SureserveGroup

Interim results to 31 March 2019

Interim results 2019

RNS Number : 2598D
Sureserve Group PLC
25 June 2019

25 June 2019

Sureserve Group plc, the asset and support services group
Unaudited Interim Results for the six months ended 31 March 2019 (H1 FY19)

Transformed business positioned for growth

Bob Holt, Chairman of Sureserve Group commented:

"I am pleased to report an excellent set of results for the 6 months ended 31 March 2019, with the Group trading comfortably ahead of the previous year.

Both our Compliance and Energy business groups showed a significant improvement year on year. It should be remembered that the first half of our year takes into account the winter months where gas in particular incurs significantly higher costs than the summer months. It was pleasing to see our smart meter installation business achieve profitability and we look to the future with a positive view on that business.

The results demonstrate that we were well ahead of the comparable period last year and the Board look forward to achieving a successful outcome for the year to September.

It would be remiss of me to not highlight the commitment from Michael McMahon and the operational and support management teams. I commend my colleagues for their hard work and desire to drive the Group to market leading positions in the markets they serve. We operate across both the public and private sector markets which have seen difficult UK wide trading conditions, and our performance against this is a further demonstration of our ability to win new business on a profitable and cash generative basis.

I personally look forward to bringing you further good news in the future."

Financial highlights

- Revenue from continuing operations grew by 13% to £102.5m (H1 FY18: £91.1m)
- Underlying EBITA[1] from continuing operations grew by 17% to £3.1m (H1 FY18: £2.7m)
- Underlying EBITA[1] margins from continuing operations were 3.0% (H1 FY18: 2.9%)
- Underlying pre-tax profit[2] of £2.5m (H1 FY18: £1.9m)
- Group profit before tax from continuing operations of £1.1m (H1 FY18: Loss of £0.5m), after amortisation of acquisition intangibles of £1.4m (H1 FY18: £2.2m) and finance expenses of £0.6m (H1 FY18: £0.7m)
- Underlying cash conversion of 51% (H1 FY18: 25%)
- Losses from discontinued operations of £nil (FY18: losses of £11.8m resulting from the impairment exercise undertaken in the prior year as part of the preparation of these activities for sale). Earnings per share from continuing operations of 0.6p (H1 FY18: loss per share of 0.2p)
- Earnings per share from continuing operations and discontinued operations of 0.6p (H1 FY18: loss per share of 7.7p).
- Balance sheet remains robust, with net debt of £12.9m (31 March 2018: £14.2m) at the end of our peak seasonal working capital period

Operational highlights

- Repositioning of the Group to focus on Compliance and Energy Services and leveraging the strength of the Sureserve brand to capture new business is bearing fruit

- High bidding success rate led to contract wins in the period valued at £54.5m contributing to an order book of £350.5m, representing a 11% fall on the comparative period mainly due to the end of a number of long-term contracts (31 March 2018: £395.9m)
- Our number of frameworks stood at 291 (31 March 2018: 258), with a value of £1.2bn (31 March 2018: £1.1bn), representing a 9% rise on the comparative period
- Launched Sureserve Academy to provide skills training for employees and sourcing future workforce
- New appointment of Chief Financial Officer Peter Smith, formerly at MITIE

Outlook

- The de-risked and refocused Group is making excellent progress and the underlying performance of Compliance and Energy Services is strong
- Strong regulatory drivers continue to underpin demand demonstrated by our strong order book and visibility of future earnings
- The Group is trading comfortably ahead of the previous year and we are well positioned for further growth

Enquiries

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Notes to editors

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

The Group was founded in 1988 and is headquartered in Basildon, Essex. It currently employs some 2,000 staff from 23 offices across the UK.

Definitions

1. EBITA is earnings before interest, tax and amortisation of acquisition intangibles. Underlying EBITA is defined as operating profit before deduction of exceptional and other items, as outlined in Note 3 and on the face of the Condensed Consolidated Statement of Comprehensive Income. Underlying EBITA is the same as "Operating profit before exceptional and other items" on the face of the Condensed Consolidated Statement of Comprehensive Income, but used as terminology in light of being a key performance measurement for management in the Group.

