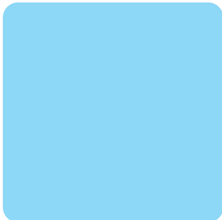
Annual Report and Accounts 2015



JOHNSON
SERVICE GROUP PLC

THE ESTABLISHED NAME IN TEXTILE RENTAL AND DRYCLEANING

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GROUP OVERVIEW AND HIGHLIGHTS

TEXTILE RENTAL

PROVIDING WORKWEAR AND LINEN RENTAL AND LAUNDRY SERVICES THROUGHOUT THE UK.

Apparelmaster

The UK's market leading workwear rental, protective wear and workplace hygiene services provider with over 40,000 UK-based customers operating in a wide cross-section of industries.

www.apparelmaster.co.uk

Stalbridge

London Linen

Providing a wide range of high quality products to the premium hotel, restaurant, catering and corporate hospitality markets, including chefswear, crisp white bed linen, fluffy towels and a range of table linen.

www.stalbridge-linen.com

www.londonlinen.co.uk

Bourne

ZiP

Providing high quality linen to a complete cross section of hotels, including city and town centre establishments, holiday village resorts and many hotels in the rapidly growing budget hotel sector.

www.bournegroup.co.uk

DRYCLEANING

PROVIDING DRYCLEANING AND SPECIALIST GARMENT CARE SERVICES THROUGHOUT THE UK.

Johnsons Cleaners

The UK's number one drycleaner with a network of conveniently located branches nationwide. Leaders in drycleaning, specialist textile and garment aftercare services.

www.johnsoncleaners.com

Jeeves

Jeeves is a respected luxury brand offering premium quality services to customers including haute-couture houses, a wide range of City and bespoke-service-seeking individuals and is the holder of a Royal Warrant.

www.jeevesofbelgravia.co.uk

STRONG PERFORMANCE IN A CHALLENGING ENVIRONMENT

OPERATIONAL HIGHLIGHTS

Successful strategic acquisitions of London Linen and Ashbon

Textile Rental performed ahead of management expectations with high levels of customer retention

Restructuring of Drycleaning successfully completed; positive progress with our Waitrose partnership

234.4m ↑

REVENUE
Increased to £234.4m (2014: £210.4m)

27.9m ↑

ADJUSTED OPERATING PROFIT [1]
Increased to £27.9m (2014: £21.8m)

25.2m ↑

ADJUSTED PROFIT BEFORE TAX [1]
Increased to £25.2m (2014: £20.0m)

15.4m ↑

OPERATING PROFIT
Increased to £15.4m (2014: £13.4m)

12.7m ↑

PROFIT BEFORE TAX
Increased to £12.7m (2014: £11.6m)

6.3p ↑

ADJUSTED FULLY DILUTED EPS
Increased to 6.3p (2014: 5.2p)

2.1p ↑

FULL YEAR DIVIDEND
Increased to 2.1p (2014: 1.7p)

[1] Before charging £3.5 million (2014: £1.6 million) of amortisation and impairment of intangible assets (excluding software amortisation) and £9.0 million (2014: £6.8 million) of exceptional items

STRATEGIC REVIEW
TIM MORRIS

THE ESTABLISHED NAME IN TEXTILE RENTAL AND DRYCLEANING

The Group's 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') and its subsidiaries (together, the 'Group') provide textile related services to both businesses and consumers. 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 has two distinct segments:

Textile Rental

Provision and laundering of workwear, roller towels, corporate apparel, dust mats, premium linen for the hotel, catering and hospitality markets, linen for the high volume hotel market and the direct sale of associated products.

Drycleaning

Provision of retail and commercial drycleaning, laundry and ironing services and other associated services.

Mission:

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

Vision:

Achieve and maintain market leadership in all sectors in which we have a major focus.

Values:

- To behave, and to be recognised, as a good citizen in the communities in which our businesses operate.
- 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:

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

Our Business Model

For some time now, the Board's strategy has been to refocus the Group on our original core business of Textile Services. The disposal of the Facilities Management division in August 2013 followed by the acquisitions of Bourne, London Linen, Ashbon and Zip in March 2014, April 2015, November 2015 and January 2016 respectively, together with the restructuring of the Drycleaning business, announced in January 2015, represent 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.

Key to this is our biggest asset, our 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.

In addition to growing organically, we continue to actively pursue strategic acquisition opportunities within the Textile Rental arena 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 individual businesses. Further details of the KPIs are set out within the Financial Review on page 13.

Future Prospects

All companies with a Premium Listing of equity shares in the UK are required, under the Listing Rules, to comply with the Financial Reporting Council's UK Corporate

OUR TARGETS

TO BE RECOGNISED AS MARKET LEADER ACROSS ALL OF OUR BRANDS.

TO PROVIDE LEADING EDGE CUSTOMER SERVICE IN ALL OF OUR BUSINESSES.

TO CONTINUOUSLY STRIVE TO MINIMISE THE ENVIRONMENTAL IMPACT OF OUR OPERATIONS.

TO INCREASE TOTAL SHAREHOLDER RETURN (TSR) OVER THE LONGER TERM.

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 raises the bar for risk management.

As a Company trading on AIM, we are not required to comply with the Code, however, the Board is acutely aware that an understanding of the future prospects and viability of the Group, is of vital importance to all stakeholders. As a consequence 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 date of this report."

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 covering this period; and
- Projections looking out further than 36 months become significantly less meaningful in the context of the Group's operations and markets.

The Directors believe having taken into consideration the principal risks and uncertainties facing the Group (as set out on pages 16 to 19) and inter alia, the points set out below, that there is not a substantial doubt that the trading performance and cash generation of the Group will 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 April 2020 which is considered to be sufficient to meet the Group's current funding requirements throughout the period;
- Interest rate risk is mitigated through two hedging arrangements which replace LIBOR with fixed rates of 1.47% and 1.665%, each over £15.0 million tranche of borrowings, until January 2019 and January 2020 respectively providing certainty over part of the Group's interest cash flows;
- Our Textile Rental division, which forms the largest part of the Group, has a diversified customer base of some 40,000 customers, the majority of which have a formal contract in place, with varying expiry dates of up to five years, and hence providing 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;
- Given the diverse and unrelated nature of the Group's customer base, there is limited concentration of credit risk;
- The Group has prepared a three year financial budget, which has been reviewed, challenged, stress tested under all reasonably possible scenarios and approved by the Board;
- 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 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 2 to 19, 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.

By order of the Board

Tim Morris
Company Secretary
1st March 2016

CHAIRMAN'S STATEMENT

PAUL MOODY

OUR STRONG PERFORMANCE CONTINUES

I am delighted to report that the Group continues to make very good progress, delivering a result which is significantly ahead of 2014.

Our successful acquisitions of London Linen and Ashbon during the year have been immediately earnings enhancing. Our Apparelmaster and Stalbridge businesses have continued to perform ahead of expectations.

Since the year end we have completed the acquisition of Zip Textiles (Services) Limited, which complements our existing Bourne business.

The implementation of the restructuring of our Drycleaning business has been completed successfully and we have further developed our relationship with Waitrose.

Given the encouraging performance of the Group, and our confidence in the future prospects of the business, we are proposing a final dividend of 1.45 pence per share, making a total dividend for the full year of 2.10 pence, an increase of 23.5%.

Group Results

Total revenue for the year increased to £234.4 million (2014: £210.4 million) benefiting from the acquisitions of London Linen in April 2015 and Ashbon in November 2015. Underlying organic growth was 4.1%. Adjusted operating profit increased by 28.0% to £27.9 million (2014: £21.8 million). The key drivers of this performance are explained further in the Chief Executive's Operating Review.

Total finance cost was £2.7 million (2014: £1.8 million), reflecting higher average bank borrowings and an increase in the notional interest charge on net pension liabilities to £0.6 million (2014: £0.2 million).

Adjusted profit before tax increased by 26.0% to £25.2 million (2014: £20.0 million).

Amortisation and impairment of intangible assets (excluding software amortisation) increased to £3.5 million (2014: £1.6 million), reflecting the acquisitions of London Linen and Ashbon. Exceptional items amounted to an aggregate charge of £9.0 million (2014: £6.8 million) and comprise the costs incurred in implementing the Drycleaning restructuring of £6.5 million as announced in January 2015, costs in relation to business acquisition activity and subsequent restructuring totalling £1.5 million, and the final costs arising from the successful relocation to our new workwear processing facility in Leeds amounting to £1.0 million.

Profit before tax was £12.7 million (2014: £11.6 million).

The effective tax rate on adjusted profit before tax was 19.5% (2014: 22.4%). After the amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items noted above, the post-tax profit from continuing operations was £10.3 million (2014: £8.6 million).

Adjusted fully diluted earnings per share from continuing operations were up 21.2% to 6.3 pence (2014: 5.2 pence). Fully diluted earnings per share from continuing operations after exceptional items were 3.2 pence (2014: 2.9 pence).

Dividend

The Board is recommending a final dividend of 1.45 pence per share (2014: 1.20 pence), making a total dividend in respect of 2015 of 2.10 pence per share (2014: 1.70 pence), an increase of 23.5%. The dividend increase reflects the significant increase in underlying adjusted profit before tax and our confidence in the prospects of the business.

The proposed final dividend, if approved by Shareholders, will be paid on 13th May 2016 to Shareholders on the register at close of business on 15th April 2016. The ex-dividend date is 14th April 2016.

Finances

Total net debt at the end of 2015 was £71.2 million (December 2014: £28.5 million), with the strong trading performance and equity raising helping to offset the funding of the acquisitions of London Linen and Ashbon and the significant investment in capital expenditure in the wider business.

Interest cover, based on adjusted operating profit and excluding notional interest, was 13.3 times (2014: 13.6 times).

A new bank facility, which currently comprises a £100.0 million revolving credit facility, was agreed in April 2015 and runs to April 2020.

Interest payable on bank borrowings is based upon LIBOR plus a margin which is linked to gearing levels. The applicable margin during 2015 was, on average, 1.61% and will be 1.75% for at least the first quarter of 2016. We have mitigated our exposure to increases in LIBOR rates through the use of interest rate hedging. Two interest rate hedging arrangements, each for £15.0 million of borrowings, have been entered into whereby LIBOR is replaced by a fixed rate of 1.4725% for the period January 2016 to January 2019 and 1.665% for the period January 2016 to January 2020.

Pension

The recorded net deficit after tax for all post-employment benefit obligations reduced to £13.0 million at December 2015 from £14.8 million at December 2014. This reduction in deficit is due to an increase in the discount rate applied to liabilities.

Asset allocation has been reviewed with the Trustee and changes made to more appropriately match assets against the remaining scheme liabilities and to reduce interest rate and inflation risks to a more acceptable level.

Deficit recovery payments amounted to £1.9 million in 2015 (2014: £2.0 million) and are expected to be £1.9 million in 2016, as agreed with the Trustee following the completion of the triennial valuation as at 5th October 2013.

The notional interest charge, which is non-cash, amounted to £0.6 million in 2015 (2014: £0.2 million). The charge for 2016 is dependent upon the level of the accounting deficit at 31st December 2015, and will, therefore, reduce slightly to £0.5 million for 2016.

Acquisition of Zip Textiles (Services) Limited (‘Zip’)

The acquisition of Zip was completed on 31st January 2016 for a cash consideration of £15.0 million on a debt free, cash free basis, together with additional debt of £2.7 million in relation to the financing of recently installed processing equipment.

Zip, which serves the high volume hotel and leisure sectors from its well invested processing plant in Birmingham, complements the Group’s existing Bourne business. The business has traded in line with our expectations during our first month of ownership.

Board Changes

Michael Del Mar is to retire as a Non Executive Director on 5th May 2016 and we would like to thank him for his considerable contribution and loyalty to the Group over the last 12 years. Nick Gregg joined the Board as a Non-Executive Director on 1st January 2016.

Employees

I would like to thank all employees in every part of the Group for their continuing commitment and dedication in delivering the excellent quality and service which is at the centre of our business. In particular, I would like to extend a warm welcome to those employees who have recently joined the Group.

Outlook

The strong performance of Textile Rental in 2015 has continued into the early part of 2016. We have maintained our strategy of identifying businesses which complement our existing operations and which will add value, as demonstrated by the acquisition of Zip in January 2016. The refocus of our Drycleaning business will help us drive improving performance.

The Board expects that the Group will continue to deliver a strong performance and successfully implement its strategy for 2016.

Paul Moody
Chairman
1st March 2016

“THE BOARD EXPECTS THAT THE GROUP WILL CONTINUE TO DELIVER A STRONG PERFORMANCE AND SUCCESSFULLY IMPLEMENT ITS STRATEGY FOR 2016”

CHIEF EXECUTIVE'S OPERATING REVIEW
CHRIS SANDER

2015 HAS SEEN SOME SIGNIFICANT ACHIEVEMENTS

Johnson Service Group consists of two segments: Drycleaning, which represents the origins of the Company; and Textile Rental which is now by far the largest element of the Group.

We have concentrated our recent efforts on a strategic expansion of our presence in the various sectors of Textile Rental, adding to the initial Apparelmaster and Stalbridge businesses.

In 2014 we expanded our range of services into high volume hotel linen rental with the acquisition of Bourne. In January 2016 we added Zip, based in Birmingham, to further serve this market. Together, these two market leading businesses provide us with additional processing capacity, greater geographical reach and logistical efficiencies for our customers.

Within the restaurant and catering business we have also strengthened our existing market leading brand, Stalbridge, with the acquisition of London Linen in April 2015 and then, later in the year, the acquisition of Ashbon, based in Grantham. As well as additional processing capacity, these acquisitions provide the business with greater geographical reach, logistical synergies and a more balanced operational footprint.

The Group is achieving its ambition to become a larger and more diverse textile rental business, with market leading brands that provide customers with highly valued levels of quality and service.

Textile Rental

In 2015, the Textile Rental business traded through four brands in the UK. 'Apparelmaster' which predominantly provides workwear rental and laundry services to all industry sectors; 'Stalbridge' and 'London Linen' which provide premium linen services to the restaurant, hospitality and corporate events market; and 'Bourne', now joined by 'Zip' from January 2016, which provides high volume hotel linen.

A combination of strong organic growth combined with carefully planned strategic acquisitions saw Textile Rental revenue increase by 21.4% to £188.2 million (2014: £155.0 million) whilst adjusted operating profit rose by 23.5% to £29.4 million (2014: £23.8 million), both favourably impacted by the addition of London Linen in April 2015 and Ashbon in November 2015. The associated margin increased from 15.4% to 15.6%.

