

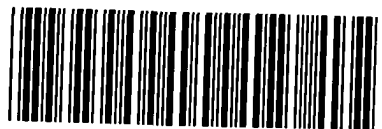
2018

ANNUAL REPORT & ACCOUNTS

Johnson Service Group PLC

Registered No: 523335

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COMPANIES HOUSE

2018

ANNUAL REPORT & ACCOUNTS

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Strategic Report

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**ADJUSTED
OPERATING PROFIT**

46.0m

Increased from £43.3m in 2017

Group Overview and Highlights

We continue to pursue our clear and focused strategy

South West Laundry

Planned new high volume linen plant in Leeds on track

Organic revenue growth of 7.8%¹

Significant ongoing investment in our processing facilities

Continued focus on delivering service excellence

.....
FULL YEAR DIVIDEND
increased 10.7% to

3.1 pence

(2017: 2.8 pence)

OPERATIONAL HIGHLIGHTS

REVENUE

£321.1m
10.4%

2017

2018

Increased to £321.1m (2017: £290.9m)

ORGANIC REVENUE GROWTH¹

7.8%

2017

2018

Increased to 7.8% (2017: 5.1%)

ADJUSTED OPERATING PROFIT²

£46.0m
6.2%

2017

2018

Increased to £46.0m (2017: £43.3m)

OPERATING PROFIT

£36.6m
5.2%

2017

2018

Increased to £36.6m (2017: £34.8m)

ADJUSTED PROFIT BEFORE TAXATION²

£42.5m
7.1%

2017

2018

Increased to £42.5m (2017: £39.7m)

PROFIT BEFORE TAXATION

£33.1m
6.1%

2017

2018

Increased to £33.1m (2017: £31.2m)

ADJUSTED DILUTED EARNINGS PER SHARE²

9.3 pence
6.9%

2017

2018

Increased to 9.3 pence (2017: 8.7 pence)

DILUTED EARNINGS PER SHARE

7.2 pence
4.3%

2017

2018

Increased to 7.2 pence (2017: 6.9 pence)

Notes

1. Excluding revenue from acquisitions completed in 2018, the full year benefit of acquisitions completed in 2017 and the one off benefit of some £2.6 million of revenue for work processed in 2017 on behalf of a privately owned laundry whose plant was out of commission.
2. Before charging £8.8 million (2017: £8.0 million) of amortisation of intangible assets (excluding software amortisation) and exceptional items of £0.6 million (2017: £0.5 million), all net of relevant taxation.

Strategic Review

The Strategic Report

The Strategic Report comprises the Group Overview and Highlights, the Strategic Review, the Chairman's Statement, the Chief Executive's Operating Review, the Financial Review, the Corporate Social Responsibility Statement and the Principal Risks and Uncertainties.

Principal Activities and Business Overview

Johnson Service Group PLC (the 'Company') is incorporated and domiciled in the UK, its registered number is 523335 and the address of its registered office is Johnson House, Abbots Park, Monks Way, Preston Brook, Cheshire, WA7 3GH. The Company is a public limited company and has its primary listing on the AIM division of the London Stock Exchange.

The Company and its subsidiaries (together, the 'Group') provide textile rental and related services across the UK. Our 'Workwear' business is the leading supplier of workwear and protective wear in the UK, offering these services through the Apparelmaster brand. Our 'HORECA' business provides linen services to the hotel, restaurant and catering markets through the Stalbridge, South West Laundry, London Linen, Bourne, Afonwen and PLS brands.

Mission: Enable our people and businesses to achieve their true potential from a stable financial platform.

Vision: Achieve and maintain market leadership in all areas in which we have a major focus.

Values:

1. To set the highest ethical and professional standards at all times and to operate with openness, trust, respect and integrity.
2. To believe in the talents and energy of those who work in our businesses, to encourage them wherever possible to take responsibility and to give them the power to follow through on the decisions they take.

Targets:

1. Be recognised as market leader across all of our brands.
2. Provide leading edge customer service in all of our businesses.
3. Continuously strive to minimise the environmental impact of our operations.
4. Increase Total Shareholder Return (TSR) over the longer term.



Our Business Model

For some time now, the Board's strategy has been to focus the Group on our core businesses and to be the UK's market leader in textile services. The disposal of the Facilities Management division in August 2013, followed by several strategic acquisitions of well invested businesses within the HORECA market, together with the disposal of the Drycleaning business in January 2017, represent the major steps in achieving this goal.

The Group's business model, which supports this strategy and aims to increase both profitability and shareholder value, focuses on delivering exceptional customer service across all of our businesses in order to increase customer satisfaction and loyalty and attract new customers.

Like many businesses, we face a number of external cost pressures, however, our business model seeks to generate efficiencies in order to offset those pressures and to allow us to maintain margin over the medium term. Such efficiencies include:

- investing in the latest machinery technology in order to increase capacity and productivity whilst at the same time reducing energy costs;
- taking advantage of operational synergies, for example, redistributing the processing of customer work across our estate of 34 plants in order to take advantage of reduced distribution costs; and
- diligently managing our cost base.

Key to this is our biggest asset, our highly capable employees, who are the face of our business. The investment we make in the training and development of our employees supports our business model and we seek the views and opinions of employees, at all levels, to continuously develop the way we operate such that we support our people and the operations of the Group.

Our organic revenue growth, the scale it creates and our focus on cost and efficiencies give us a competitive advantage. We can provide our customers with the best value in terms of quality and cost and this helps drive long term and sustainable organic revenue growth. In addition to growing organically, we continue to actively pursue strategic acquisition opportunities and to identify businesses which broaden our services, geographic spread and which add value for Shareholders.

Key Performance Indicators (KPIs)

The Group refers to certain KPIs to assess the performance of the Group as a whole, and of the various businesses. Further details of the KPIs are set out within the Financial Review.

Viability Statement

For the year ended 31 December 2018, all companies with a Premium Listing of equity shares in the UK were required, under the Listing Rules, to comply with the Financial Reporting Council's UK Corporate Governance Code (the 'Code'). The Code is intended to enhance the quality of information investors receive about the long-term health and strategy of listed companies and contains a provision requiring the Board to assess the future prospects, or viability, of the Company and to declare whether it believes the Company is able to continue to operate and meet its liabilities, taking into account its current position and principal risks. The Board is required to assess the Company's viability over a period greater than 12 months.

Strategic Review

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“The Directors confirm that, based upon the information and knowledge of which they can be reasonably expected to be aware, they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for a period of not less than 36 months from the balance sheet date”.

As a company trading on AIM, Johnson Service Group PLC has not previously been required to comply with the Code, however, the Board is committed to high standards of corporate governance, which it considers are critical to business integrity and to maintaining investors' trust and, as a result, voluntarily adopted the Code. During 2018, the AIM Rules for Companies (the 'AIM Rules') were updated such that an AIM listed company, with effect from 28 September 2018, is now required to provide "details of a recognised corporate governance code that the board of Directors of the company has decided to apply, how the company complies with that code and, where it departs from its chosen code, an explanation for the reasons for doing so". Given that the Company has voluntarily adopted the Code previously, the Board determined that it remained relevant to continue adopting the same and has therefore included a viability statement.

The Board is acutely aware that an understanding of the future prospects of the Group is of vital importance to all stakeholders and, as such, a statement, on behalf of the Board, is set out below on the future prospects of the Group.

The Directors confirm that, based upon the information and knowledge of which they can be reasonably expected to be aware, they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for a period of not less than 36 months from the balance sheet date.

Whilst the Directors expect the future prospects of the Group to extend beyond the 36 month period referred to above, this period has been selected, for the purpose of this statement, as:

- it is concurrent with the Group's strategic budgeting process;
- it is consistent with the average contract life of key customers, which provide stable revenue streams, being approximately 36 months;
- the Group has committed banking facilities which although extend slightly beyond this period, to August 2022, will likely

be renewed some six to nine months in advance of that date; and

- projections looking out further than 36 months become significantly less meaningful in the context of the Group's operations and markets.

The Directors have a reasonable expectation, having taken into consideration the principal risks and uncertainties facing the Group (as set out on pages 28 to 31) and, inter alia, the points set out below, that the trading performance and cash generation of the Group will not be materially adversely affected within that time frame, as:

- the Group has a committed bank facility, with significant headroom both in terms of covenant compliance and availability, through to August 2022 which is considered to be sufficient to meet the Group's current requirements throughout that period and it is confident of renewing its facilities in advance of that date;
- interest rate risk is mitigated through a number of hedging arrangements which replace floating LIBOR rates with fixed rates for varying tenors as far out as January 2022, thereby providing certainty over part of the Group's interest cash flows; further information is provided within note 20;
- our diversified customer base, the majority of which have a formal contract in place with varying expiry dates of up to five years, provides a secure future income stream whilst at the same time ensuring that the loss of any single key customer would not materially impact the Group's future trading performance and cash flows;
- the diverse and unrelated nature of the Group's customer base limits concentration of credit risk;
- the Group has prepared a three year financial budget which has been approved by the Board. Prior to approving the budget the Board reviewed, challenged and stress tested the financial projections and assumptions contained within the budget under a wide range of reasonably possible scenarios,

for example, the effect on the Group's trading performance and its ability to generate sufficient cash flows following either a significant increase in interest rates, a significant decrease in profitability or a combination of both and were able to conclude that none of the scenarios indicated a significant threat to the future prospects of the Group;

- the Group continuously strives to seek out and invest in plant and equipment that will help drive operational efficiencies;
- a significant number of the Group's key processing sites are owned on either a freehold or long leasehold basis thereby providing security of tenure;
- the wide geographic spread of processing sites mitigates the effect of a loss of any single processing facility (as demonstrated during 2016 following serious flooding damage at one of our Apparelmaster sites) and, furthermore, appropriate insurance cover is in place such that the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered; and
- the Group continuously reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given and develops succession planning as part of the development programmes for our people.

Although the Board is confident of the future prospects of the Group, there remain a number of risks and uncertainties, which are often beyond the control of the Directors, which could mean that actual results and events may differ from those budgeted.

Strategic Report Approval

The Strategic Report, outlined on pages 6 to 31, incorporates the Group Overview and Highlights, the Strategic Review, the Chairman's Statement, the Chief Executive's Operating Review, the Financial Review, the Corporate Social Responsibility Statement and the Principal Risks and Uncertainties.

The Strategic Report was approved by the Board on 4 March 2019 and signed on its behalf by:

Tim Morris
Company Secretary

4 March 2019

Chairman's Statement

By Chairman, Bill Shannon

Another consistent and strong financial performance

We are continuing to focus on growing the business through targeted investment in our current sites, developing new capacity where market opportunities have been identified and expanding geographical coverage through acquisition. The combination of these three strands allows us the platform to continue to provide an excellent service to our customer base.

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Chairman's Statement

Continued >

Adjusted Diluted EPS

9.3p

Increased 6.9%
from 8.7p in 2017

Dividend

3.1p

Increased 10.7%
from 2.8p in 2017

Financial Results

Total continuing revenue for the year to 31 December 2018 increased by 10.4% to £321.1 million (2017: £290.9 million), reflecting the Group's continuing strong organic growth performance of 7.8% and contributions from the acquisition of South West Laundry in August 2018 as well as the full year benefit of acquisitions completed in 2017. Adjusted operating profit increased by 6.2% to £46.0 million (2017: £43.3 million).

The total finance cost was £3.5 million (2017: £3.6 million) reflecting lower average debt levels and a reduced notional interest charge of £0.3 million (2017: £0.4 million) on the Group's net pension liabilities.

Adjusted profit before taxation increased by 7.1% to £42.5 million (2017: £39.7 million).

Net exceptional items from continuing operations were £0.6 million (2017: £0.5 million) and were in respect of acquisition and subsequent integration activity. The statutory profit before taxation, after amortisation of intangible assets (excluding software amortisation) of £8.8 million (2017: £8.0 million), increased by 6.1% to £33.1 million (2017: £31.2 million).

Continuing adjusted diluted earnings per share increased by 6.9% to 9.3 pence (2017: 8.7 pence). Diluted earnings per share from continuing operations after amortisation of intangible assets (excluding software amortisation) and exceptional items increased by 4.3% to 7.2 pence (2017: 6.9 pence).

Dividend

The Board is pleased to recommend an increased final dividend of 2.1 pence per share (2017: 1.9 pence), which reflects the Group's strong performance and confidence in the future prospects of the business. Together with the interim dividend, this takes the total dividend for the year to 3.1 pence per share (2017: 2.8 pence), an increase of 10.7% year-on-year.

The proposed final dividend, if approved by Shareholders, will be paid on 10 May 2019 to Shareholders on the register at close of business on 12 April 2019. The ex-dividend date is 11 April 2019.

Finances

Total net debt at the year-end stood at £98.4 million (31 December 2017: £91.3 million). The Group's strong trading performance and cash generation helped to offset the impact of both the acquisition we made in the year and our significant investment in capital expenditure across the business. Interest cover, based on adjusted operating profit and excluding notional interest, is 14.4 times (2017: 13.5 times).

The Group remains well funded. A revolving credit facility of £150.0 million was agreed in August 2018 of which £135.0 million runs to August 2022, with a further £15.0 million short term facility expiring in August 2019.

The facility is considerably in excess of the anticipated level of borrowings with comfortable headroom on all bank covenants for the foreseeable future.

Interest payable on bank borrowings is based upon LIBOR plus a margin which is linked to gearing levels. The applicable margin during 2018 was 1.72% and will remain at a similar level for at least the first quarter of 2019. We have mitigated our exposure to future increases in LIBOR rates through the use of interest rate hedging. Hedges for £15.0 million of borrowings replacing LIBOR with 1.665% for the full year 2019 and an additional hedge, over £10.0 million of borrowings, replacing LIBOR with 0.5525% for the period to June 2019 were put in place in prior periods. Since the year end we have put further hedges in place, each over £15.0 million, so that LIBOR is replaced by 1.07% to January 2021 and by 1.144% to January 2022.

Post-Employment Benefits

The recorded net deficit after taxation for all post-employment benefit obligations reduced to £3.8 million at 31 December 2018 from £9.8 million at 31 December 2017. The reduction reflects the benefit of deficit recovery contributions together with the net impact of a small increase in the discount rate and in the assumed inflation rate.

Asset allocation remains under constant review with the Trustee. Changes continue to be made to more appropriately match assets and the resultant cash flows against the remaining scheme liabilities and the timing of benefit payments. The interest rate and inflation risks to the Scheme have been reduced to a more acceptable level through LDI funds, with a current effective hedge target of 75%. This remains under regular review.

The current agreement with the Trustee of the defined benefit pension scheme required deficit recovery payments of £1.9 million in the year to December 2018 and this is expected to continue until after the next actuarial valuation is finalised.

Employees

Our teams across the business have continued to work with skill, enthusiasm and dedication and have helped to ensure that our customers receive market-leading service standards.

The Board would like to thank them for their significant contribution to the continuing success of the Group.

Board Changes

As reconfirmed on 17 December 2018, Peter Egan, who joined the Board on 1 April 2018 as Chief Operating Officer assumed the role of Chief Executive Officer (CEO) on 1 January 2019. Chris Sander, the previous CEO, stepped down from the Board on 31 December 2018 with our sincere gratitude and very best wishes; the Board would like to thank Chris, who during his 34 years with the Group, has made a significant contribution to its success and, as CEO, led the Group through a sustained period of exceptional growth.

Brexit

The main impact from Brexit and the continuing uncertainty around the post Brexit arrangements depends on whether or not it has a potential negative effect on the macroeconomic environment. In this respect, we believe that the risks we would have to mitigate against would be a change in consumer confidence, levels of employment and investment from within our customer base. The Group has undertaken a review of potential actions that it would take in the event that mitigation was required.

Outlook

The Group's performance since the year end has been in line with management expectations. With strong new business sales in the second half of 2018, existing strong cash flows and an established strategy of investing for growth, we remain confident in the year ahead.

We are continuing to focus on growing the business through targeted investment in our current sites, developing new capacity where market opportunities have been identified and expanding geographical coverage through acquisition. The combination of these three strands allows us the platform to *continue to provide an excellent service to our customer base.*

The announced investment in a new laundry in Leeds forms part of our strategy to increase future capacity and revenue generating opportunities and demonstrates our commitment and confidence in the future.

Bill Shannon
Chairman

4 March 2019

Chief Executive's Operating Review

By Chief Executive Officer,
Peter Egan

We remain confident in the year ahead

The Group reported another year of substantial organic growth with both divisions delivering higher levels of new business wins and maintaining consistently high levels of customer satisfaction scores which in turn contributed to very high retention levels. The acquisition of South West Laundry, a linen plant based in Cornwall, was a welcome addition to our coverage for Stalbridge.

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Chief Executive's Operating Review Continued >

Revenue

£321.1m

Increased 10.4%
from £290.9m in 2017

Adjusted Operating Profit

£46.0m

Increased 6.2%
from £43.3m in 2017

Our Businesses

The Group reported another year of substantial organic growth with both divisions delivering higher levels of new business wins and maintaining consistently high levels of customer satisfaction scores which in turn contributed to very high retention levels. The acquisition of South West Laundry, a linen plant based in Cornwall, was a welcome addition to our coverage for Stalbridge.

The planned capital investment programme was accelerated during the year in many of our existing locations to ensure that we both improved efficiencies and created additional capacity to meet the demands from the strong organic sales generated throughout the year.

Our Group now comprises of textile services businesses that trade through a number of very well recognised brands, servicing the UK's Workwear and HORECA sectors. Currently the 'Apparelmaster' brand operates in the workwear market, 'Stalbridge', 'South West' and 'London Linen' provide premium linen services to the restaurant, hospitality and corporate events market and 'Bourne', 'Afonwen' and 'PLS' provide high volume hotel linen services.

As previously indicated, we are developing a new Group wide corporate brand which will link together the various local brands and extend national brand recognition. The rollout will commence shortly and will take up to three years to fully implement. The associated modest cost will not have a material impact on the reported earnings or cash flows of the Group over that period.

Workwear Division

The Group's workwear division provides workwear rental and laundry services to some 36,000 customers in the UK from small local businesses to the largest companies covering food related and other industrial sectors.

Operating profit increased 7.6% during the year to £22.7 million (2017: £21.1 million) driven by revenue growth of 5.2% to £128.8 million (2017: £122.4 million) and improved margins at 17.6% (2017: 17.2%).

The organic revenue growth of 5.2% includes the benefit from the record levels of new sales with some large customers returning to our services after trialling alternative providers. It was also helped by increased sales of additional products and services to existing customers and continuing high levels of retention at some 95%. These growth levels reflect a combination of our continued investment in sales and marketing activity and our strong customer service levels to our existing customers where our satisfaction index was at a high of 86.0% (2017: 84.9%). Our customer satisfaction index for our new customers also continues to remain at very high levels.

Despite the impact of higher energy costs and the continued wage increases in excess of inflation, costs were maintained and margins improved through volume efficiencies and improved productivity.

Our workwear business has continued to invest in plant and machinery during the year to drive higher productivity and lower energy consumption, ensuring the business is on schedule to meet the Government targets for reduced energy consumption under the Climate Change Agreement. Highly efficient garment folding equipment was installed in the high care food unit at Hinckley increasing folding capacity at the site by 17.5%. Work was also completed to increase garment production capacity at the high care food unit in Letchworth by a further 35%. Phase one of the Gateshead high care upgrade was completed with the installation of a new tunnel finisher and loading systems. In total, capital expenditure amounted to £5.6 million (2017: £4.7 million), with a further £21.7 million (2017: £17.8 million) spent on new rental stock. Further enhancements to the computer tablet software for our sales and service staff have been implemented which make the face to face customer experience more effective.

"We are developing a new Group wide corporate brand which will link together the various local brands and extend national brand recognition."

We have continued to improve the garment delivery times for new customers and have instigated a new product development programme, working closely with our suppliers, to ensure garments are of high quality and meet our ever-changing customers' requirements.

Investment in the training and development of our employees is carried out through our Academy and there are now 60 people benefiting from enrolment on apprenticeship schemes in addition to a nationwide customer service and management development programme. This will help to provide internal succession in some of our technical and skilled areas. Our success in this area was recognised towards the end of the year when the Academy team won the 2018 Personnel Today Talent Management Award. This national recognition reflects the excellent work of the learning and development team.

We will start the rebranding of our division early in 2019 in line with the Group wide rebranding process. Our operational and marketing departments will work together to launch and promote our new brand both internally and externally.

The business strategy of delivering enhanced quality and service to our customer base will continue into 2019 with the aim of sustaining the high levels of customer satisfaction and retention achieved in 2018.

Following the appointment of Peter Egon to the Board of Johnson Service Group, Gerry Moore was appointed Managing Director of the division at the end of April 2018. Gerry has over 25 years of industry experience and is a welcome addition to the team.

HORECA Division

The total revenue for the HORECA division was up 14.1% to £192.3 million (2017: £168.5 million). This £23.8 million increase includes contributions from additional months of trading from acquisitions completed in both 2017 and 2018. The increase is net of the one-off benefit of some £2.6 million of revenue for work processed between February and October 2017 on behalf of a privately owned laundry whose plant was out of commission. New business sales throughout the year were strong, contributing to underlying organic growth of 9.6%.

Adjusted operating profit increased by £1.2 million to £28.0 million (2017: £26.8 million) with an operating margin of 14.6% (2017: 15.9%). The margin in 2017, excluding the benefit from the work processed for the privately owned laundry referred to above, was 15.2%. The slight reduction in underlying margin is, in part attributed to the seasonal impact of acquisitions.

Stalbridge have continued with very strong organic growth with record new sales wins well ahead of target and expectations. This is a result of a continuing reputation for quality, service delivery and response, as well as a vigorous approach to sourcing new business via online search engine optimisation tools and website activity. Our flexible, contract free approach to the marketplace is attractive to both new entrants and long established hotels, restaurants and caterers.

We have also won or renewed agreements with several significant catering groups in the latter part of 2018.

During 2018 StarCounty near Wrexham and Caterers Linen in Southall were successfully integrated onto the Stalbridge operating platforms and branding. The Wrexham site benefited from an investment programme of £0.9 million which included a new ironer line and chefs' wear finishing equipment to improve

Chief Executive's Operating Review

Continued >

quality and productivity. In Southall, an additional factory unit has been leased to extend the existing factory footprint and £3.3 million invested in processing equipment to double the capacity of the plant. Both investment programmes were also designed to improve the working environment of our staff. A significant number of customers were moved between factory locations which will lead to improved, and more local, distribution and service and allow for further optimisation of distribution in 2019.

The acquisition of South West Laundry in August 2018 will allow us to further consolidate our customer distribution in the West Country and will free up additional capacity for future growth in our linen laundries based in Dorset. We have continued to invest in energy efficient and higher productivity equipment in all of the Storbidge sites in order to process additional volume.

We have started work on expanding and improving our operation in Grantham to accommodate a significant amount of business installed in the first quarter of 2019.

Maintaining service and quality levels are paramount to Storbidge, and our customer survey scores continue to rank us in the top quartile of service delivery companies generally and serve to motivate the business to stay ahead of the competition. London Linen is now solely focused on restaurant customers, mainly in the London area, although the national restaurant chains are also supplied via our nationwide network of Group laundries, providing consistency of service levels and key performance criteria.

Revenue increased during the year, both as a result of gaining new accounts, including a significant (92 site) contract win at the start of 2018, and the opening of new sites by existing customers. Customer retention is 95% for the year with the majority of lost customers being due to restaurant sites closing.

We have experienced some limited pressures exerted by the laundries market to reduce the amount of textile product lines ordered as customers attempt to limit costs without affecting the services they provide to their own customers. Front of house.

Despite this, the third week of December was our busiest ever week with in excess of 2.5 million items delivered to customers. The £4.5 million capital investment programme which was completed half way through 2017 continues to drive further benefits for London Linen, providing the capacity to facilitate the increased revenue whilst at the same time generating efficiencies. This combination has resulted in lower production labour costs per unit compared to 2017, despite National Living Wage increases. Investment has continued through 2018 with the installation of a new high speed ironer line, inclusive of an electronic inspection system, which has further increased capacity, productivity, quality and consistency.

Three of our nine ironer lines now have electronic inspection systems and these will continue to be installed to existing ironer lines to further improve efficiency and the quality of the final product. Further project work is being undertaken to determine ways to improve efficiency within the dispatch process to ensure our high levels of customer service are maintained in a cost effective manner.

2018 was another successful year for high volume linen, trading under the Afonwen, Bourne and PLS brands. The business continues to invest strongly in a range of areas including equipment, people and textile product in order to ensure we maintain our leading position in the high volume linen market, focusing on the core corporate 4 star and budget hotel sectors. Early in the year, the businesses benefited from securing and installing a range of new customers quickly due to the sudden and unplanned closure of a small independent laundry in the Midlands. In addition, the business continued to benefit from increased integration and working more consistently together, allocating work to the closest operating site thereby ensuring the business continued to benefit from improved logistical efficiencies.

In July 2018, nearing the peak of the summer season, the high volume linen business successfully rolled out a new nationwide contract with Village Hotels, supplying 29 hotels across England, Wales and Scotland. This is an example of the benefit from being

able to offer a fully nationwide supply following the successful acquisitions that have now enabled us to offer a genuine UK-wide service.

By the height of the summer, we saw a significant increase in summer peak volumes with our customers benefiting from the exceptionally warm summer period and we delivered in excess of 7 million items of linen per week.

Throughout the year, we continued to lay down the foundations of an on-going, carefully planned structured process of integrating into a high volume linen single business platform. This will create improved benefits of a centralised national operations and account management team together with plans in place to fully integrate the finance function across the business from early 2019. During the year ahead, the further integration of the three brands is expected to continue as part of the Group wide re-branding process.

With increasing capacity constraints and anticipated further consolidation and growth in the underlying hotel market place, the high volume linen business is actively planning additional production capacity to allow future growth.

We have identified an opportunity to secure a new operational site within close proximity of our current Leeds transport hub, which supplies hotels across Yorkshire and the North East.

As such, we have entered into a 20 year lease agreement to enable the business to open a major new laundry on the outskirts of Leeds in the first half of 2020. The proposed new site will deliver considerable logistical benefits and increased capacity for our business in Northern England, delivering improved efficiencies, lowering our carbon footprint, with significant reductions in cost of trunking work. The new site will also free up capacity at existing production facilities through reallocation of work and effectively relocating our Leeds transport hub to a fully operational commercial laundry.

Construction on site has commenced and is on schedule for handover towards the last quarter of 2019, enabling up to six months for installation and commissioning of the new plant.

The anticipated investment in the site will be up to £10.0 million. The financing of the new plant is already in place due to the increased banking facilities previously announced during the financial year.

The business continues to explore other opportunities to expand over the medium term and is developing an enhanced sales and marketing strategy to continue to drive organic growth throughout the business as we commission and increase production capacity from the spring of 2020 onwards.

System Development

Work continues on our in-house development of the new operating systems for both the workwear and high volume linen operations. This project, which incorporates the use of Microsoft Dynamics, will further improve our operating systems and customer engagement. The first phase of the solution, covering finance, will be installed in the first half of 2019.

Peter Egan
Chief Executive Officer

4 March 2019

Financial Review

By Chief Financial Officer, Yvonne Monaghan

This Financial Review should be read in conjunction with the Chairman's Statement, the Chief Executive's Operating Review and the Consolidated Financial Statements, which set out further comments and information on revenue, earnings and dividends.

NET ASSETS

£190.4m

13.6%

Increased to £190.4m (2017: £167.6m)

NET CASH GENERATED

£82.5m

5.9%

Increased to £82.5m (2017: £77.9m)

INVESTMENT IN PPE

£22.0m

0.9%

Increased to £22.0m (2017: £21.8m)

TEXTILE RENTAL ITEMS

£48.9m

13.4%

Increased to £48.9m (2017: £43.1m)

Overview

Revenue and adjusted profit before taxation from continuing operations increased significantly in 2018 through a combination of acquisitions and organic growth.

The Group's textile services business serves two market sectors, being Workwear ("Workwear") and Hotel, Restaurant and Catering ("HORECA") and these two divisions form the basis of the segmental analysis. Details of the segmental results are given in note 1 of the Consolidated Financial Statements.

Taxation

The tax rate on adjusted operating profit from Continuing Operations, excluding exceptional items and the amortisation of intangible assets (excluding software amortisation), was 18.9% (2017: 19.1%) and slightly below the effective tax rate of 19.0% (2017: 19.25%) due, in part, to the recognition of prior year credits. We would expect our tax rate to remain at a similar level in 2019.

Cash Flow

We continue to generate strong cash flows with net cash generated from operating activities increasing by 5.9% to £82.5 million (2017: £77.9 million). Of this cash generation we invested £22.0 million (2017: £21.8 million) in the purchase of property, plant and equipment including software and finance lease capital payments.

We also invested £13.2 million, net of cash and debt acquired, in the acquisition of South West Laundry, a business serving the premium hotel and restaurant linen market.

Bank Facilities and Finance Costs

The Group's bank facility was renewed in August 2018 with the incumbent banks. The facility comprises a Revolving Credit Facility ("RCF") of £135.0 million running to August 2022 together with a short term £15.0 million RCF expiring in August 2019.

The current facility provides headroom both in terms of covenant compliance and availability to allow further investment to be made by the Group.

A number of hedging arrangements are currently in place in order to provide some certainty over future borrowing costs. One arrangement, over £10.0 million of borrowings, serves to swap LIBOR rates for 0.5525% to June 2019 whilst a further arrangement, over £15.0 million of borrowings, serves to swap LIBOR rates for 1.665% to January 2020. Since the year end we have entered into two further arrangements, each over £15.0 million of borrowings, to swap LIBOR rates for 1.07% to January 2021 and 1.144% to January 2022. The unhedged borrowings will be subject to LIBOR at market rates at the point of drawdown. Interest charges include an average margin of 1.72% for 2018 (2017: 1.73%). The margin is subject to a quarterly covenant test and is dependent upon the gearing ratio at each quarter end and, based on the actual gearing ratio at December 2018, will remain at a similar rate for the first quarter of 2019.

Total finance costs in 2018 included £0.3 million (2017: £0.4 million) of notional interest (non-cash) on post-employment benefit obligations. This cost is fixed at the start of each year and is dependent on the level of the pension deficit at the previous year end. The cost for 2019 is estimated to be £0.1 million.

The bank covenants within the facility agreement measure interest cover and gearing ratios and contain some restrictions on pension fund deficit recovery payments. There remains considerable headroom on all measures to fund current plans.

Investment in Textile Rental Items

Spend on textile rental items increased to £48.9 million (2017: £43.1 million) reflecting the larger size of the business following recent acquisition activity together with strong organic growth. This will continue to be a significant annual investment for the Group and we continue to work closely with our suppliers to ensure that we have access to procure adequate levels of new workwear and linen on a timely basis. Our continued investment in textile rental items is a key requirement in providing a high quality service to our customers.

Defined Benefit Pension Scheme Liabilities

As at 31 December 2018, the scheme's assets had reduced by £9.9 million, to £208.7 million after paying out benefits of £11.4 million. The net deficit has reduced by £7.3 million to £3.6 million.

Scheme liabilities have benefited from an increase in the discount rate utilised in deriving their value. In common with many other schemes we have assessed the impact of the recent court ruling on the GMP equalisation (see Note 23) and have recognised an additional liability of £0.2 million in respect of such benefits.

The triennial valuation of the scheme, as at 30 September 2016, was finalised during 2017, and we have committed to continue to pay £1.9 million per annum in deficit recovery payments, in equal monthly instalments.

Clearly, the deficit calculated under both the provisions of IAS19 and under the statutory funding objective is sensitive to changes in the discount rate, based on corporate bond or gilt yields as appropriate. The asset allocation of the scheme is kept under review so that the impact of a reduction in the discount rate and an increase in inflation is, at least in part, offset by a corresponding increase in asset values. In addition, the review also considers alternative asset classes which earn a reasonable level of return but with lower volatility and therefore a reduction in risk. Appropriate changes to the investment allocation have been implemented in order to achieve these goals.

Leasing

The new accounting standard on leasing arrangements (IFRS 16) will be adopted by the Group with effect from 1 January 2019 using the modified retrospective approach. As explained on page 79 of this Annual Report, this will impact on the reported assets and liabilities on the Balance Sheet, will likely result in an increase in the Group's Adjusted Operating Profit but will not materially impact Adjusted Profit Before Taxation. The bank covenants will continue to be measured under the previous accounting rules until such time as the new covenants are agreed with the banks to take account of the impact of IFRS 16. There is no cash impact as a result of adopting IFRS 16.

Balance Sheet

Net assets of the Group have increased to £190.4 million (2017: £167.6 million) through a combination of retained earnings and reduced pension deficit.

The distributable reserves of the Parent Company are set out in the Company Statement of Changes in Shareholders' Equity on page 125 and are not expected to influence the determination of future dividend payments.

Key Performance Indicators ('KPIs')

The main KPIs used as part of the assessment of performance of the Group, and of the individual business, referred to within this Financial Review, Consolidated Financial Statements, Chairman's Statement, Chief Executive's Operating Review or segmental information on pages 89 to 91 are growth in revenue, adjusted operating profit and adjusted diluted earnings per share from Continuing Operations. Non-financial KPIs include our employee and customer survey results and customer retention statistics.

Alternative Performance Measures (APMs)

Throughout the Annual Report and Accounts we refer to a number of APMs. These are 'adjusted operating profit' which refers to continuing operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items, 'Adjusted profit before taxation' which refers to adjusted operating profit less total finance cost, 'Adjusted EBITDA', adjusted for acquisitions and disposals, used for gearing purposes, which refers to adjusted operating profit for the relevant period plus the depreciation charge for property, plant and equipment and software amortisation and 'Adjusted EPS' which refers to EPS calculated based on adjusted profit after tax.

The Board considers that 'adjusted operating profit', 'adjusted profit before taxation', 'adjusted EBITDA' and 'adjusted EPS', all of which exclude the effects of non-recurring items or non-operating events, provide useful information for Shareholders on underlying trends and performance.

Summary

We remain firmly on track to continue to expand our Textile Services business through targeted capital investment and acquisition. We have a strong balance sheet to support this strategy with future funding in place to allow for planned investment.

Yvonne Monaghan
Chief Financial Officer

4 March 2019

Corporate Social Responsibility Statement

“We recognise our duty to stakeholders to operate the business in an ethical and responsible manner. We are committed to developing our Corporate Social Responsibility (‘CSR’) agenda, recognising that it can play a major part in leading and influencing all of our people and operations”.

We work to ensure that we provide the right resources, energy and focus to meet the expectations of all of our stakeholders in relation to CSR.

Work Place

We recognise that our people are key to the success of the Group and we value the contribution of each and every one of our employees. We strive to create an inspiring working environment where everyone is engaged and motivated.

Our Culture

Our corporate culture defines who we are, what we stand for and how we do business and it is integral to the success of the Group. Our good reputation has been built on the solid foundation of an ethical culture, underpinned by a well-defined and effective system of governance. The Board defines the purpose of the Group, identifies the values that guide it and remains committed to upholding the highest ethical standards, operating on the principle that the tone at the top sets the standard for the rest of the business.

Over the years, we have carefully developed a common set of expected behaviours based on our corporate values and an effective system of governance, both of which have been influential in shaping and embedding a strong ethical and governance culture across the Group. The Board is responsible for changes to corporate governance and culture, however, from a practical perspective, the Executive Directors and senior managers are responsible for implementing behavioural and governance changes and for clearly articulating to colleagues in the wider business the reasons for change, its benefits or the consequences of not changing, providing encouragement and support to colleagues to ensure that ethical standards are maintained and good governance is put into practice.

The success of our business is dependent upon a strategy which benefits our investors, employees, clients, suppliers and the wider stakeholder community. We have invested time and resources in communicating with employees and designed training and development programmes to educate and encourage the high standards of conduct that reflect our vision to be the market leader in all areas in which we have a major focus, renowned for our great people, great service and great results.

Employment Policies

The employment policies of the Group embody the principles of equal opportunity and are tailored to meet the needs of its different businesses and the locations in which they operate.

The Group's employment policies and procedures are described in detail in its Staff Handbook, a copy of which is made available to all employees. This handbook takes account of relevant employment legislation and best practice. New policies, procedures and related training are developed and delivered as required.

Code of Ethics and Bribery

The Group has a written code on business ethics (the 'Code of Ethics'), which is reviewed regularly by the Board and sets out guidelines for all employees to enable the Group to meet the highest standards of conduct in business dealings, including those with overseas suppliers. On joining the Group, whether by way of acquisition or otherwise, all employees are made aware of these standards and procedures to ensure compliance is achieved.

Senior employees are required to sign an annual statement of compliance with the Code of Ethics. A dedicated and confidential Whistleblowing hotline service is available to employees should anyone wish to report perceived improprieties. Arrangements are in place to ensure that any reports are followed up and the appropriate action taken.

The Group's anti-bribery policy sets out how employees must act to ensure that our zero tolerance approach to bribery and corruption is upheld.

Modern Slavery Act (the 'Act')

Our business principles lay down the standards we set ourselves to ensure we operate lawfully, with integrity and with respect for others. As part of this, we are committed to implementing and enforcing effective systems and controls to confirm that slavery and human trafficking is not taking place anywhere in our supply chain or in any part of our business. We fully acknowledge our responsibility to respect human rights as set out in the International Bill of Human Rights and we are also committed to implementing the United Nations Guiding Principles on Business and Human Rights throughout our operations.

Wherever possible, we expect suppliers to have suitable anti-slavery and anti-human trafficking policies and processes within their businesses and to cascade those policies to their own suppliers. Our standard supplier contractual terms and conditions include a provision requiring suppliers (and each of their sub-contractors) to comply with the Act. The standards we expect will address a broad spectrum of working conditions including fair remuneration, working hours, no child labour, respect, non-discrimination, health, safety and wellbeing, as well as freedom from forced labour.

As part of any tender process, we will ask prospective suppliers to confirm compliance with the Act at the pre-qualifying questionnaire stage. We will not progress to working with any supplier which does not comply with the Act. Throughout the life cycle of any supply agreement we reserve the right to conduct audits on our suppliers to verify compliance with the Act. We will assess any instances of non-compliance on a case-by-case basis, taking any remedial action accordingly.

All new employees are subject to pre-employment checks to confirm their identity and eligibility to work in the UK prior to them starting work within the Group. Information is provided to all employees on their statutory rights including sick pay, holiday, pay and any other benefits they may be entitled to by virtue of their employment. We pay all directly employed labour at least the living or minimum wage, as appropriate. Where recruitment agencies are used, we ensure they comply with all legal requirements. These procedures collectively help to address our

Corporate Social Responsibility Statement

Continued >

on-going commitment to protect our employees' human rights and the elimination of all forms of forced and compulsory labour.

To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chain and our business, all Directors have been briefed on the subject and we provide training to relevant members of staff. Through this training, as well as through Group wide internal communications, all employees are encouraged to identify and report any potential or actual wrongdoing that they consider to be negligent, improper or illegal via a dedicated and confidential Whistleblowing hotline, which is available 24 hours a day.

Diversity

We are committed to equal opportunities and the creation of an entirely non-discriminatory working environment. The aim of our diversity policy is to ensure that no job applicant, or employee, receives less favourable treatment because of, amongst other matters, gender, marital status, race, age, sexual orientation, religion, belief or disability. All decisions are based on the merits of the individual concerned. The Group is dedicated to undertaking its business operations in a way which respects individual human rights, treats individuals with dignity and allows freedom of association.

Procedures are in operation to support the Group's policy that disabled persons, whether registered or not, shall be considered for employment and subsequent training, career development and promotion on the basis of their aptitudes and abilities. Where members of staff become disabled every effort is made to ensure that they are retrained according to their abilities.

Employee Communication

Each business takes responsibility for fostering employee engagement through appropriately structured communications, training and incentive arrangements. Employee views are sought by management and taken into consideration when making decisions that may affect the employees' interests. A broader

understanding of the Group and opportunities within it are made available to employees through a Group wide magazine.

Share Schemes

Our Sharesave Plan, which has been in operation since 1987, fulfils our desire for employees to be able to share in the performance and success of the Group as a whole.

Environment

We recognise our responsibilities to achieve good environmental practice and to continue to strive for improvement in areas of environmental impact. Our approach is to work through education, communication and direct action wherever possible.

Board Responsibility

The Board is aware of its responsibilities with regard to the environment, receives regular reports on all environmental matters and has nominated Peter Egan, Chief Executive Officer, as the Director responsible for such matters.

Environmental Risk Assessment

Potential areas of risk are identified through the Group's risk assessment programme and mitigated wherever possible. Each business undertakes quantitative audits which enable a measure of environmental improvement to be made.

ISO 14001 is the international standard that specifies requirements for an effective environmental management system. It provides a framework that an organisation can follow, rather than establishing environmental performance requirements. Certain of our processing facilities have already achieved ISO 14001 certification and all of our businesses are subject to an annual environmental audit to ensure compliance with current legislation.