2. Underlying pre-tax profit is profit before tax from continuing operations before the deduction of exceptional and other items, as outlined in Note 3 and on the face of the Condensed Consolidated Statement of Comprehensive Income. As set out in the Condensed Consolidated Statement of Comprehensive Income, other underlying numbers are stated before exceptional and other items (discussed further in Note 3). Underlying profit after tax and underlying earnings per share are, where relevant, stated net of an imputed tax charge.

CHAIRMAN'S STATEMENT

I am pleased to report an excellent set of results for the 6 months ended 31 March 2019.

Both our Compliance and Energy Services business groups showed a significant improvement year on year. It should be remembered that the first half of our year takes into account the winter months where gas in particular incurs significantly higher costs than the summer months. It was pleasing to see our smart meter installation business achieve profitability and we look to the future with a positive view on that business.

The results demonstrate that we were well ahead of the comparable period last year and the Board looks forward to achieving a successful outcome for the year to September.

Revenues from continuing operations grew 13% to £102.5m (H1 FY18: £91.1m). Underlying EBITA grew by 17% to £3.1m (H1 FY18: £2.7m) and operating profits were £1.7m (H1 FY18: £0.2m). Net debt was £12.9m (31 March 2018: £14.2m) at the end of the period, where our cash conversion is seasonally low.

Although the Group's order book fell 11% to £350.5m against the comparative period, due mainly to a number of long-term contracts coming to an end within the period, we have also seen an encouraging 9% growth on the value of frameworks we are on, compared to the previous year.

These results demonstrate a turnaround in the Group's fortunes following a difficult period and the divestment of the construction and property services business groups. The Board believe that all legacy matters have now been provided for.

It would be remiss of me to not highlight the commitment from Michael McMahon, our Chief Operating Officer, and the operational and support management teams. I commend my colleagues for their hard work and desire to drive the Group to market leading positions in the markets they serve. We operate across both the public and private sector markets which have seen difficult UK wide trading conditions, and our performance against this is a further demonstration of our ability to win new business on a profitable and cash generative basis.

I am also pleased to announce that Peter Smith is joining the Group as Chief Financial Officer effective 29 July 2019 following an extensive search process. Peter has held senior finance roles at companies such as MITIE, OCS Group, Balfour Beatty and DHL over the past thirteen years and I look forward to working with him as we roll out our growth strategy over the years ahead.

I personally look forward to bringing you further good news in the future.

OPERATIONAL REVIEW

Compliance (63% of continuing Group revenue / H1 FY18: 61%)

Compliance: six months ended 31 March	**Unaudited 6 months to 31 March 2019**	**Unaudited 6 months to 31 March 2018**	**Change**
Revenue (£m)	65.7	56.1	17.2%
Underlying EBITA (£m)	2.6	2.4	11.6%
Underlying EBITA margin	4.0%	4.2%	(0.2pts)

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 continue to represent the largest player in this fragmented and typically localised market.

We are typically paid for service and repair work on a fixed price basis evenly through the year. The gas businesses (which as noted above make up the majority of the division's annual revenues) have more call-outs during colder months, resulting in higher labour and materials costs, meaning we are far more profitable and cash generative in the warmer months when call-out rates are lower and those same engineers can be deployed to jobs that yield further income. As a result, a significant proportion of the division's annual profit continues to arise during the second half of the financial year.

The division showed strong period-on-period revenue growth of 17.2% to £65.7m (H1 FY18: £56.1m), driven by further new contract wins and extensions in addition to increasing regulatory demands in the sector, which saw a focus by some clients on higher-than-expected installation works in the first half of the year. Underlying EBITA increased by 11.6% to £2.6m (H1 FY18: £2.4m). Ongoing operational improvements within the gas businesses have seen a small improvement in EBITA performance overall, however most of the additional profitability has been driven by the increased revenues in comparison to the same period last year.