Apparelmaster performed strongly; it delivered increased sales to both new and existing customers in a highly competitive market environment, resulting in improved adjusted operating profit, whilst maintaining operating margin.

The resulting cash spend on textile rental items was marginally higher than expected, although the impact of this was partly offset by reduced energy prices and consumption, as the business has now successfully reduced its energy consumption per kilo of work cleaned for the fifth consecutive year.

The workwear business continues to make major investments in its facilities to drive efficiencies and improve productivity levels. As part of this on-going investment a new £8.5 million state of the art processing facility in Leeds has been completed, and is now fully operational adding further processing capacity in the North of England. Following a major refit and extension to our facility in Perth in the latter part of 2014, an upgrade has also been completed to the food processing facility at our site in Hull to increase capacity. In total, capital projects to the value of £4.2 million were completed in Apparelmaster.

Customer retention levels once again remained very strong as the business continues to focus on quality improvements and responds to the demands of the market as identified in the annual customer survey programme.

As a result of the extreme weather at the end of the year our Lancaster facility suffered severe flooding. Business continuity plans were quickly put in place in order to continue to service customers. Further work is required

188.2m

Textile Rental revenue
Increased 21.4% from £155.0m in 2014

29.4m

Textile Rental adjusted operating profit
Increased 23.5% from £23.8m in 2014

46.2m

Drycleaning revenue
Decreased from £55.4m in 2014

2.0m

Drycleaning adjusted operating profit
Increased 25.0% from £1.6m in 2014

in 2016 to bring the facility fully back on line and we are working with our insurers to ensure a smooth process, although this is not expected to have an impact on the trading performance of the business.

For 2016, Apparelmaster will continue to focus on enhanced service delivery whilst driving operational efficiencies.

Stalbridge produced a strong performance in 2015 with increased revenue thanks to substantial new sales wins and reduced customer churn. Profitability and margin were improved due to lower central overheads and higher productivity as a result of targeted investments, which also include energy reduction features.

The focus of Stalbridge is on premium hotel, restaurant and catering locations with market leading service and quality, and flexible 'no contract' terms. Customer satisfaction and loyalty is a cornerstone of the business and the results of the customer satisfaction survey carried out by an external agency, showed a marked improvement in customer satisfaction during 2015 and a ranking in the top quartile of business service companies.

The Ashbon operation in Grantham, Lincolnshire, acquired in November 2015, has already been rebranded as Stalbridge and this will provide the platform for the business to consolidate its operations in the Midlands and North of England whilst improving customer service levels and efficiency.

To support continued development of the restaurant and catering markets, new product ranges have been developed and a new prospect database, combining a more sophisticated sales management tool, will be rolled out across the business throughout 2016.

London Linen, acquired in April 2015, consists of three processing units all based in Southall on the outskirts of West London.

The refit of one of the units processing chefs' wear and kitchen linen, which was underway at the time of acquisition, was completed in June. Shortly after acquisition we announced plans for a major refit of the high quality table linen laundry with modern and highly efficient equipment. The total investment will cost £4.0 million and the installation programme, which will take up to 15 months to complete, is expected to commence shortly.

In the latter part of 2015 a programme of customer migration commenced and, as a result, customers in the North East of England and Scotland have been transferred to the Stalbridge processing unit in Glasgow.

Organic sales growth and customer retention have continued to be strong and the business has performed to management's expectations. We are very pleased with the progress made to date.

Bourne had another successful year, its first full year within the Textile Rental division. Despite price competition being stronger than usual in the first half, Bourne had some success delivering new sales wins. In addition high quality product and great service levels to our customer base resulted in high retention of business.

Hotel occupancy levels have been slightly higher during the year, with large hotel groups continuing to expand both via acquisition and new openings. Business development focus has been on the budget hotel market as well as the four star hotel sector which have both experienced high growth rates over many years.

In common with the rest of the Group, Bourne continues to invest in improved plant and machinery to gain higher productivity and reduced energy consumption. Technology has been adopted to produce a more objective measure of quality, which will continue to improve consistency and quality to our customers.

Investment has continued in IT with a customer portal roll out completed during the year replacing a paper based system. This has led to greater accuracy of linen counts and better service levels to our customers.

The addition of Zip to the Group will allow us to better service high volume linen customers over a larger geographical area.

Drycleaning

Our Drycleaning business is represented across the UK through the highly recognised 'Johnsons Cleaners' brand and our London-based premium brand 'Jeeves'.

Total revenue reduced to £46.2 million (2014: £55.4 million), reflecting the reduced number of branches in the portfolio, whilst adjusted operating profit increased to £2.0 million (2014: £1.6 million).

The branch reorganisation programme announced in January 2015 was completed to schedule, with the closure of 101 branches. The total cost of the programme was budgeted at £6.5 million, and costs are in line with this budget.

The positive progress we have made in our partnership with Waitrose has been encouraging. We have added a further 65 locations within the year to take our total in-store representation to 143. The trading performance of these locations in 2015 provides a very positive platform for further revenue growth in 2016.

2015 saw the launch of our first e-commerce proposition through 'johnsonsbridal.com'. The results were positive for this new channel and the platform will be further developed to broaden the online household proposition in 2016.

Chris Sander
Chief Executive Officer
1st March 2016

A SAFE, GENTLE AND ODOURLESS DRYCLEANING PROCESS

GreenEarth® is an environmentally safe drycleaning process that uses liquid silicone, a gentle solution made from one of the earth's safest and most abundant natural resources.

Using water as the washing agent, as most of us do in our homes, is termed wet cleaning. Legend has it that drycleaning was discovered accidentally in France during the late 1800s. Apparently, someone spilled turpentine on a tablecloth with set in stains, and every stain the turpentine touched came clean. Thus, the idea of "drycleaning" fabric in a liquid other than water was born.

As drycleaners, we work hard, and successfully, to reduce emissions and control many of the risks associated with the use of petrochemical solvents. But we always hoped for a better alternative. One that would meet the needs of customers and drycleaners whilst protecting the communities in which we live.

GreenEarth® is the solution the industry has been waiting for. GreenEarth® is an environmentally safe drycleaning process that uses liquid silicone, a gentle solution made from one of the earth's safest and most abundant natural resources: silica, or sand. The same natural sand the earth has been creating for over six billion years. When released to the environment, it safely breaks down into its three natural elements, sand (SiO2) and trace amounts of water and carbon dioxide. So GreenEarth® is safe for the air, water and soil. GreenEarth® is safe for people too. If you wanted to, you could safely rub it on your skin. In fact you probably already do. Liquid silicone is the base ingredient in many everyday shampoos, conditioners and lotions.

Johnson Service Group has now installed GreenEarth® Cleaning systems in 100% of its drycleaning processing estate. As a leading public company, Johnson Service Group takes its responsibilities seriously - to employees, customers and the environment as a whole.

Quite simply, because we care about the environment we have converted to GreenEarth® cleaning.

THE BENEFITS OF GREENEARTH® CLEANING

CLEANING BENEFITS

SAFE FOR DELICATE FABRICS, COLOURS DONT FADE AND WHITES DONT GREY.

COMPOSITION AND PROPERTIES

MODIFIED LIQUID SILICONE. CHEMICALLY INERT, CLEAR, ODOURLESS LIQUID.

SAFETY AND ENVIRONMENTAL BENEFITS

BREAKS DOWN INTO SAND, WATER AND CARBON DIOXIDE.

FINANCIAL REVIEW

YVONNE MONAGHAN

2015 HAS BEEN A YEAR OF SIGNIFICANT INVESTMENT FOR THE GROUP

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

Overview

Revenue and adjusted profit before tax increased significantly over 2014 through a combination of acquisitions and organic growth.

Details of the segmental results are given in note 1 of the consolidated financial statements.

Taxation

The tax rate, excluding exceptional items and the amortisation and impairment of intangible assets (excluding software amortisation), was 19.5% (2014: 22.4%) and below the effective tax rate of 20.25% (2014: 21.5%) due to the recognition of prior year credits. We would expect our tax rate to increase to a more normal rate in 2016 and be slightly above the effective rate of 20%.

Cash Flow

We continue to generate strong cash flows with net cash generated from operating activities increasing by 7.3% to £47.0 million (2014: £43.8 million). Of this cash generation we invested £6.0 million in the purchase of property, plant and equipment including finance lease capital payments.

We invested £70.4 million, net of cash acquired, in the acquisition of London Linen and Ashbon, both businesses serving the hotel, restaurant and catering linen market. An equity raising in April 2015 raised £21.1 million of net cash, allowing us to reduce our gearing levels during the year and providing headroom for further investment.

Bank Facilities and Finance Costs

The Group's bank facility was renewed in April 2015 with the incumbent banks. The new facility comprised a Revolving Credit Facility (RCF) of £100.0 million running to April 2020 together with a short term £20.0 million RCF which was repaid and cancelled in November 2015.

The current facilities give headroom both in terms of covenant compliance and availability to allow further investment to be made in the Textile Rental business.

Hedging arrangements over £20.0 million of the facility were in place during the year such that LIBOR was replaced by a fixed rate of 1.79% up until January 2016. New hedging arrangements have been entered into, starting in January 2016, to provide some certainty over future borrowing costs. Two hedges, each of £15.0 million, serve to swap LIBOR rates for 1.47% to January 2019 and 1.665% to January 2020. The unhedged borrowings will be subject to LIBOR at market rates at the point of drawdown. Interest charges include an average margin of 1.61%, for 2015, a reduction from the average margin of 1.83% in 2014. 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 2015, will be initially 1.75% for the first quarter of 2016.

Total finance costs in 2015 included £0.6 million (2014: £0.2 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 2016 will reduce slightly to £0.5 million.

The bank covenants within the facility agreement measure interest cover and gearing ratios and contain some restrictions on pension fund deficit recovery payments.

234.4m

Revenue
Increased from £210.4m in 2014

27.9m

Adjusted operating profit
Increased from £21.8m in 2014

6.3p

Adjusted diluted earnings per share
Increased from 5.2p in 2014

47.0m

Operating Cash flow
Increased from £43.8m in 2014

Investment in Textile Rental Items

Spend on textile rental items increased to £27.5 million (2014: £24.9 million). The textile rental business has increased significantly over recent years, both in terms of the markets in which we operate and the number of processing plants. Maintaining adequate investment in new textile rental items is a key part of providing a high quality service to our customers.

Defined Benefit Pension Scheme Liabilities

As at 31st December 2015, the scheme's assets had reduced by £5.9 million, to £192.4 million with the payment of £9.7 million in benefits being the main factor. The net deficit has reduced by £2.5 million to £14.7 million, primarily driven by an increase in the discount rate applied in the calculation of scheme liabilities.

The next triennial valuation of the scheme is due as at 5th October 2016 and will be finalised in 2017. In the meantime we are committed to pay £1.9 million per annum in deficit recovery payments.

Clearly, the deficit calculated under both the provisions of IAS19(R) 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.

Customer Rebates

In response to the Financial Reporting Council's (the 'FRC') announcement in relation to accounting for complex supplier arrangements, the Group has taken the opportunity to disclose its policy in relation to this area. The Group has a small number of rebate arrangements in place with its key customers, which are in line with prior years and which the Directors do not consider to be complex in nature as they do not require significant estimates and judgements. The Group gives annual rebates to certain customers which are calculated as a percentage of the value of services provided to customers in the year. Rebate costs are generally accrued in the year in which the services are provided based on the terms agreed with customers and therefore require little judgement on their calculation. The Group's accounting policy for customer rebates is set out on page 53.

Balance Sheet

Net assets of the Group have increased to £106.8 million (2014: £80.0 million) through a combination of retained earnings and new equity.

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, Chairman's Statement, Chief Executive's Operating Review or segmental information on pages 60 to 62 are growth in revenue, adjusted operating profit and adjusted fully diluted earnings per share. Non-financial KPIs include our employee and customer survey results and customer retention statistics.

Summary

We have made significant investments in our Textile Rental business during the year and have stabilised the Drycleaning business.

We are well placed to pursue further opportunities in Textile Rental over the coming months.

Yvonne Monaghan
Chief Financial Officer
1st March 2016

CORPORATE SOCIAL RESPONSIBILITY STATEMENT

OUR DUTY TO SHAREHOLDERS

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.

This report does not contain information about any policies of the Group in relation to human rights issues since it is not considered essential for an understanding of the development, performance or position of the Group's activities.

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.

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 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 'Ethics Code'), 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 Ethics Code. A confidential 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.

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.

Health and Wellbeing

In order to meet employees' needs for support both at work and at home the Group offers occupational health benefits across its operating companies.

Employee Communication

Each Operating Company 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

The Group's ongoing desire for employees to be able to share in the performance and success of the Group as a whole is afforded through an approved Sharesave Plan, which has now operated for over 20 years.

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 Chris Sander, 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. Key operating businesses undertake quantitative audits which enable a measure of environmental improvement to be made. The Operating Companies have achieved, or are working towards, ISO 14001:2004 Environmental Management System Certification.

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.

Furthermore, the majority of cars available to employees as part of the Group's car scheme are currently subject to a CO2 restriction of 130g/km. The average CO2 of our non-commercial fleet as at the end of 2015 reduced to 104g/km from 108g/km at the end of 2014. Further detail is provided in the table below:

CO2 Emissions (g/km)	2015	2015 Cum.	2014	2014 Cum.
< 95	26%	26%	23%	23%
96 to 110	50%	76%	45%	68%
111 to 130	20%	96%	25%	93%
131 to 160	4%	100%	7%	100%

Use of Solvents
Perchloroethylene, a petrochemical solvent, is traditionally used in the drycleaning process. We have worked hard, and successfully, to control many of the risks associated with the use of petrochemical solvents and, during 2013, completed the rollout across our entire retail drycleaning estate of GreenEarth® Cleaning systems. GreenEarth® is an environmentally safe drycleaning process that uses liquid silicone, a gentle solution made from sand. When released to the environment, it safely breaks down into its three natural elements, sand, water and carbon dioxide.

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 during the year.

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 regard to health and safety and has nominated Chris Sander, 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 they are fit for purpose. These audits, the results of which are notified to the Board, are in addition to each company's 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
Each business has developed a safety management system appropriate to their operations and in accordance with either HS(G)65 or OHSAS 18001.

