents</b>	<b>3,821</b>	<b>-</b>	<b>3,821</b>	<b>(298)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>2,452</b>	<b>-</b>	<b>2,452</b>	<b>1,705</b>
<b>Cash and cash equivalents at end of year</b>	<b>6,273</b>	<b>-</b>	<b>6,273</b>	<b>1,407</b>

The debt covenants on the Group's borrowing facility will be unaffected by the application of IFRS16 as the covenant calculations are based on the accounting principles in place at the date the agreement was entered into.

### **Seasonality**

The Group has seasonal influences in specific areas. The Compliance division experiences higher activity levels in Gas and Lift services in colder weather, leading to higher working capital requirements and lower profitability in winter, and the opposite in the summer. Within Energy Services it is not possible to render walls or use fixing glue at temperatures below three degrees centigrade, nor perform cladding work in high winds. As such, weather has an influence on this business, meaning that the Group has to plan to increase capacity during warmer and more settled periods to compensate for time lost during colder ones.

## **NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**

### **For the six months ended 31 March 2020**

#### **2. Operating segments**

The Group's chief operating decision maker is considered to be the Board of Directors ('the Board'). The Group's operating segments are determined with reference to the information provided to the Board in order for it to allocate the Group's resources and to monitor the performance of the Group.

The Board has determined an operating management structure aligned around the two core activities of the Group, with the following operating segments applicable:

- Compliance: focused on gas, fire, electrics, air, water and lifts where we contract predominantly under framework agreements. Services comprise the following:
  - Installation, maintenance and repair-on-demand of gas appliances and central heating systems
  - Compliance services in the areas of fire protection and building electrics
  - Air and water hygiene solutions
  - Service, repair and installation of lifts
- Energy Services: we offer a range of services in the energy efficiency sector, including external, internal and cavity wall insulation, loft insulation, gas central heating, boiler upgrades and other renewable technologies.

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

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

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

The profit measure the Board used to evaluate performance is operating profit before exceptional items and other items, as outlined in Note 3 and on the face of the income statement.

The Group accounts for inter-segment trading on an arm's length basis. All inter-segment trading is eliminated on consolidation.

The following is an analysis of the Group's revenue and operating profit before exceptional items and amortisation of acquisition intangibles by reportable segment:

	<b>Unaudited six months ended 31 March 2020 £'000</b>	<b>Unaudited six months ended 31 March 2019 £'000</b>	<b>Audited year ended 30 September 2019 £'000</b>
<b>Revenue</b>			
Compliance	73,351	65,743	133,051
Energy Services	<u>37,250</u>	<u>38,002</u>	<u>82,081</u>
<b>Total segment revenue</b>	<b>110,601</b>	<b>103,745</b>	<b>215,132</b>
Inter-segment elimination	<u>(1,050)</u>	<u>(1,269)</u>	<u>(3,066)</u>
<b>Total revenue</b>	<b><u>109,551</u></b>	<b><u>102,476</u></b>	<b><u>212,066</u></b>

*Reconciliation of operating profit before exceptional items and amortisation of acquisition intangibles to profit before taxation*

	<b>Unaudited six months ended 31 March 2020 £'000</b>	<b>Unaudited six months ended 31 March 2019 £'000</b>	<b>Audited year ended 30 September 2019 £'000</b>
<b>Operating profit before exceptional items and amortisation of acquisition intangibles by segment</b>			
Compliance	3,701	2,640	8,470
Energy Services	1,926	1,896	4,341
Central	<u>(1,695)</u>	<u>(1,441)</u>	<u>(3,457)</u>
<b>Total operating profit before exceptional items and amortisation of acquisition intangibles</b>	<b>3,932</b>	<b>3,095</b>	<b>9,354</b>
Exceptional costs	-	-	(225)
Amortisation of acquisition intangibles	(800)	(1,367)	(2,735)
Finance costs	(614)	(609)	(1,051)
Investment income	<u>39</u>	<u>-</u>	<u>-</u>
<b>Profit before taxation from continuing operations</b>	<b><u>2,557</u></b>	<b><u>1,119</u></b>	<b><u>5,343</u></b>