Greenhouse Gas Emissions & Carbon Footprint

The Group is party to a Climate Change Agreement (CCA), is constantly looking for new ways to reduce its carbon footprint

and has put various initiatives in place, including continued investment in energy efficient capital equipment and the gradual rollout of passive ultra-low energy LED lighting.

Community

The Group believes that the interests of responsible businesses need to be aligned to the interests of the local communities where they operate and to that end, give back to the community where we can, contributing to charitable causes and local groups.

Health and Safety

The Board is aware of its responsibilities on all matters relating to the health, safety and welfare of employees, visitors and customers on Group premises, and to others affected by the Group's activities.

Board Responsibility

The Board takes its responsibilities seriously with regards to health and safety and has nominated Peter Egan, Chief Executive Officer, as the Director responsible for such matters.

Health and safety matters are a permanent agenda item at all Group and subsidiary Board Meetings. A summary report outlining the Group's activities is provided on a regular basis for Group Board Meetings, including up to date statistics relating to accidents and incidents that have occurred since the last report.

Health and Safety Policies

All of our businesses are required to have clearly defined health and safety policies and procedures relevant to their operations and risks. They are required to implement all defined policies and procedures into the work environment which are audited annually by Group representatives to ensure that they are fit for purpose. These audits, the results of which are notified to the Board, are in addition to each business' own protocols.

The Group health and safety policy statement is brought to the attention of all employees and copies of the statement are available upon request to all interested parties.

Safety Management Systems

We consider health and safety management as an integral part of good management generally, rather than as a standalone system. In order to enable comparable reporting across the Group, each of our businesses are required to have a Safety Management System, appropriate to their operations, that is in accordance with the guidance contained within either the internationally recognised 'Occupational Health and Safety Assessment Specification' standard (OHSAS 18001) or the Health and Safety Executive's 'Managing for Health and Safety' guide (HSG65).

All new companies acquired by the Group undergo a stringent audit of their existing Safety Management System in order to establish compliance with appropriate legislation and Group policy; any shortcomings are rectified, on a risk-based approach, as soon as is practicable.

Health and safety monitoring processes are in place across the Group, carried out by a dedicated centralised team whose primary objective is to ensure that safety standards are met. The same team also undertakes horizon scanning to keep abreast of and inform on new safety legislation.

All of our businesses have arrangements in place to consult with employees on matters which may affect their health and safety. The Group is in regular contact with regulatory bodies both directly, and via industry trade associations. The health and safety performance of each business is collectively benchmarked against other companies operating in similar business sectors.

Principal Risks and Uncertainties



“We believe that effective risk management is critical to the achievement of our strategic objectives and the long term sustainable growth of our business. The Board continues to take a proactive approach to recognising and mitigating risk with the aim of protecting its employees and customers and safeguarding the interests of the Group and its stakeholders”.

OUR APPROACH TO RISK MANAGEMENT

The Board has overall accountability for ensuring that risk is effectively managed across the Group and, on behalf of the Board, the Audit Committee coordinates and reviews the effectiveness of the Group’s risk management process. In determining its risk appetite, the Board recognises that a prudent and robust approach to risk mitigation must be carefully balanced with a degree of flexibility so that the entrepreneurial spirit which has greatly contributed to the success of the Group is not inhibited. Both the Board and the Audit Committee remain satisfied that the Group’s internal risk control framework continues to provide the necessary element of flexibility without compromising the integrity of risk management and internal control systems.

Risks are reviewed by all of our businesses on an ongoing basis and are measured against a defined set of likelihood and impact criteria. This is captured in consistent reporting formats enabling the Audit Committee to review and consolidate risk information and summarise the principal risks and uncertainties facing the Group. Wherever possible, action is taken to mitigate, to an acceptable level, the potential impact of identified principal risks and uncertainties.

The Board formally reviews the most significant risks facing the Group at its February and August meetings, or more frequently should new matters arise. Throughout 2018, the overall risk environment remained largely unchanged from that reported within the Group’s 2017 Annual Report.

The principal risks and uncertainties affecting the Group are highlighted below, together with details on how the Board takes action to mitigate each risk. These risks and uncertainties do not comprise all of the risks that the Group may face and are not necessarily listed in any order of priority. Additional risks and uncertainties not presently known to the Board, or deemed to be less material at the date of this Annual Report, may also have an adverse effect on the Group. These include risks resulting from the UK’s decision to leave the EU which could adversely affect the economic and political environment as well as affecting financial risks such as liquidity and credit. The Board views the potential impact of Brexit as an integral part of its principal risks rather than a stand-alone risk. However, there is still significant uncertainty about the withdrawal process, its timeframe, and the outcome of negotiations about future arrangements between the UK and the EU, and the period for which existing EU laws for member states will continue to apply to the UK. The Board will continue to assess the risk to the business as the Brexit process evolves and will implement any appropriate actions.

In accordance with the provisions of the UK Corporate Governance Code, the Board has taken into consideration the principal risks and uncertainties in the context of determining whether to adopt the going concern basis of preparation and when assessing the future prospects of the Group.

FINANCIAL RISKS

Risk

Mitigation

COST INFLATION

Our objective is always to deliver the right level of service in the most efficient way. An increase in the cost of labour or supplies could constitute a risk to our ability to maintain margin. The introduction of the National Living Wage in April 2016 had a material impact on our cost base and will continue to do so.

We seek to manage the impact of legislative changes and cost inflation by continuing to drive greater efficiencies through supplier rationalisation, labour scheduling and productivity improvements, the latter of which is evidenced by our ongoing investment in state of the art, energy efficient machinery.

Cost indexation in certain of our contracts also gives us the contractual right to review pricing with our customers.

ECONOMY

Our business could be susceptible to adverse changes in, inter alia, economic conditions and customer spending habits, which could impact our profitability and cash flow.

Given the diversity of our customer base and the various industries which we serve, it is generally possible to contain the impact of these adverse conditions. Each business continually reviews its routes to market, changes in customer demands and expectations and cost base so that it can react appropriately to the impact of the wider economy.

Any adverse impact on cash flow could be mitigated in the short term by controls over capital expenditure and other discretionary spend.

INTEREST RATE FLUCTUATIONS

The Group finances its operations through a mixture of retained profit, bank borrowings and lease arrangements. Fluctuations in the rates of applicable interest could adversely impact the profitability and cash flows of the Group.

The Group borrows at both fixed and floating rates and normally has hedging arrangements in place to provide fixed rate interest payments for a proportion of its floating rate debt over a specified period. This enables the Group to forecast borrowing costs with a degree of certainty.

Details of the hedging arrangements in place as at 31 December 2018, together with details of further hedging arrangements entered into after the balance sheet date, are provided within note 20.

LIQUIDITY RISK

Our key sources of liquidity in the foreseeable future are likely to be cash generated from operations and borrowings through committed bank facilities. Adverse changes in credit markets or our credit rating could increase the cost of borrowing and banks may be unwilling to renew credit facilities on existing terms.

The Group's policy on liquidity is to ensure that it has committed bank facilities available to provide continuity of funding. Appropriate bank facilities are in place through to August 2022.

TAXATION

UK businesses are faced with increasingly demanding tax compliance and tax reporting requirements which, in turn, increase the risk that transactions or business relationships may have unforeseen adverse tax consequences giving rise to additional tax costs, increased administration and an increased likelihood of negative publicity.

The Group has published its Tax Risk Management Strategy ('Tax Strategy'), which sets out our approach to tax risk management and tax planning. Approved by the Board, the Tax Strategy states that the Board is ultimately responsible for the management of tax and related risk. In furtherance to this, the Audit Committee monitors the integrity of the Group's financial reporting systems, internal controls and risk management framework, including those elements relating to taxation.

The Group does not enter into any transactions solely to take advantage of tax opportunities - all transactions are based on the commercial objectives of the Group. Furthermore, where legislation is unclear or judgment may be required, the Group makes use of external tax professionals, who have extensive knowledge of the business, to discuss the most appropriate tax position to take. The Group also seeks to develop strong, proactive relationships with HMRC based on transparency and trust.

Principal Risks and Uncertainties

Continued >

OPERATIONAL RISKS

Risk

Mitigation

LOSS OF A PROCESSING FACILITY

The loss of a key processing facility could result in significant disruption to our business, due to the high utilisation of plant capacity.

A wide geographic spread of processing facilities mitigates the effect of a temporary loss of any single facility.

Furthermore, insurance cover is in place such that the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered.

FAILURE OF STRATEGY

Our current business model sets out our intentions to expand the Group by actively pursuing strategic acquisition opportunities within the Textile Rental market. Failure to identify suitable targets, or failure to successfully integrate them, would adversely impact our growth plans.

There is considerable knowledge and expertise within the Group with regard to acquisitions. An experienced acquisition team, together with external advisors where appropriate, is involved in all acquisition activity and we have a proven track record of successfully integrating businesses into the wider Group.

CUSTOMERS

For our businesses to grow organically, we are reliant on securing and retaining a diverse range of customers. A reliance on any one particular customer or group of customers may present a risk to the future cash flows of the Group should they not be retained.

Adverse economic conditions may lead to an increased number of our customers and clients being unable to pay for existing or additional products and services.

We have strategies which strengthen our long term relationships with our customers based on quality, value and innovation. Regular customer feedback surveys are undertaken across the Group and, where applicable, appropriate action taken.

Our business model is structured so that we are not reliant on one particular customer or group of customers.

The Group has limited concentration of credit risk with regard to trade receivables given the diverse and unrelated nature of the Group's customer base.

COMPETITION

We operate in a highly competitive marketplace. Aggressive pricing from our competitors could cause a reduction in our revenues and margins.

We aim to minimise this by continuing to promote our differentiated propositions and focusing on our points of strength, such as transparency of our pricing, flexibility in our cost base, quality and value of service and innovation.

RETENTION AND MOTIVATION OF EMPLOYEES

As a service orientated Group, retaining and motivating the best people with the right skills, at all levels of the organisation, is key to the long term success of the Group. Short term disruption could occur if a key member of our team was unavailable at short notice, either on a temporary or permanent basis.

The Group has established training, development, performance management and reward programmes to retain, develop and motivate our people.

The Group regularly reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given such that there is not over reliance on any one individual.

Furthermore, the Group has continued to develop succession planning as part of the development programmes for our people.

INFORMATION SYSTEMS AND TECHNOLOGY

The digital world creates many risks for a business including technology failures, loss of confidential data and damage to brand reputation.

We seek to assess and manage the effectiveness of our security infrastructure and our ability to effectively defend against current and future cyber risks by using analysis tools and experienced professionals to evaluate and mitigate potential impacts.

We are focused on the need to maximise the effectiveness and security of our information systems and technology as a business enabler and to reduce both cost and exposure as a result.

REGULATORY RISKS

Risk

Mitigation

HEALTH AND SAFETY

Health and safety in the workplace is an extremely important consideration for an employer. Legislation is complex and failure to ensure that our employees remain safe at work may lead to serious business interruption and potential damage to our reputation.

The Group has policies, procedures and standards in place to ensure compliance with legal obligations and industry standards. Regular health and safety audits and risk assessments are undertaken across the Group.

All management meetings throughout the Group feature a health and safety update as an agenda item.

COMPLIANCE AND FRAUD

Ineffective management of compliance with laws and regulations, or evidence of fraud, could have an adverse effect on the Group's reputation and could result in an adverse impact on the Group's performance if significant financial penalties are levied or a criminal action is brought against the Company or its Directors.

The Group's zero tolerance based Code of Ethics govern all aspects of our relationships with our stakeholders. All alleged breaches of the Code, including any allegations of fraud, are investigated and action taken where appropriate.

The Group's procedures include regular operating reviews, underpinned by a continual focus on ensuring the effectiveness of internal controls.

Regulation and compliance risk is also considered as part of our annual business planning process.

Corporate Governance

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**ADJUSTED PROFIT
BEFORE TAXATION**

£42.5m

Increased from £39.7m in 2017

Board of Directors

Bill Shannon

Non-Executive Chairman

Bill was appointed as Non-Executive Chairman on 3 August 2018 having originally joined the Board as a Non-Executive Director on 8 May 2009. He is a Chartered Accountant (Scotland) and, after qualifying, began his career with Whitbread PLC in 1974, where he served as a Board Director for 10 years until his retirement in 2004. Bill has significant PLC board experience, and is currently the Non-Executive Chairman of St. Modwen Properties PLC and Non-Executive Director and Deputy Chairman of LSL Property Services PLC (where he is also Chairman of both the Nomination Committee and Remuneration Committee), having previously served as Non-Executive Chairman of Aegon UK PLC and Non-Executive Director of Rank Group PLC, Barratt Developments PLC and Matalan PLC. Bill is also a Council member of the University of Southampton.

Peter Egan

Chief Executive Officer

Peter was appointed as Chief Executive Officer on 1 January 2019 having previously held the role of Chief Operating Officer since 1 April 2018. He joined the Group in 1998 and has over 25 years' experience in the Textile Services industry. Prior to his appointment to the Board, Peter was the Managing Director of Johnsons Apparelmaster, the Groups workwear rental business, having previously held a number of senior roles within that business. Peter is also a Board member of the European Textile Services Association.

Yvonne Monaghan

Chief Financial Officer

Yvonne has significant experience in the Textile Services industry having joined the Group as Group Management Accountant in 1984 after qualifying as a Chartered Accountant with Deloitte Haskins and Sells. She was appointed as Company Secretary and Group Financial Controller in 1985 and joined the Board as Chief Financial Officer on 31 August 2007. Yvonne is also the Senior Independent Non-Executive Director and Chair of the Audit Committee of NWF Group plc.

Chris Girling

Senior Independent
Non-Executive Director

Chris joined the Board as a Non-Executive Director on 29 August 2018. A Chartered Accountant by training, he has a background in a variety of sectors, including support services, distribution, construction and defence. Since retiring from full time executive roles in 2007, where he spent the last 16 years as Group Finance Director for two FTSE 250 support services companies, Chris has pursued a non-executive career. Chris is currently a Non-Executive Director and Chairman of the Audit Committee of Workspace Group PLC (where he is also the Senior Independent Director) and South East Water Limited as well as Chair of Trustees for the Slaughter and May Pension Fund.

Nick Gregg

Independent Non-Executive Director

Nick joined the Board as a Non-Executive Director on 1 January 2016. Nick has considerable experience in business to business service industries having been Managing Director of the Local Government division of Ferrovial-owned public services business Amey, Managing Director of Biffa Waste Services Collections Division and Managing Director of ATS Euromaster (Michelin). Nick's early career was spent at Mobil Oil Company, leaving as Managing Director of the UK business, having previously held roles in sales, marketing and operations as well as key project roles in finance and IT.

Tim Morris

Company Secretary

Tim was appointed as Company Secretary on 1 January 2014, in addition to his existing role of Group Financial Controller. Having qualified as a Chartered Accountant with KPMG LLP in 2003, Tim joined the Group in 2005 as Group Financial Accountant. He also held the position of Finance Director at SGP Property & Facilities Management Limited prior to the Group disposing of that business in August 2013.

Directors' Report

The Directors have pleasure in presenting their Annual Report and the audited Consolidated and Company Financial Statements for the year ended 31 December 2018.

The Corporate Governance Report on pages 39 to 46, and the Corporate Social Responsibility Statement on pages 24 to 27 (with regard to information about the employment of disabled persons, employee involvement and share schemes) are also incorporated into this Report by reference.

Principal Activities and Business Overview

Johnson Service Group PLC (the 'Company') is incorporated and domiciled in the UK, its registered number is 523335 and the address of its registered office is Johnson House, Abbots Park, Monks Way, Preston Brook, Cheshire, WA7 3GH. The Company is a public limited company and has its primary listing on the AIM division of the London Stock Exchange.

The principal activities and business overview of the Group are set out within the Strategic Review.

Results and Dividends

The Group retained profit after taxation for the year from all operations amounted to £26.8 million (2017: £25.7 million).

The dividend comprises an interim dividend of 1.0 pence (2017: 0.9 pence) per Ordinary share and a proposed final dividend of 2.1 pence (2017: 1.9 pence) per Ordinary share. This total dividend of 3.1 pence (2017: 2.8 pence) per Ordinary share, subject to the approval of Shareholders, will amount to a distribution for the year of £11.4 million (2017: £10.3 million).

Share Capital

The Companies Act 2006 no longer requires companies to have an authorised share capital.

The total issued share capital at the end of the year and the outstanding share options are given in note 26 to the Consolidated Financial Statements.

Acquisitions and Discontinued Operations

Details of acquisitions and discontinued operations during the current and preceding year are given in notes 31 and 32 to the Consolidated Financial Statements.

Events after the Reporting Period

There were no events occurring after the balance sheet date that require disclosing in accordance with IAS10, 'Events after the reporting period'.

Major Interests in the Company's Share Capital

At 1 March 2019, this being the latest practicable date prior to publication of this document, the Company had been advised of the following interests, of a material nature, in its share capital:

Shareholding (%)

PrimeStone Capital LLP	15.98%
Merian Global Investors	5.80%
BlackRock Investment Mgt	5.55%
Janus Henderson Group plc	5.13%
Invesco Limited	5.11%

The information provided above was correct as at the date of notification, however, it should be noted that these holdings may have changed since the Company was notified. Notification of any change is not required until the next notifiable threshold is crossed. Where we are aware of significant changes in shareholdings these have been adjusted.

Shareholders' Authority for the Purchase by the Company of its own Shares

At the 2018 Annual General Meeting, Shareholders authorised the Company to make market purchases of up to a maximum aggregate of 36,649,937 Ordinary shares, which represented approximately 10% of the Company's issued Ordinary share capital on the latest practicable date prior to publication of the 2018 Notice of Annual General Meeting. The minimum price allowed for such purchases is 10 pence and the maximum is 105% of the average of the middle market quotation of such shares for the five business days immediately preceding the day of purchase. Except for amending the maximum number of shares subject to the authority, the Directors intend to seek renewal of this authority, which is due to expire at the conclusion of the 2019 Annual General Meeting. Further details are given in the 2019 Notice of Annual General Meeting.

Directors

Details of the Directors of the Company are shown on page 34. With the exception of Peter Egan and Chris Girling, who were appointed to the Board on 1 April 2018 and 29 August 2018 respectively, they all held office throughout the year, and up to the date of approving this Report.

Chris Sander held office as Chief Executive Officer up until his retirement on 31 December 2018. Paul Moody stepped down as Non-Executive Chairman on 3 August 2018.

Directors' Interests

Share Capital

The interests of the Directors who were in office at 31 December 2018, together with the interests of their close family, in the shares of the Company at the commencement or, if later, date of appointment, and close of the financial year are disclosed in the Board Report on Remuneration. Details of the Company's interest in its own shares are disclosed in note 29 to the Consolidated Financial Statements.

Contracts

None of the Directors have any material interests in contracts of the Company or the Group.

Directors' Report

Continued >

Directors' Indemnity

In accordance with the Articles of Association and to the extent permitted by the laws of England and Wales, the Directors are granted an indemnity from the Company in respect of liabilities incurred as a result of their office. In respect of those matters for which the Directors may not be indemnified, the Company maintained a directors' and officers' liability third party insurance policy throughout the financial year and up to the date of approval of these financial statements. Neither the indemnity nor the insurance provides cover in the event that a Director is proven to have acted dishonestly or fraudulently. No claim was made under this provision during the year.

Articles of Association

The Company's Articles of Association may only be amended by Special Resolution at a general meeting of the Shareholders.

Political Donations

It is the Company's policy not to make political donations. The Directors confirm that no donations for political purposes were made during the year (2017: Nil).

Independent Auditors

The auditors, PricewaterhouseCoopers LLP (PwC), have indicated their willingness to continue in office. In accordance with the recommendation of the Audit Committee, as disclosed on page 51, and as required by Section 489 of the Companies Act 2006, a resolution to reappoint the auditors will be proposed at the Annual General Meeting.

Policy on Payment to Suppliers

Prompt Payment Code

The Company and its subsidiaries fully support the standards set out within the Prompt Payment Code ('PPC') in respect of all suppliers. The PPC sets standards for payment practices and best practice and is administered by the Chartered Institute of Credit Management. The main features of the PPC are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills will be paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement.

Payment Practice Reporting

Regulations made under Section 3 of the Small Business, Enterprise and Employment Act 2015 introduced a requirement on the UK's largest companies to report on a half-yearly basis their payment practices, policies and performance. The requirement to report is based upon a company having annual revenue of £36.0 million or more; the Parent Company has revenue of £nil hence the Group has reported under its main trading subsidiary, Johnsons Apparelmaster Limited.

Johnsons Apparelmaster Limited was required to publish supplier payment information for the six months ended 30 June 2018 and for the six months ended 31 December 2018; the average time taken to pay invoices in each of those periods was 55 days and 53 days respectively. Johnsons Apparelmaster Limited trades through a number of brands, each of which have varying payment terms with its suppliers, however, such terms typically range from 60 days from date of invoice through to 60 days from end of month in which the invoice was raised.

Further information was published through an online service provided by the Government and can be viewed by visiting <https://check-payment-practices.service.gov.uk/company/00464645/reports>.

Dispute Resolution Process

We seek to resolve any issues in the first instance between the most relevant representatives of our Company and the supplier. If the matter cannot be resolved it may then be escalated to senior members of both the supplier and ourselves. We are very proud to have built up longstanding relationships with a significant proportion of our suppliers and will always endeavour to work in a collaborative manner with them in order to resolve any disputes that may arise. Once resolved, we would aim to pay the supplier within the agreed contractual terms between us or, if the contractual due date has passed, at the next available opportunity.

Financial Risk Management

The Directors acknowledge that the Group's activities expose it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out centrally under policies approved by the Board. Further details are set out on page 63.

Half Yearly Reporting

The Company no longer publishes half yearly reports for individual circulation to Shareholders. Information that would normally be included in a half yearly report is made available on the Company's website at www.jsq.com.

2019 Annual General Meeting

The Company's AGM will be held at the Doubletree by Hilton Chester, Warrington Road, Hoole, Chester, CH2 3PD on Wednesday 8 May 2019 at 11am. An explanation of the resolutions to be proposed at the meeting is included in the Notice of Annual General Meeting accompanying this Annual Report.

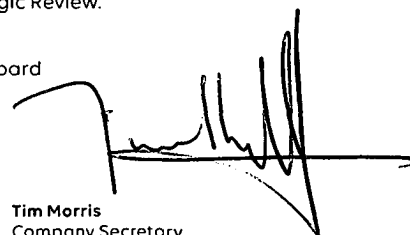
Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review, Chairman's Statement and Chief Executive's Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition, note 24 to the Consolidated Financial Statements includes the Group's objectives, policies and processes for managing its capital, its financial risk management objectives, details of its financial instruments and hedging activities, and its exposure to credit risk and liquidity risk.

The Group currently has adequate financial resources and long term relationships with a number of customers and suppliers across many industries throughout the UK. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance, show that there is not a substantial doubt that the Group should be able to operate within the level of its current facilities for a period of at least 12 months from the date of this Report.

A statement on the future prospects of the Group is included within the Strategic Review.

By order of the Board



Tim Morris
Company Secretary

4 March 2019

Johnson Service Group PLC
Registered in England and Wales No.523335

Directors' Responsibilities Statement

The Directors are responsible for preparing the Annual Report and Accounts in accordance with applicable law and regulation.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and Parent Company and of the profit or loss of the Group and Parent Company for that period.

In preparing the financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs as adopted by the European Union have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Parent Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group and Parent Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Parent Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. The Directors are also responsible for safeguarding the assets of the Group and Parent Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Parent Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for Shareholders to assess the Group and Parent Company's position and performance, business model and strategy.

Each of the Directors, whose names and functions are disclosed on page 34, confirms that, to the best of their knowledge:

- the Group and Parent Company financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and Parent Company; and
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group and Parent Company, together with a description of the principal risks and uncertainties that it faces.

In the case of each Director in office at the date the Directors' Report is approved:

- so far as the Director is aware, there is no relevant audit information of which the Group and Parent Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group and Parent Company's auditors are aware of that information.

On behalf of the Board

Peter Egan
Chief Executive Officer

4 March 2019

Yvonne Monaghan
Chief Financial Officer

4 March 2019

Corporate Governance Report

"We are committed to high standards of corporate governance which we consider are critical to business integrity and to maintaining investors' trust in us. We expect all our directors, employees and suppliers to act with honesty, integrity and fairness. Our business principles set out the standards we set ourselves to ensure we operate lawfully, with integrity and with respect for others".

Legislative Overview

For the year ended 31 December 2018, all companies with a Premium Listing of equity shares in the UK were required under the Listing Rules to comply with the Financial Reporting Council's 2016 UK Corporate Governance Code (the '2016 Code') or, state the areas in which they do not comply. The 2016 Code can be accessed on the Financial Reporting Council's website: <https://www.frc.org.uk>.

The 2016 Code is a guide to a number of key components of effective board practice, the main principles, or sections, being:

- Leadership
- Effectiveness
- Accountability
- Remuneration
- Relations with Shareholders

On 16 July 2018, the Financial Reporting Council released the 2018 UK Corporate Governance Code (the '2018 Code') which has a number of differences to the current version and which will apply to accounting periods beginning on or after 1 January 2019. The new shorter, sharper 2018 Code is the product of extensive consultation and places emphasis on businesses establishing a corporate culture that is aligned with the company purpose and business strategy and which promotes integrity and values diversity. The 2018 Code is again divided into five sections each of which contain an overriding set of 'Principles' supported by more detailed 'Provisions'.

As a company trading on AIM, Johnson Service Group PLC has not previously been required to comply with the 2016 Code, however, the Board is committed to high standards of corporate governance, which it considers are critical to business integrity and to maintaining investors' trust, and as a result voluntarily adopted the 2016 Code. During 2018, the AIM Rules for Companies (the 'AIM Rules') were updated such that an AIM listed company, with effect from 28 September 2018, is now required to provide "details of a recognised corporate governance code that the board of directors of the company has decided to apply, how the company complies with that code and, where it departs from its chosen code, an explanation for the reasons for doing so". Given that we have voluntarily adopted the 2016 Code previously, the Board determined that it remained relevant to continue adopting the same.

In respect of the year ended 31 December 2018, the Group's compliance with the provisions and application of the principles of the 2016 Code are set out below. With effect from 1 January 2019, the Group adopted the 2018 Code and will report against that code within its 2019 Annual Report.

Our Governance Structure

Chairman - Bill Shannon

Key objectives:

- leadership, operation and governance of the Board
- setting the agenda and direction for the Board

The Board of Johnson Service Group PLC

Membership currently comprises the Chairman, two Executive Directors and two independent Non-Executive Directors (including the Senior Independent Director)

Chairman: Bill Shannon

Key objectives:

- responsible for the overall conduct of the Group's business
- setting the Group's strategy

Audit Committee

Membership comprises the Chairman and Non-Executive Directors
Chairman: Chris Girling

Key objectives:

- management of the Group's system of internal control, business risks and related compliance activities
- to review the activity and performance of the internal audit function and external auditors
- to provide effective governance over the Group's financial results

Nomination Committee

Membership comprises the Chairman and Non-Executive Directors
Chairman: Bill Shannon

Key objectives:

- to ensure the Board comprises individuals with the necessary skills, knowledge and experience
- to give consideration to succession planning and the leadership needs of the Group

Remuneration Committee

Membership comprises the Chairman and Non-Executive Directors
Chairman: Nick Gregg

Key objectives:

- to assess and make recommendations to the Board on the policy of executive remuneration

Chief Executive Officer

Peter Egan

Key objectives:

- responsible for the overall management of the business
- responsible for the implementation of strategy and policy

Group Management Board

Membership comprises the two Executive Directors, divisional Managing Directors and Group function heads

Chairman: Peter Egan

Key objectives:

- implementation of the Board's strategy
- monitoring financial and competitive performance
- business development and projects
- succession planning across the business

Corporate Governance Report

Continued >

Compliance with the 2016 Code

The Company has complied with the provisions and applied the principles of the 2016 Code throughout the year ended 31 December 2018, other than in relation to the following:

Provision	Explanation
C.3.1	Audit Committee Chairman The August Audit Committee meeting was held on 29 August, the same day as Chris Girling's appointment to the Board. Although Chris is now Chairman of the Audit Committee, the Board determined that, particularly given one of the August agenda items was to consider the draft 2018 Interim Financial Statements, it would be prudent for Bill Shannon to chair the meeting, given his prior knowledge of the Company, even though he was also Chairman of the Company. Bill stepped down as Chairman of the Audit Committee at the end of the meeting and was replaced by Chris Girling.
E.1.1	Non-attendance by the Senior Non-Executive Independent Director (SID) at meetings with major Shareholders The Chief Executive Officer and the Chief Financial Officer regularly meet with the Company's major Shareholders and the Board is of the opinion that additional regular meetings, other than those specifically requested by Shareholders, with the SID would not assist further in dialogue with Shareholders. The SID, and also the Non-Executive Chairman, are available to meet with Shareholders, at their request, and the Board believes this arrangement to be sufficient.

Section A: Leadership

Main principles:

- Every company should be headed by an effective board which is collectively responsible for the long-term success of the company.
- There should be a clear division of responsibilities at the head of the company between the running of the board and the executive responsibility for the running of the company's business. No one individual should have unfettered powers of decision.
- The chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role.
- As part of their role as members of a unitary board, non-executive directors should constructively challenge and help develop proposals on strategy.

Composition of the Board

The Board currently consists of the Non-Executive Chairman (the 'Chairman'), two Executive Directors and two Independent Non-Executive Directors.

		Date first appointed to the Board	Date first elected to the Board	Tenure since election (as at 31 December 2018)	Independent
Non-executive Directors					
Bill Shannon	Non-Executive Chairman	8 May 2009	5 May 2010	8 years 8 months	N/A*
Chris Girling	Senior Independent Non-Executive Director	29 August 2018	N/A	N/A	Yes
Nick Gregg	Non-Executive Director	1 January 2016	5 May 2016	2 years 8 months	Yes
Executive Directors					
Peter Egan	Chief Executive Officer	1 April 2018	3 May 2018	8 months	No
Yvonne Monaghan	Chief Financial Officer	31 August 2007	17 June 2008	10 years 7 months	No

* Bill Shannon was considered independent on appointment to Chairman (see below); thereafter, in accordance with section A.3.1 of the 2016 Code, the test of independence is not appropriate in relation to the Chairman.

The two Independent Non-Executive Directors are considered to be independent in character and judgment and are a strong element within the Board, with their views carrying significant weight in the decision-making process.

Section A.3.1 of the 2016 Code states that a chairman should, on appointment, meet the independence criteria set out in section B.1.1, that is to say, inter alia, that they have not served on the board for more than nine years from the date of their first election. Bill Shannon was appointed as Chairman on 3 August 2018 at which time he had served on the Board for almost eight years and three months since being elected, hence meeting the independence test.

Notwithstanding the above, at that time, the Board further considered Bill's independence in light of him being first appointed to the Board over nine years ago. Given Peter Egan's recent appointment to the Board as Chief Operating Officer, the upcoming change in Chief Executive Officer on 1 January 2019 and the fact that a new Non-Executive Director was to be soon appointed, the Board considered it in the best interests of the Company and its stakeholders that Bill be appointed as Chairman in order to retain his extensive knowledge and experience of the Group at the same time as overseeing an orderly succession of other Board members.

The current Directors of the Company are shown on page 34. With the exception of Peter Egan and Chris Girling, who were appointed to the Board on 1 April 2018 and 29 August 2018 respectively, they all held office throughout the year, and up to the date of approving this Report. Chris Sander held office as Chief Executive Officer up until his retirement on 31 December 2018. Paul Moody stepped down as Non-Executive Chairman on 3 August 2018.

Division of Responsibility of Chairman and Chief Executive Officer

The 2016 Code requires that there is a clear division of responsibility between the Chairman and the Chief Executive Officer, each of which has clearly defined roles. The Chairman should be responsible for the effective running of the Board whilst the Chief Executive Officer is responsible for operating the business and implementing the Board's strategies and policies.

The role of the Chairman is set out in writing and agreed by the Board. The Chairman is responsible for:

- the effective leadership, operation and governance of the Board;
- ensuring the effectiveness of the Board;
- setting the agenda, style and tone of Board discussions; and
- ensuring the directors receive accurate, timely and clear information.

The role of the Chief Executive Officer is set out in writing and agreed by the Board. The Chief Executive Officer is responsible for:

- management of the Group's business;
- implementation of the Group's strategy and policies;
- maintaining a close working relationship with the Chairman; and
- chairing the Group Management Board meetings.

Responsibilities of the Board

The Board, in addition to routine consideration of both financial and operational matters, determines the strategic direction of the Group. The Board has a formal schedule of matters specifically reserved for its decision which can only be amended by the Board itself.

The specific responsibilities reserved for the Board include:

- development and approval of the Group's long-term objectives, overall strategy, mission, vision, values and targets;
- approval of the annual budget;
- monitoring of operational and financial performance against plans and budgets;
- approval of major acquisitions, disposals and capital expenditure;
- design and approval of dividend policy;
- Health and Safety matters;
- approval of appointments to the Board and of the Company Secretary;
- consideration of succession planning for key members of the management team; and
- determining the terms of reference for the Board committees.

Key Board Activities in the Year

Key activities of the Board during 2018 included, inter alia:

- the review and approval of the Group's investment in South West Laundry, acquired in August 2018;
- the review and approval of the half year and full year financial statements;
- the review and approval of major capital and investment projects, in particular, the building and subsequent lease of a new laundry in Leeds, which is expected to come on stream in early 2020;
- ongoing monitoring of the Group's Health and Safety performance;
- ongoing monitoring of the Group's progress in preparing for the General Data Protection Regulation together with the implementation of relevant policies and procedures;
- regular review, and formal approval in February and August, of the Group's risk assessment processes and principal risks and uncertainties;
- approving the recommendation of the Nomination Committee to appoint Bill Shannon as Non-Executive Chairman;
- approving the recommendation of the Nomination Committee to appoint Chris Girling as a Non-Executive Director; and
- consideration of Group Management Board strategy presentation.

Corporate Governance Report

Continued >

Insight into the Boardroom

The following is a summary of the significant matters considered by the Board at its scheduled meetings throughout the year:

January

- Health & safety
- CEO's review
- M&A and strategy update
- Financial performance
- Investor analysis
- Board effectiveness evaluation
- GDPR

May

- Health & safety
- CEO's review
- M&A and strategy update
- Financial performance
- Investor analysis
- GDPR
- IT presentation
- Capital expenditure presentation
- Approval of appointment of Bill Shannon as Chairman (effective 3 August 2018)

August

- Health & safety
- CEO's review
- M&A and strategy update
- Financial performance
- Capital expenditure presentation
- Investor analysis
- Biannual major risk assessment
- Draft interim results announcement
- Going concern assessment
- Interim dividend parameters

February

- Health & safety
- CEO's review
- M&A and strategy update
- Financial performance
- Investor analysis
- GDPR
- Biannual major risk assessment
- Draft final results announcement
- Draft Annual Report and Accounts
- Going concern and viability assessment
- Final dividend parameters

July

- Health & safety
- CEO's review
- M&A and strategy update
- Financial performance
- Investor analysis
- Bank refinance

November

- Health & safety
- CEO's review
- M&A and strategy update
- Financial performance
- Investor analysis
- 2019 budget and three-year plan
- Corporate Governance update
- Approval of Tax Strategy
- Approval of updated Modern Slavery Policy
- Review of Committee Terms of Reference

Board Committees

The Committees of the Board are:

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

Each Committee has written terms of reference, which are available on the Company's website. Separate reports for each of these Committees are included in this Annual Report.

Group Management Board

The Group Management Board meets under the chairmanship of the Chief Executive Officer. Topics covered by the Group Management Board include:

- health and safety;
- an update by the Chief Executive Officer on the business and business environment;
- divisional Managing Director updates;
- Group function heads' updates;
- substantial business developments and projects;
- talent and succession planning;
- competitor analysis; and
- strategy.

Annually, the Group Management Board conducts a strategic review to identify key issues, plans and objectives to be presented to the Board. The agreed strategy is then used as a basis for developing the upcoming budget and three year operating plans.

Section B: Effectiveness

Main principles:

- The board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively.
- There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.
- All directors should be able to allocate sufficient time to the company to discharge their responsibilities effectively.
- All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.
- The board should be supplied in a timely manner with information in a form, and of a quality, appropriate to enable it to discharge its duties.
- The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.
- All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Board Meetings and Attendance

The Board met formally six times during 2018 and, additionally, held a further unscheduled meeting in relation to, inter alia, acquisition related matters and to consider and approve the recommendation of the Nomination Committee to appoint Chris Girling to the Board as a Non-Executive Director.

Individual attendance at the meetings, including Audit Committee, Nomination Committee and Remuneration Committee attendance, is set out in the table below. Where n/a appears in the table, the individual is not a Committee member.

	Board (Scheduled)	Board (Unscheduled)	Audit Committee	Nomination Committee	Remuneration Committee (Scheduled)	Remuneration Committee (Unscheduled)
Maximum Number of Meetings	6	1	3	4	3	2
Current Directors						
Bill Shannon	5	1	3	4	3	2
Chris Girling ¹	2	-	2	1	2	-
Nick Gregg	6	1	3	4	3	2
Peter Egan ²	4	1	n/a	n/a	n/a	n/a
Yvonne Monaghan	6	1	n/a	n/a	n/a	n/a
Previous Directors						
Paul Moody ³	4	-	1	1	1	2
Chris Sander	6	1	n/a	n/a	n/a	n/a

1. Since Chris Girling's appointment on 29 August 2018, there have been two scheduled meetings for each of the Board, Audit Committee and Remuneration Committee meetings and one Nomination Committee meeting. Chris attended each of those meetings.
2. Since Peter Egan's appointment on 1 April 2018, there have been four scheduled and one unscheduled Board meetings. Peter attended each of those meetings.
3. Prior to Paul Moody's retirement on 3 August 2018, there were four scheduled Board meetings, one scheduled meeting for each of the Audit Committee and Remuneration Committee along with two unscheduled Remuneration Committee meetings. Paul attended each of those meetings. Two Nomination Committee meetings were held prior to Paul's retirement, of which he attended one.

In addition to the meetings set out above, the Chairman and the Independent Non-Executive Directors have met during the year without the Executive Directors.

Induction, Training and Knowledge

Appropriate training is available to Directors upon appointment and as required on an ongoing basis. Furthermore, on appointment, Directors participate in a customised induction programme to familiarise them with the Group.

The Directors have access to the advice and services of the Company Secretary and it is acknowledged that individual Directors may wish to seek independent professional advice in connection with their responsibilities and duties. The Company will meet reasonable expenses incurred in this regard.

Supply of Information

To assist the Board in performing its responsibilities, information, appropriate in quality and timeliness, is received in an agreed format, for each scheduled Board meeting.

Corporate Governance Report

Continued >

Performance Evaluation

The Independent Non-Executive Directors conduct a performance evaluation of the Chairman, after taking into account the views of the Executive Directors. The Chairman also conducts an appraisal of each member of the Board, Board composition and the format and effectiveness of the Board meetings. In addition, the Remuneration Committee regularly reviews Executive Director performance in connection with their performance objectives.

The Board conducted an internal Board evaluation during the year which covered, inter alia:

- performance of the Board (including consideration of how the Board works together as a unit);
- processes which underpin the Board's effectiveness (including consideration of the balance of skills, experience, independence and knowledge of the persons on the Board);
- performance of the Audit, Nomination and Remuneration Committees; and
- individual performance (giving consideration to whether each Director continues to contribute effectively and show commitment).

The Chairman holds individual discussions with each Director. The results of those discussions (including progress against the previous year's recommended actions) are summarised by the Chairman and considered in detail by the Board. This year's review found that performance of the Board and its Committees continued to be effective in dealing with both day-to-day and ongoing strategic issues and that the Board and Committee structure ensured that the governance requirements of the business were met.

As a result of these reviews, it is considered that the performance of each Director continues to be effective and that each Director demonstrates sufficient commitment to their role.

Re-election of Directors

For non-FTSE 350 companies, the 2016 Code recommends that all Directors are required to retire and submit themselves for re-election every three years and all newly appointed Directors are required to retire and submit themselves for re-election at the first Annual General Meeting of the Company following their appointment.

Notwithstanding this, and in the interests of good corporate governance, the Directors have resolved that, each year, all Directors will retire and offer themselves for re-election, if they wish to continue serving and are considered by the Board to be eligible. Accordingly, each current member of the Board will be proposed for re-election at this year's Annual General Meeting of the Company.

Biographical details of all the Directors are set out on page 34 and are also available for viewing on the Company's website (www.isg.com).

Service Agreements

The service agreements of the Executive Directors and copies of the letters of appointment of the Chairman and the Independent Non-Executive Directors are available for inspection during business hours on any weekday (excluding Saturdays, Sundays and public holidays) at the registered office of the Company and will be available for inspection for fifteen minutes prior to, and during, the Annual General Meeting.