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. All new companies acquired by the Group undergo a stringent audit of their Safety Management Systems to establish compliance with appropriate legislation and Group policy.

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 Shareholders".

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.

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.

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 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.

Financial Risk	Mitigation
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 operations within the Group, 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.
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 will impact our cost base.	We seek to manage the impact of inflation through continuing to drive greater efficiencies through supplier rationalisation, labour scheduling and productivity. Cost indexation in certain of our contracts also gives us the contractual right to review pricing with our customers.
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 products 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. At 31st December 2015 all of the Group's bank borrowings incurred interest at rates linked to LIBOR, although hedging arrangements are in place which replace LIBOR with fixed rates of 1.47% and 1.665%, each over £15.0 million of borrowings, until January 2019 and January 2020 respectively.
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 April 2020.
Pension Scheme Deficit	
Asset valuations are based on the fair value of scheme assets. The valuation of the scheme liabilities is based on statistical and actuarial calculations, using various assumptions including discount rates, pension increases, life expectancy of scheme members and cash commutations. 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 adversely impact either the assets or liabilities recognised in the Balance Sheet in future periods, or the cash flow of the Group.	The Group has taken action to reduce the quantum of liabilities through various initiatives, including: the freezing of pensionable salaries for active members with effect from 6 April 2010; offering pension increase exchanges for certain pension benefits in payment; and offering enhanced transfer values to certain categories of members. Furthermore, the scheme was closed to future accrual on 31st December 2014. Asset allocations have been reviewed and changes made to more appropriately match assets against the remaining scheme liabilities and to reduce risk to a more acceptable level.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Operational Risk	Mitigation
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 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	
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.
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.

Operational Risk	Mitigation
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 maturity of our enterprise risk and 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 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 injury, 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 Codes of Business Conduct and Ethics govern all aspects of our relationships with our stakeholders. All alleged breaches of the Codes, including any allegations of fraud, are investigated. 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.

BOARD OF DIRECTORS

1. Paul Moody (age 58)
Chairman

Paul was appointed Non-Executive Chairman on 1st May 2014 having joined the Board as a Non-Executive Director on 10th March 2010. Prior to his retirement on 26th February 2013, Paul was the Chief Executive of Britvic PLC. Having joined Britvic in 1996, and prior to his appointment as CEO, Paul held the positions of Chief Operating Officer and Sales and Operations Director. Prior to that, he held a number of senior appointments in varied roles in HR and sales with such companies as Mars Inc. and Grand Metropolitan. Paul is also a Non-Executive Director of Pets at Home Group PLC and 4imprint Group PLC.

2. Chris Sander (age 57)
Chief Executive Officer

Chris was appointed as Chief Executive Officer on 3rd January 2014. He joined the Group in 1984 and has significant experience in the Textile Services industry. Chris was appointed Managing Director of the Textile Rental business on 1st January 2008, joined the Board on 9th September 2008 and assumed responsibility for the Drycleaning business as part of the combined Textile Services division in 2012. Chris is also a Director of the European Textile Services Association.

3. Yvonne Monaghan (age 57)
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 Financial Controller in 1985 and joined the Board as Chief Financial Officer on 31st August 2007. Yvonne is also a Non-Executive Director and Chair of the Audit Committee of NWF Group PLC.

4. Michael Del Mar (age 69)
Senior Independent Non-Executive Director

Michael joined the Board as a Non-Executive Director on 12th May 2004. Until December 2003 he was with UBS Investment Bank, having joined S G Warburg in 1990. He is also a Non-Executive Director of Regional Airports Limited and Treloar Trust. Michael will retire from the Board at the conclusion of the 2016 Annual General Meeting.

5. Bill Shannon (age 66)
Non-Executive Director

Bill joined the Board as a Non-Executive Director on 8th May 2009. He is a Chartered Accountant (Scotland) and 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 Non-Executive Chairman of St. Modwen Properties PLC 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.

6. Nick Gregg (age 52)
Non-Executive Director

Nick joined the Board as a Non-Executive Director on 1st January 2016. Nick is currently the Managing Director of the Local Government division of Ferrovial-owned public services business Amey. Nick has considerable experience in business to business service industries having previously held senior positions with Biffa Waste Services, ATS Euromaster and Mobil Oil Company.

7. Tim Morris (age 39)
Company Secretary

Tim was appointed as Company Secretary on 1st 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 31st December 2015.

The Corporate Governance Report on pages 24 to 28, and the Corporate Social Responsibility Report on pages 14 to 15 (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

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 £10.3 million (2014: £8.6 million).

The dividend comprises an interim dividend of 0.65 pence (2014: 0.50 pence) per Ordinary share and a proposed final dividend of 1.45 pence (2014: 1.20 pence) per Ordinary share. This total dividend of 2.10 pence (2014: 1.70 pence) per Ordinary share, subject to the approval of Shareholders, will amount to a distribution for the year of £6.9 million (2014: £5.1 million).

Share Capital

The authorised share capital of the Company at 31st December 2015 comprised of 383,025,739 Ordinary shares of 10 pence each (2014: 383,025,739 Ordinary shares of 10 pence each). 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 note 31 and 32 to the consolidated financial statements.

Events after the Reporting Period

On 31st January 2016, the Company acquired the entire share capital of Zip Textiles (Services) Limited. Further details are set out within note 36 of the consolidated financial statements.

There were no other 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 29th February 2016, 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 (%)	Cumulative Shareholding (%)
Henderson Global Investors Limited	11.89	11.89
Schroders plc	9.96	21.85
Old Mutual plc	5.98	27.83
BlackRock Inc	5.05	32.88
Invesco Limited	5.04	37.92
Ruffer LLP	4.99	42.91
Miton Group plc	4.65	47.56
Other	52.44	100.00

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

At the 2015 Annual General Meeting, Shareholders authorised the Company to make market purchases of up to a maximum aggregate of 30,001,416 Ordinary shares, which represented approximately 10% of the Company's issued Ordinary share capital on the latest practicable date prior to publication of the 2015 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 2016 Annual General Meeting. Further details are given in the Notice of the Annual General Meeting on pages 106 to 111.

Directors

Details of the Directors of the Company are shown on page 20. They all held office throughout the year, and up to the date of signing this report, with the exception of Nick Gregg, who was appointed to the Board on 1st January 2016. Michael Del Mar will retire from the Board at the conclusion of the 2016 Annual General Meeting.

Directors' Interests

Share Capital

The interests of the Directors who were in office at 31st December 2015, 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 on pages 34 to 40. 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.

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 (2014: £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 31, 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
The Company and its subsidiaries fully support the CBI initiative on payments to suppliers and have continued to apply the Prompt Payment Code in respect of all suppliers. The main features of the Code 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. Copies of the Code can be obtained from the CBI.

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 pages 58 to 59.

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.jsg.com.

2016 Annual General Meeting
The Company's AGM will be held at the Doubletree by Hilton Chester, Warrington Road, Hoole, Chester, CH2 3PD on Thursday 5th May 2016 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, the Chairman's Statement and Chief Executive's Operating Review on pages 4 to 9. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 12 to 13. 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
1st March 2016
Johnson Service Group PLC Registered in England and Wales No.523335

DIRECTORS' RESPONSIBILITIES STATEMENT

The Directors are responsible for preparing the Annual Report, the Strategic Report, the Directors' Report (including the Corporate Governance Report), the Board Report on Remuneration and the financial statements in accordance with applicable laws and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and 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 the Company and of the profit or loss of the Group for that period.

In preparing the financial statements, the Directors are required to:
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- 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.

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

The Directors are also responsible for the maintenance and integrity of the 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 a Company's performance, business model and strategy.

Each of the Directors, whose names and functions are disclosed on page 20, confirms that, to the best of their knowledge:
- the Group 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 of the Group;
- the Strategic Report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces;
- there is no relevant audit information of which the Company's auditors are unaware; and
- he/she has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

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

On behalf of the Board

Chris Sander Chief Executive Officer 1st March 2016	Yvonne Monaghan Chief Financial Officer 1st March 2016

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".

All companies with a Premium Listing of equity shares in the UK are required under the Listing Rules to comply with the Financial Reporting Council's UK Corporate Governance Code 2014 (the 'Code') or, state the areas in which they do not comply. The Code was issued in September 2014, replacing the previous version issued in September 2012, and applies to reporting periods beginning on or after 1st October 2014. The Code is intended to enhance the quality of information investors receive about the long-term health and strategy of listed companies, and raises the bar for risk management. The Code can be accessed on the Financial reporting Council's website: https://www.frc.org.uk.

The 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

As a Company trading on AIM, Johnson Service Group PLC is not required to comply with the Code. Notwithstanding this, the Board does expect all directors, employees and suppliers to act with honesty, integrity and fairness and our business principles set out the standards we set ourselves to ensure that we operate lawfully, with integrity and with respect for others. 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 has reviewed the procedures to comply with the provisions of the Code, which are set out below.

Our Governance Structure

Chairman - Paul Moody

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 three Non-Executive Directors (including the Senior Independent Director)

Chairman: Paul Moody

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: Bill Shannon

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: Paul Moody

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: Michael Del Mar

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

Chief Executive Officer

Chris Sander

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: Chris Sander

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

Compliance with the Code

The Company has complied with the material provisions of the Code throughout the year ended 31st December 2015, other than the provisions in relation to the following:

Provision Explanation

B.1.1 Independence of Non-Executive Directors

Michael Del Mar was appointed to the Board as a Non-Executive Director on 12th May 2004, almost 12 years ago. The Board is satisfied that Michael Del Mar, who will retire from the Board at the conclusion of the 2016 Annual General Meeting, is independent in character and judgement.

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 Chairman, are available to meet with Shareholders, at their request, and the Board believes this arrangement to be sufficient.

The Company's compliance with the Code has been reviewed by the Auditors and their report is given on pages 41 to 46.

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

Members of the Board, who are detailed on page 20, all held office throughout the year, with the exception of Nick Gregg, who was appointed to the Board on 1st January 2016, and up to the date of signing this report.

Division of Responsibility of Chairman and Chief Executive Officer

The 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:

- approval of the Group's long-term objectives, overall strategy, mission, vision, values and targets;
- approval and monitoring of the annual operating budget;
- approval of major acquisitions, disposals and capital expenditure;
- dividend policy;
- 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.

The following responsibilities have been delegated to Executive Management:

- the development of strategic plans that reflect the longer term objectives and priorities established by the Board;
- implementation of strategies and policies as determined by the Board;
- monitoring of operational and financial performance against plans and budgets; and
- developing and implementing risk management systems.

Key Board Activities in the Year

Key activities of the Board in the current year included, inter alia:

- approval and enactment of the restructuring of the Group's Drycleaning business, announced in January 2015, and undertaken throughout the year;
- approval of the Group's refinancing of its external borrowings in April 2015;
- the review and approval of the Group's investment in London Linen, acquired in April 2015;
- approval of the Group's fund raising, which raised net funds of £21.1 million, in April 2015;
- the review and approval of the Group's investment in Ashbon, acquired in November 2015; and
- regular review, and formal approval in February and August, of the Group's risk assessment processes and principal risks and uncertainties.

Board Committees

The Committees of the Board are:

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

CORPORATE GOVERNANCE REPORT CONTINUED

Current membership of each Committee consists wholly of the Chairman and the three Non-Executive Directors. 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:

- 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 strategy review to identify key strategic issues 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.

Induction, Training & 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.

Performance Evaluation

Each year, the 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. This process was led by the Chairman and each Director completed an in-depth questionnaire 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);
- strategy;
- 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 completed questionnaires are reviewed on an individual basis by the Chairman, who then has discussions with each Director. The results of the review (including progress against the previous year's recommended actions) are summarised by the Chairman and considered in detail by the

Board Meetings and Attendance

The Board met formally six times during 2015 and, additionally, held a further three unscheduled meetings in relation to, inter alia, the acquisition of London Linen and Ashbon, the refinancing of the Company's bank facility and the equity raising.

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)
Paul Moody	6	3	3	1	3	1
Chris Sander	6	3	n/a	n/a	n/a	n/a
Yvonne Monaghan	6	3	n/a	n/a	n/a	n/a
Michael Del Mar	5	3	3	1	3	1
Bill Shannon	6	3	3	1	3	1
Number of Meetings	*6*	*3*	*3*	*1*	*3*	*1*

Note: Nick Gregg is excluded from the table above as his appointment to the Board as a Non-Executive Director was on 1st January 2016.

In addition, the Chairman and the Non-Executive Directors have met during the year without the Executive Directors.

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.

Election of Directors

The Directors comply with the requirements of the Code and submit themselves for re-election every year, if they wish to continue serving and are considered by the Board to be eligible. Accordingly, each member of the Board who served during the year will be proposed for re-election at this year's Annual General Meeting (AGM), with the exception of Michael Del Mar who will retire at the conclusion of the 2016 AGM. Nick Gregg, who was appointed to the Board on 1st January 2016, will also be proposed for election at the 2016 AGM.

Service Agreements

The service agreements of the Executive Directors and copies of the letters of appointment of the Chairman and the 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 AGM.

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 20.

The role of a 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 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 22.

Further information is detailed in the Audit Committee Report on pages 29 to 32.

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 31st December 2015 and up to the date of approval of the financial statements. This process has been regularly reviewed by the Board. The Audit Committee receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention through early warning mechanisms which are embedded within our businesses and are reinforced by risk awareness training.

The Audit Committee also receives regular reports from the internal audit function and, recommendations for improvement are considered. The Audit Committee's role in this area is confined to a high level review of the arrangements for internal control.

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

The Board reviews the overall strategy of the Group and of each individual business. There is a detailed budgeting process with the annual budget both challenged, stress tested and, ultimately, approved by the Board. Monthly results 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.

CORPORATE GOVERNANCE REPORT CONTINUED

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 16 to 19, 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 performance, solvency or liquidity.

Future prospects and viability (the 'viability statement')

The Board has assessed the future prospects of the Group in accordance with provision C2.2 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 three-year period of their assessment. Details of the assessment performed by the Board, including an assessment of those risks most likely to impact the Group's future prospects and viability has been set out on pages 4 to 5.

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.

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 34 to 40.

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 investors and analyst sessions at which senior management from relevant operating companies 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 Chairman's Statement, 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, Nomination Committee Report and the Board Report on Remuneration on pages 29 to 40 also form part of the Corporate Governance Report.