Only the Group consolidated statement of financial position is regularly reviewed by the chief operating decision maker and consequently no segment assets or liabilities are disclosed here under IFRS 8.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### For the six months ended 31 March 2020

#### 3. Exceptional items

	Unaudited six months ended 31 March 2020 £'000	Unaudited six months ended 31 March 2019 £'000	Audited year ended 30 September 2019 £'000
Restructuring costs	-	-	225
Total exceptional costs	<u>-</u>	<u>-</u>	<u>225</u>

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

#### 4. Taxation

The income tax charge for the six months ended 31 March 2020 is calculated based upon the effective tax rates expected to apply to the Group for the period of 19%.

#### 5. Dividends

The proposed final dividend for the year ended 30 September 2019 of 0.5 pence per share amounting to £0.8m and representing a total dividend of 0.5 pence for the full year (2018: 0.25 pence per share), was paid on 30 April 2020 to the shareholders on the register at the close of business on 31 January 2020.

#### 6. Earnings per share

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

	Unaudited six months ended 31 March 2020 Number	Unaudited six months ended 31 March 2019 Number	Audited year ended 30 September 2019 Number
Weighted average number of ordinary shares for the purposes of basic earnings per share	158,947,467	157,541,890	158,049,310
<i>Diluted</i>			
Effect of dilutive potential ordinary shares:			
Share options	<u>1,840,747</u>	<u>189,136</u>	<u>595,869</u>
Weighted average number of ordinary shares for the purposes of diluted earnings per share	<u>160,788,214</u>	<u>157,731,026</u>	<u>158,645,179</u>

Earnings for the purpose of basic and diluted

earnings per share from continuing operations being net earnings attributable to the owners of the Company from continuing operations (£'000)	<b>2,059</b>	901	4,189
Basic earnings per share from continuing operations	<b>1.3p</b>	0.6p	2.7p
Diluted earnings per share from continuing operations	<b>1.3p</b>	0.6p	2.6p
Earnings for the purpose of basic and diluted earnings per share being net profit after tax attributable to the owners of the Company from continuing and discontinued operations (£'000's)	<b>2,187</b>	901	5,037
Basic earnings per share	<b>1.4p</b>	0.6p	3.2p
Diluted earnings per share	<b>1.4p</b>	0.6p	3.2p

The number of shares in issue at 31 March 2020 was 158,947,467.

The weighted average number of Ordinary shares in issue during the year excludes those accounted for in the own shares reserve.

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### For the six months ended 31 March 2020

#### 7. Right-of-use assets

On 1 October 2019 following adoption of the leasing standard IFRS16, assets in relation to leases which had previously been classified as operating leases were recognised, along with the reclassification of finance-leased assets held within tangible assets to right-of-use assets - see note 1 for details.

	Right-of-use property assets £'000	Right-of-use motor vehicles £'000	Total £'000
<b>Cost</b>			
At 30 September 2019	-	-	-
Change in accounting policy	3,159	5,171	8,330
At 1 October 2019	3,159	5,171	8,330
Additions	-	314	314
Disposals	-	(332)	(332)
At 31 March 2020	3,159	5,153	8,312
<b>Depreciation</b>			
At 30 September 2019	-	-	-
Change in accounting policy	-	-	-
At 1 October 2019	-	-	-
Charge for the year	597	1,585	2,182
Disposals	-	(166)	(166)
At 31 March 2020	597	1,419	2,016



<b>Net book value</b>			
At 31 March 2020	2,562	3,734	6,296
At 30 September 2019	-	-	-