External Appointments

The Executive Directors may accept outside appointments provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Company. The commitments of each Executive Director are set out on page 34.

The role of an Independent Non-Executive Director requires a time commitment in the order of 15 days per year plus additional time as necessary to properly discharge their duties. There is no restriction on outside appointments provided that they do not prevent the Non-Executive Directors from discharging their responsibilities effectively.

Section C: Accountability

Main principles:

- The board should present a fair, balanced and understandable assessment of the company's position, performance and prospects.
- The board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems.
- The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

Audit Committee

The Board should present a fair, balanced and understandable assessment of the Group's position, performance and prospects, maintaining sound risk management and internal control systems and managing an appropriate relationship with the Company's auditors. The Board has delegated day to day responsibility for these matters to the Audit Committee.

The work undertaken by the Audit Committee helps to enable the Board to make the below statements relating to internal control and the going concern statement on page 37.

Further information is detailed in the Audit Committee Report.

Internal Control

The Board is responsible for the Group's system of internal control and for reviewing its effectiveness, which has been undertaken during the year. Such a system is designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an on-going process for identifying, evaluating and managing the Group's Principal Risks and Uncertainties that has been in place throughout the year ended 31 December 2018 and up to the date of approval of the financial statements. This process has been regularly reviewed by the Board.

The Audit Committee also receives regular reports from the internal audit function and, where necessary, recommendations for improvement are considered and agreed.

The Board's agenda includes a bi-annual consideration, or more frequently if appropriate, of risk and control and it receives reports thereon from the Audit Committee. The emphasis is on obtaining the relevant degree of assurance and not merely reporting by exception. The main features of the internal control framework are detailed below.

Financial Reporting

There is a detailed budgeting process with the annual budget both challenged, stress tested and, ultimately, approved by the Board. Monthly financial results, together with updated forecasts as appropriate, are reported against the corresponding figures for the budget and the previous year with corrective and/or investigative action initiated by the Board as appropriate.

Treasury Management

The Group's treasury activities are operated within Board approved guidelines. Facilities are approved by the Board and all transactions are controlled and monitored. Monthly summaries of treasury management activities are prepared for the Board. Speculative transactions are not undertaken.

Risk Management

The identification of business risks is carried out in conjunction with operating management and reviewed by the Audit Committee and the Board. The Board regularly assesses the financial implications and effectiveness of the control process in place to mitigate or eliminate these risks. The Group has insurance cover where it is considered appropriate and cost effective.

Financial Control

Each business maintains financial controls and procedures appropriate to its own operating environment. The Group has a centralised internal audit function, which can second additional resources from around the Group, and which reviews the systems and procedures within each business and reports regularly to the Audit Committee. A review of control procedures is undertaken in respect of all new acquisitions, within the first three months of ownership where possible, and action taken where necessary to bring the controls up to the level required by the Group. The Group has clearly defined guidelines for the review and approval of capital expenditure projects. These include annual budgets and designated levels of authority.

Robust risk assessment

Throughout the year, and as described further on pages 28 to 31, the Board has carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future position, performance, solvency or liquidity.

Future prospects

The Board has assessed the future prospects of the Group in accordance with provision C.2.2 of the Code. Based on the results of this analysis, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the 36 month period of its assessment. Details of the assessment performed by the Board, including an assessment of those risks most likely to impact the Group's future prospects have been set out on pages 10 to 11.

Section D: Remuneration

Main principles:

- Executive directors' remuneration should be designed to promote the long-term success of the company. Performance-related elements should be transparent, stretching and rigorously applied.
- There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration.

Corporate Governance Report

Continued >

Remuneration Committee

The Remuneration Committee is responsible for overseeing the policy regarding executive remuneration. Further details are outlined in the Board Report on Remuneration, on pages 56 to 65.

Section E: Relations with Shareholders

Main principles:

- There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.
- The board should use general meetings to communicate with investors and to encourage their participation.

Investor Relations

We are committed to communicating our strategy and activities clearly to our Shareholders and, to that end, we maintain an active dialogue with investors through a planned programme of investor relations activities. The investor relations programme includes:

- formal presentations of full year and half-year results;
- briefing meetings with major institutional Shareholders after the half-year results and preliminary statement, to ensure that the investor community receives a balanced and complete view of our performance and the issues we face;
- regular meetings between institutional investors and analysts and the Chief Executive Officer and Chief Financial Officer to discuss business performance;
- hosting investor and analyst sessions at which senior management from relevant businesses deliver presentations which provide an overview of each of the individual businesses and operations; and
- attendance by senior executives across the business at relevant meetings throughout the year.

The Board is of the opinion that additional routine meetings with the Senior Independent Director would not assist further in the dialogue with Shareholders, however, the Senior Independent Director is available to meet with Shareholders, at their request.

Feedback is provided to the Board on any issues raised at these meetings. External brokers' reports are circulated to the Directors. The Shareholders' views of the investor meetings following the interim and final results are obtained by the Group's broker and circulated to the Board.

The Board welcomes private and Institutional Shareholders to the Annual General Meeting, which is normally attended by all Directors, to discuss appropriate topics during the meeting or with the Directors after the formal proceedings have ended. The Board considers that the Preliminary Announcement, the Annual Report, including the Chief Executive's Operating Review and the Financial Review which are contained therein, the Interim Report and trading update statements made during the year present a balanced and clear assessment of the Group's position and prospects.

The Audit Committee Report and the Nomination Committee Report on pages 47 to 55 also form part of the Corporate Governance Report.

By order of the Board

Tim Morris
Company Secretary

4 March 2019

Audit Committee Report

Section C of the Financial Reporting Council's UK Corporate Governance Code 2016 (the 'Code') requires that:

- the board should present a fair, balanced and understandable assessment of the company's position, performance and prospects;
- the board is responsible for determining the nature and extent of the principal risks it is willing to take in achieving its strategic objectives. The board should maintain sound risk management and internal control systems; and
- the board should establish formal and transparent arrangements for considering how they should apply corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditor.

The Board has delegated day to day responsibility for these matters to the Audit Committee (the 'Committee') and this report sets out how the Committee has discharged its responsibilities.

Members of the Committee have continued to take an active role including spending time with the operations teams in the field and also participating in key discussions on areas of financial judgment. These actions have allowed the Committee to have an even greater input and to develop greater awareness of the day-to-day challenges that the business faces and the potential consequences of such challenges.

Set out below are details on the processes in place to safeguard the independence and objectivity of our relationship with the external auditor and the role played by internal audit to ensure we have effective control and risk management processes.

Composition of the Committee

The Committee meets at least three times per year and also meets in private with the external auditors.

In accordance with provision C.3.1 of the Code, small companies (i.e. those below the FTSE 350) should establish a Committee of at least two, independent non-executive directors. Membership of the Committee at each of its meetings during the year is shown below and is, therefore, in accordance with the Code:

	February	August	November
Chris Girling	-	✓	✓
Nick Gregg	✓	✓	✓
Bill Shannon	✓	✓	✓
Paul Moody	✓	-	-

Provision C.3.1 also states that the company chairman may be a member of, but not chair, the committee provided he or she was considered independent on appointment as chairman.

	February	August	November
Chairman of the Company	Paul Moody	Bill Shannon	Bill Shannon
Chairman of the Committee	Bill Shannon	Bill Shannon	Chris Girling

The August meeting was held on 29 August, the same day as my appointment to the Board as an Independent Non-Executive Director. The Board considered this and determined that, particularly given one of the agenda items was to consider the draft 2018 Interim Financial Statements, it would be prudent for Bill Shannon to chair the meeting, given his prior knowledge of the Company, and that he would step down at the end of the meeting as Chairman of the Committee and be replaced by myself.

Evaluation of the Competence and Effectiveness of the Committee

During the year an evaluation of the Committee was conducted as part of an overall review of the Board and its Committees and, where appropriate, actions to improve the effectiveness of the Committee were agreed and implemented accordingly.

By virtue of my former executive and current non-executive roles (full details of which are set out on page 34), together with the results of the above evaluation, the Board considers that I have recent and relevant financial experience. The Board further concluded that the Committee, as a whole, has sufficient competence relative to the sector in which the Company operates.

Audit Committee Report

Continued >

Responsibilities of the Committee

The Committee is responsible for:

- ensuring that the interests of Shareholders are protected in relation to financial reporting and internal control;
- monitoring the financial reporting process and the integrity of the annual and interim financial statements;
- monitoring any formal announcements relating to the Company's financial performance;
- reviewing and challenging, as necessary, the judgments and actions of management in relation to the financial statements;
- monitoring, reviewing and concluding upon the system of internal control, including the work of internal audit;
- ensuring the maintenance of a control environment and the appropriate management of risk;
- recommendation of appointment of, and liaison with, the external auditor;
- reviewing and setting the terms of engagement and the remuneration of the external auditor;
- annual review and monitoring of the external auditor's independence and objectivity and the effectiveness of the audit process;
- development and implementation of policy on the engagement of the external auditor to supply non-audit services;
- reviewing the Group's systems and controls for the prevention and detection of fraud or bribery; and
- reviewing arrangements under which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ensuring that arrangements are in place for the proportionate and independent investigation and appropriate follow-up action.

The Committee reports to the Board on how we have discharged our responsibilities.

The full terms of reference are available on the Company's website, or on request to the Company Secretary.

What the Committee did in 2018

In 2018, the Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements, preliminary announcements and interim results statement prior to Board approval and reviewing the external auditor's reports thereon;
- reviewing and considering the significant issues in relation to the financial statements, as further detailed on page 49;
- reviewing the plan of the external auditor for the audit of the Consolidated and Company Financial Statements, confirmations of the auditor's independence and proposed audit fee, approving terms of engagement for the audit and considering the reappointment of PwC as auditor;
- considering and agreeing the annual internal audit plan;
- reviewing internal audit's progress and reports on its work during the year;
- considering the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties;
- reviewing the Executive and Non-Executive Directors' expenses;
- monitoring the reporting, and follow up of items reported, on the employee hotline established in line with the Code of Ethics; and
- reviewing the Committee's composition and confirming that there is sufficient expertise and resource for it to fulfil its responsibilities effectively.

Fair, Balanced and Understandable

At the request of the Board, the Committee has considered whether, in its opinion, the 2018 Annual Report and Financial Statements are fair, balanced and understandable, and whether they provide the information necessary for Shareholders to assess the Group's position and performance, business model and strategy.

The Committee received a full draft of the report. Feedback was provided by the Committee, highlighting the areas it was felt would benefit from further clarity. The draft report was then amended to incorporate this feedback ahead of final approval. In particular, the Committee considered the following:

IS THE REPORT FAIR?

- Is the whole story presented and has any sensitive material been omitted that should have been included?
- Is the reporting on the business performance in the narrative reporting consistent with those used for the financial reporting in the financial statements?
- Are the key messages in the narrative reflected in the financial reporting?
- Are the KPIs disclosed at an appropriate level based on the financial reporting?

IS THE REPORT BALANCED?

- Is there a good level of consistency between the narrative reporting in the front and the financial reporting in the back of the Report, and does the messaging presented within each remain consistent when one is read independently of the other?
- Is the Annual Report properly a document for Shareholders?
- Are the statutory and adjusted measures explained clearly with appropriate prominence?
- Are the key judgments referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures of key estimation uncertainties and critical judgments set out in the financial statements?
- How do the significant issues identified compare with the risks that PwC plans to include in its report?

IS THE REPORT UNDERSTANDABLE?

- Is there a clear and understandable framework to the Report?
- Are the important messages highlighted appropriately throughout the document?
- Is the layout clear with good linkage throughout in a manner that reflects the whole story?

When forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. Following its review, the Committee was of the opinion that the 2018 Annual Report and Financial Statements were fair, balanced and understandable on the basis that:

- the description of the business agrees with our own understanding;
- the risks reflect the issues that concern us;
- appropriate weight has been given to the 'good and bad' news;
- the discussion of performance properly reflects the 'story' of the year; and
- there is a clear and well-articulated link between all areas of disclosure.

Significant Matters Considered in Relation to the Financial Statements

The Committee has assessed whether suitable accounting policies have been adopted and whether management has made appropriate judgments and estimates. Throughout the year, the Group Finance team has worked to ensure that the business is transparent and provides the required level of disclosure regarding significant issues considered by the Committee in relation to the financial statements, as well as how these issues were addressed, while being mindful of matters that may be business-sensitive.

This section outlines the main areas of judgment that have been considered by the Committee to ensure that appropriate rigour has been applied. Accounting policies can be found in the Statement of Significant Accounting Policies. Each of the areas of judgment has been identified as an area of focus and therefore the Committee has also received detailed reporting from PwC.

Acquisition Accounting

During the year, the Group acquired 100% of the share capital of South West Laundry Holdings Limited.

The Committee considered the methodology and assumptions used by management in determining the fair value of the customer contracts and customer relationships acquired, as this was considered by the Committee to be the area of most significant judgment. The Committee was satisfied that the fair value had been calculated based upon relevant historical and prospective information and financial data specific to the business combination, with an appropriate discount factor applied. The Committee further considered the accounting policy alignment adjustments and, again, considered them to be reasonable.

The Committee also reviewed the proposed disclosures relating to the acquisitions for inclusion within the Consolidated Financial Statements and were in agreement that the requirements of IFRS 3, 'Business Combinations' had been satisfied.

Goodwill Impairment

As part of the year end process, management assessed whether goodwill had suffered any impairment, in accordance with the accounting policy stated within this Annual Report. The impairment test was undertaken at a cash generating unit ('CGU') level.

The Committee noted that the recoverable amount of a CGU was primarily determined based on value-in-use calculations, using pre-tax cash flow projections based on financial budgets, covering three years, which were Board approved. Cash flows beyond the budgeted period were extrapolated using an estimated annual growth rate, equal to the risk-free rate, of 1.87% into perpetuity. Furthermore, other than as included in the financial budgets, it had been assumed that there are no material adverse changes in legislation that would affect the forecast cash flows.

The pre-tax discount rate used in the 2018 calculations was 5.47% (2017: 5.62%) and was based upon the weighted average cost of capital of the Group. The discount rate takes into account, amongst other things, the risk-free rate of return (derived from a 20-year government bond price), the market risk premium and the Beta factor reflecting the average Beta for the Group and comparator companies.

Audit Committee Report

Continued >

The Committee noted that for each CGU, the discounted net present value of future cash flows provided significant headroom over the carrying value and hence was able to determine that no impairment was required, nor deemed it necessary to carry out further sensitivity analysis.

Post-employment Benefit Obligations

The valuation of all post-employment benefit obligations is based on statistical and actuarial calculations, using various assumptions including discount rates, inflation, life expectancy of scheme members and cash commutations. The Committee reviewed the actuarial assumptions underpinning the valuation and were satisfied that all assumptions are within ranges considered generally acceptable given the size, demographic and duration of the Group schemes.

Accounting for Complex Customer Arrangements

As in previous years, the Group offers rebates to certain customers based on agreed fixed rates relating to the volume of services provided and goods purchased. The Committee does not consider the Group's rebates to be highly complex as: they are volume related; there are generally written agreements in place; and historical estimates of rebates have been seen to be accurate. However, following current FRC guidance this has been highlighted as an area of focus. The Committee has discussed any judgments made in accruing customer rebates with management and the auditors. The Committee is satisfied that the amounts of expense accrued are appropriate.

Income Taxes

Judgment is required in determining the provision for income taxes as there are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Committee discussed the effective tax rate for the year and noted that it was lower than the standard rate of UK taxation, primarily as a result of adjustments made in respect of prior years and the impact of deferred taxation as a result of changes to the UK tax rate, offset, to a lesser extent, by the effect of expenses that were not deductible for tax purposes. The Committee concluded that the judgments made in relation to taxation were reasonable.

Alternative Performance Measures (APMs)

Throughout the Annual Report and Financial Statements, we refer to a number of APMs. APMs are used by the Group to provide further clarity and transparency of the Group's financial performance. The APMs are used internally by management to monitor business performance, budgeting and forecasting, and for determining Directors' remuneration and that of other management throughout the business.

The Committee is aware that the APMs are non-IFRS measures. APMs used by the Group are as follows:

- adjusted operating profit, which refers to continuing operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items;
- adjusted profit before taxation, which refers to adjusted operating profit less total finance cost;
- adjusted EBITDA, used for gearing purposes, which refers to adjusted operating profit for the relevant year (adjusted for the timing of acquisitions and disposals) plus the depreciation charge for property, plant and equipment and software amortisation; and
- adjusted earnings per share which refers to earnings per share calculated based on adjusted profit after taxation.

The Committee considers that the APMs, all of which exclude the effects of non-recurring items or non-operating events, provide useful information for Shareholders on the underlying trends and performance of the Group. Furthermore, the Committee is content that where APMs are stated, they are presented with equal prominence to the statutory figures.

Going Concern

The Committee considered the Group's going concern review, in particular, the appropriateness of key judgments, assumptions and estimates underlying the budgets that underpin the review, together with a review of the level of forecast available headroom against the Group's committed borrowing facilities and compliance with key financial covenants.

After making enquiries, the Committee were satisfied that the Group has adequate resources to continue in operational existence for the 12 months from the date of approval of this Annual Report and that, for this reason, the Group should continue to adopt the going concern basis in preparing the financial statements.

Assessment of External Auditor Effectiveness

The Committee reviewed the external auditor's performance and on-going independence, taking into account input from management, consideration of responses to questions from the Committee and the audit findings reported to the Committee.

Based on this information the Committee concluded that the external audit process was operating effectively and PwC continued to prove effective in its role as external auditor.

Appointment of the External Auditor and Approach to how Objectivity and Independence are Safeguarded

The Company has adopted a policy on the independence of the auditor which is consistent with the ethical standard published by the Financial Reporting Council. A key issue for the Committee that may impair auditor independence, and the auditor's objective opinion on the Group's financial statements, is the engagement of the external auditor for the provision of non-audit services.

Non-Audit Services

The Committee has adopted a policy on the engagement of the external auditor for the provision of non-audit services and reviews this annually. The policy is designed to ensure that such engagements do not result in the creation of a mutuality of interest between the external auditor and the Company, that a transparent process and reporting structure is established to enable the Committee

to monitor policy compliance and that unnecessary restrictions on the engagement of the external auditor for non-audit services is avoided where the provision of advice is commercially sensible. The policy categorises the provision of non-audit services into three areas:

- normally performed by the auditor;
- may be performed by the auditor; and
- normally performed by another provider.

With reference to this policy, the selection of professional service firms for non-audit work that would normally be performed by the auditor is at the discretion of management, taking into account which firm is best placed to perform such work to meet the interests of the Company and Shareholders and with regard to ensuring that independence is not compromised. All other engagements (i.e. those that may be performed by the auditor and those that would normally be performed by another provider) would be subject to the approval of the Committee prior to the commencement of the engagement.

The total fees payable to the external auditor in respect of the year under review amount to £515,000 (2017: £481,000), of which £124,000 (2017: £199,000) related to non-audit services. For those non-audit related services received, the Committee considered that it was commercially sensible and more cost effective to use PwC rather than an alternative provider. Further details are set out below:

	Note	£000	2018 £000	£000	2017 £000
Audit related services	1		391		282
Non-audit related services					
- tax compliance and advisory	2	84		147	
- pension scheme audit	3	18		20	
- remuneration consultancy	4	13		-	
- business acquisition related activity	5	9		31	
- other		-		1	
			124		199
Total fees payable to the external auditor			515		481
Non-audit related fees as a % of total fees			24%		41%

Notes:

1. The increase largely reflects additional one-off work undertaken as a result of the introduction of new accounting standards; IFRS 9, IFRS 15 and IFRS 16.
2. PwC have been tax advisors to the Company for a number of years; the Committee considers that retaining this historical knowledge is in the best interests of the Company.
3. The Trustee of the Johnson Group Defined Benefit Scheme (the 'JGDBS') has appointed PwC to perform the audit of the JGDBS.
4. Work performed during the year included assistance with the drafting of the 2018 LTIP Scheme rules, which were subsequently approved by Shareholders at the 2018 Annual General Meeting, the provision of various remuneration benchmarking information and responding to ad-hoc queries.
5. Work performed in relation to business acquisitions and, in 2017 only, the disposal of Drycleaning.

Independence Safeguards

The external auditor is required to adhere to a rotation policy whereby the Senior Statutory Auditor (audit engagement partner) is rotated after five years. The current Senior Statutory Auditor was appointed in 2015 and, in accordance with best practice and professional standards, will be replaced no later than 2020. The external auditor is also required to assess periodically whether, in their professional opinion, they are independent and those views are shared with the Committee. The Committee has authority to take independent advice, as it determines necessary, in order to resolve issues on auditor independence. No such advice was required during the year.

Independence Assessment by the Committee

PwC have been the Company's auditors from the date of the Company's incorporation, which exceeds the 20 years stated within recent EU legislation (albeit, such legislation is not applicable to AIM listed companies), and no formal tender has taken place since that date. In assessing and concluding upon the independence of PwC the Committee take this period of tenure into account, however, the Committee is satisfied that the independence of the external auditor is not impaired due to the fact that the audit engagement partner and senior staff rotation policy has been complied with, the level of fees paid for non-audit services was of a level that does not present any on-going threat to their independence and separate external firms are appointed for certain other advisory services. In addition, the Committee meets with the external auditor during the year without the presence of management and I have had regular contact with the audit engagement partner since my appointment.

Re-appointment of the External Auditor

The re-appointment of PwC as the Group's external auditor was reviewed during the year. The Committee has assessed the performance, objectivity and independence of the external auditor, which underpins its recommendation to the Board to propose to Shareholders the re-appointment of PwC as auditor until the conclusion of the AGM in 2020. Full details are set out in the Notice of Annual General Meeting on pages 140 to 145. There are no contractual restrictions over choice of auditor.

Audit Committee Report

Continued >

Role of Internal Audit

Internal audit has a Group-wide remit and is independent of the business operations. It undertakes an on-going programme to provide assurance on the adequacy of internal control and risk management processes across the Group's operations. Internal audit is responsible for reviewing and reporting on the effectiveness of internal controls and risk management systems to the Committee and, ultimately, the Board. Internal audit attend Committee meetings to present the findings of such reviews at regular intervals throughout the year and report on performance against the agreed annual internal audit plan, such plans being agreed during the year by the Committee.

Internal Control and Risk Management

The Board is ultimately responsible for the overall system of internal control for the Group and for reviewing its effectiveness. The Board has delegated day to day responsibility for this to the Committee. The Committee carries out a review, at least annually, covering all material controls, including financial, operational and compliance controls, and the risk management systems. The system of internal control is designed to mitigate, rather than eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

There is an on-going process for identifying, evaluating and managing the Group's significant risks that has been in place throughout the financial year and up to the date of approval of the financial statements. The Committee receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention by early warning mechanisms which are embedded within the operational units and reinforced by risk awareness training.

The key elements of the Group's on-going processes for the provision of effective internal control and risk management systems, in place throughout the year and at the date of this Report, include:

- regular Board meetings to consider matters reserved for Directors' consideration;
- regular management reporting, providing a balanced assessment of key risks and controls;
- an annual Board review of corporate strategy, including a review of material business risks and uncertainties;
- established organisational structure with clearly defined lines of responsibility and levels of authority;
- an internal audit function which implements the annual internal audit plan and provides independent assurance to management, the Committee and the Board on the effectiveness of internal controls and risk management;
- documented policies and procedures;
- regular review by the Board of financial budgets, forecasts and covenants with performance reported to the Board monthly; and
- a detailed investment process for major projects, including capital investment coupled with a post investment appraisal analysis.

In reviewing the effectiveness of the system of internal control the Committee has:

- received six-monthly reports, compiled by the Company Secretary following discussion with key senior managers, that set out the key risks facing the Group and indicate whether controls and risk management processes in each business unit have operated satisfactorily. These returns are reviewed in detail, challenged where appropriate and approved by the Committee for use in the Annual Report;
- regularly reviewed the financial and accounting controls;
- reviewed the internal audit reports; and
- monitored management's responsiveness to the findings and recommendations of internal audit.

No significant failings or weaknesses were identified.

In respect of Group financial reporting, the finance department is responsible for preparing the Group financial statements using a well-established consolidation process and ensuring that accounting policies are in accordance with International Financial Reporting Standards. There is a detailed budgeting process with an annual budget both challenged, stress-tested and approved by the Board. Monthly results are reported against the corresponding figures for the budget and the previous year with corrective action initiated by the Board as appropriate. All financial information published by the Group is subject to approval by the Committee.

The Group's treasury activities are operated within Board approved guidelines. Facilities are approved by the Board and all transactions are controlled and monitored. Monthly summaries of treasury management activities are prepared for the Board. Speculative transactions are not undertaken.

There have been no changes in the Company's internal control over financial reporting during the year under review that have materially affected, or are reasonably likely to materially affect, the Company's control over financial reporting.

The Board, with advice from the Committee, is satisfied that an effective system of internal controls and risk management processes are in place which enable the Company to identify, evaluate and manage key risks. These processes have been in place since the start of the financial year and up to the date of approval of the financial statements. Further details of risk management frameworks and specific material risks and uncertainties facing the business can be found on pages 28 to 31.

Bribery Act 2010

The Bribery Act 2010 (the 'Act') came into force on 1 July 2011, and repealed all previous statutory and common law provisions in relation to bribery, instead replacing them with the crimes of bribery, being bribed, the bribery of foreign public officials and the failure of a commercial organisation to prevent bribery on its behalf. However, a defence to any such corporate failure offence is possible if it can be shown that adequate procedures were in place at the time.

The Group is committed to conducting its business with the highest degree of integrity. This commitment includes a zero tolerance approach towards all forms of bribery, corruption, fraud and theft.

The Group has in place an appropriate policy and regularly re-enforces its code of ethics. Appropriate Board approved procedures are in place to prevent employees and other associated persons committing offences under the Act. Engaging in fraud, bribery or corruption is unlawful and any employee, director or officer found to have breached the code of conduct will be liable to disciplinary action which may result in dismissal or other serious sanctions. Breaches of the code of conduct by third parties may result in immediate termination for breach of all contracts with the Group. These procedures are subject to regular monitoring and review.

Modern Slavery Act

We are committed to implementing and enforcing effective systems and controls to ensure slavery and human trafficking is not taking place anywhere in our supply chains or in any part of our business. To ensure a high level of understanding of the risks of modern slavery and human trafficking in our supply chains and our business, all Directors have been briefed on the subject and we provide training to relevant members of staff. Further details can be found on page 25.

Whistleblowing

The Group is committed to developing a culture of openness, honesty and accountability and believes that it is fundamental that any concerns our employees have about the Company can be raised without fear of victimisation. To this end, the Group has in place a whistleblowing policy which encourages employees to report any malpractice, illegalities, wrongdoing or matters of similar concern (together 'ethical wrongdoing') by other employees, former employees, contractors, suppliers or advisers. Examples of ethical wrongdoing include bribery, corruption, fraud, dishonesty and illegal practices which may endanger employees or other parties. There have been no material instances of whistleblowing during the year under review.

Chris Girling
Chairman, Audit Committee

4 March 2019

Nomination Committee Report

Objectives

The key objective of the Nomination Committee (the 'Committee') is to monitor the performance, appropriateness and future succession of the Company's executive and Board talent in order to ensure that the Board comprises individuals with the right blend of skills, knowledge and experience to maintain a high degree of effectiveness in discharging its responsibilities. Appointments to the Board are recommended, as appropriate, by the Committee. Board appointments are subject to approval by the Board as a whole.

As set out below, the Committee met four times during 2018:

	February	May	August	October
Chairman:	Paul Moody	Bill Shannon	Bill Shannon	Bill Shannon
	Nick Gregg			Nick Gregg
Attendees:	Bill Shannon	Nick Gregg	Nick Gregg	Chris Girling

Composition

The members of the Committee comprise the Chairman of the Company and the two Independent Non-Executive Directors. The Committee is currently chaired by myself. Membership of the Committee is therefore in compliance with provision B.2.1 of the Financial Reporting Council's UK Corporate Governance Code 2016.

Roles and Responsibilities

The principal responsibilities of the Committee are:

- reviewing the structure, size and composition of the Board and its committees;
- identifying and nominating candidates to fill Board vacancies;
- keeping up to date and fully aware of the strategic and commercial changes affecting the Group and the markets in which it operates;
- keeping under review the leadership needs of the business with a view to ensuring the continued ability to compete effectively in the marketplace;
- assessing the roles of the existing directors in office to ensure that there continues to be a balanced board in terms of skills, knowledge, experience and diversity;
- considering the continuing service of a Director; and
- providing recommendations for reappointment of Directors retiring by rotation.

The Committee undertakes its responsibilities proactively, recognising it is important to plan Board succession well in advance, and to ensure that the Company's Board and executive leadership skills are fully aligned to the Company's long-term strategy. The Committee therefore takes care to ensure that there is a continuous pipeline of high-performing and executive talent beneath Board level.

What the Committee did in 2018

The main focus of the Committee's work in 2018 included:

- reviewing the independence of each Non-Executive Director, including each Non-Executive Director's actual, potential or perceived conflicts of interest and concluding that each Non-Executive Director was independent in character and judgment and that there were no circumstances that were likely to affect their judgment;
- recommending each Director for re-election at the Annual General Meeting;
- recommending to the Board the appointment of myself as Non-Executive Chairman of the Company following the retirement of Paul Moody;
- following an extensive selection process, which involved an independent external search consultancy, recommending to the Board the appointment of Chris Girling as a Non-Executive Director – see below for further details;
- recommending to the Board that Chris Girling be nominated as the Senior Independent Non-Executive Director;
- recommending to the Board that Nick Gregg's service agreement be extended for a further three years until 31 December 2021; and
- reviewing the Committee's terms of reference and conducting the annual review of the Committee's performance.

Appointment of Non-Executive Director

Chris Girling was appointed to the Board as an Independent Non-Executive Director on 29 August 2018.

Chris' appointment was the result of a rigorous selection process. The Board employs the services of external search consultancies as part of the process to identify potential Board candidates. The Committee considered the credentials of a number of providers before recommending the appointment of the recruitment firm considered best placed to meet the brief. The consultancy firm chosen, Odgers Berndtson, was considered to be independent of, and had no other links with, the Company or its Directors in connection with the brief.

The Committee, led by myself, managed the candidate assessment process. The process included the development of a success profile which was discussed and agreed, in conjunction with input from the Executive Directors, by the Committee. Candidates were rigorously assessed against this profile in order to determine their suitability, in particular, exploring and understanding what their past experiences and career may offer to the Group. Following this, a short list of three potential candidates was selected. Each candidate met with myself, Nick Gregg and Yvonne Monaghan to explore specific predetermined areas with them. The three of us then discussed each of the candidates and recommended a preferred individual, Chris Girling, to the Board. Chris then met with Chris Sander and Peter Egan both of whom provided further feedback to the Committee.

After detailed discussions and careful debate, the Committee concluded, having taken all of the feedback into consideration that Chris had the necessary skills and experience; accordingly, the Committee was able to make a recommendation to the Board that he should be appointed to the Board as an Independent Non-Executive Director.

Diversity

Whilst we pursue diversity, including gender diversity, we are not committing to any specific targets. Instead, and when applicable, we will seek to use executive search firms who have signed up to the voluntary code of conduct setting out the seven key principles of best practice to abide by throughout the recruitment process. However, our primary consideration is to have the right blend of skills, knowledge, experience and independence and for that reason, we will continue to follow a policy of appointing talented people at every level to deliver high performance. We will also ensure that our development in this area is consistent with our own strategic objectives and is enhancing in terms of Board effectiveness.

Bill Shannon
Chairman, Nomination Committee

4 March 2019

Board Report on Remuneration

Remuneration-related disclosures for Premium Listed companies incorporated in the UK need to comply with the BIS Directors' Remuneration Reporting Regulations (the 'Remuneration Regulations'). As an AIM listed company, the Company is not required to fully apply the Remuneration Regulations and hence is not required, and has not, presented a Board Report on Remuneration in accordance with those rules. Nevertheless, the Board considers it appropriate for the Company to provide Shareholders with information with respect to Executive remuneration.

The information presented within this Board Report on Remuneration has, therefore, been prepared on a consistent basis with that in prior years.

Remuneration Committee

Throughout 2018, membership of the Remuneration Committee (the 'Committee') was comprised of the Chairman of the Company and the Independent Non-Executive Directors and has been chaired by myself. None of the members of the Committee have, or had, any personal financial interests in the Company (other than as Shareholders), conflicts of interests arising from cross-directorships or day to day involvement in running the business.

The Committee is responsible for overseeing the policy regarding Executive remuneration and for determining the remuneration packages for the Executive Directors and the Group Management Board.

Periodically, the Committee engage PricewaterhouseCoopers LLP (PwC) to provide guidance on standard market practice with regard to Executive remuneration, including the provision of factual reward surveys, based on a comparator group determined by the Remuneration Committee, which is used for benchmarking purposes.

Remuneration Policy

The Committee reviews the Company's remuneration philosophy and structure each year to ensure that the remuneration framework remains effective in supporting the Company's business objectives, in line with best practice, and fairly rewards individuals for the contribution that they make to the business, having regard to the size and complexity of the Group's operations and the need to retain, motivate and attract employees of the highest calibre.

The Committee intends that base salary and total remuneration of Executive Directors should be in line with the market. Remuneration is periodically benchmarked against rewards available for equivalent roles in a suitable comparator group with the aim of paying neither significantly above nor below the median for each element of remuneration. The Committee also considers general pay and employment conditions of all employees within the Group and is sensitive to these, to prevailing market conditions, and to governance trends when assessing the level of salaries and remuneration packages of Executive Directors.

The total remuneration package links corporate and individual performance with an appropriate balance between short and long term elements, and fixed and variable components.

The policy is designed to incentivise executives to meet the Company's strategic objectives, such that a significant portion of total remuneration is performance related, based on a mixture of internal targets linked to the Company's strategic business drivers (which can be easily measured, understood and accepted by both executives and Shareholders) and appropriate external comparator groups.

The Committee considers that the targets set for the different elements of performance related remuneration are both appropriate and demanding in the context of the business environment and the challenges with which the Group is faced.

Prior to proposing the adoption of new or amended employee share schemes, the Company will consult in advance with, and seek feedback from, major Shareholders. New schemes may need to be proposed in order for the Company to be able to continue to operate its executive and all employee share schemes, for example, due to the incumbent scheme nearing the end of its lifetime. Existing schemes may need to be amended to reflect current or emerging best practice. Following any consultation process, the adoption of new or amended employee share schemes will then be proposed at the next relevant AGM (as evidenced at the 2018 AGM).

Full details of all current schemes are included within this Report.

As stated above, the Committee benchmarks Executive rewards with the aim of paying neither significantly above nor below the median. Notwithstanding this, we have typically appointed new Executive Directors at pay levels below the median rate and then moved their pay up to reflect experience and performance in the role. Peter Egan was appointed to the Board on 1 April 2018 as Chief Operating Officer, his first role as a PLC director. His subsequent appointment to the role of Chief Executive Officer came nine months later, when his annual basic salary was increased from £220,000 to £338,250. His performance will be measured over the coming year, but we anticipate further increments in his base pay ahead of market movement over the next two to three years to align his pay better with that of his peers, subject of course, to his performance in the role. As CEO, Peter's annual bonus and LTIP opportunities are in line with that of the previous CEO, being a maximum entitlement for each of 125% of basic salary.

Malus and Clawback

To reflect best practice, and to align with Shareholder interests, the Committee introduced malus and clawback provisions in relation to all annual bonus and LTIP schemes (together 'Awards') granted on or after 1 January 2015.

The provisions enable the Committee to decide, up until the second anniversary of an Award becoming payable, in circumstances in which the Committee considers it appropriate, to reduce the quantum of an Award, cancel an Award or impose further conditions on an Award. The provisions also enable the Committee to decide, up until the second anniversary of an Award becoming payable that, in the relevant circumstances, the participant must repay to the Company (or any person nominated by the Company) some or all of the cash or shares received under an Award.

The circumstances in which the Committee may apply the 'malus' and 'clawback' provisions include, but are not limited to, a material misstatement of the Company's audited financial results, a miscalculation of the extent to which a performance target, applying to any Award granted on or after 1 January 2015, has been met, a material failure of risk management by the Company and serious reputational damage to the Company.

Personal Shareholding Requirement and Holding Periods

In order that their interests are linked with those of Shareholders, Executive Directors are expected to build up and maintain a personal shareholding in the Company, equal to at least the value of base salary, over a period of five years from appointment. Non-Executive Directors are encouraged, but are not required, to hold a personal shareholding in the Company.

The Committee has considered whether Executive Directors should be required to hold any shares for a further period after vesting or exercise of an LTIP award, subject to the need to finance any costs of acquisition and associated tax liabilities. It was previously determined that a further restriction over the personal shareholding requirement was unnecessary, however, in order to take into account of developments in best practice, the rules of the 2018 Long-Term Incentive Plan (the 'New LTIP'), which was approved by Shareholders at the 2018 AGM, contain provisions which allow the Committee to require that shares acquired from vesting LTIP awards must be retained for a prescribed period post vesting.

The Committee's intention is that the grant of any awards under the New LTIP will be subject to a further two year holding period over and above the three year vesting period of an LTIP award.

Components of Executive Remuneration

The current remuneration of Executive Directors comprises the following five components:

- basic salary;
- annual bonus;
- taxable benefits;
- share options; and
- pension arrangements (only basic salary is pensionable).

Details of how the various components of remuneration are delivered are set out below.

Basic Salary

Basic salary represents a value which reflects the Remuneration Committee's assessment of the market rate for relevant positions and the individual Director's experience and value to the business. Annual reviews are considered against published information for similar sized groups and the level of increases awarded to staff throughout the Group.

Annual Bonus

In order to incentivise and reward the achievement of stretching one year performance targets, the Group operates a Short Term Incentive Programme ('STIP') which provides for a performance related bonus based on the Group's financial results. All payouts are in cash and are subject to malus and clawback provisions.

The individual targets for the Executive Directors are established by the Committee prior to the start of each financial year with a view to maximising Shareholder value and meeting other Group objectives. Targets are set with reference to internal budgets, which have been robustly challenged by the Non-Executive Directors, with maximum payout requiring performance significantly ahead of budget. The minimum performance target threshold in 2018 was linked to the Group's Adjusted Profit Before Taxation measure; no bonus is payable for below threshold performance. Maximum payout requires the achievement of 130% of the minimum performance target threshold.

The Committee reviews, on an ongoing basis, the performance criteria for each Executive Director to ensure that they remain appropriate and retains the discretion to adjust the performance criteria during the year to ensure that they continue to reflect underlying business performance, for example, following an acquisition. By way of example, the 2018 performance target, set in November 2017, was increased during the year by the Committee to reflect the acquisition of StarCounty in December 2017 and South West Laundry in August 2018.

Subject to the achievement of the targets, the maximum amount of basic salary paid during 2018, or from the date of appointment to the Board if the role has not been held for the full year, to which any annual performance related bonus can represent is as follows:

	2018 Executive Role	Maximum amount of basic salary paid
Chris Sander	Chief Executive Officer	125%
Yvonne Monaghan	Chief Financial Officer	110%
Peter Egan *	Chief Operating Officer	100%

* Note that further to being appointed Chief Executive Officer on 1 January 2019, the maximum bonus payable to Peter Egan in respect of 2019, subject to the achievement of the performance targets, will be increased to 125% of his basic salary.

The Chairman and the Independent Non-Executive Directors are not eligible to participate in the STIP.

Board Report on Remuneration

Continued >

Taxable Benefits

Taxable benefits, which are not performance related, principally include the provision of a car or car allowance, private medical insurance and, in 2018 and in respect of Chris Sander only, payment in respect of accrued annual leave entitlement not taken.

Share Options

2009 Long-Term Incentive Plan (the '2009 LTIP')

To incentivise certain employees to maximise Shareholder value and to ensure the employees' services are retained, the Company adopted the 2009 LTIP, which was approved by a resolution of the Board on 7 May 2009. All employees of the Group are eligible to participate in the 2009 LTIP, although in practice, participants will be limited to Executive Directors and Senior Management. Participants in the 2009 LTIP will be selected by the Remuneration Committee.

Eligible participants will be granted awards entitling them to receive, subject to the rules of the 2009 LTIP, Ordinary shares in the Company after a specified vesting period and subject to the achievement of specified performance conditions. Vesting of awards granted under the 2009 LTIP will normally occur after a three year performance period.