The division continued its excellent track record on new wins during the period with particular success within our K&T business, including an £8.6m five year (possible extension to ten) gas service and repair contract with HARCA, an 18 month extension with L&Q worth £4.5m and further gas contracts with Hammersmith (£4m, one year), Optivo (£3m, 4 years), Red Kite (£2.7m, 3 years) and Moat HA (£2m, 2 years). Other significant wins in the division include £10m for Thurrock and £7.5m for Welwyn Hatfied for gas service and maintenance works.

The outlook for our Compliance businesses remains strong, underpinned by the continuing wins of long-term contracts and levels of frameworks to which the division has been appointed. With the trading environment pushing towards greater levels of regulation, there is a growing stimulus in demand for our compliance services expertise.

Energy Services (37% of continuing Group revenue / H1 FY18: 39%)

Energy Services: six months ended 31 March	**Unaudited 6 months to 31 March 2019**	**Unaudited 6 months to 31 March 2018**	**Change**
Revenue (£m)	38.0	36.6	3.9%
Underlying EBITA (£m)	1.9	1.6	18.6%
Underlying EBITA margin	5.0%	4.4%	0.6pts

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

- Everwarm provides insulation and heating, and renewable technologies including electrical vehicle charging points, battery storage and solar PV. Everwarm also uses these services to deliver 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 temperatures below three degrees. As a result, we typically experience a far larger number of productive working days in summer, compared to winter months, with the result that the business sees higher revenues and margins in H2 each year.

- Providor is a leading national installer of smart meters (operating as a meter asset manager and meter operator), working for several "big six" and challenger utilities, who are required to install smart meters in every home in England, Wales and Scotland. There are more than 26 million homes for the energy suppliers to access, with the goal of every home being offered a smart meter by 2020. The national smart metering programme has been beset by delays, not least the advent of next generation SMETS 2 meters, for which the mandated implementation deadline has slipped a number of times.

The division showed period on period revenue growth of 3.9% to £38.0m (H1 FY18: £36.6m), reflecting increased activity within all departments of the Everwarm business with the exception of insulation, which has been impacted by ECO3 challenges, and further offset by a decrease in meter installation work due to the transitional period. EBITA improved 18.6% to £1.9m (H1 FY18: £1.6m), due to a move to a breakeven H1 trading position in our smart metering operations combined with an overall increase in profitability of the Everwarm business largely due to revenue increases.

As we have previously highlighted, there have been continued delays to the national smart meter roll-out and indeed, there are further derogations permitting the installation of older SMETS1 meters. This has adversely impacted anticipated installation volumes, compounding the challenges we outlined in previous annual reports and we are continuing to apply a range of approaches to navigate this challenging time. As such, we continue to manage our smart metering contracts responsibly and provide strong and secure employment for our engineers. With this level of uncertainty remaining in the smart metering market, costs are continuing to rise and we repeat our previous belief that it is imperative all stakeholders in the national smart meter roll out programme work together to agree an achievable timetable with consistent volumes, to avoid further cost increases.

Carbon prices remained largely stable during the period however volumes were 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 initial difficulties.

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. Our Warmworks joint venture delivering the Warmer Homes Scotland initiative for the Scottish Government saw continued strong performance and we were delighted that in April our contract was extended to 2022.

We have now concluded the mobilisation of 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. The contract is now seeing consistent and growing monthly measure installation performance, which we expect to continue into the second half of the year as we focus on delivery.

Other notable successes further to the HEEPS extension above during the period include follow on work for Glasgow City via a £1.9m award for their 18/19 programme delivery and further EWI work for Fife in Kirkcaldy (£1.7m), in addition to a significant smart metering win with Octopus Energy for delivery of SMETS2 installations and asset management, estimated as worth up to £9.4m over an initial 18 month term.