By order of the Board

Tim Morris
Company Secretary
1st March 2016

AUDIT COMMITTEE REPORT

Recent years have seen a large number of corporate failures and subsequently, and not surprisingly, a number of regulatory changes have reinforced the role of the Audit Committee.

Section C of the Financial Reporting Council's UK Corporate Governance Code 2014 (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 judgement. These actions have allowed the Committee to have an even greater input, for example in the design of the internal audit programme, 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 auditors 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. The Committee was chaired during the year by myself, with the Chairman of the Board and the Senior Independent Non-Executive Director both being members of the Committee. Membership of the Committee is, therefore, in accordance with the Code.

During the year a formal evaluation of the Committee was conducted by means of a questionnaire being sent to members of the Committee. The responses were reviewed by myself and, where appropriate, actions to improve the effectiveness of the Committee are agreed and implemented accordingly. The results of these reviews were discussed by the Board as a whole, with action taken as appropriate.

By virtue of my former executive and current non-executive roles (full details of which are set out on page 20), together with the results of the questionnaire, the Board considers that I have recent and relevant financial experience and also that all members of the Committee are independent.

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 judgements 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 auditors;
- reviewing and setting the terms of engagement and the remuneration of the external auditors;
- annual review and monitoring of external auditors independence and objectivity and the effectiveness of the audit process;
- development and implementation of policy on the engagement of the external auditors to supply non-audit services;
- reviewing the Group's systems and controls for the prevention and detection of fraud or bribery; and
- reviewing of 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 2015

In 2015, 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 auditors' reports thereon;
- reviewing the plan of the external auditor for the audit of the Group accounts, confirmations of auditor independence and proposed audit fee and approving terms of engagement for the audit;
- 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.

The Committee considered the 2015 Annual Report and Accounts in the context of whether they were fair, balanced and understandable and were able to report to the Board that the 2015 Annual Report and Accounts, when taken as a whole, 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 that there is a clear and well-articulated link between all areas of disclosure.

AUDIT COMMITTEE REPORT CONTINUED

Significant Issues Considered in Relation to the Financial Statements

During the year the Committee, management and the external auditors considered and concluded on what the significant risks and issues were in relation to the financial statements and how these would be addressed.

Impairment Reviews

As part of the year end process, the Group tests whether goodwill has suffered any impairment, in accordance with the accounting policy stated within this Annual Report. The impairment test is undertaken at a cash generating unit ('CGU') level. The Committee considered the impairment review process in detail.

It was acknowledged that the pre-tax discount rate used in the 2015 calculation is 4.66%, compared to a prior year rate of 4.83%. The discount rate takes into account, inter alia, the risk free rate of return (derived from a 20 year government bond rate) and a predictive Beta factor for the Group, both of which have reduced in the current year although the decrease in the Beta factor is more noticeable. The Beta factor used in the 2015 calculation was 0.33 compared to 0.37 in the prior year. The Committee were satisfied that the rate had been obtained from a third party source and is used for all CGUs.

The recoverable amount of a CGU is based on value-in-use calculations. The Committee were satisfied that, with regards to the Textile Rental CGUs, the discounted net present value of future cash flows provides significant headroom over the goodwill carrying value, and hence no impairment is required.

The Committee also noted that, within the Drycleaning CGU, the recoverable amount exceeded the carrying value by only £5.9 million, and hence a sensitivity analysis had subsequently been performed that showed (a) if the discount rate increased to 7.94% (from 4.66% used in the impairment review) then the recoverable amount would equal the carrying value, and (b) if the long term growth rate reduced to nil (from 2.5% used in the impairment review), there would still be £2.6 million of headroom.

The Committee were satisfied that no impairment should be recognised within these financial statements and that appropriate disclosures had been provided.

Property and Environmental Provisions

The £6.5 million restructuring of the Drycleaning division, announced in January 2015, included £3.6 million of property related provisions. The opening Drycleaning property related provision totalled £8.9m. The Committee noted that £4.5m of provision was utilised in the year as properties have been exited and dilapidations and other costs have been settled. The Committee considered the movement in the provision during the year, together with the level of provision remaining as at the year end, and concluded that they were reasonable.

Additionally, there are further provisions for onerous property leases held by the Group. The Committee considered the additional provisioning and utilisation of these provisions during the year, together with the remaining provision as at 31st December 2015, and concluded that they were reasonable.

The Group continues to recognise provisions for remediation costs to be incurred in relation to environmental issues identified at a number of the Group's properties. The Committee considered the movement in the provision during the year, together with the level of provision remaining as at the year end, and concluded that they were reasonable.

Acquisition Accounting

During the year, the Group acquired the entire share capital of both London Linen Supply Limited and Ashbon Services 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 judgement. The Committee were satisfied that the fair value had been calculated based upon relevant historical and prospective information and financial data specific to each business combination, with an appropriate discount factor applied. The Committee further considered the accounting policy realignment adjustments and, again, considered them to be reasonable.

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

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 scheme.

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 written agreements with customers; and historically rebates estimates have been seen to be accurate. However, following recent FRC guidance this has been highlighted as an area of focus. The Committee has discussed any judgements made in accruing customer rebates with management and the auditors. The Committee is satisfied that the amounts of expense accrued are appropriate.

Income Taxes

Judgement 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, offset, to a lesser extent, by the effect of expenses that were not deductible for tax purposes. The Committee concluded that the judgements made in relation to taxation were reasonable.

Going Concern

The Group has to comply with a number of financial covenants that relate to its financing structure. Reaching a conclusion on the reliability of the budgets prepared by management is considered important to the Committee to ensure that covenants will not be breached and the Group will remain a going concern.

The Committee therefore reviewed, challenged and concluded upon the Group's going concern review including giving due consideration to the appropriateness of key judgements, assumptions and estimates underlying the budgets that underpin the review and a review of compliance with key financial covenants.

Assessment of External Auditor Effectiveness

The Committee reviewed the external auditors' 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 PricewaterhouseCoopers LLP continued to prove effective in its role as external auditors.

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

The Company has adopted a policy on the independence of auditors which is consistent with the ethical standards published by the Audit Practices Board. A key issue for the Committee that may impair auditor independence, and the auditors' 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 auditors 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 auditors 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 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.

The total fees invoiced by the external auditor during the year under review amounted to £589,000 (2014: £592,000), of which £295,000 (2014: £303,000) related to non-audit services. Of these non-audit services, fees of £198,000 (2014: £174,000) related to one-off and non-recurring services, largely in relation to the acquisitions of London Linen Supply Limited and Ashbon Services Limited, where it was considered by the Committee to be commercially sensible and more cost effective to use PricewaterhouseCoopers LLP rather than an alternative provider. Full details are set out in Note 3 to the consolidated financial statements.

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 previous Senior Statutory Auditor was appointed in 2010 and, in accordance with best practice and professional standards, was replaced during 2015. 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

The Committee is satisfied that the independence of the external auditor is not impaired due to the fact that the audit engagement partner 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 during the year.

Re-appointment of the External Auditor

The re-appointment of PricewaterhouseCoopers LLP 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 PricewaterhouseCoopers LLP as auditor until the conclusion of the AGM in 2017. Full details are set out in the Notice of Annual General Meeting on pages 106 to 111. There are no contractual restrictions over choice of auditor.

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 year ended 31st December 2015 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.

AUDIT COMMITTEE REPORT CONTINUED

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 facing the business;
- 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 executive 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 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;
- monitored management's responsiveness to the findings and recommendations of internal audit; and
- met with internal audit, without management being present, to discuss internal audits remit and any issues arising from internal audits carried out.

No significant issues 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 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 accounts. Further details of risk management frameworks and specific material risks and uncertainties facing the business can be found on pages 16 to 19.

Bribery Act 2010

The Bribery Act 2010 (the 'Act') came into force on 1st July 2011, and repeals 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.

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 advisors. 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.

William Shannon
Chairman, Audit Committee
1st March 2016

NOMINATION COMMITTEE REPORT

The Nomination Committee (the 'Committee') is responsible for monitoring the performance, appropriateness and future succession of the Company's executive and Board talent.

Appointments to the Board are recommended, as appropriate, by the Committee. Board appointments are subject to approval by the Board as a whole.

The Committee met once during 2015.

Composition

In compliance with the Financial Reporting Council's UK Corporate Governance Code 2014 (the 'Code'), the members of the Committee are wholly independent and comprise the Chairman of the Company and the Non-Executive Directors. The Committee is chaired by myself.

Roles and Responsibilities

The principal responsibilities of the Committee are:

- reviewing the Board structure, size and composition;
- 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;
- 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 2015

The main focus of the Committee's work in 2015 included:

- following an extensive selection process, which involved an independent external search consultancy, recommending to the Board the appointment of Nick Gregg as a Non-Executive Director, with effect from 1st January 2016;
- reviewing the senior management structure and talent below Board level; and
- reviewing the Committee's terms of reference, and conducting the annual review of the Committee's performance.

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 and 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.

Paul Moody
Chairman, Nomination Committee
1st March 2016

BOARD REPORT ON REMUNERATION

Prior to 13th December 2013, Premium Listed companies incorporated in the UK were required to fully apply the Listing Rules of the Financial Conduct Authority (the "Listing Rules") with respect to the disclosure of directors' remuneration. From 13th December 2013, whilst certain aspects of the Listing Rules remain in force with respect to the disclosure of directors' remuneration, most remuneration-related disclosures for Premium Listed companies incorporated in the UK will only need to comply with the BIS Directors' Remuneration Reporting Regulations (the "Remuneration Regulations") when making disclosures regarding directors' remuneration.

As an AIM listed company, the Company is not required to fully apply either the Listing Rules or the Remuneration Regulations, and hence is not required to present 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 2015, membership of the Remuneration Committee (the 'Committee') was comprised of the Chairman and the Non-Executive Directors, excluding Nick Gregg who joined the Committee following his appointment to the Board as a Non-Executive Director on 1st January 2016. The Committee is 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.

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 can be 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.

As an AIM listed company, the Company does not require Shareholder approval for the adoption of new employee share plans, however, proposals for new schemes are discussed with major Shareholders to gain their views before being implemented. Full details of all schemes are included within this report, which is subject to approval by Shareholders at the Annual General Meeting.

Malus and Clawback

To reflect emergent 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 1st 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 1st January 2015, has been met, a material failure of risk management by the Company or any group company and serious reputational damage to the Company or any group 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. 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, subject to the need to finance any costs of acquisition and associated tax liabilities. It was determined, for the present time at least, that a further restriction over the personal shareholding requirement was unnecessary.

Components of Executive Remuneration

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

- basic salary;
- annual bonus;
- taxable benefits;

- share options (including the Long-Term Incentive Plan (Approved and Unapproved sections) and the Sharesave Plan); 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

The Group operates a Short Term Incentive Programme (STIP) for senior executives, which provides for a performance related bonus based on the Group's results and, in certain cases, the result of the relevant business for which they may be responsible. The individual targets for the Executive Directors are established by the Committee with a view to maximising Shareholder value and meeting other Group objectives. Subject to the achievement of the targets, the annual performance related bonus can represent up to a maximum of 100% of basic salary.

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

The Committee reviews, on an annual basis, the performance criteria for each Executive Director to ensure that they remain appropriate.

Taxable Benefits

Taxable benefits, which are not performance related, principally include the provision of a car or car allowance, private medical insurance and, when necessary, payments for the curtailment of holiday as a result of business requirements.

Share Options

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

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

Eligible participants will be granted awards entitling them to receive 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 LTIP will normally occur after a three year performance period.

2014 Award

Awards were granted to Executive Directors and certain Senior Management on 13th March 2014 with an exercise price of nil. The performance period is the three financial years starting 1st January 2014 and ending 31st December 2016. The performance conditions are linked to the Company's Total Shareholder Return and Earnings per Share.

The 2014 Award would vest in two tranches:

- 50 per cent of the 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.

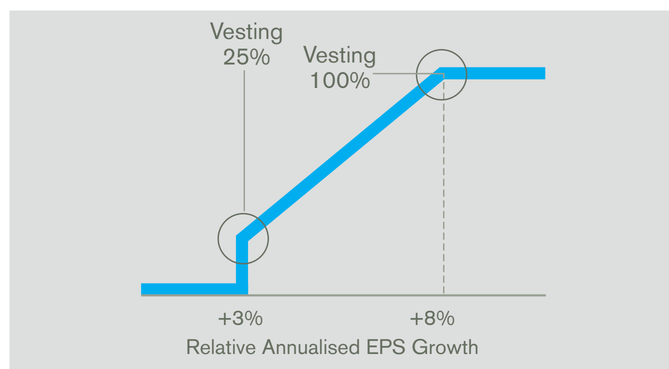
2015 Award

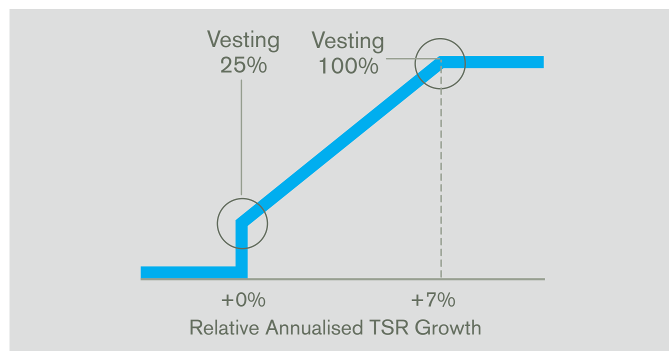
Awards were granted to Executive Directors and certain Senior Management on 8th May 2015 with an exercise price of nil. The performance period is the three financial years starting 1st January 2015 and ending 31st December 2017. The awards will vest in two tranches and the performance conditions are as for the 2014 Award.

LTIP Performance Conditions

The performance conditions for the 2014 Award and 2015 Award were selected to incentivise award holders to maximise Shareholder value. The charts below demonstrate the effect on vesting of the above performance conditions:

BOARD REPORT ON REMUNERATION CONTINUED





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

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

On 8th May 2015, the Executive Directors and certain Senior Management were granted awards under the Approved LTIP, linked to the awards granted on the same date under the LTIP, at an exercise price of 80 pence.