Performance Conditions

The performance conditions attached to the awards are linked to the Company's Total Shareholder Return and Earnings per Share performance:

- 50 per cent of an award will vest by reference to the annualised growth in the Company's net return index ('TSR') over the performance period relative to the annualised growth in the FTSE AIM All-Share Industrial Goods and Services net return index (the 'Index') over the performance period. None of the award will vest if the TSR growth is less than the Index growth. One quarter of the award will vest if the TSR growth is equal to the Index growth. The whole of the award will vest if the TSR growth is at least seven per cent above the Index growth. Vesting of the award will be on a straight line basis between these points.
- The remaining 50 per cent of the award will vest by reference to the annualised growth in the Company's adjusted fully diluted earnings per share from continuing operations ('EPS') over the performance period relative to the annualised growth in the retail price index ('RPI') over the performance period. None of the remaining award will vest if the EPS growth is less than three per cent above the RPI growth. One quarter of the remaining award will vest if the EPS growth is three per cent above the RPI growth. The whole of the remaining award will vest if the EPS growth is at least eight per cent above the RPI growth. Vesting of the remaining award will be on a straight line basis if EPS growth is between three per cent and eight per cent above the RPI growth.

For the purpose of calculating TSR and Index growth, the average of the net return index over the dealing days falling in the period of one month ending on the last day of the performance period will be compared to the average of the net return index over the dealing days falling in the period of one month immediately preceding the first day of the performance period, in each respect of the Company and for the FTSE AIM All-Share Industrial Goods and Services index.

For the purpose of calculating EPS growth, the Company's adjusted fully diluted earnings per share from continuing operations for the final financial year in the performance period will be compared to the Company's adjusted fully diluted earnings per share from continuing operations for the financial year immediately before the start of the performance period.

For the purpose of calculating RPI growth, the retail prices index value for the last month of the final financial year in the performance period will be compared to the retail prices index value for the last month of the financial year immediately before the start of the performance period.

The above performance conditions, used for each of the 2015 Award, 2016 Award, 2017 Award and 2018 Award were selected to incentivise award holders to maximise Shareholder value. The charts below demonstrate the effect on vesting of the above performance conditions:

2015 Award

Awards were granted to certain employees on 8 May 2015 with an exercise price of £nil. The performance period was the three financial years starting 1 January 2015 and ending 31 December 2017. The awards vested in full on 8 May 2018.

2016 Award

Awards were granted to certain employees on 6 May 2016 with an exercise price of £nil. The performance period was the three financial years starting 1 January 2016 and ending 31 December 2018. The performance conditions, calculated as set out above, were met as follows:

EPS Performance Condition: 100.0%

TSR Performance Condition: 60.9%

Although the performance period has now elapsed, the awards cannot vest before the third anniversary of the grant date. Once the awards vest on 6 May 2019, award recipients will then be eligible, subject to the rules of the LTIP, to exercise their award up to and including 6 May 2026.

2017 Award

Awards were granted to certain employees on 27 March 2017 with an exercise price of £nil. The performance period is the three financial years starting 1 January 2017 and ending 31 December 2019. The performance conditions are as set out above.

2018 Award

Awards were granted to certain employees on 28 February 2018 with an exercise price of £nil. The performance period is the three financial years starting 1 January 2018 and ending 31 December 2020. The performance conditions are as set out above.

2009 Long-Term Incentive Plan Approved Section (the 'Approved 2009 LTIP')

The Approved 2009 LTIP was approved by a resolution of the Board on 7 May 2009, and received approval from HM Revenue & Customs on 25 June 2009. The Approved 2009 LTIP is linked to the 2009 LTIP award referred to above. The linked awards give the holder the same potential gross gain as if they had just received the 2009 LTIP award, however, as the Approved 2009 LTIP is tax favoured, in certain circumstances all or part of any gain on the 2009 LTIP award will be received through the Approved 2009 LTIP and therefore taxed at a lower rate, or even zero.

The actual number of shares the award holder will receive when exercising options will depend on the date of exercise, whether the performance conditions of the 2009 LTIP are achieved and the extent to which they are achieved, and also on how much of the gain (if any) can be delivered through the Approved 2009 LTIP. Part of the total award will be forfeited once the gain is determined, however, this will still leave the holder with the same gross gain that would have been received had only an award been made under the 2009 LTIP arrangement.

On 8 May 2015, certain employees were granted awards under the Approved 2009 LTIP, linked to the awards granted on the same date under the 2009 LTIP, at an exercise price of 80 pence. The award vested in full on 8 May 2018, being the third anniversary of the linked 2015 Award grant date. Award recipients are eligible, subject to the rules of the 2009 LTIP, to exercise their Award up to and including 8 May 2025.

2018 Long-Term Incentive Plan (the '2018 LTIP')

Awards could only be granted under the 2009 LTIP until 4 July 2018. The Committee, therefore, adopted a new plan on substantially the same terms as the 2009 LTIP in order for the Company to be able to continue to operate its executive and senior management incentive arrangements after this date. The 2018 LTIP was approved by Shareholders at the 2018 Annual General Meeting; a summary of the principle features of the rules of the 2018 LTIP is included within the 2018 Notice of Annual General Meeting.

As with the 2009 LTIP, the 2018 LTIP comprises an "unapproved" section, under which nil cost awards are made, and a "CSOP" section under which UK tax-advantaged market value options are awarded and which are linked to the nil cost awards such that the total value delivered under both awards is never more than would be delivered under the nil cost awards alone. The use of the CSOP section allows the potential for tax favoured treatment for participants in the 2018 LTIP.

In addition to updating the CSOP section to take account of changes in tax law since the 2009 LTIP was introduced, malus and clawback provisions have been added to the rules of the 2018 LTIP, to reflect the fact that such provisions have been applicable to LTIP awards granted by the Company from 2015. In addition, to take into account potential future developments in best practice, the rules of the 2018 LTIP contain provisions which allow the Committee to require that shares acquired from vesting LTIP awards must be retained for a prescribed period post vesting. The Committee's intention is that the first grant of awards under the 2018 LTIP, which is expected to be made on or around 5 March 2019, will be subject to such a holding period of two years.

Sharesave Plan (the 'SAYE Scheme')

The SAYE Scheme is open to all employees, including Executive Directors, who have completed two years' service at the date of invitation and who open an approved savings contract.

When the savings contract is started, options are granted to acquire the number of shares that the total savings will buy when the savings contract matures. Details of the exercise periods and normal expiry dates are given in note 26 of the Consolidated Financial Statements.

Board Report on Remuneration Continued >

Fixed and Variable Remuneration

As stated above, the Company's policy is to provide a total remuneration package that links corporate and individual performance with an appropriate balance between short and long term elements, and fixed and variable components.

By way of illustration, the balance between the aggregated fixed and variable elements for the Executive Directors who were in office during the year is shown in the charts below for varying levels of vesting of the 2009 Long-Term Incentive Plan (LTIP), granted in 2015, 2016, 2017 and 2018, each of which were either unexercised or unvested at 31 December 2018, together with actual bonus and the maximum achievable bonus. Broadly, and assuming actual bonus achievement in 2018, there is a 60:40 split between fixed and variable pay if none of the LTIP were to vest and a 29:71 split between fixed and variable pay assuming maximum bonus achievement and maximum performance of the LTIP, showing the high proportion of performance-related pay that is 'at risk' in the total remuneration package.

NO LTIP VESTING & ACTUAL BONUS	50% LTIP VESTING & ACTUAL BONUS	100% LTIP VESTING & MAXIMUM BONUS
<p>Fixed: 60% Variable: 40%</p>	<p>Fixed: 43% Variable: 57%</p>	<p>Fixed: 29% Variable: 71%</p>

The above illustration is based on a number of assumptions:

- fixed remuneration includes basic salary only and represents actual annual salary paid to Executive Directors during 2018 (and in the case of Peter Egan, the annualised salary payable had he been an Executive Director for the full year);
- variable remuneration includes annual bonus (assumed at either actual achievement for 2018 or maximum achievement where indicated within this illustration (and in the case of Peter Egan, the relevant annualised amounts had he been an Executive Director for the full year)) and, where indicated within this illustration, a hypothetical annualised gain in respect of the LTIP; and
- the amount included in respect of the LTIP represents a hypothetical annualised gross gain over the three year performance period for each of the unexercised or unvested schemes, at an assumed vesting of 50% and then at 100% and assuming a share price at the date of exercise of 117 pence, this being the share price of the Company at 31 December 2018.

Non-Executive Directors

The Chairman and Non-Executive Directors receive fees which are set by the Board and which are commensurate with their experience and contribution to the Group. The Chairman and Non-Executive Directors do not participate in decisions regarding their own remuneration. They do not participate in any of the Group's pension, share option or performance related bonus schemes.

Service Contracts

In the event of termination, without cause, the Company has a contractual obligation to compensate the Director for the unexpired period of his or her notice. The Company will seek to reduce this payment by means of the Director's duty to mitigate this payment wherever possible.

Executive Directors

Peter Egan is employed under a service agreement dated 30 March 2018, as amended by a Variation Letter dated 21 December 2018 on the appointment to Chief Executive Officer on 1 January 2019, which has no fixed expiry date and provides that the Company is required to give twelve months' notice and Peter Egan is required to give six months' notice.

Yvonne Monaghan is employed under a service agreement dated 14 January 2004, as amended with the appointment to Chief Financial Officer on 31 August 2007, which has no fixed expiry date and provides that the Company is required to give twelve months' notice and Yvonne Monaghan is required to give six months' notice.

Up until his retirement on 31 December 2018, Chris Sander was employed under a service agreement dated 6 July 2004, as amended by a Variation Letter dated 20 October 2009 and as further amended on the appointment to Chief Executive Officer on 3 January 2014, which had no fixed expiry date and provided that the Company was required to give twelve months' notice and Chris Sander was required to give six months' notice.

Chairman and Non-Executive Directors

The Chairman and Non-Executive Directors each have fixed term appointments. Each has a letter of appointment, dated as set out below, which requires the Company to provide three months' notice, the Chairman to provide at least three months' notice and each Non-Executive Director to provide at least one months' notice.

At 31 December 2018, the unexpired terms of the Chairman and Independent Non-Executive Directors letters of appointment were:

	Date of Latest Letter of Appointment	Service Agreement Start Date	Service Agreement End Date	Unexpired Term at 31 December 2018
Bill Shannon ¹	26 January 2018	8 May 2018	7 May 2019	4 months
Nick Gregg	16 October 2018	1 January 2019	31 December 2021	3 years
Chris Girling	29 August 2018	29 August 2018	28 August 2021	2 years 8 months

Note 1: On 27 February 2019, a new letter of appointment was issued which extended the unexpired term shown above by 12 months.

Performance Graph

Over the five years to 31 December 2018 the Company has outperformed the FTSE AIM Industrial Goods and Services Index, the FTSE Support Services Index and the FTSE AIM All-Share Index with a net total shareholder return of 244% against a net total shareholder return of 143%, 123% and 108% respectively.

Over the two years to 31 December 2018 the Company has outperformed the FTSE AIM All-Share Index with a net total shareholder return of 106% against a net total shareholder return of 104%, however, it has underperformed the FTSE AIM Industrial Goods and Services Index and the FTSE Support Services Index which saw a net total shareholder return of 113% and 107% respectively.

These indices have been selected for this comparison as, in the opinion of the Directors, they represent the general and specific sectors in which the Group operates.

TSR 5 Year Performance

TSR 2 Year Performance

Board Report on Remuneration

Continued >

Directors' Remuneration (Audited)

	Note	Basic Salary / Fees 2018 £000	Annual Bonus 2018 £000	Pension / Cash in Lieu of Pension 2018 £000	Taxable Benefits 2018 £000	Total 2018 £000	Total 2017 £000
Executive Directors							
Peter Egan	1,2	165	96	23	16	300	-
Yvonne Monaghan	2,3,4	294	188	52	19	553	560
Chris Sander	2,5,8	405	294	72	58	829	841
Non-Executive Directors							
Chris Girling	6	19	-	-	-	19	-
Nick Gregg		44	-	-	-	44	40
Bill Shannon	7	83	-	-	-	83	45
Former Directors							
Paul Moody	8	62	-	-	-	62	105
		1,072	578	147	93	1,890	1,591

The amounts included in the table above in respect of Non-Executive Directors and Former Directors all relate to fees. For Executive Directors, a year-on-year analysis of remuneration by component is provided below:

	Basic Salary / Fees £000	Annual Bonus £000	Pension / Cash in Lieu of Pension £000	Taxable Benefits £000	Total £000
Peter Egan					
2018	165	96	23	16	300
2017	-	-	-	-	-
Yvonne Monaghan					
2018	294	188	52	19	553
2017	270	215	48	27	560
Chris Sander					
2018	405	294	72	58	829
2017	395	357	70	19	841

Note 1: The figures included in the table above in respect of Peter Egan represent the amounts paid or payable since his appointment to the Board as Chief Operating Officer on 1 April 2018. Earnings prior to that date are excluded from the table. The annual basic salary payable to Peter Egan in his role of Chief Operating Officer was £220,000. Following his appointment to the role of Chief Executive Officer on 1 January 2019, Peter's annual basic salary was increased to £338,250.

Note 2: Details of the amounts shown in the table above under 'Pension / Cash in Lieu of Pension' are set out on page 63.

Note 3: As disclosed within the 2017 Annual Report, the salary payable to Yvonne Monaghan in 2017 was £270,000. A 2.5% increase was applied with effect from 1 January 2018 such that her revised annual salary was £276,750. A further increase was applied with effect from 1 April 2018 such that her revised annual salary was £300,000. In line with the Remuneration Policy, the increase was to reflect her considerable experience as an Executive Director, the continued growth of JSG and the change in Board composition following Peter Egan's appointment. This change reflects market rate and is within the current benchmarking parameters set by the Remuneration Committee as referred to on page 56. The figure included in the table above under 'Basic Salary / Fees' represents the actual salary paid to Yvonne Monaghan during the year.

Note 4: As set out within the Director biographies on page 34, Yvonne Monaghan is also a Non-Executive Director of NWF Group plc. She received, and retained, fees of £39,000 in each of 2018 and 2017 for her services.

Note 5: The amount shown in the table above under 'Taxable Benefits' includes £38,930 in respect of frozen holiday pay, further details of which are set out on page 58.

Note 6: Chris Girling was appointed as a Non-Executive Director on 29 August 2018. The figure included in the table above for 2018 reflects the amount paid to him since that date.

Note 7: Following the retirement of Paul Moody on 3 August 2018, Bill Shannon assumed the role of Non-Executive Chairman. The figure included in the table above for 2018 reflects the increased amount paid to him in respect of his additional responsibility since that date.

Note 8: Paul Moody retired on 3 August 2018; Chris Sander retired on 31 December 2018. The figures included in the tables above for 2018 reflect the amounts paid or payable up until the date of retirement.

No Director waived any emoluments in respect of the years ended 31 December 2018 and 31 December 2017.

Pension Benefits of Executive Directors

Executive Directors are contractually entitled to receive retirement benefits, which are calculated on basic salary, under one or more of the Group's contributory defined benefit or defined contribution schemes. Details of the schemes are given in note 23 of the Consolidated Financial Statements.

Each Executive Director, who served during the current year, has left active pensionable service in the Johnson Group Defined Benefit Scheme (the 'JGDBS'), which is of the defined benefit type, and is entitled to a preserved benefit. The accrued pension entitlement shown below is the amount that would be paid annually on retirement (at normal retirement age). This pension is calculated based on the total period of pensionable service to the Company, both before and after becoming a Director.

	Accrued pension entitlement at December 2018 £000	Accrued pension entitlement at December 2017 £000
Peter Egan	12	12
Yvonne Monaghan	50	49
Chris Sander	61	59

From 1 January 2015, Peter Egan became a deferred member of the JGDBS. From that date, he is contractually entitled to a monthly employer pension contribution, equal to up to 14% of his monthly salary, which is paid to the JSG Pension Plan (the 'Plan'), a defined contribution scheme. The majority of employees within the Group are eligible to participate in the Plan. Employer contribution rates to the Plan are on a matching plus basis determined with reference to the employee's own pension contribution together with their salary banding; the maximum employer contribution is 14%, based upon a 7% employee contribution, for all employees currently earning an annual salary greater than £108,314.

From 1 January 2012, Yvonne Monaghan opted to become a deferred member of the JGDBS and is contractually entitled to receive a monthly cash amount equal to 17.8% of her monthly salary.

From 1 April 2011, Chris Sander opted to become a deferred member of the JGDBS and was contractually entitled to receive a monthly cash amount equal to 16.0% of his monthly salary. From 1 January 2014, his contract was amended such that the monthly cash amount increased to 17.8% of his monthly salary.

The amounts payable in the year to Yvonne Monaghan and Chris Sander under the above arrangements were £52,365 and £72,068 respectively (2017: £48,060 and £70,310 respectively).

Both Yvonne Monaghan and Chris Sander took a partial transfer of benefits from the JGDBS on 31 March 2012.

Interests in Share Capital

The interests of the Directors who were in office at 31 December 2018, together with the interests of their close family, in the shares of the Company at the start, or date of appointment if later, and close of the financial year, were as follows:

	31 December 2018 Ordinary shares of 10p each	31 December 2017 Ordinary shares of 10p each
Beneficial		
Peter Egan	34,716	24,716
Yvonne Monaghan	564,086	564,086
Chris Sander	535,930	525,930
Bill Shannon	125,000	125,000
Chris Girling	8,638	-
Nick Gregg	15,000	15,000
	1,283,370	1,254,732
Issued share capital *	367,574,210	366,499,375
Directors' share holding	0.35%	0.34%
Non Beneficial		
Yvonne Monaghan and others	588,452	588,452

* Issued share capital is as at the balance sheet date

Board Report on Remuneration

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The Non Beneficial shares referred to above are held by the Johnson Brothers Employee Benefit Trust (the "Trust"). The Trust is governed by a Trust deed dated 18 August 1936 and was set up for the benefit of employees or ex-employees of the Company or their respective widows, widowers, children or other dependants. Yvonne Monaghan is a Trustee of the Trust.

There have been no changes in the Directors' interests in the shares of the Company during the period 31 December 2018 up until the time of signing this report.

Beneficial Interests in Share Options (Audited)

The interests of the Directors, who have served during the year, in share options of the Company at the commencement (or date of appointment if later) and close (or date of resignation if earlier) of the financial year were as follows:

	Date of Grant	At 31 December 2017	Options Granted During Year	Options Lapsed During Year	Options Cancelled During Year	Options Exercised During Year	At 31 December 2018	Option Price
Peter Egan								
Scheme 1	8 May 2015	120,000	-	-	-	-	120,000	nil
Scheme 2	8 May 2015	37,500	-	-	-	-	37,500	80.00p
Scheme 1	6 May 2016	110,000	-	-	-	-	110,000	nil
Scheme 1	27 March 2017	95,000	-	-	-	-	95,000	nil
Scheme 3	4 October 2017	7,157	-	-	-	-	7,157	125.75p
Scheme 1	28 February 2018	-	153,042	-	-	-	153,042	nil
		369,657	153,042	-	-	-	522,699	
Yvonne Monaghan								
Scheme 1	8 May 2015	308,750	-	-	-	-	308,750	nil
Scheme 2	8 May 2015	37,500	-	-	-	-	37,500	80.00p
Scheme 1	6 May 2016	274,456	-	-	-	-	274,456	nil
Scheme 1	27 March 2017	274,364	-	-	-	-	274,364	nil
Scheme 3	4 October 2017	7,157	-	-	-	-	7,157	125.75p
Scheme 1	28 February 2018	-	223,185	-	-	-	223,185	nil
		902,227	223,185	-	-	-	1,125,412	
Chris Sander								
Scheme 1	8 May 2015	393,750	-	-	-	-	393,750	nil
Scheme 2	8 May 2015	37,500	-	-	-	-	37,500	80.00p
Scheme 1	6 May 2016	359,782	-	-	-	-	359,782	nil
Scheme 1	27 March 2017	456,120	-	-	-	-	456,120	nil
Scheme 1	28 February 2018	-	371,036	-	-	-	371,036	nil
		1,247,152	371,036	-	-	-	1,618,188	
Scheme 1 - 2009 Long-Term Incentive Plan (the '2009 LTIP')								
Scheme 2 - 2009 Long-Term Incentive Plan Approved Section (the '2009 Approved LTIP')								
Scheme 3 - Sharesave Plan ('SAYE Scheme')								

Details of the 2009 LTIP, the 2009 Approved LTIP and the SAYE Scheme are given on pages 58 to 59 of the Board Report on Remuneration.

Director Gains

No Director exercised options over shares in the Company during the year.

On 6 March 2017, Chris Sander and Yvonne Monaghan each exercised options under the Company's Sharesave Plan over 17,526 ordinary shares of 10 pence each ("Ordinary Shares") with an option price of 43.75 pence per share and each subsequently sold 17,526 Ordinary Shares at a price of 115.45 pence per share.

On 27 March 2017, Chris Sander exercised nil cost options under the Company's 2009 Long Term Incentive Plan over 461,855 Ordinary Shares and subsequently sold 461,855 Ordinary Shares at a price of 109.93 pence per share. On the same date, Yvonne Monaghan exercised nil cost options under the Company's 2009 Long Term Incentive Plan over 387,628 Ordinary Shares and subsequently sold 387,628 Ordinary Shares at a price of 109.93 pence per share.

Other Details

The mid-market price of the Ordinary shares of 10p each on 31 December 2018 and 31 December 2017 was 117.0 pence and 144.0 pence respectively. During the year, the mid-market price of the Ordinary shares of 10p each ranged between 113.6 pence and 145.2 pence (2017: 106.0 pence and 151.0 pence).

None of the terms or conditions of the share options were varied during the year.

There have been no changes in the Directors' interests during the period 31 December 2018 to 4 March 2019, this being the date of this report.

Annual General Meeting

A resolution will be proposed at the Annual General Meeting to seek approval of the Board Report on Remuneration.

Nick Gregg
Chairman, Remuneration Committee

4 March 2019

Group Financial Statements

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**ADJUSTED
DILUTED EPS**

9.3p

Increased from 8.7p in 2017

Independent Auditors' Report to the Members of Johnson Service Group PLC

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

In our opinion, Johnson Service Group PLC's group financial statements and company financial statements (the "financial statements"):

- give a true and fair view of the state of the group's and of the company's affairs as at 31 December 2018 and of the group's profit and the group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2018; the Consolidated Income Statement; Consolidated and Company Statements Of Comprehensive Income; the Consolidated and Company Statements Of Cash Flows; and the Consolidated and Company Statements Of Changes In Shareholders' Equity for the year then ended; the Statement of Significant Accounting Policies; and the notes to the financial statements.

Basis for opinion

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

Independence

We remained independent of the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

- Overall group materiality: £23 million (2017: £215 million), based on 5% of adjusted operating profit.
 - Overall company materiality: £700,000 (2017: £676,000), based on 0.5% of net assets.
-
- We focused our work over the Group's reporting packs for the key operating divisions; Apparelmaster, Stalbridge, London Linen, Bourne and Afonwen.
 - We performed procedures over two Group companies, including Johnson Service Group PLC (the parent company of the Group), and the consolidation adjustments.
 - The components where we performed our audit work, together with procedures over the consolidation adjustments, accounted for over 95% of Group revenue and over 95% of Adjusted Operating Profit from continuing operations.
 - All work has been completed by PwC Manchester.
-
- Accounting for complex customer arrangements (Group).
 - Goodwill impairment assessment (Group).
 - Accounting for acquisition of South West Laundry Limited (Group).
 - Impairment assessment of investments (Parent).
-

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
<p>Accounting for complex customer arrangements – Group</p> <p>Refer to page 50 of the Audit Committee Report and page 80 of the Statement of Significant Accounting Policies.</p> <p>The Group, through the trading divisions, give rebates to certain key customers. These are contractual and vary by customer, but largely relate to volume based rebates on sales made throughout the financial year, with the value being determined by the level of spend.</p> <p>We focused on this area because the amount of customer rebates payable in respect of the year is determined by the contract terms for each customer, which are negotiated separately and, as a result, differ from one another. This means that the calculation of the rebates recognised in the Income Statement, and as a payable at the year end, relies on a manual process, which is inherently more prone to error than systems-based processes. We also focused on the completeness of the Income Statement charge and year end provision due to the risk of potential omission given the manual nature of the process.</p>	<p>To test customer rebates, we:</p> <ul style="list-style-type: none"> → recalculated, for a sample of customers, the customer rebate expense recognised within the Income Statement in the year, and provided for at the Balance Sheet date, finding them to be broadly consistent with the related contract; → compared sales recorded in the year, and the contractual rebate arrangements agreed with each customer, to the Directors' calculation of the rebate expense, finding it to not be materially different; → compared the provision made at the prior year end to the amounts paid in 2018 in respect of those provisions, with no material differences identified; → tested whether any rebate arrangements had been omitted from the amounts charged in the year, and liabilities held at the Balance Sheet date, by checking the contractual arrangements with the Group's most significant customers to make sure that all rebate arrangements had been identified by the Directors' and did not identify any that had been omitted; and → agreed amounts paid to customers post period end to source documentation to check they had been accounted for in the right accounting period, and found no instances of amounts recorded in the wrong period.
<p>Goodwill impairment assessment – Group</p> <p>Refer to page 49 of the Audit Committee Report, page 84 of the Statement of Significant Accounting Policies and note 12 of the Consolidated Financial Statements.</p> <p>The goodwill balance of £1281 million relates to a number of trading businesses and is required to be tested annually for impairment. No impairment charge has been recognised against these balances in the current financial year. The risk we focused on is that goodwill balances may be overstated and that an impairment charge may be required.</p> <p>The carrying value of goodwill is considered a key audit matter, and with the completion of several acquisitions in recent years, an extra focus on goodwill is required to ensure these are valued appropriately. The large magnitude of the balance, and the numerous assumptions made, add to the judgmental nature of the balance.</p>	<p>To assess the impairment assessment performed by the Directors' we have performed the following:</p> <ul style="list-style-type: none"> → We evaluated and assessed the reasonableness of the Group's future cash flow forecasts, and the process by which they were prepared, including comparing them to the latest Board approved budgets; → assessed the reasonableness of the Board approved budget, including assessing the revenue and costs included in those budgets based on our understanding of the Group. We found the assumptions underpinning the budgets to be consistent with our understanding; → tested the Directors' historical budgeting accuracy by evaluating whether previous budgets had been achieved; → tested the Directors' key assumptions for long-term growth rates outside the budget period, by comparing them to, and finding them broadly in line with, forecast inflation rates in the UK; and → considered the discount rate by agreeing the inputs into the calculation, including the cost of debt, equity risk premium and the beta factor. <p>We performed our own sensitivities over the key drivers of the cash flow forecasts, being revenue and margin growth, and the discount rate used.</p> <p>Having ascertained the extent of change in those assumptions that either individually, or collectively, would be required for the goodwill to be impaired, we considered whether such a movement in those key assumptions arising was reasonably likely, and concluded that no reasonably likely change would result in the goodwill being impaired.</p>

Independent Auditors' Report to the Members of Johnson Service Group PLC

Key audit matter	How our audit addressed the key audit matter
<p>Accounting for acquisition of South West Laundry Limited – Group</p> <p>Refer to page 49 of the Audit Committee Report, page 81 of the Statement of Significant Accounting Policies and note 31 of the Consolidated Financial Statements.</p> <p>On 31 August 2018, the Group acquired 100% of the share capital of South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Ltd (South West Laundry), for a net consideration of £13.3 million.</p> <p>We focused on these areas because the accounting for acquisition involved judgment and estimates that have a material impact on the amounts recognised in the Group Financial Statements, including:</p> <ul style="list-style-type: none"> → determining the fair value of intangible assets acquired, including customer lists and contracts, which the Directors valued at £4.0 million, and the useful economic lives of those customer lists and contracts, which were assessed as five years, in line with prior year acquisitions; and → determining the provisional fair value of other assets and liabilities acquired. 	<p>We obtained and read the relevant terms of the purchase agreements to inform our further audit procedures to test the accounting for the acquisitions.</p> <p>We tested the recognition in the Consolidated Financial Statements of the fair value of the assets and liabilities acquired (and residual goodwill). In doing so, we:</p> <ul style="list-style-type: none"> → agreed consideration paid through to bank statement, noting no errors; → tested the Directors' valuation of the acquired customer lists by testing if the assumptions used in the calculations were consistent with our understanding of the acquisition and through agreement to supporting evidence. In addition, we compared the assumption to previous acquisitions made by the Group in this industry, including estimated customer renewal rates, attrition rates and the discount rate applied. We found no significant inconsistencies in the assumptions determined by the Directors; → considered whether any other intangible assets should have been identified by the Directors, based on our understanding of the transactions, our knowledge of the businesses, the purchase agreements and discussions with the Directors. None were identified; and → tested whether other assets and liabilities acquired had been recognised at fair value, with no material differences identified.
<p>Impairment assessment of investments – Parent</p> <p>Refer to page 128 of the Statement of Significant Accounting Policies and note 6 of the Company Financial Statements.</p> <p>The investment balance of £558.9 million is considered annually for impairment, with no impairment charge recognised against this balance in the current financial year. The risk we focused on is that the investment values may not be supported and that an impairment charge may be required.</p> <p>As a result of previous restructuring, strategic reviews and acquisitions made, the carrying value of investments is considered an area of heightened risk. The large magnitude of the balance, and the assumptions made when assessing the valuation of investments add to the judgmental nature of the balance.</p>	<p>To assess the impairment assessment performed by the Directors' we have performed the following:</p> <ul style="list-style-type: none"> → We evaluated and assessed the reasonableness of the Group's future cash flow forecasts, and the process by which they were prepared, including comparing them to the latest Board approved budgets; → assessed the reasonableness of the Board approved budget, including assessing the revenue and costs included in those budgets based on our understanding of the Group. We found the assumptions underpinning the budgets to be consistent with our evidence; → tested the Directors' historical budgeting accuracy by evaluating whether previous budgets had been achieved; → tested the Directors' key assumptions for long-term growth rates outside the budget period, by comparing them to, and finding them broadly in line with, forecast inflation rates in the UK; → considered the discount rate by testing the inputs into the calculation, including the cost of debt, equity risk premium and the beta factor. → we performed our own sensitivities over the key drivers of the cash flow forecasts, being revenue and margin growth, and the discount rate used; and → in the cases whereby an investment balance is supported by the net assets of the related company, we have considered the accuracy and recoverability of this value, and identified no errors.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group and the company, the accounting processes and controls, and the industry in which they operate.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the group, the accounting processes and controls, and the industry in which it operates.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£23 million (2017: £215 million).	£700,000 (2017: £676,000).
How we determined it	5% of adjusted operating profit.	0.5% of net assets.
Rationale for benchmark applied	Adjusted operating profit from continuing operation is the key measure used both internally by the Board and, we believe, through reading Directors' presentations to analysts, externally by shareholders in evaluating the performance of the Group. This measure excludes interest, tax, amortisation and impairment of intangible assets (excluding software), and exceptional items.	Net assets is appropriate as it is not a profit oriented company. The main source of income is dividend income provided by other group companies. The company holds all investments in subsidiaries and therefore net assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £0.7 million and £21 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million (Group audit) (2017: £0.1 million) and £35,000 (Company audit) (2017: £34,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the directors' identification of any material uncertainties to the group's and the company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the group's and company's ability to continue as a going concern. For example, the terms on which the United Kingdom may withdraw from the European Union, which is currently due to occur on 29 March 2019, are not clear, and it is difficult to evaluate all of the potential implications on the Group's and Company's trade, customers, suppliers and the wider economy.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Independent Auditors' Report to the Members of Johnson Service Group PLC

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006 (CA06) and ISAs (UK) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements (CA06)

In light of the knowledge and understanding of the group and company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report. (CA06)

The directors' assessment of the prospects of the group and of the principal risks that would threaten the solvency or liquidity of the group

As a result of the directors' voluntary reporting on how they have applied the UK Corporate Governance Code (the "Code"), we are required to report to you if we have anything material to add or draw attention to regarding:

- The directors' confirmation on page 45 of the Annual Report that they have carried out a robust assessment of the principal risks facing the group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 10 of the Annual Report as to how they have assessed the prospects of the group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

As a result of the directors' voluntary reporting on how they have applied the Code, we are required to report to you if, in our opinion:

- The statement given by the directors, on page 38, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 48 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

OTHER VOLUNTARY REPORTING

Other Code provisions

The directors have prepared a corporate governance statement and requested that we review it as though the company were a premium listed company. We have nothing to report in respect of the requirement for the auditors of premium listed companies to report when the directors' statement relating to the company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified under the Listing Rules, for review by the auditors.

Graham Parsons (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
4 March 2019

Consolidated Income Statement

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Revenue	1	321.1	290.9
Operating profit	2	36.6	34.8
Operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items	1	46.0	43.3
Amortisation of intangible assets (excluding software amortisation)		(8.8)	(8.0)
Exceptional items	6		
– Costs in relation to business acquisition activity		(0.6)	(0.5)
Operating profit	2	36.6	34.8
Finance cost		(3.2)	(3.2)
Notional pension interest		(0.3)	(0.4)
Total finance cost	7	(3.5)	(3.6)
Profit before taxation		33.1	31.2
Taxation charge*	9	(6.3)	(5.8)
Profit for the year from continuing operations		26.8	25.4
Profit for the year from discontinued operations	32	–	0.3
Profit for the year attributable to equity holders		26.8	25.7
Earnings per share	11		
Basic earnings per share			
From continuing operations		7.3p	6.9p
From discontinued operations		–	0.1p
From total operations		7.3p	7.0p
Diluted earnings per share			
From continuing operations		7.2p	6.9p
From discontinued operations		–	0.1p
From total operations		7.2p	7.0p
Adjusted basic earnings per share			
From continuing operations		9.4p	8.7p
From discontinued operations		–	–
From total operations		9.4p	8.7p
Adjusted diluted earnings per share			
From continuing operations		9.3p	8.7p
From discontinued operations		–	–
From total operations		9.3p	8.7p

The notes on pages 89 to 121 are an integral part of these Consolidated Financial Statements.

* Including £1.7 million credit (2017: £1.7 million credit) relating to amortisation of intangible assets (excluding software amortisation) and Enil (2017: £0.1 million credit) relating to exceptional items.

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the year		26.8	25.7
Items that will not be subsequently reclassified to profit or loss			
Re-measurement and experience gains on post-employment benefit obligations	23	5.7	3.2
Taxation in respect of re-measurement and experience gains		(1.1)	(0.6)
Change in deferred tax due to change in tax rate		-	(0.1)
Items that may be subsequently reclassified to profit or loss			
Cash flow hedges (net of taxation) – fair value (losses)/gains		(0.3)	0.2
– transfers to administrative expenses		(0.4)	-
– transfers to finance cost		0.2	0.4
Total other comprehensive income for the year		4.1	3.1
Total comprehensive income for the year		30.9	28.8

Consolidated Statement of Changes in Shareholders' Equity

	Share Capital £m	Share Premium £m	Merger Reserve £m	Capital Redemption Reserve £m	Hedge Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2017	36.5	15.0	1.6	0.6	(0.7)	94.1	147.1
Profit for the year	-	-	-	-	-	25.7	25.7
Other comprehensive income	-	-	-	-	0.6	2.5	3.1
Total comprehensive income for the year	-	-	-	-	0.6	28.2	28.8
Share options (value of employee services)	-	-	-	-	-	0.7	0.7
Current tax on share options	-	-	-	-	-	0.2	0.2
Issue of share capital	0.1	0.2	-	-	-	-	0.3
Dividend paid	-	-	-	-	-	(9.5)	(9.5)
Transactions with Shareholders recognised directly in Shareholders' equity	0.1	0.2	-	-	-	(8.6)	(8.3)
Balance at 31 December 2017	36.6	15.2	1.6	0.6	(0.1)	113.7	167.6
Change in accounting standard (see note 37)	-	-	-	-	-	1.0	1.0
Restated balance at 1 January 2018	36.6	15.2	1.6	0.6	(0.1)	114.7	168.6
Profit for the year	-	-	-	-	-	26.8	26.8
Other comprehensive income	-	-	-	-	(0.5)	4.6	4.1
Total comprehensive income for the year	-	-	-	-	(0.5)	31.4	30.9
Share options (value of employee services)	-	-	-	-	-	0.8	0.8
Deferred tax on share options	-	-	-	-	-	0.1	0.1
Issue of share capital	0.2	0.5	-	-	-	-	0.7
Dividend paid	-	-	-	-	-	(10.7)	(10.7)
Transactions with Shareholders recognised directly in Shareholders' equity	0.2	0.5	-	-	-	(9.8)	(9.1)
Balance at 31 December 2018	36.8	15.7	1.6	0.6	(0.6)	136.3	190.4

The Group has an Employee Benefit Trust (EBT) to administer share plans and to acquire shares, using funds contributed by the Group, to meet commitments to employee share schemes. At 31 December 2018 the EBT held 16,256 shares (2017: 16,256).

Consolidated Balance Sheet

	Note	As at 31 December 2018 £m	As at 31 December 2017 £m
Assets			
Non-current assets			
Goodwill	12	128.1	120.3
Intangible assets	13	39.3	43.5
Property, plant and equipment	14	96.0	89.3
Textile rental items	15	56.4	50.0
Trade and other receivables	17	0.7	0.3
Deferred income tax assets	21	1.8	2.9
		322.3	306.3
Current assets			
Inventories	16	2.8	2.9
Trade and other receivables	17	52.1	47.2
Derivative financial assets	24	-	0.1
Cash and cash equivalents		7.1	5.3
		62.0	55.5
Liabilities			
Current liabilities			
Trade and other payables	18	64.8	65.3
Current income tax liabilities		5.1	3.8
Borrowings	20	14.5	14.5
Derivative financial liabilities	24	-	-
Provisions	22	1.5	2.2
		85.9	85.8
Non-current liabilities			
Post-employment benefit obligations	23	4.6	12.0
Deferred income tax liabilities	21	7.6	9.5
Trade and other payables	19	2.3	3.1
Borrowings	20	91.0	82.1
Derivative financial liabilities	24	0.7	0.2
Provisions	22	1.8	1.5
		108.0	108.4
Net assets		190.4	167.6
Equity			
Capital and reserves attributable to the company's shareholders			
Share capital	26	36.8	36.6
Share premium	28	15.7	15.2
Merger reserve		1.6	1.6
Capital redemption reserve		0.6	0.6
Hedge reserve		(0.6)	(0.1)
Retained earnings		136.3	113.7
Total equity		190.4	167.6

The notes on pages 89 to 121 are an integral part of these Consolidated Financial Statements.

The financial statements on pages 74 to 121 were approved by the Board of Directors on 4 March 2019 and signed on its behalf by:


Yvonne Monaghan
 Chief Financial Officer

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cash flows from operating activities			
Profit for the year		26.8	25.7
Adjustments for:			
Taxation charge/(credit) – continuing operations	9	6.3	5.8
– discontinued operations	32	–	(0.3)
Total finance cost	7	3.5	3.6
Depreciation		55.3	48.8
Amortisation		8.9	8.2
Profit on sale of property, plant and equipment		–	(0.1)
Decrease/(increase) in inventories		0.1	(0.7)
Increase in trade and other receivables		(2.8)	(2.1)
(Decrease)/increase in trade and other payables		(3.2)	1.9
Costs in relation to business acquisition activity	6	0.6	0.5
Deficit recovery payments in respect of post-employment benefit obligations		(1.9)	(3.4)
Share-based payments	27	0.8	0.8
Post-employment benefit obligations		(0.1)	(0.1)
Decrease in provisions		(0.5)	(1.0)
Cash generated from operations		93.8	87.6
Interest paid		(3.5)	(2.8)
Taxation paid		(7.8)	(6.9)
Net cash generated from operating activities		82.5	77.9
Cash flows from investing activities			
Acquisition of businesses (net of cash and overdrafts acquired)	31	(14.0)	(9.2)
Proceeds from sale of business (net of cash disposed) – discontinued operations	32	–	7.1
Purchase of property, plant and equipment		(17.5)	(16.5)
Purchase of software		(0.6)	–
Proceeds from sale of property, plant and equipment		0.2	0.2
Purchase of textile rental items		(48.9)	(43.1)
Proceeds received in respect of special charges		2.2	2.1
Net cash used in investing activities		(78.6)	(59.4)
Cash flows from financing activities			
Proceeds from borrowings		86.0	82.0
Repayment of borrowings		(77.0)	(88.2)
Capital element of finance leases		(3.9)	(5.3)
Net proceeds from issue of Ordinary shares		0.7	0.3
Dividend paid		(10.7)	(9.5)
Net cash used in financing activities		(4.9)	(20.7)
Net decrease in cash and cash equivalents		(1.0)	(2.2)
Cash and cash equivalents at beginning of year		(3.7)	(1.5)
Cash and cash equivalents at end of year		(4.7)	(3.7)
Cash and cash equivalents comprise:			
Cash		7.1	5.3
Overdraft		(11.8)	(9.0)
Cash and cash equivalents at end of year		(4.7)	(3.7)

The notes on pages 89 to 121 are an integral part of these Consolidated Financial Statements.

Statement of Significant Accounting Policies

Johnson Service Group PLC (the 'Company') and its subsidiaries (together 'the Group') provide textile rental and related services across the UK.