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 totaled £54.5m, contributing to a period-end order book of £350.5m. This represented a 11% decrease on the comparative period (31 March 2018: £395.9m). The order book remains strong across our continuing business lines as we continue to focus on securing contracts with long term visibility and robust value.

Our number of frameworks stood at 291 (31 March 2018: 258), with a value of £1.2bn (31 March 2018: £1.1bn), representing a 9% rise on the comparative period.

FINANCIAL REVIEW

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

Trading overview

Revenues from continuing operations grew 13% to £102.5m (H1 FY18: £91.1m), driven by the impact of contracts secured and mobilised by Compliance in 2018, in addition to higher installation levels for clients and the stronger H1 revenue delivery within the Everwarm business. Underlying EBITA grew by 17% to £3.1m (H1 FY18: £2.7m) and the Group generated operating profits of £1.7m (H1 FY18: £0.2m), driven by performance improvements in the current period.

Central costs marginally increased to £1.4m (H1 FY18: £1.3m).

Underlying pre-tax profit was £2.5m (H1 FY18: £1.9m). Group profit before tax from continuing operations was £1.1m (H1 FY18: loss of £0.5m) and profits after tax from continuing operations were £0.9m (H1 FY18: losses of £0.3m), resulting in earnings per share from continuing operations of 0.6p (H1 FY18: loss per share of 0.2p).

Exceptional items

Net exceptional items in the period amounted to £nil (H1 FY18: costs of £0.2m). Further details are provided in note 3.

Amortisation of acquisition intangibles

When Sureserve Group acquires businesses, the estimated value of their intangible assets (such as customer contracts and non-compete undertakings from vendors) is recognised on the Group's Statement of Financial Position. These acquisition intangibles are then amortised over their expected useful lives, estimated at between four and six years. We exclude this amortisation charge from our calculation of adjusted EBITA as the Board believes the underlying operating performance of our business is better understood before such costs.

Amortisation of acquisition intangibles was £1.4m during the period (H1 FY18: £2.2m) with the decrease of £0.8m reflecting the fact that we have taken amortisation charges in prior periods, meaning we are amortising a reduced base of intangible assets.

Finance expense

Finance expense is the interest charged on our debt facilities and the unwinding of the discount applied to deferred consideration on acquisitions. The expense in the first half was £0.6m (H1 FY18: £0.7m).

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

Profits from continuing operations for the period were £0.9m (H1 FY18: loss of £0.3m). Based on the weighted average number of shares in issue during the period of 157.5m, this resulted in basic earnings per share from continuing operations of 0.6p (H1 FY18: loss per share of 0.2p). Total earnings per share (including discontinued operations) were 0.6p (H1 FY18: losses per share of 7.7p).

Cash conversion

Underlying operating cash conversion represented an inflow of £1.6m (H1 FY18: £0.7m) as discussed in note 10 and reflected an operating cash conversion from continuing operations of 51% (H1 FY18: 25%). We calculate underlying operating cash conversion as cash generated from continuing operations excluding the cash impact of exceptional items and amortisation of acquisition intangibles, divided by underlying EBITA from continuing operations, to provide a consistent comparison of underlying cash generation. Operating cash outflow in the period was £1.8m (H1 FY17: £10.9m).

On a steady state basis, we expect to continue to target an average stabilised annual underlying operating cash conversion of 80% over the long term.

Net debt and banking facilities

At 31 March 2019, the Group had net debt of £12.9m (31 March 2018: £14.2m), comprising cash and other items of £1.3m (31 March 2018: £3.6m), together with a £14.2m drawing (31 March 2018: £17.8m) under our revolving credit facility, out of a total facility of £25m.

Statement of financial position

The principal items in our Balance Sheet are goodwill, intangible assets, debt and working capital.

The principal movement in net assets from 31 March 2018 to 31 March 2019 reflected the disposal of Lakehouse Contracts and Foster Property Maintenance, amortisation of acquisition intangibles, and movements in working capital.