Sharesave Plan (the 'SAYE Scheme')

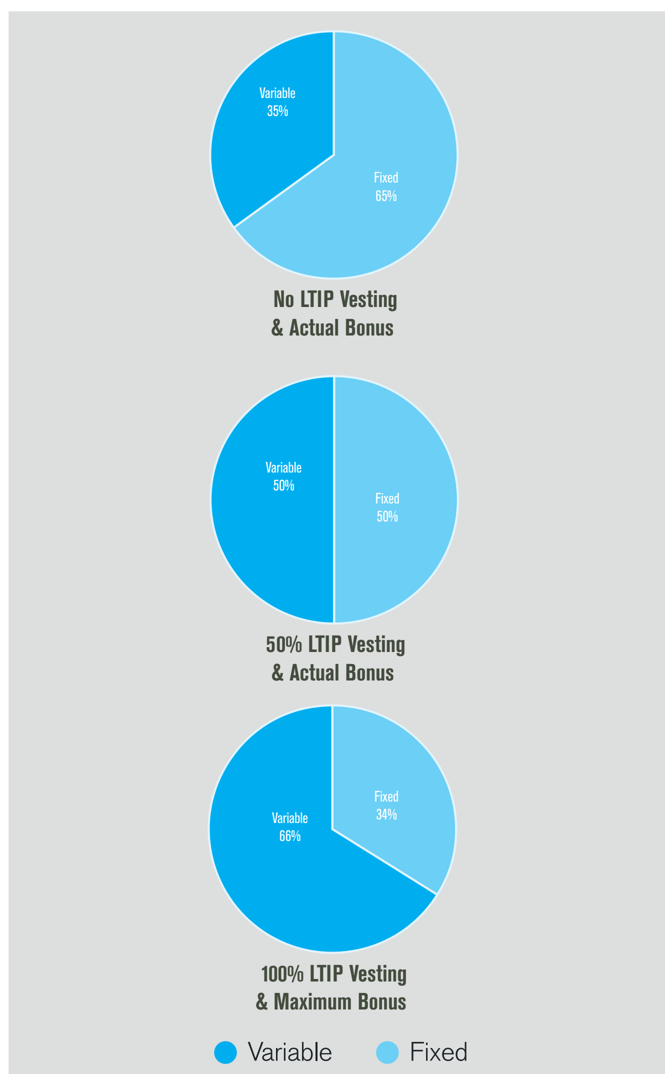
The SAYE Scheme is open to all employees, including Executive Directors, who have completed two years' service at the date of invitation and who open an approved savings contract.

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 28 of the consolidated financial statements.

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 fixed and variable elements for the Executive Directors who were in office at 31st December 2015 is shown in the charts below for varying levels of vesting of the 2009 Long-Term Incentive Plan (LTIP), granted in 2014 and 2015, together with actual bonus and the maximum achievable bonus. Broadly, and assuming actual bonus achievement in 2015, there is a 65:35 split between fixed and variable pay if none of the LTIP were to vest and a 34:66 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.



The above illustration of the current Executive Directors' percentage of fixed and variable remuneration is based on a number of assumptions:

- fixed remuneration includes basic salary only and represents actual annual salary for 2015;
- variable remuneration includes annual bonus (assumed at either actual achievement for 2015 or maximum achievement where indicated within this illustration) and vested share options (LTIP); and
- the amount included in respect of the LTIP represents the annualised gross gain over the three year performance period, at an assumed vesting of 50% and then at 100% and assuming a share price at the date of exercise of 100 pence.

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

Chris Sander is employed under a service agreement dated 6th July 2004, as amended by a Variation Letter dated 20th October 2009 and as further amended on the appointment to Chief Executive Officer on 1st January 2014, which has no fixed expiry date and provides that the Company is required to give twelve months' notice and Chris Sander is required to give six months' notice.

Yvonne Monaghan is employed under a service agreement dated 14th January 2004, as amended with the appointment to Chief Financial Officer on 31st 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.

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 31st December 2015, the unexpired terms of the Chairman and Non-Executive Directors letters of appointment were:

	Date of Latest Letter of Appointment	Service Agreement Start Date	Service Agreement End Date	Unexpired Term at 31st December 2015
Paul Moody	30th April 2014	1st May 2014	30th April 2017	1 years 4 months
Michael Del Mar[1]	18th May 2015	1st June 2015	31st May 2016	5 months
Bill Shannon[2]	24th February 2015	8th May 2015	7th May 2016	4 months
Nick Gregg	23rd December 2015	1st January 2016	31st December 2018	3 years

Note 1: Michael Del Mar will retire from the Board at the conclusion of the 2016 Annual General Meeting.
Note 2: On 25th February 2016, a new letter of appointment was issued which extended the unexpired term above by 12 months.

Interests in Share Capital

The interests of the Directors who were in office at 31st December 2015, together with the interests of their close family, in the shares of the Company at the commencement, or date of appointment if later, and close of the financial year, were as follows:

	31st December 2015 Ordinary shares of 10p each	31st December 2014 Ordinary shares of 10p each
Beneficial		
Paul Moody	100,000	100,000
Chris Sander	525,930	525,930
Yvonne Monaghan	564,086	764,086
Michael Del Mar	200,000	200,000
Bill Shannon	125,000	125,000
	1,515,016	1,715,016
Issued share capital *	330,570,023	299,985,593
Directors' share holding	0.5%	0.6%
Non Beneficial		
Yvonne Monaghan, Chris Sander and others	588,452	588,452

* Issued share capital is as at the balance sheet date

There have been no changes in the Directors' interests in the shares of the Company during the period 31st December 2015 up until the time of signing this report.

BOARD REPORT ON REMUNERATION CONTINUED

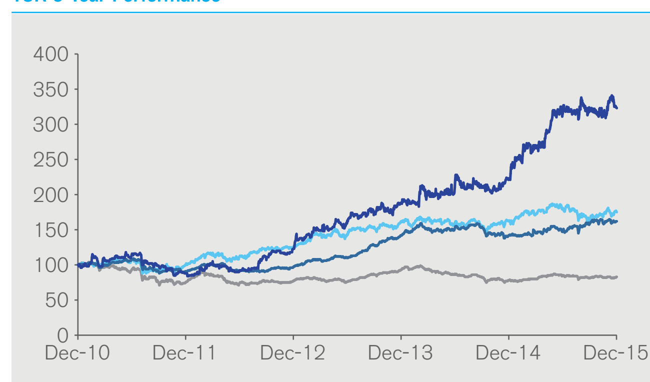
Performance Graph

Over the five years to 31st December 2015 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 223% against a net total shareholder return of 62%, 75% and minus 17% respectively.

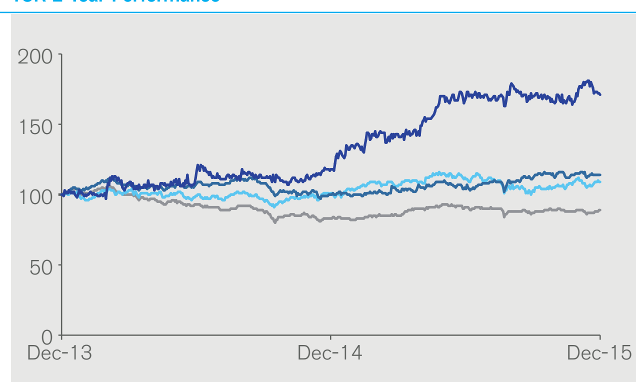
Over the two years to 31st December 2015 the Company has outperformed the FTSE AIM Industrial Goods and Services Index, the FTSE Support Services Index and the FTSE AIM All-Share Index with a net total shareholder return of 71% against a net total shareholder return of 14%, 9% and minus 11% respectively.

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 Company operates.

TSR 5 Year Performance



TSR 2 Year Performance



JSG | FTSE AIM All-Share | FTSE Support Services | FTSE AIM Industrial Goods & Services

Directors' Remuneration (Audited)

	Note	Basic Salary/Fees 2015 £000	Bonus/ Allowance 2015 £000	Cash in Lieu of Pension 2015 £000	Taxable Benefits 2015 £000	Total 2015 £000	Total 2014 £000
Executive Directors							
Chris Sander	1	315	167	56	27	565	549
Yvonne Monaghan	1,2	247	131	44	29	451	468
Non-Executive Directors							
Paul Moody	3	85	–	–	–	85	67
Michael Del Mar		37	–	–	–	37	36
Bill Shannon		36	–	–	–	36	35
Former Directors							
John Talbot	4	–	–	–	–	–	33
		720	298	100	56	1,174	1,188

Note 1: Details of the amounts included in the table above for Chris Sander and Yvonne Monaghan under 'Cash in Lieu of Pension' are set out on page 39.

Note 2: As set out within the Director biographies on page 20, Yvonne Monaghan is also a Non-Executive Director of NWF Group plc. She received, and retained, fees of £37,000 and £36,500 in 2015 and 2014 respectively for her services.

Note 3: Paul Moody was appointed Non-Executive Chairman of the Board on 1st May 2014. The figure included in the table above for 2014 reflects the increased amount paid in respect of his additional responsibility in his new role, together with the amount paid prior to that date in his previous role as a Non-Executive Director.

Note 4: John Talbot retired as Executive Chairman on 1st May 2014. The figure included in the table above for 2014 reflects the amount paid up until the date of retirement.

No Director waived any emoluments in respect of the years ended 31st December 2015 and 31st December 2014.

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 and close of the financial year (or date of resignation if earlier) were as follows:

	Date of Grant	At 31st December 2014	Options Granted During Year	Options Lapsed During Year	Options Cancelled During Year	Options Exercised During Year	At 31st December 2015	Option Price
Chris Sander								
Scheme 3	1st October 2013	17,526	–	–	–	–	17,526	43.75p
Scheme 1	13th March 2014	461,855	–	–	–	–	461,855	nil
Scheme 1	8th May 2015	–	393,750	–	–	–	393,750	nil
Scheme 2	8th May 2015	–	37,500	–	–	–	37,500	80.00p
Yvonne Monaghan								
Scheme 3	1st October 2013	17,526	–	–	–	–	17,526	43.75p
Scheme 1	13th March 2014	387,628	–	–	–	–	387,628	nil
Scheme 1	8th May 2015	–	308,750	–	–	–	308,750	nil
Scheme 2	8th May 2015	–	37,500	–	–	–	37,500	80.00p

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 35 to 36 of the Board Report on Remuneration.

Director Gains

No Director exercised options over shares in the Company during the year. Details of exercises in the prior year were disclosed on page 40 of the 2014 Annual Report.

Other Details

The mid market price of the Ordinary shares of 10p each on 31st December 2015 and 31st December 2014 was 87.75 pence and 62.00 pence respectively. During the year, the mid market price of the Ordinary shares of 10p each ranged between 61.50 pence and 92.75 pence (2014: 52.00 pence and 64.00 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 31st December 2015 to 1st March 2016, being the date of this report.

Pension Benefits of Executive Directors

Executive Directors are 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 and is entitled to a preserved benefit under the Johnson Group Defined Benefit Scheme (the 'JGDBS'), which is of the defined benefit type. The accrued pension entitlement shown 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 2015 £000	Accrued pension entitlement at December 2014 £000
Chris Sander	58	57
Yvonne Monaghan	48	47

From 1st April 2011, Chris Sander opted to become a deferred member of the JGDBS and receive a monthly cash amount equal to 16.0% of his monthly salary. From 1st January 2014, the monthly cash amount increased to 17.8% of his monthly salary.

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

The amounts payable in the year to Chris Sander and Yvonne Monaghan under the above arrangements were £56,070 and £43,966 respectively (2014: £49,840 and £41,830 respectively).

BOARD REPORT ON REMUNERATION CONTINUED

Both Executive Directors took a partial transfer of benefits on 31st March 2012.

Annual General Meeting

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

Michael Del Mar
Chairman, Remuneration Committee
1st March 2016

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHNSON SERVICE GROUP PLC

Report on the Group financial statements

Our opinion

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

- give a true and fair view of the state of the Group's affairs as at 31st December 2015 and of its profit and 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
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

The financial statements, included within the Annual Report and Accounts (the "Annual Report"), comprise:

- the Consolidated Balance Sheet as at 31st December 2015;
- the Consolidated Income Statement and Consolidated Statement of Comprehensive Income for the year then ended;
- the Consolidated Statement of Changes in Shareholders' Equity for the year then ended;
- the Consolidated Statement of Cash Flows for the year then ended;
- the accounting policies; and
- the notes to the Consolidated financial statements, which include other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview

- Overall Group materiality: £1.4 million which represents 5% of Adjusted Operating Profit.
- Within the Textile Rental reporting segment, we focused our work on the Apparelmaster, Stalbridge, London Linen and Bourne operating segments which account for more than 99% of the reporting segment revenue, and 100% of the reporting segment Adjusted Operating Profit.
- Within the Drycleaning segment, we focused our work on Johnsons Cleaners, which accounts for 90% of the reporting segment revenue and 75% of the reporting segment Adjusted Operating Profit.
- We performed procedures over three 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 consolidation adjustments, accounted for 95% of Adjusted Operating Profit and Revenue.
- The restructure within the Drycleaning segment.
- Goodwill and fixed asset impairment assessment.
- Accounting for the acquisition of London Linen and Ashbon.
- Accounting for complex customer arrangements.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)").