The Company is incorporated and domiciled in the UK, its registered number is 523335 and the address of its registered office is Johnson House, Abbots Park, Monks Way, Preston Brook, Cheshire, WA7 3GH. The Company is a public limited company and has its primary listing on the AIM division of the London Stock Exchange.

The Group and Company financial statements were authorised for issue by the Board on 4 March 2019.

Basis of preparation

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to the information presented, unless otherwise stated.

The Consolidated Financial Statements of the Group have been prepared on a going concern basis in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS as adopted by the EU), IFRS Interpretations Committee (IFRS IC) interpretations and the Companies Act 2006 applicable to companies reporting under IFRS. The Consolidated Financial Statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss and defined benefit pension plans where plan assets are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Consolidated Financial Statements, are disclosed below in the section entitled 'Critical accounting estimates and assumptions'.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards, and amendments to standards, have been adopted by the Group for the first time for the financial year beginning on 1 January 2018:

- IFRS 9, Financial Instruments;
- IFRS 15, Revenue from Contracts with Customers;
- Classification and Measurement of Share-Based Payment Transactions – Amendments to IFRS 2;
- Annual Improvements to IFRS Standards 2014-2016 Cycle; and
- Interpretation 22, Foreign Currency Transactions and Advance Consideration.

The adoption of these standards did not have a material impact on the Group Consolidated Financial Statements.

Note 37 details further the impact of the adoption of IFRS 9, Financial Instruments and IFRS 15, Revenue from Contracts with Customers.

(b) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group:

- IFRS 16, Leases: this standard is mandatory for financial years commencing on or after 1 January 2019. It will result in almost all leases being recognised on the Balance Sheet as, from a lessee perspective, the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

The Group currently leases both properties and vehicles under a series of operating lease contracts which will be impacted by the new standard. These types of leases can no longer be recognised as operating leases and will need to be brought onto the Group's Balance Sheet from the date of adoption of the new standard. The Group has elected to apply the following practical expedients:

- In determining whether existing contracts meet the definition of a lease, the Group will not reassess those contracts previously identified as leases and will not apply the standard to those contracts not previously identified as leases.
- Short-term leases (leases of less than 12 months and leases with less than 12 months remaining) as at the date of adoption of the new standard will not be within the scope of IFRS 16.
- Leases for which the asset is of low value, for example IT equipment, will not be within the scope of IFRS 16.

The Group has elected to apply the simplified transition approach with the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at 1 January 2019. As a consequence of this, there is likely to be a material impact on the Balance Sheet with a lease liability and a corresponding right of use asset to be recognised on the Balance Sheet. There is anticipated to be a limited impact on the net assets of the Group at the date of adoption. Based on the current definition of adjusted operating profit, there is likely to be an increase in the Group's adjusted operating profit as operating lease costs are replaced by a lower depreciation charge. There will also be an additional interest charge, however, there will be no material effect on the overall Income Statement. The changes will not impact the overall cash flow of the group.

Statement of Significant Accounting Policies Continued >

As at the reporting date, the Group has non-cancellable operating lease commitments of £51.7 million, see note 35. Of these commitments, approximately £0.4 million relate to short-term leases and £0.5 million to low-value leases which will both be recognised on a straight-line basis over the remaining life of the leases as an expense in profit or loss.

For the remaining lease commitments, the Group estimates that right-of-use assets of approximately £36 million will be recognised on 1 January 2019 and lease liabilities of approximately £37 million (after adjustments for prepayments and accrued lease payments recognised as at 31 December 2018).

- IFRIC 23, Uncertainty over income tax treatments was issued in June 2017. IFRIC 23 explains how to recognise and measure deferred and current income tax assets and liabilities where there is uncertainty over a tax treatment. Mandatory for financial years commencing on or after 1 January 2019. The Group has not adopted IFRIC 23 before its mandatory date. This standard is not expected to have a significant effect on the Group's financial statements.

Judgments made in applying accounting policies

In the course of preparing these financial statements, certain judgments are made by the Group in the process of applying the Group's accounting policies. Those that have the most significant effect on either the amounts recognised in the Financial Statements or the presentation thereof are discussed below.

Segmental analysis

Prior to its disposal on 4 January 2017, the Drycleaning business comprised a single reporting segment with all other operating businesses being reported within the Textile Rental reporting segment. In addition, the Group also provided analysis for two further reporting segments: 'Discontinued Operations' and 'All Other Segments'. As a result of the Drycleaning disposal, the Board considered whether it remained appropriate to continue reporting under the remaining segments. Full details of the considerations are disclosed within note 1 to the 2017 Consolidated Financial Statements, however, it was ultimately determined at that time to report using the following reporting segments:

- Workwear;
- Hotel, Restaurant and Catering (HORECA);
- Discontinued Operations; and
- All Other Segments.

The Board continues to believe that the above segments remain relevant to the activities of the Group.

Sources of estimation and uncertainty

The Group makes estimates and assumptions concerning the future. Whilst such estimates and assumptions are believed to be reasonable under the circumstances, the resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that are considered to have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Other intangible assets

Other intangible assets comprise customer contracts and relationships. The cost of the intangible asset is based upon management's assessments of projected cash flows. These calculations require the use of estimates. Further details are shown in note 13 of these Consolidated Financial Statements.

(b) Income taxes

The Group is subject to income taxes. Judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Post-employment benefit obligations

The Group operates two post retirement defined benefit arrangements (note 23). Asset valuations are based on the fair value of scheme assets. The valuations of the liabilities of the schemes are based on statistical and actuarial calculations, using various assumptions including discount rates, future inflation rates and pension increases, life expectancy of scheme members, flexible retirement options and cash commutations. The actuarial assumptions may differ materially from actual experience due to changes in economic and market conditions, variations in actual mortality, higher or lower cash withdrawal rates and other changes. Any of these differences could impact the assets or liabilities recognised in the Balance Sheet in future periods.

(d) Complex customer arrangements

The Group offers rebates to certain customers based on agreed fixed rates relating to the volume of services provided and goods purchased. Whilst FRC guidance has highlighted complex customer arrangements as an area of focus, the Group's rebates are not considered to be highly complex as they are volume related; there are generally written agreements in place; and historical estimates of rebates have been seen to be accurate. Any judgments made in accruing customer rebates are considered to be appropriate.

(e) Onerous leases, dilapidations and environmental costs

The Group makes provision for the anticipated net costs of onerous leases, dilapidations and environmental remediation costs. The timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or on closure of inactive sites. The timing and value of such payments are based on management estimates. Further details are shown in note 22 of these Consolidated Financial Statements.

Forward looking statements

The terms 'expect', 'should be', 'will be', 'is likely to' and similar expressions identify forward looking statements.

Although the Board believes that the expectations reflected in these forward looking statements are reasonable, such statements are subject to a number of risks and uncertainties and actual results and events could differ materially from those currently expressed or implied in such forward looking statements.

Factors which may cause future outcomes to differ from those foreseen in forward looking statements include, but are not limited to: general economic conditions and business conditions in the Group's markets; exchange and interest rate fluctuations; customers' acceptance of its products and services; the actions of competitors; and legislative, fiscal and regulatory developments.

Consolidation

The Group controls an entity when the Group has power over an entity, is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect these returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The accounting periods of subsidiary undertakings are co-terminous with those of the Company. Inter-company transactions, balances and unrealised gains and losses on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Subsidiaries' accounting policies have been changed, where necessary, to ensure consistency with the policies adopted by the Group.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Where consideration due to vendors is deferred, but is not contingent on future events, it is included in consideration when assessing the total acquisition cost and is accrued within trade and other payables until such a time that the amounts are settled. Where consideration due to vendors is contingent on future events, management's assessment of the fair value of the amounts payable are included in consideration when assessing the total acquisition cost and is accrued within trade and other payables until such a time that the amounts are settled. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair value at the acquisition date, irrespective of the extent of any non-controlling interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the Group's share of the net assets of the subsidiary acquired, the difference is recognised immediately in the Income Statement. As per IFRS 3, where new information is obtained within the measurement period about facts and circumstances that existed as at the acquisition date and, if known, would have affected the amounts recognised as at that date, the fair value of assets and liabilities acquired should be adjusted accordingly. The measurement period does not exceed one year from the acquisition date. Costs directly attributable to acquisitions are expensed to the Income Statement as an exceptional item.

Segment reporting

Operating segments are identified in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors. For reporting purposes, operating segments are aggregated into reporting segments where operating segments are considered to have similar economic conditions and characteristics and where the aggregation of operating segments provides information that enables users to evaluate the nature and financial effects of the business activities in which the Group engages and the economic environments in which it operates.

Alternative performance measures (APMs)

Throughout the Annual Report and Accounts, we refer to a number of different APMs. APMs are used by the Group to provide for further clarity and transparency of the Group's financial performance. The APMs are used internally by management to monitor business performance, budgeting and forecasting, and for determining Directors' remuneration and that of other management throughout the business.

APMs are non-IFRS measures. APMs used by the Group are as follows:

- Adjusted operating profit which refers to continuing operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items;
- Adjusted profit before taxation which refers to adjusted operating profit less total finance cost;
- Adjusted EBITDA, adjusted for acquisitions and disposals, which is used for gearing purposes, refers to adjusted operating profit for the relevant year plus the depreciation charge for property, plant and equipment and software amortisation;
- Adjusted EPS which refers to EPS calculated based on adjusted profit after tax.

The Board considers that all the APMs, all of which exclude the effects of non-recurring items or non-operating events, provide useful information for Shareholders on underlying trends and performance of the Group.

Statement of Significant Accounting Policies Continued >

Revenue recognition

IFRS 15 'Revenue from Contracts with Customers' establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced IAS 18 Revenue and related interpretations with effect from 1 January 2018.

Under IFRS 15, revenue recognition is based on the principle that revenue is recognised when control of a good or service transfers to a customer. Revenue is measured based on the consideration specified in a contract with a customer and is recognised when a customer obtains control of the services. The Group's service contracts are defined as having a single performance obligation whereby the Group has an obligation to provide the customer with clean garments or linen. The point of the customer obtaining control is therefore defined as occurring at various points in time across the life of a contract as deliveries of clean garments or linen are made.

Where sale of goods occur, revenue is recognised at a point in time when goods are delivered to customers.

For the Group, the transfer of control under IFRS 15 and satisfaction of performance obligations therefore remains consistent with the transfer of risks and rewards to the customer under IAS18. Consequently, there was no significant impact on the amount and timing of revenue recognition in the Group on application of IFRS 15.

Revenue represents the fair value of consideration received or receivable for the sale of goods and services supplied in the ordinary course of the Group's activities, and is stated exclusive of VAT, similar taxes, discounts, rebates and after eliminating sales within the Group.

Revenue from goods and services provided to customers not invoiced as at the balance sheet date is recognised as accrued income within trade and other receivables. Interest receivable on bank deposits and other items is not classed as revenue but included within finance income.

Contract modifications occur on a regular basis to record price changes or a change in stock requirements for customers. The Group accounts for a contract modification when it is approved by the parties to the contract. Following a contract modification, the customer is billed in line with the delivery of the remaining performance obligations. A modification is accounted for as an adjustment to the original contract, either prospectively or through a cumulative catch-up adjustment depending on whether the remaining goods or services in the contract are distinct. The Group accounts for a modification prospectively if the goods or services in the modification are distinct from those transferred before the modification. The remaining consideration in the original contract not yet recognised as revenue is combined with the additional consideration promised in the modification to create a new transaction price that is then allocated to all remaining performance obligations (that is, both those not yet completed in the original contract and those added through the modification). This effectively accounts for the modification as a termination of the original contract and the inception of a new contract for all performance obligations that remain unperformed. This would be the case for a price change or change of stock requirements mid-contract.

The breakdown of revenue from ordinary activities used within the Group to assess the performance is presented, by operating segment, in the Segment Analysis (see Note 1).

The Group applies the practical expedient included in paragraph 121 of IFRS 15 and does not disclose information about its remaining performance obligations for contracts as the Group recognises revenue in line with the value of the goods and services received by the customer to date.

Rebates

Rebates payable to customers, and receivable from suppliers, are recognised in line with relevant contractual terms. Rebates payable to customers are calculated using the expected value method (the sum of probability-weighted amounts for various possible outcomes). The Group relies on the analysis of historical data and its accumulated experience to estimate the probable amount of rebates and discounts to be given to customers. Rebates are charged directly to the Income Statement over the period to which they relate and are recognised as a deduction from revenue. Rebates receivable from suppliers are either recognised directly in the Income Statement, or as a reduction in the value of acquired textile rental items, dependent on the nature of goods acquired from suppliers. Supplier rebates recognised in the Income Statement are recognised within cost of sales.

Contract assets

The incremental costs to directly obtain a contract with a customer are capitalised and recognised within contract assets where management expects to recover those costs. Costs to obtain a contract that would have been incurred regardless of whether the contract was obtained are recognised as an expense in the period where incurred. Contract assets are subsequently amortised over the period consistent with the Group's transfer of the related goods or services to the customer.

The costs capitalised include sales commission paid to employees where payment is identified as relating directly to the signing of a customer contract. Where consideration is paid to customers relating to a contract for a period over which services will be provided, the Group also capitalises these costs. The costs are amortised over the average contract life.

In adopting IFRS 15 on 1 January 2018, the Group recognised an asset in relation to sales commissions costs and consideration paid to customers. These costs had been expensed as incurred under previous accounting policies (see Note 37).

Management is required to determine the recoverability of contract related assets at each reporting date. An impairment exists if the carrying amount of any asset exceeds the amount of consideration the Group expects to receive in exchange for providing the associated goods and services, less the remaining costs that relate directly to providing those goods and services under the relevant contract. An impairment is recognised immediately where such losses are forecast.

The movement in the contract asset balance in the period therefore represents additional payments made, subsequent amortisation and any required impairment.

Contract assets are included in the Balance Sheet at 31 December 2018 within trade and other receivables, as shown in note 17, in line with the new disclosure requirements of IFRS 15.

Exceptional items

Items that are material in size, non-operating or non-recurring in nature are presented as exceptional items in the Income Statement, within the relevant account heading. The Directors are of the opinion that the separate recording of exceptional items provides helpful information about the Group's underlying business performance. Events which may give rise to the classification of items as exceptional include, but are not restricted to, restructuring of businesses, gains or losses on the disposal of Textile Rental or industrial properties, one off gains or losses relating to pension liabilities and expenses incurred and the subsequent reorganisation cost in relation to business acquisitions.

Employee benefits

Post-employment benefits

The Group operates various pension schemes. The schemes are funded through payments to insurance companies or trustee-administered funds, determined by periodic actuarial calculations. The Group has both defined benefit and defined contribution plans.

A defined contribution plan is a pension plan under which the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the Balance Sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date, less the fair value of plan assets. The defined benefit obligation is calculated periodically by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high-quality corporate bonds that are denominated in the currency in which benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Current and past service costs are recognised immediately in the Income Statement. Interest cost on plan liabilities and interest income on plan assets are recognised in finance costs. Curtailment gains arising from amendments to the terms of a defined benefit plan such that a significant element of future service by current employees will no longer qualify for benefits, or will only qualify for reduced benefits, are recognised in the Income Statement. *Re-measurement gains and losses arising from experience adjustments and changes in actuarial and demographic assumptions are charged or credited to the Consolidated Statement of Comprehensive Income in the period in which they arise.*

For defined contribution plans, contributions are recognised as an employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment benefit obligations

The Group provides unfunded post-retirement healthcare benefits to a limited number of current and future retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. *The liability is recognised on the Balance Sheet within 'Post-employment benefit obligations'. Re-measurement gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in the Consolidated Statement of Comprehensive Income in the period in which they arise.*

Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the Income Statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models, principally Binomial and Monte Carlo models. The fair value at the grant date of the award is recognised in the Income Statement over the vesting period of the award. At each balance sheet date, the Group revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimate is reflected in the Income Statement with a corresponding adjustment to equity to the extent it relates to past service and the remainder over the rest of the vesting period. All options cancelled are fully expensed to the Income Statement upon cancellation. The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised. Any amount charged or credited to the Income Statement by any of the Group's subsidiaries is reflected in the books of the Company via an increase or decrease in investments, with a corresponding increase or decrease to equity. These entries are eliminated within the Consolidated Financial Statements.

Bonus plans

The Group recognises an expense and a liability for bonuses based on the profit attributable to the Group or business as appropriate and other pre-determined performance criteria. The Group recognises a provision where it is contractually obliged or where there is a past practice that has created a constructive obligation.

Termination benefits

The Group recognises termination benefits when it is demonstrably committed to the termination of the employment of current employees according to a detailed formal plan without possibility of withdrawal.

Statement of Significant Accounting Policies Continued >

Discontinued operations

Business components that represent separate major lines of business or geographical areas of operations are recognised as discontinued if the operations have been disposed of.

Impairment of non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to dispose and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets, other than goodwill, that suffer an impairment are reviewed for possible reversal of the impairment at each reporting date. Value in use calculations are considered first followed by fair value less costs to dispose if it is deemed necessary. See note 12 for further information.

Intangible assets

Goodwill

For acquisitions since 28 December 2003, goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the identifiable net assets of the acquired business at the date of acquisition. For acquisitions prior to this date, goodwill is included at the amount recorded previously under UK GAAP. For acquisitions prior to 1 January 2010, the cost of an acquisition includes related expenses but such costs are excluded for acquisitions after this date.

Goodwill on business acquisitions is included in non-current assets. Negative goodwill arising on acquisition is recognised directly in the Income Statement.

Gains and losses on the disposal of a business include the carrying amount of goodwill relating to the business sold. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Where an impairment is identified, it is charged to the Income Statement within amortisation and impairment of intangible assets (excluding software). Impairment losses on goodwill are not reversed.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Capitalised software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software, and are included on the Balance Sheet within intangible assets. Costs are amortised, once commissioned, over their estimated useful lives (four to ten years).

Costs associated with the general development and maintenance of computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that are expected to generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of employees involved in software development and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding ten years).

Other intangible assets

Other intangible assets comprise customer contracts and relationships, recognised at cost. They have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of the intangible assets over their estimated useful lives (four to ten years).

Property, plant and equipment

Property, plant and equipment is stated at cost, less depreciation, which is calculated to write off these assets, by equal annual instalments, over their estimated useful lives. Cost includes expenditure which is directly attributable to the acquisition of the asset. The estimated life of plant and fixtures is two to fifteen years and of vehicles (included within plant and equipment) four to five years. Improvements to short leasehold properties are amortised over the shorter of the terms of the leases and their useful life. The residual values and useful lives of assets are reviewed, and adjusted if appropriate, at each balance sheet date.

Freehold and long leasehold buildings are depreciated over their estimated remaining useful life not exceeding 50 years commencing on 26 December 1999 or, if later, date of purchase. Land is not depreciated. The Group has not adopted a policy of revaluation but the carrying amounts of freehold and long leasehold properties reflect previous valuations. In the event of an impairment in property value the deficit below cost is charged to the Income Statement.

The fit out costs of new freehold or long leasehold industrial buildings are depreciated, in equal annual instalments, over their expected useful lives which range from 10 to 25 years from the date on which the assets are fully commissioned.

Subsequent costs are included in the asset's carrying amount, or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance costs are charged to the Income Statement during the financial period in which they are incurred.

No depreciation is provided for assets in the course of construction until they are completed and put in use as management intended.

The cost of property, plant and equipment acquired through business combinations is accounted for as the fair value of assets acquired.

Gains and losses on disposals are determined by comparing the net proceeds with the carrying amount and are recognised within the Income Statement.

Textile rental items

Textile rental items which principally comprise workwear garments, cabinet towels, linen and dust mats are initially treated as inventories. On issue to customers or into pool stock, rental items are transferred to non-current assets and are stated at invoiced cost. Depreciation is calculated on a straight line basis over the estimated lives of the items in circulation, which range from two to five years. Issued textile rental items bought through acquisition of other businesses are accounted for as the fair value of issued textile rental items acquired will be the deemed cost of these items.

Charges are levied in respect of lost or damaged items or where a customer terminates the service before the end of the contracted period. Such charges are referred to as 'special charges'. Where proceeds are received in respect of these special charges the amounts received are deducted from the carrying value of those items.

Where proceeds are received in respect of textile rental items withdrawn from circulation these are deducted from the carrying value of those amounts.

Leased assets

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Rentals payable in respect of operating leases (net of any incentives received from the lessor) are charged to the Income Statement on a straight line basis over the lease term.

Where assets are financed by leasing or hire purchase arrangements, which give rights approximating to ownership, the assets are treated as if they had been purchased outright and are capitalised at their fair value at the date of inception of the lease. The capital element of outstanding lease or hire purchase commitments is treated as a liability and disclosed as obligations under finance lease agreements. Interest is allocated to the Income Statement over the period of the lease or hire purchase agreement and represents a constant proportion of the outstanding commitment.

Inventories

Stocks of materials, stores, goods for resale and new rental items are valued at the lower of cost and net realisable value. Cost is stated on either a first in, first out basis or average cost basis and comprises invoiced cost in respect of the purchase of finished goods and materials, direct labour and direct transportation costs in respect of garments for sale. It excludes borrowing costs.

Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges of purchases of goods. Provision is made for obsolete, defective and slow moving stock.

Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Under IFRS 9, effective from 1 January 2018, the Group elected to use the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables and contract assets that result from transactions that are within the scope of IFRS 15, irrespective of whether they contain a significant financing component or not.

Under the new accounting standard, the Group continues to establish a provision for impairment of trade receivables when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the counterparty, probability that the counterparty will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. In addition, IFRS 9 requires the Group to consider forward looking information and the probability of default when calculating expected credit losses. The measurement of expected credit losses reflects an unbiased and probability-weighted amount that is determined by evaluating the range of possible outcomes as well as incorporating the time value of money. The Group considers reasonable and supportable customer-specific and market information about past events, current conditions and forecasts of future economic conditions when measuring expected credit losses.

The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows of the asset, discounted, where material, at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Income Statement within 'administrative costs'. When a trade receivable is uncollectable, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against 'administrative costs' in the Income Statement.

Cash and cash equivalents

Cash and cash equivalents in the Balance Sheet comprise cash at bank and in hand.

In accordance with IAS 32 'Financial Instruments: Presentation', where banking arrangements have a right of set off, bank overdrafts are not netted against cash and cash equivalents, with the resulting net position shown as either a bank overdraft or a cash balance as appropriate, but are instead shown within borrowings in current liabilities on the Balance Sheet.

Statement of Significant Accounting Policies Continued >

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method. Trade payables are non-interest bearing.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are amortised, as a finance cost, over the expected term of the facility, using the effective interest method. Borrowings are classified on the Balance Sheet as either current or non-current liabilities, dependent upon the maturity date of the loan.

Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

Net debt

Net debt is defined as borrowings, less cash and cash equivalents.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provision is not made for future operating losses. Provisions are discounted where the impact is deemed to be material.

Property

Provision is made for the anticipated net costs of onerous leases on non-trading properties and for dilapidations and environmental remediation costs. Liabilities for environmental costs are recognised as a property provision when environmental assessments or remediation are probable and the associated costs can be reliably estimated. Generally, the timing of these provisions coincides with the commitment to a formal plan of action or, if earlier, on divestment or closure of inactive sites. The provision will be utilised by the payment of annual costs, shortfalls on sub-tenanted property, expenses of early termination, environmental remediation operations and dilapidations.

Self insurance

Provision is made for the expected costs of uninsured incidents arising prior to the balance sheet date and for the anticipated cost of benefits due to existing claimants under the, now discontinued, self-insured incapacity payroll scheme.

Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and that are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Foreign currency translation

The financial statements are presented in sterling, which is the functional and presentational currency of the Group and Company.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Income Statement, except where deferred in equity as qualifying cash flow hedges, or where hedge accounting is applied, as explained below.

Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the variability of cash flows (cash flow hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception

and on an ongoing basis, of whether the derivatives that are used in hedging transactions are effective in offsetting changes in the cash flows of hedged items.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement.

Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss (for example, when the forecast transaction that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the Income Statement.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Such derivatives are classified as at fair value through profit or loss, and changes in their fair value are recognised immediately in the Income Statement.

Investment in own shares

Ordinary shares in the Company held by the Trustee of the Employee Benefit Trust (EBT) are recorded in the Balance Sheet as a reduction in Shareholders' equity.

Dividend distribution

Dividends to holders of equity instruments declared after the balance sheet date are not recognised as a liability as at the balance sheet date. Final dividend distributions to the Company's Shareholders are recognised in the Group's financial statements in the period in which the dividends are approved by the Company's Shareholders. Interim dividends are recognised when paid.

Shareholders' equity

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Share premium

Amounts in excess of the nominal value of Ordinary shares issued are recognised in share premium except where the Company was able to take relief under section 612 of the Companies Act 2006 from crediting share premium and instead transfer the net proceeds in excess of the nominal value to retained earnings.

Capital redemption reserve

Amounts in respect of the redemption of certain of the Company's ordinary shares are recognised in to the Capital redemption reserves.

Merger reserve

The merger reserve represents the difference arising on completion of the relevant mergers in accordance with applicable accounting standards.

Hedging reserve

The hedging reserve represents the accumulated movements in the Group's derivative financial instruments that have been designated as hedging instruments. Amounts are transferred in and out of the reserve on the revaluation, or realisation, of identified hedging instruments.

Statement of Significant Accounting Policies Continued >

FINANCIAL RISK MANAGEMENT

1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, cash flow interest rate risk and fair value interest rate risk), price risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department (Group Treasury) under policies approved by the Board. Group Treasury identifies, evaluates and hedges financial risks in close co-operation with the Group's operating companies. The Board provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments and investment of excess liquidity.

(a) Market risk

Currency risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar and the Euro. Foreign exchange risk arises when future commercial transactions, or recognised assets or liabilities, are denominated in a currency that is not the entity's functional currency.

As further detailed in note 24 of these Consolidated Financial Statements, the Group exposure to currency risk is minimal.

Cash flow and fair value interest rate risk

As the Group has no significant interest-bearing assets, the Group's income and operating cash flows are substantially independent of changes in market interest rates.

The Group's interest rate risk arises from its borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

Further details are provided in the Principal Risks and Uncertainties section. Note 24 to the Consolidated Financial Statements provides additional disclosures regarding cash flow and fair value interest rate risk.

Price risk – Utilities and fuel

Key costs incurred by the Group in its operations include utilities costs for gas, electricity, water and effluent. The Group also incurs significant costs in respect of diesel given the size of the fleet of vehicles operated across the Group. Changes in utilities or fuel costs could have a material impact on the Group's financial performance.

The Group takes steps to mitigate the risk of price changes across both utilities and fuel as appropriate. In respect of gas and electricity, the Group enters contracts with suppliers to fix prices for determined periods, normally up to one year, ensuring the Group has appropriate visibility of future costs and to protect the Group, in the short term, over price volatility.

To try and mitigate the price risk associated with diesel costs the Group has entered into certain forward contracts with financial institutions to fix an element of the diesel cost being incurred by the Group. Contracts are in place to cover a portion of the Group's forecast diesel usage and allow for actual costs to be swapped for a fixed rate on a monthly basis. Additional details of the contracts entered into by the Group are included in note 24.

(b) Credit risk

Credit risk is managed on a Group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A-2' are accepted. If wholesale customers are independently rated, these ratings are used. If there is no independent rating, Management assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the Board. The utilisation of credit limits is regularly monitored.

Note 24 provides both numerical and narrative disclosures regarding credit risk.

(c) Liquidity risk

Prudent liquidity risk management involves maintaining sufficient cash reserves and maintaining the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying businesses Group Treasury maintains flexibility in funding by maintaining availability under committed credit lines.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising an undrawn borrowing facility (note 20) and cash and cash equivalents (note 24)) on the basis of expected cash flow.

2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for Shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Further details are provided in note 24.

Notes to the Consolidated Financial Statements

1 SEGMENT ANALYSIS

Segment information is presented based on the Group's management and internal reporting structure as at 31 December 2018.

The chief operating decision-maker has been identified as the Board of Directors (the Board). The Board reviews the Group's internal reporting in order to assess performance and allocate resources. The Board determines the operating segments based on these reports and on the internal reporting structure. For reporting purposes, in accordance with IFRS 8, the Board aggregates operating segments with similar economic characteristics and conditions into reporting segments, which form the basis of the reporting in the Annual Report. The Board has identified two reporting segments, being Workwear and Hotel, Restaurants and Catering ("HORECA"). Discontinued operations are reported separately.

The Board assesses the performance of the reporting segments based on a measure of operating profit, both including and excluding the effects of non-recurring items from the reporting segments, such as restructuring costs and impairments when the impairment is the result of an isolated, non-recurring or non-operating event. Interest income and expenditure are not included in the result for each reporting segment that is reviewed by the Board. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis, for example rental income received by Johnson Group Properties PLC (the property holding company of the Group) and is credited back, where appropriate, to the paying company for the purpose of segmental reporting. There have been no changes in measurement methods used compared to the prior year.

Other information provided to the Board is measured in a manner consistent with that in the financial statements. Segment assets exclude deferred income tax assets, derivative financial assets and cash and cash equivalents, all of which are managed on a central basis. Segment liabilities include non-bank borrowings but exclude current income tax liabilities, bank borrowings, derivative financial liabilities, post-employment benefit obligations and deferred income tax liabilities, all of which are managed on a central basis. These balances are part of the reconciliation to total assets and liabilities.

Exceptional items have been included within the appropriate reporting segment as shown on pages 90 to 91.

Workwear

Supply and laundering of workwear garments and protective wear.

- Apparelmaster

HORECA

Linen services for the hotel, restaurant and catering sector.

- Stalbridge
- South West
- London Linen
- Bourne
- Afonwen
- PLS

All Other Segments

Comprising of central and Group costs

Notes to the Consolidated Financial Statements Continued >

1 SEGMENT ANALYSIS (Continued)

Year ended 31 December 2018	Workwear £m	HORECA £m	All Other Segments £m	Total £m	
Revenue	128.8	192.3	-	321.1	
Result					
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation) and exceptional items	22.7	28.0	(4.7)	46.0	
Amortisation of intangible assets (excluding software amortisation)	(0.5)	(8.3)	-	(8.8)	
Exceptional items:					
- Costs in relation to business acquisition activity	-	(0.6)	-	(0.6)	
Operating profit/(loss)	22.2	19.1	(4.7)	36.6	
Total finance cost				(3.5)	
Profit before taxation				33.1	
Taxation				(6.3)	
Profit for the year from continuing operations				26.8	
Result for the year from discontinued operations				-	
Profit for the year attributable to equity holders				26.8	
Balance sheet information					
Segment assets	-	1219	2520	15	375.4
Unallocated assets:					
Deferred income tax assets					1.8
Cash and cash equivalents					7.1
Total assets					386.4
Segment liabilities	(3.9)	(292)	(41.0)	(3.7)	(77.8)
Unallocated liabilities:					
Current income tax liabilities					(5.1)
Bank borrowings					(98.1)
Derivative financial liabilities					(0.7)
Post-employment benefit obligations					(4.6)
Deferred income tax liabilities					(7.6)
Total liabilities					(196.0)
Other information					
Non-current asset additions					
- Property, plant and equipment	-	5.0	11.4	-	16.4
- Textile rental items	-	21.7	27.4	-	49.1
- Intangible software	-	0.7	-	-	0.7
Depreciation and amortisation expense					
- Property, plant and equipment	-	4.8	8.7	-	13.5
- Textile rental items	-	16.5	25.3	-	41.8
- Intangible software	-	-	0.1	-	0.1
- Customer contracts	-	0.5	8.3	-	8.8

The results, assets and liabilities of all segments arise in the Group's country of domicile, being the United Kingdom

1 SEGMENT ANALYSIS (Continued)

Year ended 31 December 2017	Workwear £m	HORECA £m	All Other Segments £m	Total £m	
Revenue	122.4	168.5	-	290.9	
Result					
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation) and exceptional items	211	26.8	(4.6)	43.3	
Amortisation of intangible assets (excluding software amortisation)	(0.5)	(7.5)	-	(8.0)	
Exceptional items					
- Costs in relation to business acquisition activity	-	(0.5)	-	(0.5)	
Operating profit/(loss)	20.6	18.8	(4.6)	34.8	
Total finance cost				(3.6)	
Profit before taxation				31.2	
Taxation				(5.8)	
Profit for the year from continuing operations				25.4	
Profit for the year from discontinued operations				0.3	
Profit for the year attributable to equity holders				25.7	
Balance sheet information					
Segment assets	-	116.8	235.5	12	353.5
Unallocated assets:					
Deferred income tax assets					29
Derivative financial assets					0.1
Cash and cash equivalents					5.3
Total assets					361.8
Segment liabilities	(4.1)	(294)	(451)	(3.5)	(821)
Unallocated liabilities:					
Current income tax liabilities					(3.8)
Bank borrowings					(86.6)
Derivative financial liabilities					(0.2)
Post-employment benefit obligations					(120)
Deferred income tax liabilities					(9.5)
Total liabilities					(194.2)
Other information					
Non-current asset additions					
- Property, plant and equipment	-	4.7	10.6	-	15.3
- Textile rental items	-	17.8	25.9	-	43.7
Depreciation and amortisation expense					
- Property, plant and equipment	-	4.6	7.9	-	12.5
- Textile rental items	-	15.8	20.5	-	36.3
- Intangible software	-	-	0.2	-	0.2
- Customer contracts	-	0.5	7.5	-	8.0

The results, assets and liabilities of all segments arise in the Group's country of domicile, being the United Kingdom.

Notes to the Consolidated Financial Statements Continued >

2 EXPENSES BY FUNCTION

	2018 £m	2017 £m
Revenue		
Rendering of services	316.2	287.2
Sale of goods	4.9	3.7
Total revenue	321.1	290.9
Cost of sales	(182.0)	(161.7)
Administrative expenses	(41.0)	(39.2)
Distribution costs	(52.1)	(46.7)
Operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items	46.0	43.3
Amortisation of intangible assets (excluding software amortisation)	(8.8)	(8.0)
Exceptional items	(0.6)	(0.5)
Operating profit	36.6	34.8

The items outlined below have been charged/(credited) to the Income Statement in deriving operating profit:

	2018 £m	2017 £m
Employee benefit expense (Note 4)	139.0	124.8
Auditors' remuneration (Note 3)	0.5	0.5
Exceptional items	0.6	0.5
Amortisation of intangible assets:		
Capitalised software	0.1	0.2
Customer contracts	8.8	8.0
Depreciation and impairment of tangible fixed assets:		
Property, plant and equipment held under finance lease agreements	2.7	3.0
Owned property, plant and equipment	10.8	9.5
Textile rental items	41.8	36.3
Operating leases:		
Land and buildings	4.0	3.8
Sublet rental income	(0.4)	(0.4)
Plant and equipment	4.1	4.0

3 AUDITORS' REMUNERATION

	2018 £m	2017 £m
Fees payable for the audit of the Company	0.1	0.1
Fees payable for the audit of the Company's subsidiaries and pension schemes	0.3	0.2
Fees payable for services relating to tax compliance	0.1	0.1
Fees payable for services relating to transaction services	-	0.1
	0.5	0.5

Included within the above is an amount of £18,000 (2017: £20,000) in respect of fees payable to the Company's auditors for services relating to the audit of the Company's pension schemes.

4 EMPLOYEE BENEFIT EXPENSE

	2018 £m	2017 £m
Wages and salaries	125.1	112.3
Social security costs	99	8.8
Redundancy costs	0.1	0.2
Cost of employee share schemes (Note 27)	0.9	1.1
Private healthcare costs	0.4	0.4
Pension costs – defined contribution plans (Note 23)	2.6	2.0
Total	139.0	124.8

Redundancy costs of £0.1 million (2017: £nil) have been included within exceptional items.

The monthly average number of persons employed by the Group during the year was:

	2018 £m	2017 £m
Workwear	2,244	2,185
HORECA	3,260	2,918
All other segments	18	16
Total	5,522	5,119

5 DIRECTORS' EMOLUMENTS

Detailed disclosures that form part of these financial statements are given in the Board Report on Remuneration on pages 56 to 65.

6 EXCEPTIONAL ITEMS

	2018 £m	2017 £m
Costs in relation to business acquisition activity	0.6	0.5
Total exceptional items	0.6	0.5

CURRENT YEAR EXCEPTIONAL ITEMS

Costs in relation to business acquisition activity

During the year, professional fees of £0.2 million were paid relating to the acquisition of South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Limited ('South West'). In addition, costs of £0.3 million were incurred as part of the integration of recent acquisitions. Further information relating to the acquisitions is provided in note 31. The remainder of the cost relates to fees and expenses incurred during negotiations with undisclosed targets.

PRIOR YEAR EXCEPTIONAL ITEMS

Costs in relation to business acquisition activity

During the prior year, professional fees of £0.3 million were paid relating to the acquisitions of Clayfull Limited and StarCounty Textile Services Limited. In addition, costs of £0.2 million were incurred as part of the integration of recent acquisitions. Further information relating to the acquisitions is provided in note 31.

Notes to the Consolidated Financial Statements Continued >

7 TOTAL FINANCE COST

	2018 £m	2017 £m
Finance cost		
- Interest payable on bank loans and overdrafts	26	25
- Amortisation of bank facility fees	0.3	0.3
- Interest payable on obligations under finance lease agreements	0.3	0.4
Total finance costs before notional interest on post-employment benefit obligations	32	32
Notional interest on post-employment benefit obligations	0.3	0.4
Total finance cost	3.5	3.6

8 ADJUSTED PROFIT BEFORE AND AFTER TAXATION

	2018 £m	2017 £m
Profit before taxation	331	312
Amortisation of intangible assets (excluding software amortisation)	8.8	8.0
Costs in relation to business acquisition activity	0.6	0.5
Adjusted profit before taxation	425	39.7
Taxation on adjusted profit	(8.0)	(7.6)
Adjusted profit after taxation	34.5	32.1

9 TAXATION CHARGE

	2018 £m	2017 £m
Current tax		
UK corporation tax charge for the year	95	78
Adjustment in relation to previous years	(0.5)	(0.9)
Current tax charge for the year	9.0	6.9
Deferred tax		
Origination and reversal of temporary differences	(2.6)	(1.4)
Changes in tax rate	(0.2)	(0.3)
Adjustment in relation to previous years	0.1	0.6
Deferred tax credit for the year	(2.7)	(1.1)
Total charge for taxation included in the Income Statement for continuing operations	6.3	5.8

9 TAXATION CHARGE (Continued)

The tax charge for the year is the same as (2017: lower than) the effective rate of Corporation Tax in the UK of 19.00% (2017: 19.25%). A reconciliation is provided below:

	2018 £m	2017 £m
Profit before taxation	331	312
Profit before taxation multiplied by the effective rate of Corporation Tax in the UK	63	6.0
Factors affecting taxation charge for the year:		
Tax effect of expenses not deductible for tax purposes	0.6	0.4
Changes in tax rate	(0.2)	(0.3)
Adjustments in relation to previous years	(0.4)	(0.3)
Total charge for taxation included in the Income Statement for continuing operations	6.3	5.8

Taxation in relation to amortisation of intangible assets (excluding software amortisation) has reduced the charge for taxation on continuing operations by £1.7 million (2017: £1.7 million reduction). Taxation in relation to exceptional items in the current year has reduced the charge for taxation on continuing operations by £nil (2017: £0.1 million reduction).

The taxation charge for the year is based on the effective rate of UK Corporation Tax for the year of 19.00% (2017: 19.25%).

Deferred income taxes at the balance sheet date have been measured at the tax rate expected to be applicable at the date the deferred income tax assets and liabilities are realised. Management has performed an assessment, for all material deferred income tax assets and liabilities, to determine the period over which the deferred income tax assets and liabilities are forecast to be realised, which has resulted in an average deferred income tax rate of 17.5% being used to measure all deferred tax balances as at 31 December 2018 (2017: 18.0%). The impact of the change in tax rates to 17.5% has been a £0.2 million credit (2017: £0.3 million credit) in the Income Statement and a £0.1 million charge (2017: £0.1 million charge) recognised within other comprehensive income.

During the year, a £1.0 million charge relating to deferred taxation (2017: £0.7 million charge) has been recognised in other comprehensive income.

During the year, £nil relating to current taxation (2017: £0.2 million credit) and a £0.1 million credit relating to deferred taxation (2017: £nil) have been recognised directly in Shareholders' equity.

10 DIVIDENDS

	2018	2017
Dividend per share		
Final dividend proposed	21p	-
Interim dividend proposed and paid	1.0p	0.9p
Final dividend proposed and paid	-	19p
	2018 £m	2017 £m
Shareholders' funds committed		
Final dividend proposed	7.7	-
Interim dividend proposed and paid	3.7	3.3
Final dividend proposed and paid	-	7.0

The Directors propose the payment of a final dividend in respect of the year ended 31 December 2018 of 21 pence per share. This will utilise Shareholders' funds of £7.7 million and will be paid, subject to Shareholder approval, on 10 May 2019 to Shareholders on the register of members on 12 April 2019. The trustee of the EBT has waived the entitlement to receive dividends on the Ordinary shares held by the trust. In accordance with IAS 10 there is no payable recognised at 31 December 2018 in respect of this proposed dividend.