The principal movements in working capital are notes below;

	Unaudited 31 March 2019 £'000	Unaudited 31 March 2018 £'000	Audited 30 September 2018 £'000
Trade receivables	23.3	20.9	19.0
Accrued income	15.1	13.3	15.7
Trade payables	(23.7)	(23.5)	(24.6)
Accruals	(7.8)	(8.9)	(7.9)

Net current assets excluding cash were £8.2m (31 March 2018: £3.7m).

As at 31 March 2019, we held provisions of £5.4m (31 March 2018: £2.3m; 30 September 2018: £7.7m). Some £2.3m was utilised in in the period in relation to resolving the ongoing matters to which the provisions pertain. We have reviewed the provision that was made at year end and the Board consider that all legacy matters have been provided for.

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 22 to 25 of the Annual Report for the year ended 30 September 2018.

We continue to manage a number of potential risks and uncertainties, including claims and disputes - many of which are common to other similar businesses - which could have a material impact on short and longer-term performance.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 31 March 2019

	Notes	Unaudited six months ended 31 March 2019 £'000	Unaudited six months ended 31 March 2018 £'000	Audited year ended 30 September 2018 £'000
Revenue	2	**102,476**	91,058	190,750
Cost of sales		**(88,130)**	(79,038)	(163,380)
Gross profit		**14,346**	12,020	27,370
Other operating expenses		**(11,622)**	(9,152)	(19,558)
Share of results of joint venture		**371**	(213)	226
Operating profit before exceptional and other items		**3,095**	2,655	8,038
Exceptional costs	3	**-**	(616)	(1,048)
Exceptional income	3	**-**	373	757
Amortisation of acquisition intangibles	3	**(1,367)**	(2,186)	(4,325)

Operating profit	2	**1,728**	226	3,422
Finance expense		**(609)**	(727)	(1,475)
Profit / (loss) before tax from continuing operations	2	**1,119**	(501)	1,947
Taxation	4	**(218)**	173	(782)
Profit / (loss) for the period attributable to the equity holders of the Group from continuing operations		**901**	(328)	1,165
Discontinued operations				
Loss for the period from discontinued operations		**-**	(11,826)	(11,520)
Profit / (loss) for the period attributable to the equity holders of the Group		**901**	(12,154)	(10,355)
Earnings / (loss) per share from continuing operations				
Basic	6	**0.6p**	(0.2)p	0.7p
Diluted	6	**0.6p**	(0.2)p	0.7p
Earnings / (loss) per share from continuing operations and discontinued operations				
Basic	6	**0.6p**	(7.7)p	(6.6)p
Diluted	6	**0.6p**	(7.7)p	(6.6)p

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019

	Notes	Unaudited As at 31 March 2019 £'000	Unaudited As at 31 March 2018 £'000	Audited As at 30 September 2018 £'000
Non-current assets				
Goodwill		**42,406**	42,169	42,923
Other intangible assets		**3,701**	7,093	4,927
Property, plant and equipment		**1,483**	1,271	1,474
Interest in joint venture		**675**	226	865
Deferred tax asset		**195**	-	-
		48,460	50,759	50,189
Current assets				
Inventories		**3,034**	4,296	4,222
Trade and other receivables		**45,846**	41,471	42,618
Corporation tax receivable		**-**	-	769