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, 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.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as "areas of focus" in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHNSON SERVICE GROUP PLC CONTINUED

Area of focus	How our audit addressed the area of focus
The restructure within the Drycleaning segment Refer to page 30 of the Audit Committee Report, page 52 of the Statement of Significant Accounting Policies and note 6 of the Consolidated Financial Statements. Further to the restructuring announced in 2012, the Group announced additional restructuring plans on 6th January 2015 within the Drycleaning segment. The announced restructuring resulted in the planned closure of a further 109 stores, with 101 stores closed in 2015. This restructuring gave rise to total exceptional costs in the year of £6.5 million, £3.6 million of which related to property related costs and provisions. The total property provision has continued to be utilised in 2015, with £8.1 million remaining as at 31st December 2015, which represents costs to be incurred including rent, rates, dilapidations and other costs of exiting stores identified for closure. We focused on this area because it is material in the context of the financial statements and estimating the extent of the remaining provision necessary involves subjective judgements, in particular, estimates on future lease obligation costs and expected dilapidations costs. Therefore, there is a risk that the provision is incorrectly valued.	We tested the Directors' key assumptions and estimates in determining the required level of provision by: → testing changes in dilapidations estimates by obtaining a better understanding over the condition of a sample of stores, achieved through discussions with management's expert, through leveraging store visits performed in the prior year, which validated the extent of work required for a sample of stores and agreeing back to available documentation between the Group and landlord as to expected costs to be incurred. Differences identified were within what we would consider to be an acceptable tolerance; → agreeing rent and rate costs provided for to third party documentation including lease agreements, invoices and rent review documentation without identifying any exceptions; and → assessing the other associated costs of exit, including legal costs, where we identified no material exceptions. In addition, we assessed the Directors' historical forecasting accuracy with respect to the cost of store closures by comparing provisions previously recognised with actual costs incurred following store closures, and did not find any material inaccuracies. We tested whether the costs allocated to the provision in 2015 were consistent with the purpose of the provision, by tracing expenditure to source documentation. Our testing did not identify any costs that were inappropriately allocated against the provision.
Goodwill and fixed asset impairment assessment Refer to page 30 of the Audit Committee Report, page 52 of the Statement of Significant Accounting Policies and note 12 of the Consolidated Financial Statements. The goodwill balance of £93.5 million relates to the four Textile Rental operating segments and the Drycleaning operating segment, which are all 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. Of the £93.5 million goodwill balance, £84.4 million relates to the four Textile Rental operating segment with £9.1 million relating to the Drycleaning operating segment. Given the trading performance of the Textile Rental businesses in the current and prior years and the significant headroom in the Directors' impairment review, we focused our risk on the Drycleaning operating segment. We focused our work on the Drycleaning operating segment due to the further restructuring within the segment in the year and the profitability of the segment being historically below management expectations.	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, and testing the underlying calculations. In doing so, we: → 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. This included considering historical like for like sales growth, customer contracts wins and losses (specific to the textile rental operating segments), new sales initiatives, assumed profit margins and known cost changes, specifically including the impact of the National Living Wage. 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 and found that past adverse variances from budgets were because of the timing of certain cost reduction measures which will be completed in 2016; → 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 testing the inputs into the calculation, including the cost of debt, equity risk premium and the beta factor. We obtained the Directors' sensitivity analysis and also performed our own sensitivities over the key drivers of the cash flow forecasts, being revenue and margin growth, and the discount rate used. Our discount rate sensitivity testing included developing an independent expectation of an appropriate discount rate with reference to data from other companies in the Group's industry and sectors and assessing the impact applying this rate would have on the recoverable amounts determined. 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. We determined that the disclosure detailed within note 12 is consistent with the requirements of IAS 36 'Impairment of assets'.

Area of focus	How our audit addressed the area of focus
Accounting for the acquisition of London Linen and Ashbon Services Refer to page 30 of the Audit Committee Report, page 52 of the Statement of Significant Accounting Policies and note 31 of the Consolidated Financial Statements. On 30th April 2015 the Group acquired 100% of the share capital of London Linen Supply limited ('London Linen') for consideration of £69.3 million. On 27th November 2015 the Group acquired 100% of the share capital of Ashbon Services Limited ('Ashbon') for consideration of £5.1 million. We focused on these areas because the accounting for acquisitions involved management judgements and estimates that have a material impact on the amounts recognised in the Group Financial Statements, including: → determining the fair value of the customer list acquired which the Directors valued at £25.5 million (London Linen) and £2.4 million (Ashbon), and the useful economic lives of those contracts, which were assessed as ten and six years respectively; and → the recognition of goodwill, the determination of what goodwill represents, and consideration as to whether any other intangible assets should have been recognised.	We obtained and read the relevant terms of the purchase agreements to inform our further audit procedures to test the accounting for the acquisitions. We tested the recognition in the Group's financial statements of the fair value of the assets and liabilities acquired (and residual goodwill). In doing so, we: → assessed the Directors' valuation of the acquired customer lists through assessing the reasonableness of the assumptions used in the calculations by ensuring they were consistent with our understanding of the acquisitions 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 inconsistencies in the assumptions determined by management; and → 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; we did not identify any.
Accounting for complex customer arrangements Refer to page 30 of the Audit Committee Report and page 53 of the Statement of Significant Accounting Policies. The Group, primarily through the Textile Rental segment, gives 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. We focused on this area because the amount of the 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 are 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 management's processes.	To test customer rebates, we: → recalculated, for a sample of customers, the total customer rebates recognised within the Income Statement in the year, and provided for at the balance sheet date, finding them to be broadly consistent; → used sales recorded in the year and the contractual arrangements agreed with each customer and compared this to the Directors' calculation, finding it to be not materially different; → compared the provision made at the prior year end to the amounts paid in 2015 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 by sales volume 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 that it has been accounted for in the right accounting period, and found no instances of amounts recorded in the wrong period.

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, the accounting processes and controls, and the industries in which the Group operates.

The Group is structured along two reporting segments being Textile Rental and Drycleaning. For the Textile Rental reporting segment, we performed an audit of the complete financial information of Apparelmaster, Stalbridge, London Linen and Bourne , which together account for 99% of the revenue and 100% of Adjusted Operating Profit for the segment. For the Drycleaning segment, which comprises Johnson Cleaners and Jeeves, we focused our audit procedures on Johnsons Cleaners (which accounts for 90% of the segment's revenue and 75% of its Adjusted Operating Profit), and performed an audit of its complete financial information. We performed an audit of the complete financial information of three Group companies, including Johnson Service Group PLC (the parent company of the Group), and audited the consolidation adjustments. The components where we performed full scope audit accounted for 95% of Group revenue and Adjusted Operating Profit.

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 on the financial statements as a whole.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHNSON SERVICE GROUP PLC CONTINUED

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

Overall Group materiality	£1.4 million (2014: £1.1 million).
How we determined it	5% of Adjusted Operating Profit.
Rationale for benchmark applied	Adjusted Operating Profit 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), exceptional items and discontinued operations.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £70,000 (2014: £54,000) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

The Directors have chosen to voluntarily report how they have applied the UK Corporate Governance Code (the "Code") as if the Company were a premium listed company. Under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to the Directors' statement about whether they considered it appropriate to adopt the going concern basis in preparing the financial statements. We have nothing material to add or to draw attention to.

As noted in the Directors' statement, the Directors have concluded that it is appropriate to adopt the going concern basis in preparing the financial statements. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the Directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the Directors' use of the going concern basis is appropriate. However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinions

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

As a result of the Directors' voluntary reporting on how they have applied the Code, under ISAs (UK & Ireland) we are required to report to you if, in our opinion:

→ information in the Annual Report is: — materially inconsistent with the information in the audited financial statements; or — apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or — otherwise misleading.	We have no exceptions to report.
→ the statement given by the Directors on page 23, in accordance with provision C.1.1 of the Code, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report.
→ the section of the Annual Report on pages 29 to 32, as required by provision C.3.8 of the Code, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report.

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 Code, under ISAs (UK & Ireland) we are required to report to you if we have anything material to add or to draw attention to in relation to:

→ the Directors' confirmation on page 28 of the Annual Report, in accordance with provision C.2.1 of the Code, 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.	We have nothing material to add or to draw attention to.
→ the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.	We have nothing material to add or to draw attention to.
→ the Directors' explanation on page 28 of the Annual Report, in accordance with provision C.2.2 of the Code, 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 material to add or to draw attention to.

Adequacy of information and explanations received

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. We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Other voluntary reporting

Opinion on additional disclosures

Corporate Governance Statement

The Company voluntarily prepares a corporate governance statement that includes the information with respect to internal control and risk management systems and about share capital structures required by the Disclosure Rules and Transparency Rules of the Financial Conduct Authority. The Directors have requested that we report on the consistency of that information with the financial statements.

In our opinion the information given in the Corporate Governance Statement as set out on pages 24 to 28 with respect to internal control and risk management systems and about share capital structures is consistent with the financial statements.

Matter on which we have agreed to report by exception

Corporate governance statement

The Company's voluntary Corporate Governance Statement includes details of the Company's compliance with the UK Corporate Governance Code. The Directors have requested that we review the parts of the Corporate Governance Statement relating to the ten further provisions of the UK Corporate Governance Code specified for auditor review by the Listing Rules of the Financial Conduct Authority as if the company were a premium listed company. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 23, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHNSON SERVICE GROUP PLC CONTINUED

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the company financial statements of Johnson Service Group PLC for the year ended 31st December 2015.

Graham Parsons (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
1st March 2016

CONSOLIDATED INCOME STATEMENT

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Revenue from continuing operations	1	234.4	210.4
Operating profit	2	15.4	13.4
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	1	27.9	21.8
Amortisation and impairment of intangible assets (excluding software amortisation)		(3.5)	(1.6)
Exceptional items	6		
– Restructuring and other costs		(7.5)	(1.3)
– Costs in relation to business acquisition activity		(1.5)	(0.6)
– Pension costs		–	(4.9)
Operating profit	2	15.4	13.4
Finance cost		(2.2)	(1.6)
Finance income		0.1	–
Notional pension interest		(0.6)	(0.2)
Total finance cost	7	(2.7)	(1.8)
Profit before taxation		12.7	11.6
Taxation charge*	9	(2.4)	(3.0)
Profit for the year from continuing operations		10.3	8.6
Result for the year from discontinued operations	32	–	–
Profit for the year attributable to equity holders		10.3	8.6
Earnings per share**	11		
Basic earnings per share			
From total operations		3.2p	2.9p
Fully diluted earnings per share			
From total operations		3.2p	2.9p
Adjusted basic earnings per share			
From total operations		6.3p	5.3p
Adjusted fully diluted earnings per share			
From total operations		6.3p	5.2p

The notes on pages 60 to 91 are an integral part of these financial statements.

* Including £0.8 million credit (2014: £0.4 million credit) relating to amortisation and impairment of intangible assets (excluding software amortisation) and £1.7 million credit (2014: £1.1 million credit) in relation to exceptional items of which £0.2 million credit (2014: £0.2 million charge) relates to the prior year.

** Earnings per share from continuing operations are the same as for total operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit for the year		10.3	8.6
Items that will not be subsequently reclassified to profit or loss			
Re-measurement and experience gains/(losses) on post-employment benefit obligations	23	1.2	(11.5)
Taxation in respect of re-measurement and experience (gains)/losses		(0.2)	2.3
Change in deferred tax due to change in tax rate		(0.2)	–
Items that may be subsequently reclassified to profit or loss			
Cash flow hedges (net of taxation) – fair value loss		(1.0)	(0.4)
– transfers to administrative cost		0.3	–
– transfers to finance cost		0.3	0.3
Other comprehensive income/(loss) for the year		0.4	(9.3)
Total comprehensive income/(loss) for the year		10.7	(0.7)

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 1st January 2014	26.2	14.1	1.6	0.6	(0.3)	28.3	70.5
Profit for the year	–	–	–	–	–	8.6	8.6
Other comprehensive loss	–	–	–	–	(0.1)	(9.2)	(9.3)
Total comprehensive loss for the year	–	–	–	–	(0.1)	(0.6)	(0.7)
Share options (value of employee services)	–	–	–	–	–	0.4	0.4
Purchase of shares by EBT*	–	–	–	–	–	(0.9)	(0.9)
Current tax on share options	–	–	–	–	–	1.2	1.2
Deferred tax on share options	–	–	–	–	–	(1.0)	(1.0)
Issue of share capital	3.8	0.4	–	–	–	10.2	14.4
Dividend paid	–	–	–	–	–	(3.9)	(3.9)
Transactions with Shareholders recognised directly in Shareholders' equity	3.8	0.4	–	–	–	6.0	10.2
Balance at 31st December 2014	30.0	14.5	1.6	0.6	(0.4)	33.7	80.0
Balance at 1st January 2015	30.0	14.5	1.6	0.6	(0.4)	33.7	80.0
Profit for the year	–	–	–	–	–	10.3	10.3
Other comprehensive (loss)/income	–	–	–	–	(0.4)	0.8	0.4
Total comprehensive (loss)/income for the year	–	–	–	–	(0.4)	11.1	10.7
Share options (value of employee services)	–	–	–	–	–	0.5	0.5
Deferred tax on share options	–	–	–	–	–	0.1	0.1
Issue of share capital	3.1	–	–	–	–	18.1	21.2
Dividend paid	–	–	–	–	–	(5.7)	(5.7)
Transactions with Shareholders recognised directly in Shareholders' equity	3.1	–	–	–	–	13.0	16.1
Balance at 31st December 2015	33.1	14.5	1.6	0.6	(0.8)	57.8	106.8

* 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 31st December 2015, the EBT held 20,739 shares (2014: 20,739).

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December 2015 £m	As at 31 December 2014 £m
Assets			
Non-current assets			
Goodwill	12	93.5	56.2
Intangible assets	13	36.6	11.7
Property, plant and equipment	14	58.2	51.3
Textile rental items	15	36.5	30.5
Trade and other receivables	17	0.4	3.3
Deferred income tax assets	21	3.4	4.6
		228.6	157.6
Current assets			
Inventories	16	2.7	2.1
Trade and other receivables	17	40.5	30.3
Cash and cash equivalents		0.1	0.2
		43.3	32.6
Liabilities			
Current liabilities			
Trade and other payables	18	52.6	43.7
Current income tax liabilities		2.9	1.5
Borrowings	20	7.3	6.9
Derivative financial liabilities	24	0.3	–
Provisions	22	6.2	4.6
		69.3	56.7
Net current liabilities		(26.0)	(24.1)
Non-current liabilities			
Post-employment benefit obligations	23	16.0	18.5
Deferred income tax liabilities	21	6.7	1.8
Trade and other payables	19	2.2	0.9
Borrowings	20	64.0	21.8
Derivative financial liabilities	24	0.6	0.4
Provisions	22	6.3	10.1
		95.8	53.5
Net assets		106.8	80.0
Equity			
Capital and reserves attributable to the company's shareholders			
Share capital	26	33.1	30.0
Share premium	28	14.5	14.5
Merger reserve		1.6	1.6
Capital redemption reserve		0.6	0.6
Hedge reserve		(0.8)	(0.4)
Retained earnings		57.8	33.7
Total shareholders' equity		106.8	80.0

The notes on pages 60 to 91 are an integral part of these financial statements.