Notes to the Consolidated Financial Statements Continued >

11 EARNINGS PER SHARE

	2018 £m	2017 £m
Profit for the financial year from continuing operations attributable to Shareholders	26.8	25.4
Profit for the financial year from discontinued operations attributable to Shareholders	–	0.3
Amortisation of intangible assets from continuing operations (net of taxation)	71	63
Exceptional costs from continuing operations (net of taxation)	0.6	0.4
Adjusted profit attributable to Shareholders relating to continuing operations	34.5	321
Adjusted profit attributable to Shareholders relating to discontinued operations	–	0.3
Adjusted profit attributable to Shareholders	34.5	324
Weighted average number of Ordinary shares	366,547,752	366,167,837
Dilutive potential Ordinary shares	3,053,927	2,798,518
Diluted number of Ordinary shares	369,601,679	368,966,355
Basic earnings per share		
From continuing operations	73p	69p
From discontinued operations	–	0.1p
From continuing and discontinued operations	73p	70p
Adjustments for amortisation of intangible assets (continuing operations)	19p	1.7p
Adjustment for exceptional items (continuing operations)	0.2p	0.1p
Adjustment for exceptional items (discontinued operations)	–	(0.1p)
Adjusted basic earnings per share (continuing operations)	94p	8.7p
Adjusted basic earnings per share (discontinued operations)	–	–
Adjusted basic earnings per share from continuing and discontinued operations	94p	8.7p
Diluted earnings per share		
From continuing operations	72p	69p
From discontinued operations	–	0.1p
From continuing and discontinued operations	72p	70p
Adjustments for amortisation of intangible assets (continuing operations)	19p	1.7p
Adjustment for exceptional items (continuing operations)	0.2p	0.1p
Adjustment for exceptional items (discontinued operations)	–	(0.1p)
Adjusted diluted earnings per share (continuing operations)	93p	8.7p
Adjusted diluted earnings per share (discontinued operations)	–	–
Adjusted diluted earnings per share from continuing and discontinued operations	93p	8.7p

Basic earnings per share is calculated using the weighted average number of Ordinary shares in issue during the year, excluding those held by the Employee Benefit Trust, based on the profit for the year attributable to Shareholders.

Adjusted earnings per share figures are given to exclude the effects of amortisation of intangible assets (excluding software amortisation) and exceptional items, all net of taxation, and are considered to show the underlying performance of the Group.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary shares. The Company has potentially dilutive Ordinary shares arising from share options granted to employees. Options are dilutive under the SAYE scheme, where the exercise price together with the future IFRS2 charge of the option is less than the average market price of the Company's Ordinary shares during the year. Options under the LTIP schemes, as defined by IFRS 2, are contingently issuable shares and are therefore only included within the calculation of diluted EPS if the performance conditions, as set out in the Board report on remuneration, are satisfied.

Potentially dilutive Ordinary shares are dilutive at the point, from a continuing operations level, when their conversion to Ordinary shares would decrease earnings per share or increase loss per share. For the years ended 31 December 2018 and 31 December 2017, potentially dilutive Ordinary shares have been treated as dilutive, as their inclusion in the diluted earnings per share calculation decreases earnings per share from continuing operations.

There were no events occurring after the balance sheet date that would have changed significantly the number of Ordinary shares or potentially dilutive Ordinary shares outstanding at the balance sheet date if those transactions had occurred before the end of the reporting period.

12 GOODWILL

	2018 £m	2017 £m
Cost		
Brought forward	120.3	115.6
Business combinations (see note 31)	7.8	4.7
Carried forward	128.1	120.3
Accumulated impairment losses		
Brought forward	-	-
Carried forward	-	-
Carrying amount		
Opening	120.3	115.6
Closing	128.1	120.3

In accordance with International Financial Reporting Standards, goodwill is not amortised, but instead is tested annually for impairment and carried at cost less accumulated impairment losses.

Impairment tests for goodwill

The allocation of goodwill to Cash Generating Units (CGUs) is as follows:

	2018 £m	2017 £m
Apparelmaster	41.7	41.7
Workwear	41.7	41.7
Stalbridge (Note a)	19.0	5.0
London Linen (Note b)	29.2	35.4
Bourne	12.5	12.5
Afonwen	25.7	25.7
HORECA	86.4	78.6
Total	128.1	120.3

Note a

The net increase during the year relates to:

- the acquisition of South West Laundry Limited;
- goodwill relating to Caterers Linen Supply, previously held within the London Linen CGU, has been transferred to the Stalbridge CGU; and
- the goodwill relating to the 2017 acquisition of StarCounty has increased by £0.2 million as a result of a fair value adjustment to textile rental items acquired (see note 31).

Note b

The decrease during the year relates to goodwill relating to Caterers Linen Supply being transferred to the Stalbridge CGU.

The recoverable amount of a CGU is primarily determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets, covering three years, which are approved by the Board. Income and costs within the budget are derived on a detailed, 'bottom up' basis – all income streams and cost lines are considered and appropriate growth, or decline, rates are assumed for each, all of which are then reviewed, challenged and stress tested, firstly by senior management and ultimately by the Board. Income and cost growth forecasts are risk adjusted to reflect specific risks facing each CGU and take into account the markets in which they operate. Cash flows beyond the budgeted period are extrapolated using the estimated growth rate stated below in to perpetuity. The growth rate does not exceed the long-term average growth rate for the markets in which the CGUs operate. Further, other than, as included in the financial budgets, it is assumed that there are no material adverse changes in legislation that would affect the forecast cash flows.

The pre-tax discount rate used within the recoverable amount calculations was 5.47% (2017: 5.62%) and is based upon the weighted average cost of capital reflecting specific principal risks and uncertainties. The discount rate takes into account, amongst other things, the risk free rate of return (derived from a 20 year government bond price), the market risk premium and beta factor reflecting the average Beta for the Group and comparator companies which are used in deriving the cost of equity.

The same discount rate has been used for each CGU as the principal risks and uncertainties associated with the Group, as highlighted on pages 28 to 31, would also impact each CGU in a similar manner. The Board acknowledge that there are additional factors that could impact the risk profile of each CGU. These additional factors were considered by way of sensitivity analysis performed as part of the annual impairment tests. The level of impairment recognised is predominantly dependent upon judgments used in arriving at future growth rates and the discount rate applied to cash flow projections. Key drivers to future growth rates are dependent on the Group's ability to maintain and grow income streams whilst effectively managing operating costs. The level of headroom may change if different growth rate assumptions or a different pre-tax discount rate were used in the cash flow projections. Where the value-in-use calculations suggest an impairment, the Board would consider alternative use values prior to realising any impairment, being the fair value less costs to dispose.

Notes to the Consolidated Financial Statements Continued >

12 GOODWILL (Continued)

The key assumptions used for value-in-use calculations are as follows:

	2018	2017
Annual growth rate (after budget period)	1.87%	1.87%
Risk free rate of return	1.87%	1.87%
Market risk premium	6.25%	6.25%
Beta Factor	0.64	0.66
Cost of debt	3.62%	3.62%

Having completed the 2018 impairment review, no impairment has been recognised in relation to the CGUs (2017: no impairment). Sensitivity analysis has been performed in assessing the recoverable amounts of goodwill. There are no changes to the key assumptions of growth rate or discount rate that are considered by the Directors to be reasonably possible, which give rise to an impairment of goodwill relating to the CGUs.

13 INTANGIBLE ASSETS

	Capitalised Software £m	Other Intangible Assets £m	Total £m
Cost			
At 31 December 2016	0.7	67.8	68.5
Business combinations (see note 31)	–	3.8	3.8
At 31 December 2017	0.7	71.6	72.3
Additions	0.7	–	0.7
Business combinations (see note 31)	–	4.0	4.0
At 31 December 2018	1.4	75.6	77.0
Accumulated amortisation			
At 31 December 2016	0.4	20.2	20.6
Charged during the year	0.2	8.0	8.2
At 31 December 2017	0.6	28.2	28.8
Charged during the year	0.1	8.8	8.9
At 31 December 2018	0.7	37.0	37.7
Carrying amount			
At 31 December 2016	0.3	47.6	47.9
At 31 December 2017	0.1	43.4	43.5
At 31 December 2018	0.7	38.6	39.3

Amortisation of capitalised software is included within administrative expenses in the Income Statement in determining operating profit before exceptional items. Amortisation of other intangible assets is shown separately on the face of the Income Statement.

Other intangible assets comprise of customer contracts and relationships. For assets resulting from a business combination, fair value is calculated based upon historical and prospective information and financial data specific to each business combination, with an appropriate discount factor applied based upon the weighted average cost of capital for the Group.

Other intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation of other intangible assets is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives (four to ten years). The longest estimated useful life remaining at 31 December 2018 is six years.

14 PROPERTY, PLANT AND EQUIPMENT

	Properties			Plant and Equipment £m	Total £m
	Freehold £m	Long Leasehold £m	Short Leasehold £m		
Cost					
At 31 December 2016	19.8	6.2	7.5	108.5	142.0
Business combinations (see note 31)	2.2	-	0.1	2.6	4.9
Additions	0.3	-	0.7	14.3	15.3
Disposals	-	-	-	(4.5)	(4.5)
At 31 December 2017	22.3	6.2	8.3	120.9	157.7
Business combinations (see note 31)	-	-	0.1	3.9	4.0
Additions	0.7	-	0.2	15.5	16.4
Disposals	-	-	-	(2.6)	(2.6)
At 31 December 2018	23.0	6.2	8.6	137.7	175.5
Accumulated depreciation and impairment					
At 31 December 2016	5.0	1.7	2.7	50.9	60.3
Charged during the year	0.3	0.1	0.5	11.6	12.5
Eliminated on disposals	-	-	-	(4.4)	(4.4)
At 31 December 2017	5.3	1.8	3.2	58.1	68.4
Charged during the year	0.3	0.2	0.5	12.5	13.5
Eliminated on disposals	-	-	-	(2.4)	(2.4)
At 31 December 2018	5.6	2.0	3.7	68.2	79.5
Carrying amount					
At 31 December 2016	14.8	4.5	4.8	57.6	81.7
At 31 December 2017	17.0	4.4	5.1	62.8	89.3
At 31 December 2018	17.4	4.2	4.9	69.5	96.0

The value of assets under construction at 31 December 2018 was £3.8 million (2017: £3.0 million).

Depreciation charges are recognised in cost of sales and administrative expenses depending on the assets to which the depreciation relates.

The net book value of plant and equipment held under finance leases is as follows:

	2018 £m	2017 £m
Plant and equipment	14.0	16.7

Notes to the Consolidated Financial Statements Continued >

15 TEXTILE RENTAL ITEMS

	2018 £m	2017 £m
Cost		
Brought forward	1031	825
Additions	491	437
Business combinations (see note 31)	13	0.6
Disposals	(28.5)	(19.5)
Special charges	(4.4)	(4.2)
Carried forward	120.6	1031
Accumulated depreciation		
Brought forward	531	38.4
Charged during the year	418	36.3
Disposals	(28.5)	(19.5)
Special charges	(2.2)	(2.1)
Carried forward	642	531
Carrying amount		
Opening	50.0	44.1
Closing	56.4	50.0

Depreciation charges are recognised in cost of sales within the Income Statement.

16 INVENTORIES

	2018 £m	2017 £m
New textile rental items	1.6	1.7
Goods for resale	0.2	0.3
Raw materials and stores	1.0	0.9
	2.8	2.9

The movement in the carrying value of inventories during the year is as follows:

	2018 £m	2017 £m
Opening inventories	29	22
Purchases	622	54.7
Amounts transferred to textile rental items	(49.1)	(43.7)
Amounts transferred to cost of sales	(132)	(10.3)
	2.8	2.9

The amounts above are net of an inventory provision of £0.6 million (2017: £0.6 million).

17 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Amounts falling due within one year:		
Trade receivables	45.5	43.5
Less: provision for impairment of trade receivables	(2.1)	(1.8)
Trade receivables – net	43.4	41.7
Other receivables	1.9	1.3
Prepayments	3.2	2.5
Contract assets	0.7	–
Accrued income	2.9	1.7
	52.1	47.2
Amounts falling due after more than one year:		
Other receivables	0.3	0.3
Contract assets	0.4	–
	0.7	0.3
	52.8	47.5

Amortisation recognised during the year relating to contract assets is £0.9 million.

There has been no significant changes to the contract assets in the current year with costs capitalised expected to be recoverable.

The maturity of financial assets (which comprise of current and non-current trade receivables, other receivables and accrued income) is analysed below:

	Gross £m	Provision £m	2018 Net £m	Gross £m	Provision £m	2017 Net £m
Trade receivables, other receivables and accrued income						
– Not yet due and up to 3 months overdue	49.7	(1.2)	48.5	46.3	(1.3)	45.0
– 3 to 6 months past due	0.6	(0.6)	–	0.2	(0.2)	–
– 6 to 12 months past due	0.2	(0.2)	–	0.2	(0.2)	–
– Over 12 months past due	0.1	(0.1)	–	0.1	(0.1)	–
	50.6	(2.1)	48.5	46.8	(1.8)	45.0

Under IFRS 9, the Group is required to utilise objective evidence as well as consider forward looking information and the probability of default when calculating expected credit losses. The maturity of financial assets is therefore used as an indicator as to the probability of default.

All trade and other receivable balances at the balance sheet date are denominated in Sterling (2017: Sterling), and are held at amortised cost. Given the short term nature of current receivables there is deemed to be no difference between this and fair value. The difference between the book value and fair value of non-current trade and other receivables is deemed to be not material.

There is limited concentration of credit risk with respect to trade receivables due to the diverse and unrelated nature of the Group's customers. Accordingly, the Directors believe that no further credit provision is required in excess of the provision for impairment of receivables.

The movement in the provision for trade and other receivables is analysed below:

	2018 £m	2017 £m
At 1 January	(1.8)	(1.8)
Provisions for receivables impairment	(1.0)	(1.1)
Amounts unused reversed	0.1	0.2
Receivables written off during the year as uncollectable	0.6	0.9
At 31 December	(2.1)	(1.8)

The creation and release of the provision for impaired receivables has been included in administrative expenses in the Income Statement when related to continuing activities. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable detailed within this note. The Group does not hold any collateral as security.

Notes to the Consolidated Financial Statements Continued >

18 TRADE AND OTHER PAYABLES (CURRENT)

	2018 £m	2017 £m
Trade payables	23.3	23.9
Other payables	3.5	3.5
Other taxation and social security liabilities	10.6	8.9
Deferred income	0.1	1.4
Deferred consideration	0.3	–
Accruals	27.0	27.6
	64.8	65.3

All trade and other payables balances at the balance sheet date are denominated in Sterling (2017: Sterling), and are held at amortised cost. Given the short term nature there is deemed to be no difference between this and fair value.

19 TRADE AND OTHER PAYABLES (NON-CURRENT)

	2018 £m	2017 £m
Trade payables	–	0.1
Deferred consideration	0.3	0.8
Deferred income	1.5	1.6
Accruals	0.5	0.6
	2.3	3.1

The difference between the book value and fair value of non-current trade and other payables is deemed to be not material.

20 BORROWINGS

	2018 £m	2017 £m
Current		
Overdraft	11.8	9.0
Bank loans	(0.3)	1.7
Obligations under finance lease agreements	3.0	3.8
	14.5	14.5
Non-current		
Bank loans	86.6	75.9
Obligations under finance lease agreements	4.4	6.2
	91.0	82.1
	105.5	96.6
The maturity of non-current bank loans is as follows:		
– Between one and two years	–	–
– Between two and five years	87.0	76.0
– Unamortised issue costs of bank loans	(0.4)	(0.1)
	86.6	75.9

At the 31 December 2018, borrowings were secured and drawn down under a committed facility dated 21 February 2014, as amended and restated on 24 April 2015 and as further amended and restated on 22 April 2016 and 9 August 2018. This amended facility comprised a £135.0 million rolling credit facility (including an overdraft) which runs to August 2022 and a further £15.0 million short term facility which runs to August 2019. The available facilities at 31 December 2017 were £120.0 million. Individual tranches are drawn down, in sterling, for periods of up to six months at LIBOR rates of interest prevailing at the time of drawdown, plus the applicable margin. The margin varies between 125% and 225%.

The Group has two overdraft facilities for £5.0 million and £3.0 million with two of its principal bankers (2017: £5.0 million and £3.0 million).

20 BORROWINGS (Continued)

As at 31 December 2018, £40.0 million of borrowings were subject to hedging arrangements which have the effect of replacing LIBOR with fixed rates as follows:

- for £15.0 million of borrowings, LIBOR is replaced with 1.4725% from 8 January 2016 to 8 January 2019;
- for £15.0 million of borrowings, LIBOR is replaced with 1.665% from 8 January 2016 to 8 January 2020; and
- for £10.0 million of borrowings, LIBOR is replaced with 0.5525% from 30 June 2016 to 30 June 2019.

Subsequent to the balance sheet date, two further hedging arrangements were entered into:

- for £15.0 million of borrowings, LIBOR is replaced with 1.070% from 30 January 2019 to 29 January 2021; and
- for £15.0 million of borrowings, LIBOR is replaced with 1.144% from 30 January 2019 to 31 January 2022.

Amounts drawn under the revolving credit facility have been classified as either current or non-current depending upon when the loan is expected to be repaid.

The secured bank loans are stated net of unamortised issue costs of £0.7 million (2017: £0.4 million) of which £0.3 million is included within current borrowings (2017: £0.3 million). Details of the security are provided in note 25 to the Consolidated Financial Statements.

Finance leases

Obligations under finance lease agreements are as follows:

	2018 £m	2017 £m
Not more than one year		
Minimum lease payments	32	41
Interest element	(0.2)	(0.3)
Present value of minimum lease payments	3.0	3.8
Between one and five years		
Minimum lease payments	4.6	6.5
Interest element	(0.2)	(0.3)
Present value of minimum lease payments	4.4	6.2

Finance lease obligations are secured on the assets to which they relate.

Notes to the Consolidated Financial Statements Continued >

21 DEFERRED TAXATION

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

	Deferred Income Tax Assets		Deferred Income Tax Liabilities	
	2018 £m	2017 £m	2018 £m	2017 £m
Recognised deferred income tax assets and liabilities				
Depreciation in excess of/(less than) capital allowances	-	-	(0.9)	(1.9)
Employee share schemes	0.5	0.4	-	-
Post-employment benefit obligations	0.8	2.2	-	-
Derivative financial liabilities	0.1	-	-	-
Other short term timing differences	0.4	0.3	-	-
Separately identifiable intangible assets	-	-	(6.7)	(7.6)
	1.8	2.9	(7.6)	(9.5)

The deferred income tax assets disclosed above are deemed to be recoverable.

The following provides a reconciliation of the movement in each of the deferred income tax assets and liabilities:

	Depreciation in Excess of/(less than) Capital Allowances £m	Employee Share Schemes £m	Post- employment Benefit Obligations £m	Derivative Financial Instruments £m	Other Short Term Timing Differences £m	Intangible Assets £m	Total £m
At 31 December 2016	(1.5)	0.3	3.4	0.1	0.4	(8.5)	(5.8)
Credit/(charge) to income	0.1	0.1	(0.5)	(0.1)	(0.1)	1.6	1.1
Deferred income tax liabilities acquired	(0.5)	-	-	-	-	(0.7)	(1.2)
Charge to other comprehensive income	-	-	(0.7)	-	-	-	(0.7)
At 31 December 2017	(1.9)	0.4	2.2	-	0.3	(7.6)	(6.6)
Adjustment on adoption of IFRS 15 (see note 37)	-	-	-	-	(0.2)	-	(0.2)
Credit/(charge) to income	1.0	-	(0.3)	-	0.3	1.7	2.7
Deferred income tax liabilities acquired	-	-	-	-	-	(0.8)	(0.8)
(Charge)/credit to other comprehensive income	-	-	(1.1)	0.1	-	-	(1.0)
Credit to Shareholders' equity	-	0.1	-	-	-	-	0.1
At 31 December 2018	(0.9)	0.5	0.8	0.1	0.4	(6.7)	(5.8)

Changes to the UK corporation tax rates were announced on 8 July 2015. These changes were substantively enacted as part of Finance Bill 2015 on 26 October 2015 and include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A further change to reduce the rate from 1 April 2020 from 18% to 17% was announced on 16 March 2016. This change was substantively enacted as part of Finance Bill 2016 on 15 September 2016.

Deferred income taxes at the balance sheet date have been measured at the tax rate expected to be applicable at the date the deferred income tax assets and liabilities are realised. Management has performed an assessment, for all material deferred income tax assets and liabilities, to determine the period over which the deferred income tax assets and liabilities are forecast to be realised, which has resulted in an average deferred income tax rate of 17.5% being used to measure all deferred tax balances as at 31 December 2018 (2017: 18.0%). The impact of the change in tax rates to 17.5% has been a £0.2 million credit (2017: £0.3 million credit) in the Income Statement and a £0.1 million (2017: £0.1 million) charge within other comprehensive income.

The Group has estimated that £12 million of the Group's net deferred income tax liability will be realised in the next 12 months. This is management's current best estimate and may not reflect the actual outcome in the next 12 months.

22 PROVISIONS

	Property £m	Self Insurance £m	Total £m
At 31 December 2016	4.1	0.7	4.8
Additional provision in the year	-	0.1	0.1
Released during the year	(0.6)	-	(0.6)
Utilised during the year	(0.5)	(0.1)	(0.6)
At 31 December 2017	3.0	0.7	3.7
Utilised during the year	(0.3)	(0.1)	(0.4)
At 31 December 2018	2.7	0.6	3.3
		2018 £m	2017 £m
Analysis of total provisions			
Current		1.5	2.2
Non-current		1.8	1.5
		3.3	3.7

Property

The property provision includes onerous leases, expected lease dilapidation costs and the estimated remediation costs of property where an environmental problem has been identified and the costs to rectify can be reliably measured. The estimates and judgments used in determining the value of provisioning are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The majority of the property provision is expected to be utilised over a period of up to five years.

Self insurance

The self insurance provision is in respect of the estimated payments due to existing claimants under the self funded incapacity scheme over an estimated period of 14 years. This scheme is now closed.

23 POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group operates pension schemes of both the funded defined benefit and the defined contribution type for a substantial number of employees. In addition, the Group also operates an unfunded defined benefit private healthcare scheme for eligible retirees. The disclosures below are in respect of all of the Group schemes.

Pensions – defined contribution

Several defined contribution pension schemes are used within the Group. The total cost of employer contributions for the year was £2.6 million (2017: £2.0 million).

Pensions – defined benefit

The Group operates a defined benefit pension scheme, the Johnson Group Defined Benefit Scheme (JGDBS). The JGDBS was closed to future accrual on 31 December 2014.

A full actuarial valuation of the JGDBS was carried out at 30 September 2016 and has been updated to 31 December 2018 by an independent qualified actuary. The updated actuarial valuation at 31 December 2018 showed a deficit of £3.6 million (2017: £10.9 million). During the year, no employer or employee contributions were made (2017: £nil).

Deficit recovery payments of £1.9 million (2017: £3.4 million) were made to the Scheme during the year. Further deficit recovery payments of £1.9 million are expected to be made in 2019.

Notes to the Consolidated Financial Statements Continued >

23 POST-EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Actuarial assumptions

Considerations when calculating the IAS 19 liability

IAS19 sets out prescribed (qualitative) conditions for selecting the actuarial assumptions used to calculate the pension liabilities and pension costs. A key assumption is the discount rate which is used to determine the value of pension liabilities at the balance sheet date. The selection of the price inflation assumptions (both RPI and CPI) is also critical as these are relevant for the pre-retirement revaluation and pension increases in payment assumptions.

These assumptions are based on market yields at the balance sheet date, and may not be borne out in practice due to the long-term expected duration of the Scheme. The weighted average duration of the defined benefit obligation is approximately 14 years (2017: 14 years). Within the prescribed conditions however, assumptions must be mutually compatible and lead to the best estimate of the future cash flows in respect of pension liabilities.

A summary of relevant considerations is set out below:

Assumption for valuing pension liabilities

Discount rate (pre and post retirement)

Comments on prescribed conditions

Based on yields on "high quality" corporate bonds of appropriate duration and currency, or a suitable proxy. Our approach is to value sample pensioner and non-pensioner cash flows with different durations using a yield curve approach and to calculate the single equivalent discount rate for each set of cash flows

Retail Price inflation (RPI)

Based on the yield differential between index-linked bonds and fixed-interest bonds of appropriate duration and of a similar credit standing (for example, using spot yields derived from the inflation yield curve published by the Bank of England) with the allowance for an inflation premium to reflect market conditions

Consumer Price Inflation (CPI)

Based on the RPI assumption with an adjustment to reflect the historic and future expected long term differences between the RPI and CPI indices

Pension increases

Compatible with the rate of price inflation above taking into account the effects of scheme rules and valid expectations of discretionary increases based on best practice

Demographic assumptions (eg. rates of mortality and early retirement)

Compatible assumptions that lead to a best estimate of future cash flows

Assumptions used

	2018	2017
Rate used to discount scheme liabilities	2.90%	2.50%
Retail price inflation (RPI)	3.20%	3.15%
Consumer price inflation (CPI)	2.00%	1.95%
Rate of increase of pensions in payment (5.0% RPI linked)	3.07%	3.02%
Rate of increase of pensions in payment (2.5% RPI linked)	2.10%	2.07%
Rate of increase of pensions in payment (2.5% CPI linked)	1.71%	1.64%
Rate of increase of pensions in deferment (JGDBS Scheme)	2.00%	1.95%

Life expectancy at age 60 for current male pensioners is assumed to be 26.5 years (2017: 26.8 years). Life expectancy at age 60 for male future pensioners is assumed to be 26.9 years (2017: 27.2 years). "S2PXA 102%/99% males/females CMI 2017 with a 1.25% long term trend rate" has been used to derive these mortality rates (2017: "S2PXA 102%/99% males/females CMI 2016 with a 1.25% long term trend rate" used).

It is assumed that 100% of non-retired members of the JGDBS will commute 25% of their pension at retirement (2017: 100% of members will commute 25% of pension).

It has been assumed that 50% (2017: 50%) of future pensioners at retirement will exchange their non-statutory pension increases at retirement for a higher, but non-increasing pension.

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension (GMP) benefits for the effect of unequal GMPs accrued between 1990 and 1997. The issues determined by the judgment affect many other UK defined benefit pension schemes. We are working with the trustee of our pension scheme, and our actuarial and legal advisers, to understand the extent to which the judgment crystallises additional liabilities for the pension scheme.

The true impact of GMP equalisation on the scheme will not be known until members' benefits have been rectified, which could take over a year. However, we understand that it is necessary under the relevant accounting standard, to make allowance for the estimated impact of GMP equalisation as at the date of the judgment.

23 POST-EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The pension scheme has historically included a reserve in the actuarial valuation, and in the value of the scheme's liabilities on the balance sheet in previous financial years, to allow for a potential need to recognise equalised GMP benefits in the future. The clarity provided by the judgment has allowed us to update our estimate of the expected impact of GMP. The estimated impact of the equalisation of GMP benefits after allowance for the existing reserve, has been recognised through OCI as an actuarial loss. This amounted to an increase in liabilities of £0.2 million as at 26 October 2018 which has been included in the pension scheme liability at 31 December 2018.

Sensitivity of key assumptions

The table below gives an approximation of the impact on the IAS19 pension scheme liabilities to changes in assumptions and experience. Note that all figures are before allowing for deferred tax.

Item	Approximate increase/(decrease) on Post-employment benefit obligation
Increase/decrease discount rate by 0.1%	(£2.8 million)/£2.8 million
Increase/decrease price inflation assumption by 0.1%	£1.1 million/(£1.0 million)
1 year increase/decrease in life expectancy at age 60	£8.3 million/(£8.3 million)

The above sensitivities are applied to adjust the defined benefit obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide an approximation of the sensitivity of the assumptions shown. No changes have been made to the method and assumptions used in this analysis from those used in the previous period.

Private healthcare

The Group operates an unfunded defined benefit private healthcare scheme for eligible retirees. At 31 December 2018, the deficit of the scheme was £1.0 million (2017: £1.1 million). The Group accounted for a current service cost of £nil and a notional interest cost of £26,000 in the Income Statement (2017: £2,000 and £45,000 respectively). The current service cost in 2019 is expected to be £nil with a notional interest cost of £26,000.

The scheme is subject to a periodic independent actuarial review which assesses the cost of providing benefits for current and future eligible retirees. The latest formal review was undertaken as at 31 December 2017.

The latest review was performed using the projected unit credit method, and a discount rate of 2.50%. The main long term actuarial assumptions used in the review were that the retirement age of eligible employees will be 60 for females and males and the rate of increase in medical costs is to be 5.5% throughout. There have been no material changes in circumstances since the last formal review.

An increase of 1% in the medical cost trend would increase the scheme liabilities by an estimated £0.1 million and the aggregate of the service cost and interest cost by an estimated £2,000 per annum. A decrease of 1% in the medical cost trend would reduce the scheme liabilities by an estimated £0.1 million and the aggregate of the service cost and interest cost by an estimated £2,000 per annum.

Post-employment benefit obligations disclosures

The amounts charged to the Income Statement are set out below:

	2018 £m	2017 £m
Current service costs – charged to administrative expenses	–	–
Notional interest on post-employment benefit obligations	0.3	0.4
Total amounts charged to the Income Statement	0.3	0.4

Current service costs are charged or credited to the Income Statement in arriving at operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items.

The interest income on scheme assets and the interest cost on scheme liabilities are included within total finance costs.

In addition, the following amounts have been recognised in the Statement of Comprehensive Income:

	2018 £m	2017 £m
Return on scheme assets excluding interest income	(5.7)	9.8
Re-measurement gains/(losses) arising from changes in demographic assumptions	12	(2.8)
Re-measurement gains/(losses) arising from changes in financial assumptions	10.8	(4.8)
Experience (losses)/gains on liabilities	(0.6)	1.0
Total amounts recognised in the Statement of Comprehensive Income	5.7	3.2

Notes to the Consolidated Financial Statements Continued >

23 POST-EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Amounts recognised in the Balance Sheet are as follows:

	2018 £m	2017 £m
Present value of funded obligations	(212.3)	(229.5)
Fair value of scheme assets	208.7	218.6
<hr/>		
Net defined benefit pension obligations	(3.6)	(10.9)
Post-retirement healthcare obligations	(1.0)	(1.1)
<hr/>		
Net post-employment benefit obligations	(4.6)	(12.0)

Movements in the fair value of scheme assets were as follows:

	2018 £m	2017 £m
Fair value of scheme assets at beginning of the year	218.6	211.5
Interest income	5.3	5.6
Return on scheme assets (excluding interest income)	(5.7)	9.8
Deficit recovery payments	19	34
Benefits paid – defined benefit pension obligations	(114)	(11.7)
<hr/>		
Fair value of scheme assets at end of the year	208.7	218.6

Movements in the fair value of scheme liabilities were as follows:

	2018 £m	2017 £m
Fair value of scheme liabilities at beginning of the year	(230.6)	(229.7)
Interest expense	(5.6)	(6.0)
Re-measurement gains from changes in demographic assumptions	12	(2.8)
Re-measurement gains from changes in financial assumptions	10.8	(4.8)
Experience losses on liabilities	(0.6)	1.0
Benefits paid – defined benefit pension obligations	114	11.7
Premiums paid – post-retirement healthcare obligations	0.1	–
<hr/>		
Fair value of scheme liabilities at the end of the year	(213.3)	(230.6)

Movements in post-employment benefit obligations were as follows:

	2018 £m	2017 £m
Opening post-employment benefit obligation	(12.0)	(18.2)
Notional interest	(0.3)	(0.4)
Deficit recovery payments	19	34
Utilisation of post-retirement healthcare obligation	0.1	–
Re-measurement and experience gains/(losses)	5.7	3.2
<hr/>		
Closing post-employment benefit obligation	(4.6)	(12.0)

23 POST-EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

The major categories of scheme assets were as follows:

	Quoted Market Price Active Market £m	No Quoted Market Price Active Market £m	2018 Total Scheme £m	Quoted Market Price Active Market £m	No Quoted Market Price Active Market £m	2017 Total Scheme £m
Equities	75	–	75	36.0	–	36.0
Bonds	10.2	26.4	36.6	34.2	–	34.2
Liability driven investments	57.0	–	57.0	43.5	–	43.5
Real return funds	27.3	–	27.3	32.5	–	32.5
Alternative return seeking assets	8.9	69.8	78.7	4.2	64.6	68.8
Cash and cash equivalents	1.6	–	1.6	3.6	–	3.6
Total market value of assets	112.5	96.2	208.7	154.0	64.6	218.6

The assets of the pension scheme include no (2017: none) shares in the Group.

Scheme assets held with no quoted market price on active market are valued by the fund managers. The managers determine fair value of their holdings based on several factors. They may use secondary market prices, internal valuation models or independent valuations. This process adopted will vary by manager and asset class, although independent third parties are typically used to verify and support the net asset value valuations.

The Liability Driven Investments (LDI) shown above comprise of nominal and real LDI funds, investing in leveraged gilts and swaps in pooled funds for liability matching and liquidity funds investing in pooled cash funds. Under these arrangements, if interest rates fall, the value of the LDI investments would be expected to rise, all else being equal, to help offset the expected increase in the present value placed on the schemes liabilities arising from a fall in the discount rate (and vice versa).

The deficit recognised in respect of the JGDBS is influenced by both the measurement of plan liabilities and the valuation of plan assets. The Group, in conjunction with the Trustee, has tried to ensure an appropriate balance of investments has been made by the scheme to mitigate potential price volatility in individual asset categories. The Group and Trustee regularly monitor the composition of plan assets and amend the composition accordingly to try and match scheme assets with the liabilities they are intended to fund. However, any underperformance of scheme assets could result in future increases in the deficit recognised on the JGDBS.

24 FINANCIAL INSTRUMENTS

Policies and strategies

Details of the Group's policies and strategies in relation to financial instruments are given within the Statement of Significant Accounting Policies.

IAS 32, *Financial Instruments: Presentation*, IAS 39, *Financial Instruments: Recognition and Measurement* and IFRS 7, *Financial Instruments: Disclosures*, also require numerical disclosures in respect of financial assets and liabilities and these are set out below and in note 17. Financial assets and liabilities are stated at either amortised cost or fair value. Where stated at amortised cost, this is not materially different to the fair value unless otherwise stated due to their short term nature.

Financial assets

	2018 £m	2017 £m
Cash at bank and in hand		
Sterling	69	52
US Dollars	0.2	0.1
At 31 December	71	5.3

For interest purposes cash is offset against overdrafts through a pooling arrangement with each of the Group's principal bankers. Surplus cash is placed on Treasury Deposit with one or more of the Group's principal bankers.

Notes to the Consolidated Financial Statements Continued >

24 FINANCIAL INSTRUMENTS (Continued)

At the balance sheet date, cash was held with the following institutions:

	Rating	2018 £m	2017 £m
Cash at bank and in hand			
Royal Bank of Scotland	A-2	51	34
Lloyds Bank	A-2	20	19
Total cash and cash equivalents		71	53

The Group refers to Standard and Poor's short-term issue credit ratings when determining with which financial institutions to deposit its surplus cash balances. A short-term obligation rated 'A-1' is rated in the highest category by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is strong. A short-term obligation rated 'A-2' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rating categories, however, the obligor's capacity to meet its financial commitment on the obligation is satisfactory.

Cash balances held with the Group's principal bankers are used for working capital purposes. The Directors do not consider deposits at these institutions to be at risk.

Financial liabilities

	As per Balance Sheet £m	Future Interest Cost £m	2018 Total Cash Flows £m	As per Balance Sheet £m	Future Interest Cost £m	2017 Total Cash Flows £m
Trade and other payables*	54.9	-	54.9	56.5	-	56.5
Overdraft	11.8	-	11.8	9.0	-	9.0
Bank loans**	87.0	-	87.0	78.0	-	78.0
Finance leases	7.4	0.4	7.8	10.0	0.6	10.6
Provisions	3.3	-	3.3	3.7	-	3.7
Derivative financial instruments	0.7	-	0.7	0.1	-	0.1
	165.1	0.4	165.5	159.3	0.6	157.9

* Trade and other payables comprise both current and non-current payables as disclosed within notes 18 and 19, excluding other taxation and social security liabilities and deferred income:

	Current £m	Non-Current £m	2018 Total £m	Current £m	Non-Current £m	2017 Total £m
Trade and other payables	64.8	2.3	67.1	65.3	3.1	68.4
Less: Other taxation and social security liabilities	(10.6)	-	(10.6)	(8.9)	-	(8.9)
Less: Deferred income	(0.1)	(1.5)	(1.6)	(1.4)	(1.6)	(3.0)
	54.1	0.8	54.9	55.0	1.5	56.5

** IFRS 7 requires the contractual future interest cost of a financial liability to be included within the above table. As disclosed in note 20 of these financial statements, all the bank loans are currently drawn under an RCF arrangement and as such there is no contractual future interest cost. Interest paid in the year in relation to bank loans drawn down amounted to £2.5 million. Interest is payable at a rate of LIBOR prevailing at the time of drawdown plus the applicable margin, which ranges from 1.25% and 2.25%.

Bank loans in the table above do not include unamortised bank fees:

	Current £m	Non-Current £m	2018 Total £m	Current £m	Non-Current £m	2017 Total £m
Bank loans	(0.3)	86.6	86.3	1.7	75.9	77.6
Less: Unamortised bank fees	0.3	0.4	0.7	0.3	0.1	0.4
	-	87.0	87.0	2.0	76.0	78.0

24 FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

The maturity of financial liabilities based on contracted cash flows is shown in the table below.

This table has been drawn up using the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is obliged to pay. The table includes both interest and principal cash flows. Floating rate interest payments have been calculated using the relevant interest rates prevailing at the year end, where applicable.

	Trade and Other Payables £m	Overdrafts £m	Bank Loans £m	Finance Leases £m	Provisions £m	Derivative Financial Instruments £m	Total £m
As at 31 December 2018							
Due within one year	54.1	11.8	-	3.2	1.5	-	70.6
Due within one to two years	0.1	-	-	2.6	1.0	0.3	4.0
Due within two to five years	0.5	-	87.0	2.0	0.3	0.4	90.2
Due after more than five years	0.2	-	-	-	0.5	-	0.7
	54.9	11.8	87.0	7.8	3.3	0.7	164.5
As at 31 December 2017							
Due within one year	55.0	9.0	2.0	4.1	2.2	-	72.3
Due within one to two years	0.7	-	-	2.7	0.4	-	3.8
Due within two to five years	0.6	-	76.0	3.8	0.4	0.1	80.9
Due after more than five years	0.2	-	-	-	0.7	-	0.9
	56.5	9.0	78.0	10.6	3.7	0.1	157.9
		Fixed Rate Financial Liabilities £m	Floating Rate Financial Liabilities £m	Financial on which no interest is paid £m	Total £m		
Interest rate risk profile							
As at 31 December 2018							
Sterling		47.4	58.1	70.5	176.0		
As at 31 December 2017							
Sterling		60.0	36.6	69.2	165.8		

Fixed rate financial liabilities

At 31 December 2018 the Group's fixed rate financial liabilities related to bank borrowings that are covered by interest rate swaps and assets held under finance leases (2017: Interest rate swaps and assets held under finance leases).

For assets held under finance leases the weighted average interest rate incurred is 3.5% (2017: 3.9%) and the weighted average period remaining is 32 months (2017: 39 months).

At 31 December 2018, the Group had entered into a number of interest rate swaps, the effect of which was to classify £40.0 million (2017: £50.0 million) of the Group's borrowings as fixed rate as follows:

- for £15.0 million of borrowings, LIBOR is replaced with 1.4725% from 8 January 2016 to 8 January 2019;
- for £15.0 million of borrowings, LIBOR is replaced with 1.665% from 8 January 2016 to 8 January 2020; and
- for £10.0 million of borrowings, LIBOR is replaced with 0.5525% from 30 June 2016 to 30 June 2019.

Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2018 will be continuously released to the Income Statement within finance costs until the end of the hedged period.

Floating rate financial liabilities

Floating rate financial liabilities bear interest at rates based on relevant LIBOR equivalents. Loans are drawn and interest rates fixed for periods of between one and six months. The weighted average period remaining for floating rate financial liabilities is 25 months (2017: 13 months).

The variation in the interest rate of floating rate financial liabilities (with all other variables held constant) required to increase or decrease post-tax profit for the year by £0.1 million is 21 basis points (2017: 34 basis points).