Assets held for sale		**-**	24,138	-
Cash and cash equivalents	8	**1,407**	3,730	1,705
		50,287	73,635	49,314
Total assets		**98,747**	124,394	99,503
Current liabilities				
Loans and borrowings	7,8	**-**	-	12,926
Trade and other payables		**38,902**	41,434	39,334
Finance lease obligations	8	**53**	131	83
Provisions	9	**1,549**	218	5,102
Liabilities held for sale		**-**	24,183	-
Income tax payable		**192**	256	-
		40,696	66,222	57,445
Net current assets / (liabilities)		**9,591**	7,413	(8,131)
Non-current liabilities				
Trade and other payables		**-**	-	269
Loans and borrowings	7,8	**14,199**	17,750	-
Finance lease obligations	8	**34**	89	60
Deferred tax liability		**-**	172	37
Provisions	9	**3,813**	2,073	2,593
		18,046	20,084	2,959
Total liabilities		**58,742**	86,306	60,404
Net assets		**40,005**	38,088	39,099
Equity				
Called up share capital		**15,754**	15,753	15,753
Share premium account		**25,318**	25,314	25,314
Share-based payment reserve		**776**	776	776
Own shares		**(290)**	(290)	(290)
Merger reserve		**20,067**	20,067	20,067
Retained earnings		**(21,620)**	(23,532)	(22,521)
Equity attributable to equity holders of the Company		[illegible]	[illegible]	[illegible]

Equity attributable to equity holders of the Company	40,005	38,088	39,099

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 31 March 2019

	Share capital £'000	Share premium account £'000	Share-based payment reserve £'000	Own shares £'000	Merger reserve £'000	Retained earnings £'000	Total equity £'000
At 1 October 2017 (audited)	15,753	25,314	776	(290)	20,067	(11,378)	50,242
Loss for the period	-	-	-	-	-	(12,154)	(12,154)
At 31 March 2018 (unaudited)	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)
At 30 September 2018 (audited)	15,753	25,314	776	(290)	20,067	(22,521)	39,099
Issue of shares	1	4	-	-	-	-	5
Profit for the period	-	-	-	-	-	901	901
At 31 March 2019 (unaudited)	**15,754**	**25,318**	**776**	**(290)**	**20,067**	**(21,620)**	**40,005**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 31 March 2019

	Notes	Unaudited six months ended 31 March 2019 £'000	Unaudited six months ended 31 March 2018 £'000	Audited year ended 30 September 2018 £'000
Cash flows from operating activities				
Cash used in operations	10	**(1,752)**	(10,892)	(5,682)
Interest paid		**(467)**	(443)	(1,058)
Interest received		**-**	1	-
Taxation		**511**	132	(152)
Net cash used in operating activities		**(1,708)**	(11,202)	(6,892)
Cash flows from investing activities				
Payment of deferred consideration on prior year acquisitions		**-**	(1,245)	(1,245)
Receipt of deferred consideration on prior year disposals		**916**	-	-
Purchase of property, plant and equipment		**(334)**	(236)	(430)
Purchase of intangible assets		**(300)**	(150)	(449)
Sale of property, plant and equipment		**13**	42	65
Net cash generated from / (used in) investing activities		**295**	(1,589)	(2,059)

Cash flows from financing activities			
Dividend paid to shareholders	**-**	-	(788)
Proceeds from bank borrowings	**1,500**	-	-
Repayment of bank borrowings	**-**	(9,500)	(14,500)
Repayments to finance lease creditors	**(57)**	(106)	(183)
Finance issue costs	**(328)**	(2)	(2)
Net cash generated from / (used in) financing activities	**1,115**	(9,608)	(15,473)
Net decrease in cash and cash equivalents	**(298)**	(22,399)	(24,424)
Cash and cash equivalents at beginning of year	**1,705**	26,129	26,129
Cash and cash equivalents at end of year	**1,407**	3,730	1,705

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 31 March 2019

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 2019 and on the basis of the accounting policies to be used in those financial statements. The figures for the year ended 30 September 2018 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 2018, 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 2019 do not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2018 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 2018, with the exception of those noted below;

IFRS 9

IFRS 9 Financial Instruments is effective for accounting periods beginning on or after 1 January 2018 and has been applied by the Group from 1 October 2018. The adoption of the standard has not had a material impact on the amounts reported.