The financial statements on pages 47 to 91 were approved by the Board of Directors on 1st March 2016 and signed on its behalf by:

Yvonne Monaghan
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Cash flows from operating activities			
Profit for the year		10.3	8.6
Adjustments for:			
Income tax charge/(credit) – continuing operations	9	2.4	3.0
– discontinued operations	32	–	(0.7)
Total finance cost – continuing operations	7	2.7	1.8
Depreciation		33.0	28.3
Amortisation		3.6	1.6
Decrease in inventories		0.1	0.2
(Increase)/decrease in trade and other receivables		(0.8)	0.6
Increase in trade and other payables		2.5	1.6
Loss on disposal of business	32	–	0.4
Costs in relation to business acquisition activity	6	1.5	0.6
Deficit recovery payments in respect of post-employment benefit obligations	23	(1.9)	(2.0)
Share-based payments	27	0.5	0.4
Post-employment benefit obligations	23	(0.1)	4.6
Decrease in provisions		(2.3)	(3.1)
Cash generated from operations		51.5	45.9
Interest paid		(2.2)	(2.0)
Taxation paid		(2.3)	(0.1)
Net cash generated from operating activities		47.0	43.8
Cash flows from investing activities			
Acquisition of business (net of cash acquired)	31	(70.4)	(22.4)
Proceeds from sale of business (net of cash disposed)	32	0.9	0.1
Purchase of property, plant and equipment		(4.4)	(11.6)
Proceeds from sale of property, plant and equipment		0.1	0.1
Purchase of intangible assets		–	(0.1)
Purchase of textile rental items		(27.5)	(24.9)
Proceeds received in respect of special charges		2.2	1.9
Net cash used in investing activities		(99.1)	(56.9)
Cash flows from financing activities			
Proceeds from borrowings		93.0	66.0
Repayment of borrowings		(54.3)	(70.0)
Capital element of finance leases		(1.6)	(0.8)
Purchase of own shares by EBT		–	(0.9)
Net proceeds from issue of Ordinary shares		21.2	14.4
Dividend paid		(5.7)	(3.9)
Net cash generated from financing activities		52.6	4.8
Net increase/(decrease) in cash and cash equivalents		0.5	(8.3)
Cash and cash equivalents at beginning of the year		(4.9)	3.4
Cash and cash equivalents at end of the year	33	(4.4)	(4.9)

The notes on pages 60 to 91 are an integral part of these financial statements.

Cash and cash equivalents at the end of the period include cash of £0.1 million and an overdraft of £4.5 million (2014: £0.2 million and £5.1 million respectively).

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Johnson Service Group PLC (the 'Company') and its subsidiaries (together the 'Group') provide textile related services to both businesses and the consumer. The two services are textile rental and laundry and retail drycleaning.

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 Group consolidated financial statements were authorised for issue by the Board on 1st March 2016.

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 Interpretation 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.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement 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 and/or Company

The following new standards, and amendments to standards, have been adopted by the Group for the first time for the financial year beginning on 1st January 2015:

- Annual improvements 2011-2013
- IFRIC 21, 'Levies' (effective 1st January 2014) (endorsed 17th June 2014)

The adoption of these new standards has had no material impact of the Group's financial statements.

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

The following new standards, and amendments to standards, have been published and are mandatory for accounting periods beginning after 1st January 2015 but have not been early adopted by the Group or Company and could have a material impact on the Group and Company financial statements:

- IFRS 9, 'Financial instruments' (effective 1st January 2018)
- IFRS 15, 'Revenue from contracts with customers' (effective 1st January 2018)
- IFRS 16, 'Leases' (effective 1st January 2019)
- Amendment to IAS 16, 'Property, plant and equipment' and IAS 38, 'Intangible assets', on depreciation and amortisation (effective 1st January 2016)
- Amendment to IAS 19, 'Employee benefits', on defined benefit plans (effective 1st July 2014) (endorsed for 1st Feb 2015)
- Annual improvements 2010-2012 cycle (effective 1st July 2014) (endorsed for 1st Feb 2015)
- Annual improvements 2011-2013 cycle (effective 1st July 2014) (endorsed for 1st Jan 2015)
- Amendments to IAS 27, 'Separate financial statements' on equity accounting (effective 1st January 2016)
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on sale or contribution of assets (effective 1st January 2016)
- Amendments to IFRS 10, 'Consolidated financial statements' and IAS 28, 'Investments in associates and joint ventures' on applying the consolidation exemption (effective 1st January 2016)
- Annual improvements (2014) (effective 1st January 2016)
- Amendments to IAS 1, 'Presentation of financial statements' disclosure initiative (effective 1st January 2016)
- Amendments to IAS 7, 'Statement of cash flows' (effective 1st January 2017)

At the time of preparing this report the Group continues to assess the possible impact of the adoption of these standards in future periods and updates will be provided in a future annual report.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Critical accounting estimates and assumptions

Estimates and judgements 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 Group 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) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated on page 55. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations or, where it is considered necessary, fair value less costs to dispose. These calculations require the use of estimates. For further information see note 12 of these Consolidated Financial Statements.

(b) Other intangible assets

Other intangible assets comprise brands and 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.

(c) Income taxes

The Group is subject to income taxes. Significant judgement 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.

(d) 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.

(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 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, the management's best estimate of the amounts recoverable 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 directly in the Income Statement. Costs directly attributable to the cost of the acquisition 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 provide 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.

Revenue recognition

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. The Group recognises monies received from customers as at the balance sheet date relating to services to be provided in future periods as deferred income which forms part of trade and other payables. 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.

Rendering of services

Revenue is recognised either on a per item basis for delivery of laundered textiles or on a regular basis in accordance with the terms of the contract for hotels, restaurants and events. Revenue for the supply and laundering of workwear is recognised on a regular basis in accordance with the terms of the contract. Drycleaning revenue is recognised at the time items are processed. Interest receivable on bank deposits and other items is not classed as revenue but included within finance income.

Sale of goods

Revenue is recognised when goods are sold from retail outlets or delivered to customers.

Rebates

Rebates payable to customers, and receivable from suppliers, are recognised in line with relevant contractual terms. Rebates payable to customers 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.

Exceptional items

Items that are material in size and 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

(i) Post-employment benefits

Group companies operate 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.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

(ii) Other post-employment benefit obligations

Some Group companies provide unfunded post-retirement healthcare benefits to some 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.

(iii) 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 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.

(iv) 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.

(v) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy. 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.

Discontinued operations and assets held for sale

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, or meet the criteria to be classified as held for sale under IFRS 5. Assets and disposal groups are classified as held for sale if their carrying amount will be principally recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable, expected to be completed within one year and the asset (or disposal group) is available for immediate sale in its present condition. Disposal groups or assets held for sale are held at the lower of their carrying amount on the date they are classified as held for sale and fair value less costs to sell.

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 suffered 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 28th 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 1st 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). Amortisation of computer software is charged to operating profit before amortisation and impairment of intangible assets (excluding software) and exceptional items.

Other intangible assets

Other intangible assets comprise brands and customer contracts and relationships, recognised at cost or fair value. 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 26th 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 under the course of construction until they are completed and put in use as management intended.

Property, plant and equipment bought through acquisition are accounted for as the fair value of assets acquired will be the deemed cost of these assets.

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

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Textile rental items

Textile rental items which principally comprise workwear garments, cabinet towels, linen and dust mats, are initially treated as stock. 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 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.

A provision for impairment of trade receivables is established 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. 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.

Where bank accounts have a right of set off the net position is shown as either a bank overdraft or a cash balance as appropriate. Bank overdrafts are shown within borrowings in current liabilities on the Balance Sheet.

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.

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 remediations 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 on 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.

Where management have identified a loss making trading property, but it is uneconomic to close at the present time, and it is unlikely to be restored to profitability, a provision has been recognised for the least net cost of exiting these stores.

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 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.

STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 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.

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), 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

(i) 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.

(ii) 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.

(iii) 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 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 period, 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 wholesale and retail 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. Sales to retail customers are generally settled in cash or using major credit cards.

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 are based on the Group's management and internal reporting structure as at 31st December 2015.

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 Textile Rental and Drycleaning. Within the Textile Rental reporting segment, four operating segments have been identified being Apparelmaster, Stalbridge, Bourne and London Linen. The Drycleaning reporting segment consists of one operating segment.

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 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, current income tax assets and cash and cash equivalents, all of which are managed on a central basis. Segment liabilities include non-bank borrowings but exclude deferred income tax liabilities, current income tax liabilities, bank borrowings and derivative financial 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 business segment as shown on pages 61 to 62.

Textile Rental

Supply and laundering of workwear garments, premium linen to the hotel, catering and corporate hospitality markets, linen to the volume hotel market and sale of ancillary items.

- Apparelmaster
- Stalbridge (including Ashbon)
- Bourne
- London Linen

Drycleaning

Provision of drycleaning, laundry and ironing services, carpet cleaning, upholstery cleaning, wedding dress cleaning and suede and leather cleaning.

- Johnsons Cleaners
- Jeeves

All Other Segments

Comprising of central and Group costs.

1 Segment analysis

Year ended 31st December 2015 Continuing	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Revenue	188.2	46.2	–	234.4
Result				
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	29.4	2.0	(3.5)	27.9
Amortisation and impairment of intangible assets (excluding software amortisation)	(3.5)	–	–	(3.5)
Exceptional items:				
– Restructuring and other costs	(1.0)	(6.5)	–	(7.5)
– Costs in relation to business acquisition activity	(1.5)	–	–	(1.5)
Operating profit/(loss)	23.4	(4.5)	(3.5)	15.4
Total finance cost				(2.7)
Profit before taxation				12.7
Taxation				(2.4)
Profit for the year				10.3

		Discontinued Operations £m	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Other information						
Non-current asset additions						
– Property, plant and equipment		–	7.6	0.7	–	8.3
– Textile rental items		–	28.4	–	–	28.4
Depreciation and amortisation expense						
– Property, plant and equipment		–	6.9	1.8	0.2	8.9
– Textile rental items		–	24.1	–	–	24.1
– Intangible software		–	0.1	–	–	0.1
– Customer Contracts		–	3.5	–	–	3.5
Balance sheet information						
Segment assets		1.5	234.6	19.2	13.1	268.4
Unallocated assets:	Deferred income tax assets					3.4
	Cash and cash equivalents					0.1
Total assets						271.9
Segment liabilities		(2.8)	(51.5)	(16.9)	(3.1)	(74.3)
Unallocated liabilities:	Deferred income tax liabilities					(6.7)
	Bank borrowings					(64.3)
	Current income tax liabilities					(2.9)
	Derivative financial liabilities					(0.9)
	Post-employment benefit obligations					(16.0)
Total liabilities						(165.1)

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

1 Segment analysis continued

Year ended 31st December 2014	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Revenue	155.0	55.4	–	210.4
Result				
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	23.8	1.6	(3.6)	21.8
Amortisation and impairment of intangible assets (excluding software amortisation)	(1.6)	–	–	(1.6)
Exceptional items:				
– Restructuring and other costs	(1.3)	–	–	(1.3)
– Costs in relation to business acquisition activity	(0.6)	–	–	(0.6)
– Pension costs	–	–	(4.9)	(4.9)
Operating profit/(loss)	20.3	1.6	(8.5)	13.4
Total finance cost				(1.8)
Profit before taxation				11.6
Taxation				(3.0)
Profit for the year – continuing operations				8.6
Result for the year – discontinued operations (note 32)				–
Profit for the year				8.6

		Discontinued Operations £m	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Other information						
Non-current asset additions						
– Property, plant and equipment		–	13.7	1.0	–	14.7
– Textile rental items		–	24.9	–	–	24.9
– Intangible software		–	–	0.1	–	0.1
Depreciation and amortisation expense						
– Property, plant and equipment		–	6.0	2.0	0.2	8.2
– Textile rental items		–	20.1	–	–	20.1
– Customer contracts		–	1.6	–	–	1.6
Balance sheet information						
Segment assets		1.1	148.5	20.9	14.9	185.4
Unallocated assets:	Deferred income tax assets					4.6
	Cash and cash equivalents					0.2
Total assets						190.2
Segment liabilities		(4.1)	(37.2)	(17.7)	(3.4)	(62.4)
Unallocated liabilities:	Deferred income tax liabilities					(1.8)
	Bank borrowings					(25.6)
	Current income tax liabilities					(1.5)
	Derivative financial liabilities					(0.4)
	Post-employment benefit obligations					(18.5)
Total liabilities						(110.2)

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

2 Expenses by function

	Continuing 2015 £m	Discontinued 2015 £m	Total 2015 £m	Continuing 2014 £m	Discontinued 2014 £m	Total 2014 £m
Revenue						
Rendering of services	229.5	–	229.5	205.4	–	205.4
Sale of goods	4.9	–	4.9	5.0	–	5.0
Total revenue	234.4	–	234.4	210.4	–	210.4
Cost of sales	(144.3)	–	(144.3)	(134.7)	–	(134.7)
Administrative costs	(31.7)	–	(31.7)	(27.8)	(0.3)	(28.1)
Distribution costs	(30.5)	–	(30.5)	(26.1)	–	(26.1)
Operating profit/(loss) before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	27.9	–	27.9	21.8	(0.3)	21.5
Amortisation and impairment of intangible assets (excluding software amortisation)	(3.5)	–	(3.5)	(1.6)	–	(1.6)
Exceptional items	(9.0)	–	(9.0)	(6.8)	–	(6.8)
Operating profit/(loss)	15.4	–	15.4	13.4	(0.3)	13.1

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

	Continuing 2015 £m	Discontinued 2015 £m	Total 2015 £m	Continuing 2014 £m	Discontinued 2014 £m	Total 2014 £m
Employee benefit expense (note 4)	102.1	–	102.1	91.9	–	91.9
Auditors' remuneration (note 3)	0.6	–	0.6	0.6	–	0.6
Amortisation of intangible assets:						
Software	0.1	–	0.1	–	–	–
Other intangible assets	3.5	–	3.5	1.6	–	1.6
Exceptional items	9.0	–	9.0	6.8	–	6.8
Depreciation and impairment of tangible fixed assets:						
Property, plant and equipment held under finance agreements	1.2	–	1.2	0.9	–	0.9
Owned property, plant and equipment	7.7	–	7.7	7.3	–	7.3
Textile rental items	24.1	–	24.1	20.1	–	20.1
Operating leases:						
Land and buildings	11.9	0.5	12.4	12.5	0.5	13.0
Sublet rental income	(1.8)	–	(1.8)	(1.6)	(0.1)	(1.7)
Plant and equipment	2.7	–	2.7	2.7	–	2.7

3 Auditors' remuneration

	2015 £m	2014 £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	0.2	0.2
Fees payable for services relating to tax compliance	0.1	0.1
Fees payable for services relating to transaction services	0.2	0.2
	0.6	0.6

Included within the above is an amount of £2,900 (2014: £53,600) in respect of fees payable to the Company's auditors for services relating to the audit of the Company's pension schemes.