Notes to the Consolidated Financial Statements Continued >

24 FINANCIAL INSTRUMENTS (Continued)

Fair values of financial liabilities

Bank loans are drawn down and interest set for no more than a six month period (2017: six month period). In view of this the fair value of bank loans is not materially different from the book value. The fair value of other financial liabilities was not materially different from the book value.

The Group recognises financial instruments that are held at fair value. Financial instruments have been classified as Level 1, Level 2 or Level 3 dependent on the valuation method applied in determining their fair value.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The only financial instruments held at fair value by the Group relate to interest rate swaps on a portion of the Group's long term borrowings and commodity swaps.

For both the years ended 31 December 2018 and 31 December 2017 the liabilities arising from these instruments have been classified as Level 2. The fair value of these instruments at each of the period ends was:

	Fair Value 2018 £m	Fair Value 2017 £m
Derivative financial instruments held:		
– Interest rate products	(0.1)	(0.4)
– Commodity products	(0.6)	0.3

Further information regarding interest rate products is provided in the fixed rate financial liabilities section above. Commodity products relate to fuel derivatives to hedge against movements in the price of diesel used in the Group's operations. The fuel derivatives hedge the underlying commodity price risk.

As at the balance sheet date, the Group has the following commodity hedges in place:

- 7.5 million litres of diesel at a weighted average price of 38.50 pence per litre for the period 1 January 2019 to 31 December 2019
- 6.0 million litres of diesel at a weighted average price of 41.51 pence per litre for the period 1 January 2020 to 31 December 2020

Gains and losses recognised in the hedging reserve in equity on commodity swap contracts as of 31 December 2018 will be continuously released to the Income Statement within cost of sales until the end of the hedged period.

Where available, market rates have been used to determine fair value.

All financial instruments are Level 2 financial instruments for all periods and there have been no transfers between either Level 1 and 2 or Level 2 and 3 in any period.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade receivables and other receivables
- Cash and cash equivalents
- Trade and other payables

Valuation techniques used to derive Level 2 fair values

Level 2 trading and hedging derivatives comprise interest rate swaps and commodity swaps. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Commodity swaps are using a mark to market valuation at the balance sheet date. The effects of discounting are generally insignificant for Level 2 derivatives.

Group's valuation processes

The Group's finance function includes a treasury team that performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values (as required). This team reports directly to the Chief Financial Officer (CFO). Discussions of valuation processes and results are held between the CFO and the treasury team at least once every six months, in line with the Group's reporting dates.

Foreign currency risk

The Group purchases such a small proportion in currencies other than Sterling that there is no reasonable change in exchange rates that would have a material effect on the Group.

24 FINANCIAL INSTRUMENTS (Continued)

Capital risk management

The Group's objectives when managing its capital structure are to safeguard the Group's ability to continue as a going concern in order to provide appropriate returns to Shareholders and benefits to other stakeholders.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to Shareholders, return capital to Shareholders, issue new shares or take other steps to increase share capital and reduce or increase debt facilities.

The Group manages its capital structure using a number of measures and taking into account future strategic plans. Such measures include its interest cover and gearing ratios which are included in its banking covenants. The Group remains compliant with its banking covenants.

The Group aims to maintain its gearing below two times, except where circumstances may increase gearing above this level but the cash flow forecasts prepared by the Group show gearing to reduce back below the two times threshold in the short term, for example, in the case of a material acquisition. Gearing is defined as the ratio of net debt (excluding unamortised fees) to adjusted EBITDA (which is the rolling 12 month adjusted EBITDA for the Group in the relevant period, further adjusted to:

- add the adjusted EBITDA of a member of the Group acquired during the relevant period for the part of that period when it was not a member of the Group (unless such adjusted EBITDA was negative); and
- exclude the adjusted EBITDA attributable to any member of the Group sold during the relevant period so long as the cash consideration has been received.

At 31 December 2018, the gearing ratio was 1.6 times (2017: 1.6 times).

25 CONTINGENT LIABILITIES

The Group operates from a number of sites across the UK. Some of the sites have operated as laundry sites for many years and historic environmental liabilities may exist. Such liabilities are not expected to give rise to any significant loss.

The Group has granted its Bankers and Trustee of the Pension Scheme (the 'Trustee') security over the assets of the Group. The priority of security is as follows:

- first ranking security for £28.0 million to the Trustee ranking pari passu with up to £155.0 million of bank liabilities; and
- second ranking security for the balance of any remaining liabilities to the Trustee ranking pari passu with any remaining bank liabilities.

During the period of ownership of the Facilities Management division the Company had given guarantees over the performance of contracts entered into by the division. As part of the disposal of the division the purchaser has agreed to pursue the release or transfer of obligations under the Parent Company guarantees and this is in process. The Sale and Purchase agreement contains an indemnity from the purchaser to cover any loss in the event a claim is made prior to release. In the period until release the purchaser is to make a payment to the Company of £0.2 million per annum, reduced pro rata as guarantees are released. Such liabilities are not expected to give rise to any significant loss.

As a condition of the sale of the Facilities Management division in August 2013, the Group has put in place indemnities, to the purchaser, in relation to any future amounts payable in respect of contingent consideration related to the Nickleby acquisition completed in February 2012. As set out in the 2012 Annual Report and Accounts the maximum amount payable under the terms of the indemnity could be up to £5.0 million. The Directors believe the risk of settlement at, or near, the maximum level to be remote.

26 SHARE CAPITAL

Issued and Fully Paid	Shares	2018 £m	Shares	2017 £m
Ordinary shares of 10p each:				
– At start of year	366,499,375	36.6	365,108,019	36.5
– New shares issued	1,074,835	0.2	1,391,356	0.1
At end of year	367,574,210	36.8	366,499,375	36.6

Notes to the Consolidated Financial Statements Continued >

26 SHARE CAPITAL (Continued)

Issue of Ordinary shares of 10p each

An analysis of the new shares issued in each period is shown below:

Issued and Fully Paid	Shares	2018 £m	Shares	2017 £m
Ordinary shares of 10p each:				
- Approved LTIP	note a	37,500	-	-
- EBT	note b	110,000	1,025,000	102,500
- SAYE	note c	927,335	366,356	36,636
New shares issued		1,074,835	1,391,356	139,136

Note a: 37,500 (2017: Nil) Ordinary shares were allotted in relation to employee share option exercises. The total nominal value received was £3,750 (2017: Nil).

Note b: 110,000 (2017: 1,025,000) Ordinary shares were allotted to the EBT at nominal value to be used in relation to employee share option exercises. The total nominal value received was £11,000 (2017: £102,500). At the time of allotment, the EBT already held 16,256 (2017: 20,739) Ordinary shares of 10 pence each which, together with the 110,000 (2017: 1,025,000) newly allotted Ordinary shares of 10 pence each, were used to satisfy the exercise of 110,000 (2017: 1,029,483) LTIP options.

Note c: 927,335 (2017: 366,356) SAYE Scheme options were exercised with a total nominal value of £92,734 (2017: £36,636).

The total proceeds received on allotment in respect of all of the above transactions were £0.7 million (2017: £0.3 million) and were credited as follows:

	2018 £m	2017 £m
Share capital	0.2	0.1
Share premium	0.5	0.2
	0.7	0.3

Potential issues of Ordinary shares of 10p each

As at the balance sheet date, certain senior executives hold options in respect of potential issues of Ordinary shares of 10 pence each granted pursuant to the 2009 Long-Term Incentive Plan (the 'LTIP') and the 2009 Long-Term Incentive Plan Approved Section (the 'Approved LTIP') (together referred to as 'Executive Schemes') at prices ranging from nil to 80.0 pence.

Certain Group employees also hold options in respect of potential issues of Ordinary shares of 10p each granted pursuant to the Johnson Service Group Sharesave Plan (hereinafter referred to as the 'SAYE Scheme') at prices ranging from 43.75 pence to 125.75 pence.

Options granted under the SAYE Scheme are normally exercisable within six months from the date exercisable as shown below. Options under the Executive Schemes are normally exercisable, subject to the achievement of performance conditions, three years after the date of grant and within seven years from the date exercisable as shown below. Upon exercise, all options are generally settled in equity.

The number of shares subject to option under each scheme which were outstanding at 31 December 2018, the date on which they were granted and the date from which they may be exercised are given below:

Scheme	Date Options Granted	Number of Shares	Date Exercisable	Exercise Price per Share
LTIP	8 May 2015	942,500	Note d	Nil
Approved LTIP	8 May 2015	150,000	Note d	80.00p
LTIP	6 May 2016	964,238	Note d	Nil
LTIP	27 March 2017	1,110,484	Note d	Nil
LTIP	28 February 2018	1,068,463	Note d	Nil
		4,235,685		
SAYE Scheme	1 October 2013	144,133	1 December 2018	43.75p
SAYE Scheme	1 October 2015	233,379	1 December 2018	82.75p
SAYE Scheme	1 October 2015	481,846	1 December 2020	82.75p
SAYE Scheme	4 October 2017	965,650	1 December 2020	125.75p
SAYE Scheme	4 October 2017	360,958	1 December 2022	125.75p
		2,185,966		
		6,421,651		

Note d: The LTIP options granted are subject to performance conditions linked to the Company's Earnings Per Share and Total Shareholder Return and will ordinarily vest three years from grant. Further details are set out within the Board Report on Remuneration.

27 SHARE BASED PAYMENTS

Executive Schemes

The 2009 Long-Term Incentive Plan (the 'LTIP') provides for an exercise price of nil. The 2009 Long-Term Incentive Plan Approved Section (the 'Approved LTIP') provides for an exercise price equal to the quoted closing mid-market price of the Company shares on the business day immediately preceding the date of grant. The vesting period is generally three years. Both market based and non-market based performance conditions are generally attached to the options, for which an appropriate adjustment is made when calculating the fair value of an option. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest, unless under exceptional circumstances.

The 2018 Long-Term Incentive Plan (the 'LTIP') provides for an exercise price of nil. The 2018 Long-Term Incentive Plan also contains a sub-plan which permits the grant of options ('LTIP CSOP Options') for an exercise price equal to the quoted closing mid-market price of the Company shares on the business day immediately preceding the date of grant. The vesting period is generally three years and will be subject to a further holding period at the discretion of the Remuneration Committee. Both market based and non-market based performance conditions are generally attached to the options, for which an appropriate adjustment is made when calculating the fair value of an option. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest, unless under exceptional circumstances. As at 31 December 2018, no awards have been made under this plan.

SAYE Schemes

The Johnson Service Group Sharesave Plan provides for an exercise price equal to the average of the quoted mid-market price of the Company shares on the business days immediately preceding the date of grant, less a discount of up to ten per cent. The vesting period under the scheme is either three or five years and no performance conditions, other than remaining a Group employee, are attached to the options.

Disclosures

Movements in the current and prior year in respect of all share schemes are summarised below:

	Number of Shares	2018 Weighted Average Exercise Price (p)	Number of Options	2017 Weighted Average Exercise Price (p)
Executive schemes				
Outstanding at beginning of the year	3,324,722	5p	3,571,221	5p
Granted during the year	1,068,463	-	1,110,484	-
Exercised during the year	(146,087)	21p	(1,029,483)	-
Cancelled during the year	(11,413)	-	(327,300)	9p
Outstanding at the end of the year	4,235,685	3p	3,324,722	5p
Exercisable at the end of the year	1,092,500	11p	-	-
SAYE schemes				
Outstanding at beginning of the year	3,289,064	97p	2,458,478	71p
Granted during the year	-	-	1,457,485	126p
Exercised during the year	(927,335)	73p	(366,356)	48p
Lapsed during the year	(175,763)	115p	(260,543)	74p
Outstanding at the end of the year	2,185,966	106p	3,289,064	97p
Exercisable at the end of the year	377,512	68p	-	-

For options outstanding at 31 December 2018, the exercise date and the exercise price are disclosed within note 26.

During the year the Group recognised total expenses of £0.9 million (2017: £1.1 million) including associated social security costs of £0.1 million (2017: £0.3 million) in relation to equity-settled share based payment transactions.

The average share price of Johnson Service Group PLC during the year was 133.6 pence (2017: 129.0 pence).

The aggregate gain made by Directors on the exercise of share options during the year was £nil (2017: £0.9 million). Further details are disclosed within the Board Report on Remuneration on pages 56 to 65.

Notes to the Consolidated Financial Statements Continued >

27 SHARE BASED PAYMENTS (Continued)

The fair value of options awarded to employees is determined by reference to option pricing models, principally Binomial models for SAYE schemes and Monte Carlo models for all other schemes. The inputs into the Binomial and Monte Carlo models are as follows:

	Options Granted During 2018	Options Granted During 2017
Weighted average share price at date of grant (pence)	136	126
Weighted average exercise price (pence)	-	32
Weighted average fair value (pence)	95	44
Expected volatility (%)	229	23.7
Expected life (years)	3.0	3.4
Risk free interest rate (%)	0.8	0.2
Expected dividend yield (%)	21	21

Expected volatility and expected dividend yield were determined by calculating the historical volatility of the Company's share price and the historical dividend yield for a period akin to the expected life of each option scheme. The risk free rate of return is based on the rate for UK government gilts on the date of grant, for a period akin to the expected life of the option.

28 SHARE PREMIUM

	2018 £m	2017 £m
Balance brought forward	15.2	15.0
Received on allotment of shares	0.5	0.2
Balance carried forward	15.7	15.2

29 OWN SHARES

	2018 £m	2017 £m
Balance brought forward and carried forward	-	-

Own shares represent the cost of shares in Johnson Service Group PLC purchased in the market and held by the Trustee of the EBT, to satisfy options under the Group's share option schemes.

The number of shares and the market value at the balance sheet date are as follows:

	2018	2017
Number of shares held	16,256	16,256
Market value £m	-	-

30 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY

	2018 £m	2017 £m
Profit for the year	26.8	25.7
Dividends	(10.7)	(9.5)
	16.1	16.2
Other recognised gains and losses relating to the year:		
Issue of share capital	0.7	0.3
Share options (value of employee services)	0.8	0.7
Re-measurement and experience gains (net of taxation)	4.6	2.6
Change in deferred tax due to change in tax rate	-	(0.1)
Current tax on share options	0.1	0.2
Cash flow hedges movement	(0.5)	0.6
Net addition to Shareholders' equity	21.8	20.5
Opening Shareholders' equity	167.6	147.1
Change in accounting standard (Note 37)	1.0	-
Closing Shareholders' equity	190.4	167.6

31 BUSINESS COMBINATIONS

On 31 August 2018, the Group acquired 100% of the share capital of South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Ltd ('South West'), for a net consideration of £13.3 million (being a gross consideration of £15.5 million adjusted for normalised working capital, cash and debt like items) plus associated fees. Since acquisition, South West has incurred a loss of £0.4 million on revenue of £20 million. Had the business been acquired at the start of the period it is estimated that a profit of £0.7 million would have been generated on revenue of £6.4 million.

The provisional fair value of assets and liabilities acquired are as follows:

	South West Laundry £m	Fair value adjustments to previous acquisitions £m	Total £m
Intangible assets – Goodwill	7.6	0.2	7.8
Intangible assets – Customer contracts	4.0	–	4.0
Property, plant and equipment	4.0	–	4.0
Textile rental items	1.5	(0.2)	1.3
Trade and other receivables	1.2	–	1.2
Cash and cash equivalents/(overdraft)	0.1	–	0.1
Trade and other payables	(2.8)	–	(2.8)
Borrowings	(1.3)	–	(1.3)
Current income tax liability	(0.2)	–	(0.2)
Deferred income tax liability	(0.8)	–	(0.8)
Net consideration	13.3	–	13.3

Goodwill represents the deferred income tax arising on the recognition of the customer contracts plus the expected benefits to the wider Group arising from the acquisition. None of the acquired goodwill is expected to be deductible for tax purposes.

South West has been included within the HORECA reporting segment and within the Stalbridge CGU.

In 2017, the Group acquired the entire share capital of Clayfull Limited, which trades as PLS ('PLS') and StarCounty Textile Services Limited ('Star'). Full details are provided in the 2017 Annual Report and Accounts.

During 2018, the initial fair value of the textile rental items acquired as part of the Star acquisition was reduced by £0.2 million, with a corresponding increase in goodwill.

Cash flows from business acquisition activity

The cash flows in relation to business acquisition activity are summarised below:

	2018 £m	2017 £m
Net consideration payable	13.3	9.5
Contingent and deferred consideration	0.2	(0.5)
(Cash)/overdraft acquired	(0.1)	(0.5)
Costs in relation to business acquisition activity	0.6	0.7
	14.0	9.2

In respect of contingent and deferred consideration:

- the 2017 figure of £0.5 million reflects the recognition of contingent consideration, retained by the Group at the time of the acquisition, of £0.3 million and £0.2 million for PLS and Star respectively;
- the 2018 figure of £0.2 million reflects the payment of the Star contingent consideration recognised in the prior year;
- the PLS contingent consideration of £0.3 million may become payable in future periods dependent upon the outcome of certain, currently unknown, events; and
- further deferred consideration of £0.3 million, relating to the acquisition of Ashbon in 2015, remains payable.

In respect of costs in relation to business acquisition activity:

- the 2018 cash outflow of £0.6 million included in the table above relates to costs incurred during the year; and
- the 2017 cash outflow of £0.7 million included in the table above relates to £0.5 million of costs incurred during 2017 and £0.2 million of costs that were incurred during 2015.

Notes to the Consolidated Financial Statements Continued >

32 DISCONTINUED OPERATIONS

Current Year

Other than for a £0.1 million cash outflow in respect of the ongoing utilisation of a provision relating to discontinued property liabilities, there have been no other transactions during the year relating to discontinued operations.

Prior Year

On 4 January 2017, the Group disposed of its Drycleaning operation. The Drycleaning business was included in the December 2016 Balance Sheet as "assets classified as held for sale" and "liabilities directly associated with assets held for sale". The anticipated loss on disposal of £2.0 million was reflected as an impairment of goodwill as at 31 December 2016 and included in the Income Statement within discontinued operations. Further details are set out within note 32 of both the 2016 and 2017 Annual Report.

Income Statement

Discontinued operations in the current and prior year comprise of the following:

	2018 £m	2017 £m
Revenue	-	-
Taxation credit	-	0.3
Retained profit from discontinued operations	-	0.3

Cash Flows

The cash flows from discontinued operations included within the Consolidated Statement of Cash Flows are as follows:

	2018 £m	2017 £m
Proceeds from disposals	-	8.3
Payment of costs relating to disposals	-	(0.4)
Cash disposed of	-	(0.8)
Net proceeds from disposals	-	7.1
Net cash used in operating activities	(0.1)	(0.3)
Net cash flow	(0.1)	6.8

33 ANALYSIS OF NET DEBT

Net debt is calculated as total borrowings net of unamortised bank facility fees, less cash and cash equivalents. Non-cash changes represent the effects of the recognition and subsequent amortisation of fees relating to the bank facility, changing maturity profiles, debt acquired as part of an acquisition and new finance leases entered into during the year.

	At 1 January 2018 £m	Cash Flow £m	Non-cash Changes £m	At 31 December 2018 £m
Debt due within one year	(1.7)	2.0	-	0.3
Debt due after more than one year	(75.9)	(11.0)	0.3	(86.6)
Finance leases	(10.0)	3.9	(1.3)	(7.4)
Total debt and lease financing	(87.6)	(5.1)	(1.0)	(93.7)
Cash and cash equivalents	(3.7)	(1.0)	-	(4.7)
Net debt	(91.3)	(6.1)	(1.0)	(98.4)

33 ANALYSIS OF NET DEBT (Continued)

December 2017	At 1 January 2017 £m	Cash Flow £m	Non-cash Changes £m	At 31 December 2017 £m
Debt due within one year	(98)	92	(11)	(17)
Debt due after more than one year	(725)	(3.0)	(0.4)	(759)
Finance leases	(14.4)	53	(0.9)	(10.0)
Total debt and lease financing	(96.7)	115	(24)	(87.6)
Cash and cash equivalents	(15)	(22)	-	(3.7)
Net debt	(98.2)	93	(24)	(91.3)

The cash and cash equivalents figures are comprised of the following balance sheet amounts:

	2018 £m	2017 £m
Cash (Current Assets)	71	53
Overdraft (Borrowings, Current Liabilities)	(11.8)	(9.0)
	(4.7)	(3.7)

Finance lease obligations are comprised of the following balance sheet amounts:

	2018 £m	2017 £m
Amounts due within one year (Borrowings, Current Liabilities)	(3.0)	(3.8)
Amounts due after more than one year (Borrowings, Non-Current Liabilities)	(4.4)	(6.2)
	(7.4)	(10.0)

34 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2018 £m	2017 £m
Decrease in cash in the year	(1.0)	(22)
(Increase)/decrease in debt and lease financing	(51)	11.5
Change in net debt resulting from cash flows	(61)	93
Debt acquired through business acquisition	(13)	(21)
Movement in unamortised bank facility fees	0.3	(0.3)
Movement in net debt	(71)	69
Opening net debt	(91.3)	(98.2)
Closing net debt	(98.4)	(91.3)

Notes to the Consolidated Financial Statements Continued >

35 FINANCIAL COMMITMENTS

Capital expenditure

Contracts placed for future capital expenditure contracted but not provided for in the Consolidated Financial Statements are shown below:

	2018 £m	2017 £m
Property, plant and equipment	52	14

Revenue expenditure

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

	2018 £m	2017 £m
Land and buildings		
- within one year	43	5.0
- between one and five years	15.5	15.3
- in five years or more	26.0	28.9
	45.8	49.2
Plant and machinery		
- within one year	25	32
- between one and five years	33	45
- in five years or more	0.1	-
	5.9	7.7

The total of future minimum sublease payments to be received under non-cancellable leases at the balance sheet date is £13 million (2017: £0.1 million).

36 EVENTS AFTER THE REPORTING PERIOD

There were no events occurring after the balance sheet date that require disclosing in accordance with IAS 10, 'Events after the reporting period'.

37 CHANGES IN ACCOUNTING STANDARDS

Following the adoption in the year of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from contracts with customers', the following details the impact of the adoption on the Group's financial statements.

IFRS 9, 'Financial Instruments'

As at 1 January 2018, the Group assessed the requirements of IFRS 9. The standard includes requirements for impairment, hedge accounting and classification and measurement.

IFRS 9 introduces an 'expected loss' model for recognising impairment of financial assets held at amortised cost. This is different from IAS 39, which had an incurred loss model where provisions were recognised only when there was objective evidence of impairment. This change of approach requires the Group to consider forward-looking information to calculate expected credit losses regardless of whether there has been an impairment trigger. Given the general quality and short-term nature of the trade receivables within the Group, there is a small but immaterial increase to the level of impairment recognised and as such no adjustment has been made to the opening balance of retained earnings as at 1 January 2018.

The application of IFRS 9 has also not resulted in a significant increase of impairment of financial assets measured at amortised cost in the current year as compared to impairment recognised under previous accounting policies.

In accordance with the transition provisions of IFRS 9 for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018 with all hedging relationships continuing to be effective under the effectiveness assessment requirements of IFRS 9.

The Group has also considered the changes to classification and measurement of financial assets and liabilities and has concluded that these changes do not impact the Group.

IFRS 15, 'Revenue from Contracts with Customers'

The adoption of IFRS 15 by the Group from 1 January 2018 has resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in IFRS 15, the Group has applied the modified retrospective approach, which results in the cumulative effect of initially applying this standard being an adjustment to the opening balance of retained earnings as at 1 January 2018.

37 CHANGES IN ACCOUNTING STANDARDS (Continued)

Under IFRS 15, revenue recognition is based on the principle that revenue is recognised when control of a good or service transfers to a customer. For the Group, the transfer of control under IFRS 15 and satisfaction of performance obligations remains consistent with the transfer of risks and rewards to the customer under IAS18. Consequently, there was no significant impact on the amount and timing of revenue recognition in the Group on application of IFRS 15.

The changes that do impact the Group relate to where IFRS 15 states that an asset should be recognised for costs that relate directly to a contract, are incremental to securing the contract and if management expects to recover those costs. The asset should then be amortised as the services to which the asset relates are transferred to the customer. The Group has identified an element of employee sales commissions as specifically relating directly to a contract and therefore meeting this requirement. Such costs were an estimated £13 million in the year to 31 December 2017. Applying this change to commissions paid historically by the Group resulted in £11 million of costs incurred to fulfil a contract being capitalised and included as a contract asset in Trade and Other Receivables on the Balance Sheet at 1 January 2018. These costs will be amortised over the average contract life. A deferred tax liability of £0.2 million was also recognised, resulting in a net adjustment to retained earnings of £0.9 million.

The new standard also addresses consideration paid to customers. A reduction in revenue is to be recognised either when the Group recognises revenue for the services provided or when the Group pays or promises to pay the consideration. Where costs have been identified as meeting this definition, the reduction in revenue is deemed to be whichever is the later of the above. Where revenue was reduced due to such payments under previous accounting policies, under IFRS 15 the reduction in revenue is to be deferred through recognition of a contract asset and amortisation of this asset over the average contract life. This has resulted in a £0.1 million credit to opening retained earnings at 1 January 2018 and a corresponding increase in Trade and Other Receivables on the Balance Sheet.

Contract assets are included in the Balance Sheet at 31 December 2018 within Trade and Other Receivables, are shown in note 17, in line with the new disclosure requirements of IFRS 15.

The impact of the adoption of IFRS 15 on the Group's opening Balance Sheet is shown below. The following tables show the adjustments recognised for each individual line item. Line items that were not affected by the changes have not been included. As a result, the subtotals and totals disclosed cannot be recalculated from the numbers provided.

	As at 31 December 2017 £m	IFRS 15 adjustment £m	As at 1 January 2018 £m
Non-current assets			
Trade and other receivables	0.3	0.5	0.8
Current assets			
Trade and other receivables	472	0.7	479
Non-current liabilities			
Deferred income tax liabilities	9.5	0.2	9.7
NET ASSETS	167.6	1.0	168.6
Capital and reserves attributable to the Company's Shareholders			
Retained earnings	113.7	1.0	114.7
Total equity	167.6	1.0	168.6

The impact of the adoption of IFRS 15 on the Group's retained earnings as at 1 January 2018 is as follows:

	£m
As at 31 December 2017	113.7
Recognition of asset for costs to fulfil a contract – Employee sales commissions	1.1
Recognition of asset for costs to fulfil a contract – Consideration paid to customers	0.1
Increase in deferred income tax liabilities	(0.2)
Adjustment to retained earnings from adoption of IFRS 15	1.0
As at 1 January 2018	114.7

As at 31 December 2018, included within Trade and Other Receivables, are Contract Assets totalling £11 million (see Note 17) relating to sales commission costs and consideration paid to customers as noted above. Under previous accounting policies, those costs that related directly to a contract would have been charged directly to the Income Statement in the period in which they were incurred and no asset would therefore be recognised on the Balance Sheet at 31 December 2018. This would have resulted in an estimated charge to the Income Statement of £1.1 million in 2018 under the previous accounting policies compared to a charge of £12 million under IFRS 15 where the costs are capitalised and subsequently amortised over the average contract life. The change has not impacted the basic earnings per share and fully diluted earnings per share figures for the year.

Company Financial Statements

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DIVIDEND

3.1p

Increased from 2.8p in 2017

Company Statement of Comprehensive Income

	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Profit for the year	11.7	21.9
Items that will not be subsequently reclassified to profit or loss		
Re-measurement and experience gains on post-employment obligations	5.7	3.2
Taxation in respect of re-measurement and experience gains	(1.1)	(0.6)
Change in deferred tax due to change in tax rate	-	(0.1)
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges (net of taxation) – fair value (losses)/gains	(0.3)	0.2
– transfers to administrative expenses	(0.4)	-
– transfers to finance cost	0.2	0.4
Other comprehensive income for the year	4.1	3.1
Total comprehensive income for the year	15.8	25.0

Company Statement of Changes in Shareholders' Equity

	Share Capital £m	Share Premium £m	Merger Reserve £m	Capital Redemption Reserve £m	Hedge Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2017	36.5	15.0	3.5	0.6	(0.7)	67.1	122.0
Loss for the year	-	-	-	-	-	21.9	21.9
Other comprehensive income	-	-	-	-	0.6	2.5	3.1
Total comprehensive income for the year	-	-	-	-	0.6	24.4	25.0
Share options (value of employee services)	-	-	-	-	-	0.7	0.7
Current tax on share options	-	-	-	-	-	0.2	0.2
Deferred tax on share options	-	-	-	-	-	(0.1)	(0.1)
Issue of share capital	0.1	0.2	-	-	-	-	0.3
Dividends paid	-	-	-	-	-	(9.5)	(9.5)
Transactions with Shareholders recognised directly in Shareholders' Equity	0.1	0.2	-	-	-	8.7	(8.4)
Balance at 31 December 2017	36.6	15.2	3.5	0.6	(0.1)	82.8	138.6
Balance at 1 January 2018	36.6	15.2	3.5	0.6	(0.1)	82.8	138.6
Profit for the year	-	-	-	-	-	11.7	11.7
Other comprehensive (loss)/income	-	-	-	-	(0.5)	4.6	4.1
Total comprehensive (loss)/income for the year	-	-	-	-	(0.5)	16.3	15.8
Share options (value of employee services)	-	-	-	-	-	0.8	0.8
Deferred tax on share options	-	-	-	-	-	0.1	0.1
Issue of share capital	0.2	0.5	-	-	-	-	0.7
Dividends paid	-	-	-	-	-	(10.7)	(10.7)
Transactions with Shareholders recognised directly in Shareholders' Equity	0.2	0.5	-	-	-	(9.8)	(9.1)
Balance at 31 December 2018	36.8	15.7	3.5	0.6	(0.6)	89.3	145.3

All of the Retained Earnings reserve is considered to be distributable as at 31 December 2018 subject to the offset of the Hedge Reserve (2017: all distributable subject to the offset of the Hedge Reserve).

Company Balance Sheet

	Note	As at 31 December 2018 £m	As at 31 December 2017 £m
Assets			
Non-current assets			
Trade and other receivables	7	1639	1792
Deferred income tax assets	5	1.7	2.8
Investments	6	558.9	545.4
		724.5	727.4
Current assets			
Trade and other receivables	7	0.5	0.5
Current income tax assets		4.3	4.1
Derivative financial assets	12	-	0.1
		4.8	4.7
Liabilities			
Current liabilities			
Trade and other payables	8	5.9	5.5
Borrowings	9	11.5	10.7
Provisions	13	0.4	1.2
Derivative financial liabilities	12	-	-
		17.8	17.4
Non-current liabilities			
Post-employment benefit obligations	10	4.6	12.0
Trade and other payables	11	473.6	488.0
Borrowings	8	86.6	75.9
Provisions	13	0.7	-
Derivative financial liabilities	12	0.7	0.2
		566.2	576.1
Net assets		145.3	138.6
Equity			
Capital and reserves attributable to the company's shareholders			
Share capital	15	36.8	36.6
Share premium	16	15.7	15.2
Merger reserve		3.5	3.5
Capital redemption reserve		0.6	0.6
Hedge reserve		(0.6)	(0.1)
Retained earnings		89.3	82.8
Total Shareholders' equity		145.3	138.6

Profit for the year for the Company was £11.7 million (2017: Profit of £219 million).

The financial statements on pages 124 to 137 were approved by the Board of Directors on 4 March 2019 and signed on its behalf by:


Yvonne Monaghan
 Chief Financial Officer

Company Statement of Cash Flows

	Note	Year ended 31 December 2018 £m	Year ended 31 December 2017 £m
Cash flows from operating activities			
Profit for the year		11.7	21.9
Adjustments for:			
Income tax credit		(0.4)	(1.1)
Total finance income		(2.5)	(2.7)
Dividend income		(13.6)	(15.0)
Decrease in trade and other receivables		0.1	-
Increase in trade and other payables		0.2	0.7
Increase in amounts due from subsidiary companies		(0.4)	(2.6)
Investment impairment		-	21.8
Intercompany loans forgiven		-	(30.2)
Costs in relation to business acquisition activity		0.3	0.3
Deficit recovery payments in respect of post-employment benefit obligations		(1.9)	(3.4)
Share-based payments		0.6	0.7
Post-employment benefit obligations		(0.1)	(0.1)
Provisions		(0.1)	(0.7)
<hr/>			
Cash used in operations		(6.1)	(10.4)
Interest paid		(4.4)	(2.7)
Taxation paid		(7.7)	(7.0)
<hr/>			
Net cash used in operating activities		(18.2)	(20.1)
<hr/>			
Cash flows from investing activities			
Acquisition of investment in subsidiary		(13.8)	(8.0)
Proceeds from sale of subsidiary		-	7.9
Dividends received		13.6	14.4
Interest received		7.3	6.6
Loans advanced to subsidiary companies		(4.1)	(6.3)
<hr/>			
Net cash generated from investing activities		3.0	14.6
<hr/>			
Cash flows from financing activities			
Loans received from subsidiary companies		13.4	15.9
Proceeds from borrowings		86.0	82.0
Repayments of borrowings		(77.0)	(87.0)
Net proceeds from issue of Ordinary shares		0.7	0.3
Dividend paid		(10.7)	(9.5)
<hr/>			
Net cash generated from financing activities		12.4	1.7
<hr/>			
Net decrease in cash and cash equivalents		(2.8)	(3.8)
Cash and cash equivalents at beginning of year		(9.0)	(5.2)
<hr/>			
Cash and cash equivalents at end of year	18	(11.8)	(9.0)

Cash and cash equivalents at the end of the year include cash of £nil and an overdraft of £11.8 million (2017: £nil and £9.0 million respectively).

Statement of Significant Accounting Policies

The Company is incorporated and domiciled in the UK. The Company's registered number is 523335. The address of its registered office is Johnson House, Abbots Park, Monks Way, Preston Brook, Cheshire, WA7 3GH.

The Company is a public limited company and has its primary listing on the AIM division of the London Stock Exchange.

The Company financial statements were authorised for issue by the Board on 4 March 2019.

BASIS OF PREPARATION

The principal accounting policies applied in the preparation of the Company Financial Statements are the same as those used in the Consolidated Financial Statements as set out on pages 79 to 88 with the addition of the policies set out below. These policies have been consistently applied to the information presented, unless otherwise stated.

INVESTMENTS

Investments in Group Undertakings are recorded at cost, which is the fair value of the consideration paid. Investments are tested for impairment and carried at cost less accumulated impairment losses. Where an impairment is identified, it is charged to the Income Statement within intangibles amortisation and impairment (excluding software). Investments that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

SHARE BASED COMPENSATION

The Company operates a number of equity-settled, share based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the employing company's Income Statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models, principally Binomial and Monte Carlo models. The fair value of the award is recognised in the employing company's Income Statement over the vesting period of the award. The grant by the Company of options over its equity instruments to the employees of the subsidiary undertakings is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to the investment in that subsidiary undertaking, with a corresponding credit to equity in the Company's accounts.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Carrying value of investments in subsidiaries

Annually, the Directors consider whether there are any indicators of impairment that may suggest that the recoverable amount of the Company's investments in subsidiaries is less than their carrying amount. The assessment of impairment indicators requires management to apply judgment in assessing current and forecast trading performance as well as assessing the impact of principal risks and uncertainties specific to the investments it holds. Details of the Company's investments are set out in note 6 and in the current year the Directors have concluded that, other than those disclosed in note 6, no indicators of impairment existed.

(b) Income taxes

The Company is subject to income taxes. Judgment is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Company recognises liabilities for anticipated tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(c) Post-employment benefit obligations

The Company operates two post retirement defined benefit arrangements (see note 23 of the Consolidated Financial Statements). Asset valuations are based on the fair value of scheme assets. The valuations of the liabilities of the schemes are based on statistical and actuarial calculations, using various assumptions including discount rates, future inflation rates and pension increases, life expectancy of scheme members, flexible retirement options and cash commutations. The actuarial assumptions may differ materially from actual experience due to changes in economic and market conditions, variations in actual mortality, higher or lower cash withdrawal rates and other changes. Any of these differences could impact the assets or liabilities recognised in the Balance Sheet in future periods.

Notes to the Company Financial Statements

1 COMPANY INCOME STATEMENT

As permitted by Section 408(3) of the Companies Act 2006, the Income Statement of the Parent Company is not presented with these financial statements. Details of dividends paid are included in note 10 of the Consolidated Financial Statements. Details of Auditor's remuneration are shown in note 3 of the Consolidated Financial Statements.

2 DIRECTORS' EMOLUMENTS

Detailed disclosures that form part of these financial statements are given in the Board Report on Remuneration on pages 56 to 65.

3 EMPLOYEE BENEFIT EXPENSE

	2018 £m	2017 £m
Wages and salaries	28	24
Social security costs	0.4	0.3
Cost of employee share schemes	0.7	1.0
Pension costs – defined contribution plans	0.1	0.1
Total	4.0	3.8

The monthly average number of persons employed for the Company during the year was 17 (2017: 15).

4 PROPERTY, PLANT AND EQUIPMENT

	Plant And Equipment £m
Cost	
At 31 December 2016, 2017 & 2018	0.3
Accumulated depreciation and impairment	
At 31 December 2016, 2017 & 2018	0.3
Carrying Amount	
At 31 December 2016, 2017 & 2018	-

There were Enil assets under construction at 31 December 2018 (2017: Enil).

5 DEFERRED INCOME TAX ASSETS

Deferred income tax assets attributable to the Company are as follows:

	2018 £m	2017 £m
Deferred income tax assets attributable to the Company are as follows:		
Depreciation in excess of capital allowances	0.1	0.1
Post-employment benefit obligations	0.8	2.2
Derivative financial instruments	0.1	-
Employee share schemes	0.4	0.3
Other short term timing differences	0.3	0.2
	1.7	2.8

Notes to the Company Financial Statements Continued >

5 DEFERRED INCOME TAX ASSETS (Continued)

The following provides a reconciliation of the movement in each of the deferred income tax assets:

	Depreciation in Excess of Capital Allowances £m	Post- employment Benefit Obligations £m	Derivative Financial Instruments £m	Employee Share Schemes £m	Other Short Term Timing Differences £m	Total £m
At 31 December 2016	0.2	3.4	0.1	0.3	0.2	4.2
(Charge)/credit to income	(0.1)	(0.5)	-	0.1	-	(0.5)
Charge to Shareholders' equity	-	-	-	(0.1)	-	(0.1)
Charge to other comprehensive income	-	(0.7)	(0.1)	-	-	(0.8)
At 31 December 2017	0.1	2.2	-	0.3	0.2	2.8
(Charge)/credit to income	-	(0.3)	-	-	0.1	(0.2)
Credit to Shareholders' equity	-	-	-	0.1	-	0.1
(Charge)/credit to other comprehensive income	-	(1.1)	0.1	-	-	(1.0)
At 31 December 2018	0.1	0.8	0.1	0.4	0.3	1.7

The tax charge for the year is based on the effective rate of UK Corporation Tax for the period of 19.00% (2017: 19.25%). Changes to the UK corporation tax rates were announced on 8 July 2015. These changes were substantively enacted as part of Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

A further change to reduce the rate from 1 April 2020 from 18% to 17% was announced on 16 March 2016. This change was substantively enacted as part of Finance Bill 2016 on 15 September 2016.

Deferred income taxes at the balance sheet date have been measured at the tax rate expected to be applicable at the date the deferred income tax assets and liabilities are realised. Management has performed an assessment, for all material deferred income tax assets and liabilities, to determine the period over which the deferred income tax assets and liabilities are forecast to be realised, which has resulted in an average deferred income tax rate of 17.5% being used to measure all deferred tax balances as at 31 December 2018 (2017: 18.0%). The impact of the change in tax rates to 17.5% has been a £0.1 million charge (2017: £0.1 million charge) recognised within other comprehensive income.

The Company has estimated that £0.3 million of the Company's deferred income tax asset will be realised in the next 12 months. This is management's current best estimate and may not reflect the actual outcome in the next 12 months.

6 INVESTMENTS

	2018 £m	2017 £m
Investment in subsidiary undertakings		
Cost		
Brought forward	575.6	573.3
Additions	13.3	8.2
Movement relating to share options	0.2	0.1
Disposal	(22.5)	(6.0)
Carried forward	566.6	575.6
Accumulated impairment		
Brought forward	30.2	13.2
Impairment	-	21.8
Disposal	(22.5)	(4.8)
Carried forward	7.7	30.2
Carrying amount		
Opening	545.4	560.1
Closing	558.9	545.4

Particulars of subsidiary undertakings are shown in note 23.

During the year the Company acquired South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Limited for a cost of £13.3 million. Details of these acquisitions are shown in note 31 of the Consolidated Financial Statements.

6 INVESTMENTS (Continued)

During the year the Company's previous subsidiary companies Cleanology Limited and Subco 21 Limited were struck off.

During the prior year the Company acquired Clayfull Limited for a cost of £6.2 million and StarCounty Textile Services Limited for a cost of £2.0 million. Details of these acquisitions are shown in note 31 of the 2017 Consolidated Financial Statements.