#### 8. Loans and borrowings

	Unaudited 31 March 2020 £'000	Unaudited 31 March 2019 £'000	Audited 30 September 2019 £'000
Bank loans and credit facilities at amortised cost:			
Current	-	-	-
Non-current	<u>9,810</u>	<u>14,199</u>	<u>9,755</u>
	<u>9,810</u>	<u>14,199</u>	<u>9,755</u>
Maturity analysis of bank loans and credit facilities falling due:			
In one year or less, or on demand	-	-	-
Between one and two years	9,810	-	-
Between two and five years	<u>-</u>	<u>14,199</u>	<u>9,755</u>
	<u>9,810</u>	<u>14,199</u>	<u>9,755</u>

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### For the six months ended 31 March 2020

#### 9. Net debt

	Unaudited 31 March 2020 £'000	Unaudited 31 March 2019 £'000	Audited 30 September 2019 £'000
Cash and cash equivalents	6,273	1,407	2,452
Bank loans and credit facilities	(9,810)	(14,199)	(9,755)
Finance lease obligations	-	(87)	(54)
<b>Pre IFRS16 net debt</b>	<u>(3,537)</u>	<u>(12,879)</u>	<u>(7,357)</u>
Lease liabilities	<u>(6,385)</u>	-	-
<b>Total net debt</b>	<u>(9,922)</u>	<u>(12,879)</u>	<u>(7,357)</u>

#### 10. Provisions

	<b>Legal and other £'000</b>
<b>At 1 April 2019 (unaudited)</b>	5,362
Additional provision	172
Utilised in the period	(1,924)
<b>At 30 September 2019 (audited)</b>	3,610
Additional provision	237
Utilised in the period	(95)
<b>At 31 March 2020 (unaudited)</b>	<b>3,752</b>
	<b>465</b>
Current provisions	<b>3,287</b>
Non-current provisions	<b>465</b>
<i>Legal and other</i>	

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

## NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

### For the six months ended 31 March 2020

#### 11. Cash used in operations

	Using consistent accounting policies			Audited year
	Unaudited six months ended 31 March 2020 (post IFRS16 adjustment) £'000	Unaudited six months ended 31 March 2020 (pre IFRS16 adjustment) £'000	Unaudited six months ended 31 March 2019 £'000	ended 30 September 2019 £'000
<b>Operating profit</b>	<b>3,132</b>	<b>3,043</b>	1,728	6,394
<i>Adjustments for:</i>				
Depreciation	2,515	333	327	693
Amortisation of intangible assets	978	978	1,524	3,159
Share-based payments	48	48	-	544
Profit on disposal of property, plant and equipment	(3)	(3)	(13)	(40)
<i>Changes in working capital:</i>				
Inventories	(240)	(240)	1,188	1,157
Trade and other receivables	(3,455)	(3,455)	(3,976)	199
Trade and other payables	3,175	3,176	(197)	(2,491)
Provisions	142	142	(2,333)	(4,076)
	<b>6,292</b>	<b>4,022</b>	(1,752)	5,539
Cash generated from / (used in) operations	<b>2</b>	<b>2</b>	(1,752)	5,539

#### Adjusted operating cash conversion calculation

Cash generated from / (used in) operations	<b>6,292</b>	<b>4,022</b>	(1,752)	5,539
Impact of exceptional and other costs in the period	<b>(656)</b>	<b>(656)</b>	3,331	4,364
Adjusted cash generated from operations	<b>5,636</b>	<b>3,366</b>	1,579	9,903
Operating profit before exceptional items and amortisation of acquisition intangibles	<b>3,932</b>	<b>3,843</b>	3,095	9,354
Operating cash conversion %	<b>143%</b>	<b>88%</b>	51%	106%

**Statutory operating cash conversion calculation**

Cash generated from / (used in) operations	<b>6,292</b>	<b>4,022</b>	(1,752)	5,539
Operating profit before exceptional items and amortisation of acquisition intangibles	<b>3,932</b>	<b>3,843</b>	3,095	9,354
Statutory operating cash conversion %	<b>160%</b>	<b>105%</b>	(57%)	59%

**12. Related party transactions**

There have been no material changes to the related party balances disclosed in the Group's Annual Report and Accounts 2019 and there have been no related party transactions that have materially affected the financial position or performance of the Group in the six months to 31 March 2020.

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