IFRS 15

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

IFRS 15 is effective for accounting periods beginning on or after 1 January 2018 and has been applied by the Group from 1 October 2018. Upon transition to IFRS 15, the Group applied the 'Cumulative Catch-Up' method. Under this method, there was no adjustment to equity on 1 October 2018 and the comparative figures presented in the financial statements will not be restated.

IFRS 16

We will evaluate the potential impact of IFRS 16 on the FY19 accounts, which will form the comparative figure when the standard is adopted in FY20 and will provide guidance to the market accordingly.

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.

2. Operating segments

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

- Compliance
- Energy Services

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

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

	Unaudited six months ended 31 March 2019 £'000	Unaudited six months ended 31 March 2018 £'000	Audited year ended 30 September 2018 £'000
Revenue			
Compliance	**65,743**	56,075	116,275
Energy Services	**38,002**	36,571	77,734
Total segment revenue	**103,745**	92,646	194,009
Inter-segment elimination	**(1,269)**	(1,588)	(3,259)
Total underlying revenue	**102,476**	91,058	190,750

Inter-segment trading comprises services provided between group companies charged at prevailing market prices.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 31 March 2019

2. Operating segments (continued)

Reconciliation of Underlying EBITA to loss before taxation

	Unaudited six months ended 31 March 2019 £'000	Unaudited six months ended 31 March 2018 £'000	Audited year ended 30 September 2018 £'000
Underlying EBITA by segment			
Compliance	2,640	2,365	6,104
Energy Services	1,896	1,599	4,025
Central costs [1]	(1,441)	(1,309)	(2,091)
Total underlying EBITA	3,095	2,655	8,038
Exceptional costs	-	(616)	(1,048)
Exceptional income	-	373	757
Amortisation of acquisition intangibles	(1,367)	(2,186)	(4,325)
Operating profit	1,728	226	3,422
Finance costs	(609)	(727)	(1,475)
Profit / (loss) before taxation	1,119	(501)	1,947

[1] Central costs are those costs that are not allocated directly in support of a segment and comprise certain group service functions.

3. Exceptional and other items, including amortisation of acquisition intangibles

	Unaudited six months ended 31 March 2019 £'000	Unaudited six months ended 31 March 2018 £'000	Audited year ended 30 September 2018 £'000
Total exceptional costs	**-**	(616)	(1,048)
Total exceptional income	-	373	757
Amortisation of acquisition intangible assets	**(1,367)**	(2,186)	(4,325)

Exceptional costs and income

Exceptional costs related to restructuring costs during previous periods.

Exceptional income mainly related to the settlement of deferred consideration on previous acquisitions at sums lower than expectations.

Amortisation of acquisition intangibles

Amortisation of acquisition intangibles was £1.4m for the period (2018: £2.2m); with the £0.8m reduction reflecting the fact that we have taken amortisation charges in prior periods, meaning we are amortising a reduced base of intangible assets.

Accounting treatment

The costs discussed above are considered non-trading because they are not part of the underlying trading of the Group and (aside from amortisation of acquisition intangibles and unwinding discount of deferred consideration) are not expected to recur year to year.

4. Taxation

The income tax charge for the six months ended 31 March 2019 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 2018 of 0.25 pence per share amounting to £0.4m and representing a total dividend of 0.25 pence for the full year (2017: 0.5 pence per share), was paid on 6 April 2019 to the shareholders on the register at the close of business on 2 March 2019. The Directors do not propose an interim dividend at March 2019.