During the prior year, the investment in Cleanology Limited was impaired following the cancellation of the intercompany balance payable by the Company.

The Directors deem the investments to be recoverable due to the future forecasts of the Group.

7 TRADE AND OTHER RECEIVABLES

	2018 £m	2017 £m
Amounts falling due within one year:		
Receivables from subsidiaries	0.4	0.3
Other receivables	–	0.1
Prepayments and accrued income	0.1	0.1
	0.5	0.5
Amounts falling due after more than one year:		
Receivables from subsidiaries	1639	1792
	1639	1792

Amounts owed by subsidiaries due within one year relate to invoiced services and are due according to the invoice terms.

Amounts owed by subsidiaries due after more than one year are unsecured and have no fixed date of repayment and the Company has no present intention of demanding repayment in less than 12 months and therefore the amounts have been presented as non-current assets. The Directors have considered the difference between the book value and fair value of the amounts receivable to subsidiaries. Taking into account the one year risk free rate of return of 0.74% (2017: 0.37%), as at the balance sheet date, the fair value of amounts receivable from subsidiaries would be £162.7 million (2017: £178.5 million).

Other receivables are considered impaired where there is objective evidence and/or forward looking information that indicates there is a possibility of default. In such cases, a provision against bad debt is recognised.

All Company receivables (including those from related parties) are not yet due or impaired.

All receivable balances at the balance sheet date are denominated in Sterling (2017: Sterling), and are held at amortised cost. Given their short term nature there is deemed to be no difference between this and their fair value.

8 TRADE AND OTHER PAYABLES (CURRENT)

	2018 £m	2017 £m
Trade payables	0.1	0.3
Other payables	2.4	1.7
Other taxation and social security liabilities	1.0	0.6
Accruals	2.4	2.9
	5.9	5.5

All trade and other payable balances at the balance sheet date are denominated in Sterling (2017: Sterling), and are held at amortised cost. Given their short term nature there is deemed to be no difference between this and their fair value.

Notes to the Company Financial Statements Continued >

9 BORROWINGS

	2018 £m	2017 £m
Current		
Overdraft	118	90
Bank loans	(0.3)	1.7
	11.5	10.7
Non-current		
Bank loans	86.6	75.9
Total Borrowings	98.1	86.6
The maturity of non-current bank loans is as follows:		
– Between two and five years	870	76.0
– Unamortised issue costs of bank loans	(0.4)	(0.1)
	86.6	75.9

All Group bank loans are held by the Company. Full details of Group facilities are provided in note 20 of the Consolidated Financial Statements.

The Group has two overdraft facilities for £5.0 million and £3.0 million with two of its principal bankers (2017: £5.0 million and £3.0 million). Certain cash balances in certain Group bank accounts can be offset with overdrawn balances in those bank accounts. The maximum amount any individual Company may be overdrawn, with each bank, is £10.0 million and £5.0 million respectively (2017: £10.0 million and £5.0 million).

10 POST-EMPLOYMENT BENEFIT OBLIGATIONS

Details of the Group's pension schemes are provided in note 23 of the Consolidated Financial Statements.

As at the 31 December 2018 and 31 December 2017 the entire Group liabilities under defined benefit schemes are held on the Company Balance Sheet.

During the year the Company's cost of defined contribution pension schemes was £0.1 million (2017: £0.1 million).

11 TRADE AND OTHER PAYABLES (NON-CURRENT)

	2018 £m	2017 £m
Deferred consideration	0.3	0.8
Payables to subsidiaries	473.3	487.2
	473.6	488.0

Amounts payable to subsidiaries are unsecured, have no fixed date of repayment and the Company has no expectation of repayment in the next 12 months and therefore the amounts have been presented as non-current liabilities. The Directors have considered the difference between the book value and fair value of the amounts payable to subsidiaries. Taking into account the one year risk free rate of return of 0.74% (2017: 0.37%), as at the balance sheet date, the fair value of amounts payable to subsidiaries would be circa £469.8 million (2017: £485.4 million).

12 DERIVATIVE FINANCIAL LIABILITIES

Details of derivative financial liabilities are shown in note 24 of the Consolidated Financial Statements. All of the Group's derivative financial liabilities are held by the Company.

13 PROVISIONS

	Property £m	
At 31 December 2016		-
Transferred from other Group Companies		1.8
Released during the year		(0.3)
Utilised during the year		(0.3)
At 31 December 2017		1.2
Utilised during the year		(0.1)
At 31 December 2018		1.1
	2018	2017
	£m	£m
Analysis of total provisions		
Current	0.4	1.2
Non-current	0.7	-
	1.1	1.2

Property

The property provision relates to expected lease dilapidation costs for properties no longer in use by the Group. The estimates and judgments used in determining the value of provisioning are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The non-current element of the property provision is expected to be utilised within 36 months of the balance sheet date.

14 CONTINGENT LIABILITIES

The Company has guaranteed the banking facilities of certain UK subsidiary undertakings under a cross guarantee arrangement. No losses are expected to result from this arrangement.

As a condition of the sale of the Facilities Management division in August 2013, the Company has put in place indemnities to the buyer, in relation to any future amounts payable in respect of contingent consideration related to the Nickleby acquisition completed in February 2012. As set out in the 2012 Annual Report and Accounts the maximum amount payable under the terms of the indemnity could be up to £5.0 million. The Directors believe the risk of settlement at, or near, the maximum level to be remote.

During the period of ownership of the Facilities Management division the Company had given guarantees over the performance of contracts entered into by the division. As part of the disposal of the division the purchaser has agreed to pursue the release or transfer of obligations under the Parent Company guarantees and this is in process. The Sale and Purchase agreement contains an indemnity from the purchaser to cover any loss in the event a claim is made prior to release. In the period until release the purchaser is to make a payment of £0.2 million per annum, reduced pro rata as guarantees are released. Such liabilities are not expected to give rise to any significant loss.

15 SHARE CAPITAL

Issued and Fully Paid	Shares	2018 £m	Shares	2017 £m
Ordinary shares of 10p each:				
At start of year	366,499,375	36.6	365,108,019	36.6
New shares issued	1,074,835	0.2	1,391,356	0.1
At end of year	367,574,210	36.8	366,499,375	36.5

Full details relating to the issue of Ordinary shares in the year are shown in note 26 of the Consolidated Financial Statements.

Notes to the Company Financial Statements Continued >

16 SHARE PREMIUM

	2018 £m	2017 £m
Balance brought forward	152	15.0
Received on allotment of shares	0.5	0.2
Balance carried forward	15.7	15.2

17 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY

	2018 £m	2017 £m
Profit for the year	11.7	21.9
Dividends	(10.7)	(9.5)
	1.0	12.4
Other recognised gains and losses relating to the year:		
Issue of share capital	0.7	0.3
Share option (value of employee services)	0.8	0.7
Current tax on share options	-	0.2
Deferred tax on share options	0.1	(0.1)
Re-measurement and experience gains (net of taxation)	4.6	2.6
Change in deferred tax due to change in tax rate	-	(0.1)
Cash flow hedges movement	(0.5)	0.6
Net addition to Shareholders' equity	6.7	16.6
Opening Shareholders' equity	138.6	122.0
Closing Shareholders' equity	145.3	138.6

18 ANALYSIS OF NET DEBT

Net debt is calculated as total borrowings less cash and cash equivalents, less unamortised facility fees. Non-cash changes represent the effects of the recognition and subsequent amortisation of fees relating to the bank facility and changing maturity profiles.

	At 1 January 2018 £m	Cash Flow £m	Other Non-cash Changes £m	At 31 December 2018 £m
Debt due within one year	(1.7)	2.0	-	0.3
Debt due after more than one year	(75.9)	(11.0)	0.3	(86.6)
Total debt	(77.6)	(9.0)	0.3	(86.3)
Cash and cash equivalents	(9.0)	(2.8)	-	(11.8)
Net debt	(86.6)	(11.8)	0.3	(98.1)

	At 1 January 2017 £m	Cash Flow £m	Other Non-cash Changes £m	At 31 December 2017 £m
Debt due within one year	(9.8)	8.0	0.1	(1.7)
Debt due after more than one year	(72.5)	(3.0)	(0.4)	(75.9)
Total debt	(82.3)	5.0	(0.3)	(77.6)
Cash and cash equivalents	(5.2)	(3.8)	-	(9.0)
Net debt	(87.5)	1.2	(0.3)	(86.6)

19 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2018 £m	2017 £m
Decrease in cash in year	(28)	(3.8)
(Increase)/decrease in debt financing	(9.0)	5.0
Change in net debt resulting from cash flows	(118)	12
Movement in unamortised bank facility fees	0.3	(0.3)
Movement in net debt in year	(115)	0.9
Opening net debt	(86.6)	(87.5)
Closing net debt	(98.1)	(86.6)

20 FINANCIAL COMMITMENTS**CAPITAL EXPENDITURE**

As at 31 December 2018 the Company had no contracts placed for future capital expenditure that were not provided for in the financial statements (2017: Enil).

REVENUE EXPENDITURE

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

	2018 £m	2017 £m
Land and buildings		
– within one year	0.1	0.1
– between one and five years	0.1	0.2
	0.2	0.3
Plant and machinery		
– within one year	–	0.1
	–	0.1

21 RELATED PARTY TRANSACTIONS

Transactions during the year between the Company and its subsidiaries, which are related parties, are eliminated on consolidation.

The following significant transactions with subsidiary undertakings occurred in the year:

	2018 £m	2017 £m
Intercompany loans payable forgiven	–	302
Dividends received	13.6	15.0
Interest paid	(1.6)	(0.8)
Interest received	73	6.6
	193	51.0

The key management of the Company are considered to be only the Directors of the Company and details of their compensation is provided in the Board Report on Remuneration. The Company did not enter into any form of loan arrangement with any Director during any of the years presented.

22 EVENTS AFTER THE REPORTING PERIOD

There were no events occurring after the balance sheet date which should be disclosed in accordance with IAS 10, 'Events after the reporting period'.

Notes to the Company Financial Statements Continued >

23 SUBSIDIARIES

The company has a number of subsidiary companies, a list of which is shown below.

Subsidiary companies at the balance sheet date	Principal Activity	Registered Office
Johnsons Apparelmaster Limited*	Textile and linen rental	2
South West Laundry Limited*	Textile and linen rental	11
Johnson Group Properties PLC	Property holding	1
Semara Estates Limited*	Property holding	1
Johnson Investment Limited	Holding company	1
Johnson Group Inc (UK) Limited	Holding company	1
Semara Group Limited*	Holding company	1
Semara Investments Limited*	Holding company	1
Semara Contract Services Limited*	Holding company	1
South West Laundry Holdings Limited	Holding company	11
Afonwen Laundry Limited*	Non-trading company	6
Ashbon Services Limited	Non-trading company	2
Bentley Textile Services Limited*	Non-trading company	3
Bourne Services Group Limited	Non-trading company	4
Bourne Textile Services Limited*	Non-trading company	4
Caterers Linen Supply Limited*	Non-trading company	3
Catering Linen Supply Limited*	Non-trading company	3
Chester Laundry Limited	Non-trading company	8
Clayfull Limited	Non-trading company	10
Clifton Cleaning Limited	Non-trading company	1
Greenearth Cleaning Europe Limited	Non-trading company	1
Greenearth Cleaning Limited	Non-trading company	1
Johnson Group Cleaners Trustee Company (no 1) Limited	Non-trading company	1
Johnson Group Cleaners Trustee Company (no 2) Limited	Non-trading company	1
Johnson Group Management Services Limited	Non-trading company	1
Johnson Group Pension Nominees Limited	Non-trading company	1
Johnson Hospitality Services Limited	Non-trading company	1
Johnson Textile Services Limited	Non-trading company	1
JSG PLC*	Non-trading company	1
London Linen Management Services Limited*	Non-trading company	3
London Linen Supply Limited	Non-trading company	3
London Workwear Rental Limited*	Non-trading company	3
Portgrade Limited	Non-trading company	6
Quality Textile Services Limited	Non-trading company	1
Roboserve Limited	Non-trading company	1
Semara Nominees Limited*	Non-trading company	1
Semara Trustees Limited*	Non-trading company	1
Stalbridge Linen Services Limited*	Non-trading company	1
StarCounty Textile Services Limited	Non-trading company	9
Whiteriver Laundry Limited*	Non-trading company	6
Wintex UK Limited	Non-trading company	7
Zip Textiles (Services) Limited	Non-trading company	5

Johnson Service Group PLC owns directly or indirectly the entire share capital of each of these companies. The share capital of the companies annotated * are held through intermediate holding companies. All companies above are incorporated in Great Britain and registered in England and Wales, apart from Clayfull Limited which is registered in Scotland.

In the table above, references to Registered Offices are as follows:

- 1) Johnson House, Abbots Park, Monks Way Preston Brook, Runcorn, Cheshire, WA7 3GH
- 2) Pittman Way, Fulwood, Preston, Lancashire, PR2 9ZD
- 3) 6/8 Jackson Way, Great Western Industrial Park, Windmill Lane, Southall, Middlesex, UB2 4SF
- 4) Bourne Services Group, Cherry Holt Road, Bourne, Lincolnshire, PE10 9LA
- 5) Redfern Park Way, Tyseley, Birmingham, B11 2BF
- 6) Afonwen, Pwllheli, Gwynedd, LL53 6NQ
- 7) Stalbridge Linen Services, Christys Lane, Shaftesbury, Dorset, SP7 8PH
- 8) Unit 4 Bumpers Lane, Sealand Industrial Estate, Chester, CH1 4LT
- 9) Aerial Road, Llay Industrial Estate South, Llay, Wrexham, Flintshire. LL12 0TU
- 10) Unit 1, Sherwood Industrial Estate, Bonnyrigg, EH19 3LU
- 11) St Erth Business Park, Hayle, Cornwall, TR27 6LP

Shareholder Information

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FINANCIAL CALENDAR

Results for the year

4 March 2019

Results for the half year

September 2019

Annual General Meeting

8 May 2019

Dividend payment dates

Proposed Final 2018: 10 May 2019

Interim 2019: November 2019

Notice of Annual General Meeting

JOHNSON

Service Group PLC

Company Number: 00523335

This Document is important and requires your immediate attention. If you are in any doubt as to any aspect of the contents of this Document or the action you should take, you are recommended to consult immediately your stockbroker, solicitor, accountant or other independent adviser authorised under the Financial Services and Markets Act 2000 if you are resident in the United Kingdom or, if you reside elsewhere, another appropriately authorised financial adviser.

If you have sold or otherwise transferred all of your shares in Johnson Service Group PLC ('JSG' or the 'Company'), please pass this document together with the accompanying proxy form as soon as possible to the purchaser or transferee, or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

NOTICE is hereby given that the Annual General Meeting of Johnson Service Group PLC will be held at the Doubletree by Hilton Chester, Warrington Road, Hoole, Chester, CH2 3PD on Wednesday 8 May 2019 at 11:00 to transact the business set out in the Resolutions below.

Resolutions 1 to 11 (inclusive) will be proposed as Ordinary Resolutions and Resolutions 12 to 14 (inclusive) will be proposed as Special Resolutions.

The business of the meeting will be:

Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the financial statements for the year ended 31 December 2018 together with the reports of the Directors and the auditor on those financial statements.
2. To approve the Board Report on Remuneration as set out on pages 56 to 65 of the 2018 Annual Report.
3. To confirm the payment of the interim dividend of 1.0 pence per Ordinary Share and to declare a final dividend of 21 pence per Ordinary Share for the year ended 31 December 2018.
4. To re-elect Bill Shannon as a Director.
5. To re-elect Peter Egan as a Director.
6. To re-elect Yvonne Monaghan as a Director.
7. To re-elect Nick Gregg as a Director.
8. To elect Chris Girling as a Director.
9. To re-appoint PricewaterhouseCoopers LLP as auditor to the Company until the conclusion of the next general meeting at which accounts are laid before the Company.
10. To authorise the Audit Committee to determine the remuneration of the auditor.

Special Business

11. To consider and, if thought fit, pass the following resolution which will be proposed as an Ordinary Resolution:

"That, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Companies Act 2006) ("Equity Securities") to such persons at such times and on such terms and conditions as the Directors may determine and subject always to the Articles of Association, provided that the aggregate of the nominal amount of such Equity Securities that may be allotted under this authority shall not exceed £12,258,196.

This authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution or, if earlier, on 1 July 2020, save that the Directors of the Company may, before such expiry make an offer or agreement which would or might require Equity Securities to be allotted after such expiry and the Directors of the Company may allot Equity Securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired.

All unutilised authorities previously granted to the Directors of the Company under section 551 of the Companies Act 2006 shall cease to have effect at the conclusion of the Annual General Meeting (save to the extent that the same are exercisable pursuant to section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require equity securities to be allotted on or after that date)."

12. To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution:

"That, subject to and conditional upon the passing of the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 to allot Equity Securities pursuant to the authority conferred upon them by the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company as if section 561 of the Companies Act 2006 did not apply to any such allotment of Equity Securities, provided that this power shall be limited to:

- (i) the allotment of Equity Securities in connection with a rights issue or similar offer to or in favour of ordinary shareholders where the Equity Securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them on that date provided that the Directors of the Company may make such exclusions or other arrangements to deal with any legal or practical problems under the laws of any territory or the requirement of any regulatory body or any stock exchange or with fractional entitlements as they consider necessary or expedient and
- (ii) the allotment (otherwise than pursuant to sub paragraph (i) above) of Equity Securities pursuant to the authority granted under the Ordinary Resolution numbered 11 in this notice of Annual General Meeting up to an aggregate nominal amount of £1,838,729 (representing approximately 5% of the Company's share capital as at 1 March 2019).

This power shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution or, if earlier, on 1 July 2020, unless previously renewed, varied or revoked by the Company in general meeting, save that the Company may before such expiry make any offer or enter into any agreement which would or might require Equity Securities to be allotted after such expiry and the Directors of the Company may allot Equity Securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired. All previous authorities under Section 571 of the Companies Act 2006 shall cease to have effect at the conclusion of the Annual General Meeting."

13. To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution:

"That, subject to and conditional upon the passing of the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company and in addition to any authority granted under the Special Resolution numbered 12 in this notice of Annual General Meeting of the Company, the Directors of the Company be and are hereby generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 to allot Equity Securities pursuant to the authority conferred upon them by the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company as if section 561 of the Companies Act 2006 did not apply to any such allotment of Equity Securities, provided that this power shall be:

- (i) limited to the allotment of Equity Securities pursuant to the authority granted under the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company up to an aggregate nominal amount of £1,838,729 (representing approximately 5% of the Company's share capital as at 1 March 2019); and
- (ii) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice of Annual General Meeting of the Company.

This power shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution or, if earlier, on 1 July 2020, unless previously renewed, varied or revoked by the Company in general meeting, save that the Company may before such expiry make any offer or enter into any agreement which would or might require Equity Securities to be allotted after such expiry and the Directors of the Company may allot Equity Securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired. All previous authorities under Section 571 of the Companies Act 2006 shall cease to have effect at the conclusion of the Annual General Meeting."

14. To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution:

"That, in accordance with article 11 of the Articles of Association and in accordance with the Companies Act 2006, the Directors of the Company be and are hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:

- (i) the maximum number of Ordinary Shares that may be purchased under this authority is 36,774,588;
- (ii) the minimum price which may be paid for an Ordinary Share is 10p exclusive of attributable expenses payable by the Company (if any); and
- (iii) the maximum price which may be paid for an Ordinary Share is an amount equal to not more than 105% of the average of the middle market quotations for the Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the purchase is made exclusive of attributable expenses payable by the Company (if any).

Notice of Annual General Meeting

Continued >

The authority hereby conferred shall, unless previously revoked or varied, expire at the conclusion of the next Annual General Meeting of the Company held after the passing of this resolution or, if earlier, on 1 July 2020 save in relation to purchases of Ordinary Shares the contract for which was concluded before the expiry of this authority and which will or may be executed wholly or partly after such expiry, where the Company may make a purchase of Ordinary Shares in pursuance of any such contract.

All previous unutilised authorities for the Company to make market purchases of Ordinary Shares are revoked, except in relation to the purchase of shares under a contract or contracts concluded before the date of this resolution and where such purchase has not yet been executed."

All Shareholders will find enclosed with this document a form of proxy to be used in connection with the Annual General Meeting. A member entitled to attend and vote at the meeting may appoint one or more proxies to attend and to speak and vote in his stead. The proxy need not be a member of the Company.

By Order of the Board

Tim Morris
Company Secretary
4 March 2019

Johnson Service Group PLC
Abbots Park, Monks Way, Preston Brook, Cheshire, WA7 3GH

Accompanying Notes

1. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint one or more persons as his/her proxy to exercise all or any of his/her rights to attend, speak and vote at the Annual General Meeting of the Company. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise rights attached to a different share or shares held by him/her. A proxy need not be a member of the Company. The form of proxy is enclosed. The form of proxy and power of attorney or other authority, if any, under which it is signed or a certified copy of such power of authority must be received by the Company's Registrars, Link Asset Services, The Registry, 34 Beckenham Road, Beckenham, Kent, BR3 4TU not later than 48 hours prior to the commencement of the Annual General Meeting. Completion of the form will not prevent you from attending and voting at the meeting instead of the proxy, if you wish.

To appoint more than one proxy, additional proxy forms may be obtained by contacting the Registrars or you may photocopy the proxy form. Please indicate in the box next to the proxy holder's name the number of shares in relation to which they are authorised to act as your proxy. Please also indicate by ticking the box provided if the proxy instruction is one of multiple instructions being given. All forms must be signed and returned in the same envelope.

In accordance with Section 325 of the Companies Act 2006, the right to appoint proxies does not apply to persons nominated to receive information rights under Section 146 of the Companies Act 2006. Persons nominated to receive information rights under Section 146 of the Companies Act 2006 who have been sent a copy of this notice of meeting are hereby informed, in accordance with Section 149 (2) of the Companies Act 2006, that they may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.

In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:

- (i) if a corporate Shareholder has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all of the other corporate representatives for that Shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
- (ii) if more than one corporate representative for the same corporate Shareholder attends the meeting but the corporate Shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate Shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives – www.icsa.org.uk – for further details of this procedure. The guidance includes a sample form of representation letter if the Chairman is being appointed as described in (i) above.

2. CREST members who wish to appoint a proxy or proxies by utilising the proxy voting service may do so for the meeting (and any adjournment thereof) by following the procedures described in the CREST Manual. CREST Personal Members or other CREST sponsored members (and those CREST members who have appointed a voting service provider) should refer to their CREST sponsor or voting service provider, who will be able to take the appropriate action on their behalf.

In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with CRESTCo's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message (regardless of whether it relates to the appointment of a proxy or to an amendment to the instruction given to a previously appointed proxy) must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID "RA10") by the latest time(s) for receipt of proxy appointments specified in, or in a note to, the Notice of Meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST.

CREST members (and, where applicable, their CREST sponsors or voting service providers) should note that CREST does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider, to procure that his CREST sponsor or voting service provider takes) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members (and, where applicable, their CREST sponsors or voting service providers) are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

3. The following documents will be available for inspection at the Registered Office of the Company during normal business hours on any business day (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the close of the meeting and at the place of the meeting for 15 minutes prior to and during the meeting:
 - (i) the Register of Directors' interests kept by the Company under Section 809 of the Companies Act 2006;
 - (ii) copies of all service contracts between the Executive Directors and the Company together with other appropriate documentation; and
 - (iii) copies of the terms and conditions of appointment of the Non-Executive Directors.
4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered in the Register of Members of the Company as at the close of business on 6 May 2019, or in the event that the Meeting is adjourned, in the Register of Members at close of business two days prior to any adjourned meeting, shall be entitled to attend or vote at the Meeting in respect of the number of shares registered in their name at the relevant time. Changes to entries on the Register of Members after the close of business on 6 May 2019 or, in the event that the Meeting is adjourned, after close of business two days prior to any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the Meeting.
5. As at 1 March 2019 (being the last business day prior to publication of this notice) the Company's issued share capital consists of 367,745,882 Ordinary Shares carrying one vote each. The total voting rights in the Company as at 1 March 2019 are, therefore, 367,745,882.
6. Any corporation which is a member can appoint one or more corporate representatives who may exercise on its behalf all of its powers as a member provided that they do not do so in relation to the same shares.
7. Subject to the provisions of section 338 of the Companies Act 2006, members representing at least 5% of the total voting rights of all members (or at least 100 members who would have the right to vote at the meeting and who hold shares on which there has been paid an average sum per member of at least £100) may have the right to require the Company:
 - (i) to give, to members of the Company entitled to receive notice of the meeting, notice of a resolution which may properly be moved and is intended to be moved at the meeting; and/or

Notice of Annual General Meeting

Continued >

- (ii) to include in the business to be dealt with at the meeting any matter (other than a proposed resolution) which may be properly included in the business.

A resolution may properly be moved or a matter may properly be included in the business unless:

- (i) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);
- (ii) it is defamatory of any person; or
- (iii) it is frivolous or vexatious.

Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authenticated by the person or persons making it, must be received by the Company not later than 6 weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Explanatory Notes

The following notes give an explanation of the proposed resolutions.

Resolutions 1 to 11 (inclusive) are proposed as Ordinary Resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 12 to 14 (inclusive) are proposed as Special Resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

The Directors consider the passing of all of the Resolutions to be in the best interests of the Company and its Shareholders and accordingly recommend that you vote in favour of these Resolutions as they intend to do so in respect of their own shareholdings.

Report and Accounts (Resolution 1)

The Directors of the Company must present the accounts to the AGM.

Directors' Remuneration Report (Resolution 2)

It is proposed that the Board Report on Remuneration for the financial year ended 31 December 2018, as set out on pages 56 to 65 of the Annual Report, be approved. The Board Report on Remuneration contains, inter alia, details of the Directors who were members of the Remuneration Committee, a forward looking statement of the Company's policy on Directors' remuneration for subsequent financial years, a performance graph showing the Company's Total Shareholder Return compared with the return on the FTSE AIM All-Share Index, the FTSE Support Services Index and the FTSE Industrial Goods and Services Index, details of the Directors' service contracts and specific disclosures relating to each Director's remuneration.

Declaration of a Dividend (Resolution 3)

A final dividend can only be paid after the Shareholders at a general meeting have approved it. A final dividend of 2.1 pence per Ordinary Share is recommended by the Directors for payment to Shareholders who are on the Register at the close of business on 12 April 2019. If approved, the date of payment of the final dividend will be 10 May 2019. An interim dividend of 1.0 pence per Ordinary Share was paid on 2 November 2018.

Election of Directors (Resolutions 4 to 8 inclusive)

The Financial Reporting Council's 2016 UK Corporate Governance Code (the 'Code'), requires all Directors of non-FTSE 350 companies to retire and submit themselves for re-election every three years and all newly appointed Directors to retire and submit themselves for election at the first AGM following their appointment. Notwithstanding this, in the interests of good corporate governance, the Directors have resolved that, each year, all Directors will retire and offer themselves for re-election.

Biographical details of all the Directors offering themselves for re-election are set out on page 34 of the 2018 Annual Report and are also available for viewing on the Company's website (www.jsq.com).

Reappointment of the Auditor (Resolution 9)

The Company is required to appoint the auditor at each general meeting at which accounts are presented, to hold office until the end of the next such meeting. Resolution 9, which is recommended by the Audit Committee, proposes the reappointment of the Company's existing auditor, PricewaterhouseCoopers LLP.

Remuneration of the Auditor (Resolution 10)

This Resolution follows best practice in corporate governance by separately seeking authority for the Audit Committee to determine the auditor's remuneration.

Renewal of Directors' Authority to Allot Securities (Resolution 11)

The Company's Directors may only allot Ordinary Shares or grant rights over Ordinary Shares if authorised to do so by Shareholders. The authority granted at the last AGM under section 551 of the Companies Act 2006 to allot relevant securities is due to expire at the conclusion of this year's AGM. Accordingly, this resolution seeks to grant a new authority to authorise the Directors to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company and will expire at the conclusion of the next AGM of the Company in 2019 or, if earlier, the close of business on 1 July 2020.

If passed, the authority granted by the passing of this resolution will be limited to an aggregate nominal value of £12,258,196 of Ordinary Shares which represents approximately one third of the Ordinary share capital in issue as at 1 March 2019 (being the latest practicable date prior to publication of this Notice).

Other than in respect of allotting Ordinary Shares in order to satisfy employee share schemes, the Directors have no present intention of exercising this authority. However, it is considered prudent to maintain the flexibility that this authority provides. The Company's Directors intend to renew this authority annually.

Renewal of General Disapplication of Pre-emption Rights (Resolution 12)

Under section 561(1) of the Companies Act 2006, if the Directors wish to allot any of the unissued shares or grant rights over shares or sell treasury shares for cash (other than pursuant to an employee share scheme) they must in the first instance offer them to existing Shareholders in proportion to their holdings. There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of shares without a pre-emptive offer to existing Shareholders. This cannot be done under the Companies Act 2006 unless the Shareholders have first waived their pre-emption rights.

In 2015, the Pre-Emption Group (which represents the Investment Association and the Pension and Lifetime Savings Association) published a revised statement of principles for the disapplication of pre-emption rights (the "Principles"). The Principles relate to issues of equity securities for cash other than on a pre-emptive basis (i.e. other than pro rata to existing shareholders) by all companies (wherever incorporated) with shares admitted to the Premium Listing segment of the Official List of the UK Listing Authority and to trading on the Main Market for listed securities of the London Stock Exchange. Certain other companies, including those with shares admitted to trading on AIM, are encouraged to adopt the Principles.

The Principles provide that a general authority for the disapplication of pre-emption rights over approximately 5 per cent of the Company's issued ordinary share capital should be treated as routine.

Other than in connection with a rights issue or any other pre-emptive offer concerning Equity Securities, and subject to the passing of Resolution 11, this resolution seeks to replace the authority conferred on the Directors at the 2018 AGM to allot ordinary shares, or grant rights to subscribe for, or convert securities into, ordinary shares or sell treasury shares for cash (other than pursuant to an employee equity incentive share scheme) without application of pre-emption rights. The authority will be limited to the issue of shares for cash up to a maximum aggregate nominal value of £1,838,729, which is equivalent to approximately 5 per cent of the Company's issued ordinary share capital as at 1 March 2019 (being the latest practicable date prior to publication of this Notice).

This resolution also seeks a disapplication of the pre-emption rights on a rights issue so as to allow the Directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas Shareholders.

Shareholders will note that this resolution also relates to treasury shares and will be proposed as a Special Resolution. If renewed, the authority will expire at the conclusion of the next AGM of the Company in 2020 or, if earlier, the close of business on 1 July 2020. The Directors intend to renew this authority annually and confirm their intention to follow best practice, as set out in the Principles, which provide that usage of this authority in excess of 7.5 per cent of the Company's issued ordinary share capital in a rolling three year period would not take place without prior consultation with key Shareholders.

General Disapplication of Pre-emption Rights in Connection with an Acquisition or Specified Capital Investment (Resolution 13)

The Principles further provide that the Company may, as a routine, seek to disapply pre-emption rights over the equivalent of approximately an additional 5 per cent of the issued ordinary share capital of the Company, so long as certain criteria are met. Subject to the passing of Resolution 11, Resolution 13 seeks to replace the authority conferred on the Directors at the 2018 AGM (in addition to the authority referred to above in relation to Resolution 12) to allot ordinary shares, or grant rights to subscribe for, or convert securities into, ordinary shares or sell treasury shares for cash (other than pursuant to an employee equity incentive share scheme) up to an aggregate nominal value of approximately 5 per cent of the Company's issued ordinary share capital without application of pre-emption rights pursuant to section 561 of the Companies Act 2006, provided that this authority will only be used for the purpose of:

- (i) an acquisition; or
- (ii) a specified capital investment in respect of which sufficient information regarding the effect of the investment on the Company, the assets that are the subject of the investment and (where appropriate) the profits attributable to those assets is made available to shareholders to enable them to reach an assessment of the potential return on the investment which is announced contemporaneously with the issue or which has taken place in the preceding six month period and is disclosed in the announcement of the issue.

Other than in connection with a rights, scrip dividend, or other similar issue, the authority contained in Resolution 13 would be limited to the issue of shares for cash up to a maximum aggregate nominal value of £1,838,729 (which includes the sale on a non pre-emptive basis of any shares held in treasury), which is equivalent to approximately 5 per cent of the Company's issued ordinary share capital as at 1 March 2019 (being the latest practicable date prior to the publication of this Notice).

If approved, the authority will expire at the conclusion of the next AGM of the Company in 2020 or, if earlier, the close of business on 1 July 2020. The Directors intend to renew this authority annually.

Renewal of Company's authority to purchase Ordinary Shares (Resolution 14)

In certain circumstances it may be advantageous for the Company to purchase its own shares and this resolution seeks the authority from Shareholders to continue to do so. Authority was given to the Company to make market purchases up to an aggregate of 36,649,937 of its Ordinary Shares at the AGM held on 3 May 2018 (being equal to approximately 10 per cent of the Company's issued ordinary share capital as at 26 February 2018, the latest practicable date prior to the publication of the notice for the AGM held on 3 May 2018). This authority is due to expire at the end of the AGM and it is proposed that the Company be authorised to continue to make market purchases up to an aggregate of 36,774,588 Ordinary Shares, representing approximately 10 per cent of the Company's issued ordinary share capital as at 1 March 2019, being the latest practicable date prior to the publication of this Notice.

Renewing the authority for the Company to purchase Ordinary Shares in the market is intended to allow your Board to take advantage of opportunities that may arise to increase Shareholder value. The Directors will exercise this power only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and will be likely to promote the success of the Company for the benefit of its members as a whole. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account when exercising this authority. The price paid for shares will not be less than the nominal value of 10p per share nor more than 5% above the average of the middle market quotation of the Company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the shares are purchased.

The Company may hold in treasury any of its own shares that it purchases pursuant to the Companies Act 2006 and the authority conferred by this resolution. This gives the Company the ability to reissue treasury shares quickly and cost-effectively and provides the Company with greater flexibility in the management of its capital base. It also gives the Company the opportunity to satisfy employee share scheme awards with treasury shares. The total number of options to subscribe for Ordinary Shares that were outstanding at 1 March 2019 (being the latest practicable date prior to publication of this Notice) was 6,249,979. The proportion of issued share capital that they represented at that time was 1.7 per cent and the proportion of issued share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 1.9 per cent. Once held in treasury, the Company is not entitled to exercise any rights, including the right to attend and vote at meetings in respect of shares. Further, no dividend or other distribution of the Company's assets may be made to the Company in respect of the treasury shares.

The Directors have no present intention of purchasing Ordinary Shares in the market. The authority given under this Resolution will lapse, unless renewed, at the conclusion of the next AGM of the Company in 2020, or, if earlier, the close of business on 1 July 2020. It is the present intention of the Directors to seek renewal of this authority annually.

Directors and Advisors

Directors

William (Bill) Mervyn Frew Carey Shannon, CA

Non-Executive Chairman
Member of Audit Committee *
Chairman of Nomination Committee
Member of Remuneration Committee

Peter Egan, MBA

Chief Executive Officer
Director responsible for Health, Safety and the Environment

Yvonne May Monaghan BSc (Hons), FCA

Chief Financial Officer

Christopher (Chris) Francis Girling, MBA, FCA

Senior Independent Non-Executive Director
Chairman of Audit Committee
Member of Nomination Committee
Member of Remuneration Committee

Nicholas (Nick) Mark Gregg

Independent Non-Executive Director
Member of Audit Committee
Member of Nomination Committee
Chairman of Remuneration Committee

Company Secretary & Group Financial Controller

Timothy (Tim) James Morris BA (Hons), FCA

Registered Office

Johnson House
Abbots Park
Monks Way
Preston Brook
Cheshire
WA7 3GH

Advisors

Nominated Advisor, Financial Advisor and Stockbrokers

Investec Investment Banking
30 Gresham Street
London
EC2V 7QP

Bankers

Lloyds Bank plc
40 Spring Gardens
Manchester
M2 1EN

The Royal Bank of Scotland plc
10th Floor, The Plaza
100 Old Hall Street
Liverpool
L3 9QJ

Santander UK plc
298 Deansgate
Manchester
M3 4HH

Lawyers

Hill Dickinson LLP
No1 St Paul's Square
Liverpool
L3 9SJ

Registrar and Transfer Office

Link Asset Services
34 Beckenham Road
Beckenham
BR3 4ZF

Independent Auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
No 1 Spinningfields
Hardman Square
Manchester
M3 3EB

* in accordance with the requirements of the UK Corporate Governance Code 2018, Bill stepped down as a member of the Audit Committee with effect from 1 January 2019

Electronic Communications

The Company offers Shareholders the opportunity to receive communications such as notices of Shareholder meetings and the annual report and accounts electronically. The Company encourages the use of electronic communication as, not only does it save the Company printing and mailing costs, it is also a more convenient and prompt method of communication.

If you decide to receive communications electronically, you will be sent an email message each time a new Shareholder report or notice of meeting is published. The email will contain links to the appropriate website where documents can be viewed. It is possible to change your instruction at any time by amending your details on the register.

If you would like to receive electronic communications, you will need to register your email address by accessing the Shareholder Services page within the Investor Relations section of the Company's website at www.jsq.com.

This will link you to the service offered by the Company's Registrar. If you decide not to register an email address with the Registrar, you will continue to receive all communications in hard copy form.

Those Shareholders who are CREST members and who wish to appoint a proxy or proxies utilising the proxy voting service please refer to Note 2 of the Notice of Annual General Meeting.

If you have any queries regarding electronic communications, please contact the Company's registrar, Link Asset Services, on 0871 664 0300 (calls cost 12p per minute plus network extras, lines are open 9.00am-5.30pm Mon-Fri).

Design: sterlingfp.com
hive.agency
Production: sterlingfp.com

This annual report is printed using vegetable inks on paper from an ISO 14001 certified manufacturer, and is made with ECF pulp sourced from carefully managed and renewed forests.

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enquiries@jsg.com

JOHNSON SERVICE GROUP PLC
COMPANY NO. 00523335
LIST OF SUBSIDIARY UNDERTAKINGS AT 31ST DECEMBER 2018

**Share Capital other
than Ordinary**

Johnson Service Group PLC owns 100% of the share capital of:-

South West Laundry Holdings Limited
StarCounty Textile Services Limited
Clayfull Limited
Portgrade Limited
Chester Laundry Limited
Zip Textiles (Services) Limited
Ashbon Services Limited
Greenearth Cleaning Europe Limited
Johnson Group Properties PLC
Johnson Group Management Services Limited
Clifton Cleaning Limited
Johnson Group Cleaners Trustee Company (No. 1) Limited
Johnson Group Cleaners Trustee Company (No. 2) Limited
Johnson Group Inc (UK) Limited
Johnson Investment Limited
Greenearth Cleaning Limited
Johnson Hospitality Services Limited
Wintex UK Limited
Johnson Group Pension Nominees Limited
Bourne Services Group Limited
London Linen Supply Limited
Quality Textile Services Limited

6% & 10% Cumulative Preference
4% Non Cumulative Preference

Greenearth Cleaning Limited owns 100% of the share capital of:-

Stalbridge Linen Services Limited

Johnson Investment Limited owns 100% of the share capital of:-

Roboserve Limited
Semara Group Limited
Semara Investments Limited
Semara Nominees Limited
Semara Trustees Limited

Semara Group Limited owns 100% of the share capital of:-

Semara Contract Services Limited

Semara Group Limited owns 79.4% of the share capital of:-

Johnsons Apparelmaster Limited

Semara Contract Services Limited owns 100% of the share capital of:-

JSG PLC

Semara Contract Services Limited owns 100% of Ordinary shares and Johnson Investment Limited owns 100% of "A" Ordinary shares of:-

Semara Estates Limited

Semara Contract Services Limited owns 10.3% of the share capital of:-

Johnsons Apparelmaster Limited

Semara Investments Limited owns 10.3% of the share capital of:-

Johnsons Apparelmaster Limited

JOHNSON SERVICE GROUP PLC
COMPANY NO. 00523335
LIST OF SUBSIDIARY UNDERTAKINGS AT 31ST DECEMBER 2018

Bourne Services Group Limited owns 100% of the share capital of:
Bourne Textile Services Limited

London Linen Supply Limited owns 100% of the share capital of:
London Linen Management Limited
Bentley Textile Services Limited
Caterers Linen Supply Limited
Catering Linen Supply Limited
London Workwear Rental Limited

Portgrade Limited owns 100% of the share capital of:
Afonwen Limited

Afonwen Limited owns 100% of the share capital of:
Whiteriver Laundry Limited

South West Laundry Holdings Limited owns 100% of the share capital of:
South West Laundry Limited

All subsidiary undertakings have been included in the consolidated accounts from the date of acquisition.