6. Earnings / (losses) per share

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

	Unaudited six months ended 31 March 2019 Number	Unaudited six months ended 31 March 2018 Number	Audited year ended 30 September 2018 Number
Weighted average number of ordinary shares for the purposes of basic earnings / (loss) per share	**157,541,890**	157,527,103	157,527,103
Diluted			
Effect of dilutive potential ordinary shares:			
Share options	**189,136**	6,803,308	7,316,715
Weighted average number of ordinary shares for the purposes of diluted loss / earnings per share	**157,731,026**	163,330,411	164,843,818
Earnings / (loss) for the purpose of basic and diluted earnings per share from continuing operations being net earnings / (loss) attributable to the owners of the Company from continuing operations (£'000)	**901**	(328)	1,165
Basic earnings / (loss) per share from continuing operations	**0.6p**	(0.2)p	0.7p
Diluted earnings / (loss) per share from continuing operations	**0.6p**	(0.2)p	0.7p
Earnings / (loss) for the purpose of earnings per share being underlying net profit attributable to the owners of the Company from continuing and discontinued operations (£'000)	**901**	(12,154)	(10,355)
Basic earnings / (loss) per share	**0.6p**	(7.7)p	(6.6)p
Diluted earnings / (loss) per share	**0.6p**	(7.7)p	(6.6)p

The number of shares in issue at 31 March 2019 was 157,543,621.

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

7. Loans and borrowings

	Unaudited 31 March 2019 £'000	Unaudited 31 March 2018 £'000	Audited 30 September 2018 £'000
Bank loans and credit facilities at amortised cost:			
Current	-	-	12,926
Non-current	14,199	17,750	-
	14,199	17,750	12,926
Maturity analysis of bank loans and credit facilities falling due:			
In one year or less, or on demand	-	-	12,926
Between one and two years	-	17,750	-
Between two and five years	14,199	-	-
	14,199	17,750	12,926

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 31 March 2019

8. Net debt

	Unaudited 31 March 2019 £'000	Unaudited 31 March 2018 £'000	Audited 30 September 2018 £'000
Cash and cash equivalents	1,407	3,730	1,705
Bank loans and credit facilities	(14,199)	(17,750)	(12,926)
Finance lease obligations	(87)	(220)	(143)
	(12,879)	(14,240)	(11,364)

9. Provisions

	Legal and other £'000
At 1 April 2018 (unaudited)	2,291
Identified on acquisition	27
Additional provision	5,490
Utilised in the period	(102)
Disposal of Lakehouse Contracts Limited and Foster Property Maintenance Limited	(11)
At 30 September 2018 (audited)	7,695
Utilised in the period	(2,333)
At 31 March 2019 (unaudited)	**5,362**
Current provisions	**1,549**
Non-current provisions	**3,813**

Legal and other

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. £2.4m of the provision has been settled in the period.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

For the six months ended 31 March 2019

10. Cash used in operations

	Unaudited six months ended 31 March 2019	Unaudited six months ended 31 March 2018	Audited year ended 30 September 2018

	£'000	£'000	£'000
Operating profit	1,728	226	3,422
Adjustments for:			
Depreciation	327	477	858
Amortisation of intangible assets	1,524	2,369	4,668
Profit on disposal of property, plant and equipment	(13)	(38)	(52)
Changes in working capital:			
Inventories	1,188	(828)	305
Amounts owed by customers under construction contracts	-	(2,660)	6,269
Amounts owed to customers under construction contracts	-	(531)	(1,786)
Trade and other receivables	(3,976)	(2,515)	18,010
Trade and other payables	(197)	(5,911)	(29,185)
Provisions	(2,333)	(416)	3,638
Net change in working capital from discontinued operations	-	(1,065)	(11,829)
Cash used by operations	(1,752)	(10,892)	(5,682)

Underlying operating cash conversion calculation

Cash used by operations	(1,752)	(10,892)	(5,682)
Impact of exceptional and other costs in the period	3,331	1,768	2,448
Cash impact of net change in working capital from discontinued operations	-	9,785	8,042
Underlying cash generated from operations	1,579	661	4,808
Operating profit before exceptional items and amortisation of acquisition intangibles	3,095	2,655	8,038
Underlying operating cash conversion %	51%	25%	60%

Impact of exceptional and other costs in the period relates to the cash impact of Exceptional and other items as disclosed in Note 3.

11. Related party transactions

There have been no material changes to the related party balances disclosed in the Group's Annual Report and Accounts 2018 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 2019.

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