Fees payable for services relating to transaction services are largely in relation to the acquisition of London Linen Supply Limited and Ashbon Services Limited in 2015 and the acquisition of the Bourne Services Group Limited in 2014.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

4 Employee benefit expense

Continuing operations	2015 £m	2014 £m
Wages and salaries	90.0	82.6
Social security costs	6.7	6.3
Redundancy costs	2.4	0.2
Cost of employee share schemes (note 27)	0.6	0.4
Private healthcare costs	0.4	0.5
Pension costs – defined benefit plans current service costs (note 23)	–	0.3
Pension costs – defined contribution plans (note 23)	2.0	1.6
Total	102.1	91.9

Redundancy costs of £2.2 million (2014: £nil) have been included within exceptional costs.

The monthly average number of persons (including Executive Directors) employed by the Group during the year was:

Continuing operations	2015	2014
Textile Rental	3,444	2,959
Drycleaning	1,343	1,747
All other segments	17	17
Total	4,804	4,723

5 Directors' emoluments

Detailed disclosures that form part of these financial statements are given in the Board Report on Remuneration on pages 34 to 40.

6 Exceptional items

	2015 £m	2014 £m
Restructuring and other costs – Textile Rental	(1.0)	(1.3)
– Drycleaning	(6.5)	–
	(7.5)	(1.3)
Costs in relation to business acquisition activity	(1.5)	(0.6)
Pension costs	–	(4.9)
Total exceptional items	(9.0)	(6.8)

Current year exceptional items

Restructuring and other costs – Textile Rental

A new processing facility has been constructed to replace an existing Textile Rental facility in Leeds. The total cost of this relocation, excluding the capital investment, was £2.3 million, of which, £1.3 million was charged to exceptional items in 2014 with the remaining cost of £1.0 million charged to exceptional items in 2015. Of the total cost, £0.9 million was non-cash relating to the impairment of property, plant and equipment.

Restructuring and other costs – Drycleaning

As previously announced on 6th January 2015, the Drycleaning business continues to operate in a difficult high street environment. In parallel with the strategy to develop alternative, more convenient collection and delivery locations, the lease profile of our existing estate was reviewed and 109 branches were identified, the majority of which had leases expiring in the two years to 2017, where renewal was unlikely to be financially viable. Of these branches, 101 closed during 2015.

The charge to the Group's Income Statement for the restructuring of the Drycleaning business and associated property provisions is, in aggregate, £6.5 million net. Of this charge £0.3 million was non-cash relating to the impairment of property, plant and equipment.

Costs in relation to business acquisition activity

During the year costs relating to business acquisition activity of £1.5 million have been recognised.

Professional fees of £0.5 million and Stamp Duty of £0.3 million were paid relating to the acquisition of London Linen. Professional fees of £0.2 million were paid in relation to the acquisition of Ashbon.

Costs of £0.4 million are in relation to reorganisation and integration costs relating to the two business acquisitions in the year.

The remainder of the costs relate to fees and expenses incurred during negotiations with undisclosed targets.

6 Exceptional items continued

Prior year exceptional items

Restructuring and other costs – Textile Rental

As noted above, £1.3 million was charged in 2014 in relation to the relocation of a processing facility in Leeds.

Costs in relation to business acquisition activity

During the prior year costs relating to business acquisition activity of £0.6 million were recognised. Professional fees of £0.4 million and Stamp Duty of £0.1 million were paid relating to the acquisition of Bourne. The remainder of the costs relate to fees and expenses incurred during negotiations with undisclosed targets.

Pension costs

During the prior year, the Group closed its defined benefit pension scheme, the Johnson Group Defined Benefit Scheme (JGDBS) to future accrual. The resulting past service cost of £4.7 million was recognised as an exceptional cost along with £0.2 million of associated fees.

7 Total finance cost

	2015 £m	2014 £m
Finance cost:		
– Interest payable on bank loans and overdrafts	(1.7)	(1.2)
– Amortisation of bank facility fees	(0.3)	(0.2)
– Provision discount unwind	(0.1)	(0.1)
– Interest payable on obligations under finance leases	(0.1)	(0.1)
Total finance costs before notional interest on post-employment benefit obligations	(2.2)	(1.6)
Finance income	0.1	–
Notional interest on post-employment benefit obligations:		
– Pension scheme liability	(0.6)	(0.1)
– Private healthcare	–	(0.1)
	(0.6)	(0.2)
Total finance cost	(2.7)	(1.8)

8 Adjusted profit before and after taxation

Continuing Operations	2015 £m	2014 £m
Profit before taxation	12.7	11.6
Amortisation and impairment of intangible assets (excluding software amortisation)	3.5	1.6
Restructuring and other costs	7.5	1.3
Costs in relation to business acquisition activity	1.5	0.6
Pension costs	–	4.9
Adjusted profit before taxation	25.2	20.0
Taxation on adjusted profit	(4.9)	(4.5)
Adjusted profit after taxation	20.3	15.5

9 Taxation

	2015 £m	2014 £m
Current tax		
UK corporation tax charge for the year	3.3	2.9
Adjustment in relation to previous years	(0.4)	(0.4)
Current tax charge for the year	2.9	2.5
Deferred tax		
Origination and reversal of temporary differences	(0.2)	(0.1)
Changes in statutory tax rate	(0.3)	–
Adjustment in relation to previous years	–	0.6
Deferred tax (credit)/charge for the year	(0.5)	0.5
Total charge for taxation included in the Income Statement for continuing operations	2.4	3.0

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

9 Taxation continued

The tax charge for the period is lower (2014: higher) than the effective rate of Corporation Tax in the UK of 20.25% (2014: 21.50%). The differences are explained below:

	2015 £m	2014 £m
Profit before taxation per the Income Statement	12.7	11.6
Profit before taxation multiplied by the effective rate of Corporation Tax in the UK	2.6	2.5
Factors affecting taxation charge for the year:		
Tax effect of expenses not deductible for tax purposes	0.4	0.3
Changes in statutory tax rate	(0.2)	–
Adjustments to tax in respect of prior periods	(0.4)	0.2
Total charge for taxation included in the Income Statement for continuing operations	2.4	3.0

Taxation in relation to amortisation and impairment of intangible assets (excluding software amortisation) has reduced the charge by £0.8 million (2014: reduced charge by £0.4 million). Taxation on exceptional items in the current year has reduced the charge for taxation relating to continuing operations by £1.7 million (2014: reduced charge by £1.1 million) of which £0.2 million credit (2014: £0.2 million charge) relates to the prior year.

The tax charge for the year is based on the effective rate of UK Corporation Tax for the period of 20.25% (2014: 21.50%). Changes to the UK corporation tax rates were announced on 8th July 2015. These changes were substantively enacted as part of Finance Bill 2015 on 26th October 2015. These include reductions to the main rate to reduce the rate to 19% from 1st April 2017 and to 18% from 1st April 2020.

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 19% being used to measure all deferred tax balances as at 31st December 2015. The impact of the change in tax rates to 19% has been £0.3 million credit in the Income Statement and a £0.2 million credit recognised directly in Shareholders' equity.

During the year, a £nil credit relating to current taxation (2014: £1.2 million credit) and a credit of £0.1 million relating to deferred taxation (2014: charge of £1.0 million) have been recognised directly in Shareholders' equity.

10 Dividends

Ordinary dividends paid and proposed	2015	2014
Dividends per share		
Final dividend proposed	1.45p	–
Interim dividend paid	0.65p	0.50p
Final dividend paid	–	1.20p

Shareholders' funds utilised	2015 £m	2014 £m
Final dividend proposed	4.8	–
Interim dividend paid	2.1	1.5
Final dividend paid	–	3.6

The Directors propose the payment of a final dividend in respect of the year ended 31st December 2015 of 1.45 pence per share. This will utilise Shareholders' funds of £4.8 million and will be paid, subject to Shareholder approval, on 13th May 2016 to Shareholders on the register of members on 15th April 2016. 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 31st December 2015 in respect of this proposed dividend.

11 Earnings per share

	2015 £m	2014 £m
Profit for the financial year from continuing operations attributable to Shareholders	10.3	8.6
Result for the financial year from discontinued operations attributable to Shareholders	–	–
Amortisation and impairment of intangible assets from continuing operations (net of taxation)	2.7	1.2
Exceptional costs from continuing operations (net of taxation)	7.3	5.7
Exceptional credit from discontinued operations (net of taxation)	–	(0.2)
Adjusted profit attributable to Shareholders relating to continuing operations	20.3	15.5
Adjusted loss attributable to Shareholders relating to discontinued operations	–	(0.2)
Adjusted profit attributable to Shareholders	20.3	15.3
Weighted average number of Ordinary shares	319,966,663	291,829,363
Dilutive potential Ordinary shares	3,239,840	5,001,228
Fully diluted number of Ordinary shares	323,206,503	296,830,591
Basic earnings per share		
From continuing operations	3.2p	2.9p
From discontinued operations	–	–
From continuing and discontinued operations	3.2p	2.9p
Adjustments for amortisation and impairment of intangible assets (continuing operations)	0.8p	0.4p
Adjustment for exceptional items (continuing operations)	2.3p	2.0p
Adjusted basic earnings per share (continuing operations)	6.3p	5.3p
Adjusted basic earnings per share (discontinued operations)	–	–
Adjusted basic earnings per share from continuing and discontinued operations	6.3p	5.3p
Diluted earnings per share		
From continuing operations	3.2p	2.9p
From discontinued operations	–	–
From continuing and discontinued operations	3.2p	2.9p
Adjustments for amortisation and impairment of intangible assets (continuing operations)	0.8p	0.4p
Adjustment for exceptional items (continuing operations)	2.3p	1.9p
Adjusted diluted earnings per share (continuing operations)	6.3p	5.2p
Adjusted diluted earnings per share (discontinued operations)	–	–
Adjusted diluted earnings per share from continuing and discontinued operations	6.3p	5.2p

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

Adjusted earnings per share figures are given to exclude the effects of amortisation and impairment 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 dilutive potential Ordinary shares. The Company has dilutive potential Ordinary shares arising from share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary shares during the year.

Potential 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 from continuing operations. For the years ended 31st December 2015 and 31st December 2014, potential 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 dilutive potential Ordinary shares outstanding at the balance sheet date if those transactions had occurred before the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

12 Goodwill

	2015 £m	2014 £m
Cost		
Brought forward	57.8	54.0
Business acquisitions (see note 31)	37.3	3.8
Carried forward	95.1	57.8
Accumulated impairment losses		
Brought forward	1.6	1.6
Carried forward	1.6	1.6
Carrying amount		
Opening	56.2	52.4
Closing	93.5	56.2

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:

	2015 £m	2014 £m
Apparelmaster	41.7	41.7
Stalbridge	3.8	1.6
Bourne	3.8	3.8
London Linen	35.1	–
Textile rental	84.4	47.1
Drycleaning	9.1	9.1
	93.5	56.2

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. Anticipated cash flows beyond a period of 20 years have been ignored. The growth rate does not exceed the long-term average growth rate for the markets in which the CGU's 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 cashflows.

The pre-tax discount rate used within the recoverable amount calculations was 4.66% (2014: 4.83%) and is based upon the weighted average cost of capital reflecting specific principal risks and uncertainties applicable to each CGU. 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 a predictive Beta factor for the Group (from the Barra Beta Book) 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, highlighted on pages 16 to 19, of this report as being the highest likelihood or impact, 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 given the difference in operations, customer base and trading performance over recent years. 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 judgements 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. Alternative use values may include, inter alia, fair value less costs to dispose.

12 Goodwill continued

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

	2015	2014
Annual growth rate (after budget period)	2.50%	2.50%
Risk free rate of return	2.74%	2.91%
Market risk premium	6.00%	6.00%
Beta Factor	0.33	0.37
Cost of debt	4.31%	3.02%

Textile Rental

Having completed the 2015 impairment review no impairment has been recognised in relation to the Textile Rental CGUs (2014: 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 management to be reasonably possible, which give rise to an impairment of goodwill relating to the Textile Rental CGUs.

Drycleaning

Having completed the 2015 impairment review no impairment has been recognised in relation to the Drycleaning CGU (2014: no impairment). Sensitivity analysis has been performed in assessing the recoverable amounts of goodwill. The excess valuation of the recoverable amount over the carrying value within the Drycleaning operating segment is £5.9 million. If the discount rate was to increase by 3.2%, or the growth rate (after the budgeted period) reduce by 5% then the recoverable amount would equal the carrying value.

13 Intangible assets

	Capitalised Software £m	Customer contracts £m	Total £m
Cost			
At 31st December 2013	0.5	11.2	11.7
Business acquisitions	–	10.2	10.2
Additions	0.1	–	0.1
At 31st December 2014	0.6	21.4	22.0
Business acquisitions (see note 31)	0.6	27.9	28.5
At 31st December 2015	1.2	49.3	50.5
Accumulated amortisation			
At 31st December 2013	0.5	8.2	8.7
Charged during the year	–	1.6	1.6
At 31st December 2014	0.5	9.8	10.3
Charged during the year	0.1	3.5	3.6
At 31st December 2015	0.6	13.3	13.9
Carrying amount			
At 31st December 2013	–	3.0	3.0
At 31st December 2014	0.1	11.6	11.7
At 31st December 2015	0.6	36.0	36.6

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

Other intangible assets comprise of customer contracts and relationships, as a result of business combinations. 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 31st December 2015 is nine years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

14 Property, plant and equipment

	Properties				
	Freehold £m	Long Leasehold £m	Short Leasehold £m	Plant and Equipment £m	Total £m
Cost					
At 31st December 2013	11.2	4.8	3.0	78.7	97.7
Business acquisitions	3.9	–	–	5.0	8.9
Additions	0.2	–	1.4	13.1	14.7
Disposals	–	–	–	(1.9)	(1.9)
At 31st December 2014	15.3	4.8	4.4	94.9	119.4
Business acquisitions (see note 31)	–	–	2.0	5.6	7.6
Additions	–	–	1.5	6.8	8.3
Disposals	(0.6)	(0.1)	(0.1)	(7.5)	(8.3)
At 31st December 2015	14.7	4.7	7.8	99.8	127.0
Accumulated depreciation and impairment					
At 31st December 2013	4.8	1.7	2.0	53.2	61.7
Charged during the year	0.6	–	0.1	7.5	8.2
Eliminated on disposals	–	–	–	(1.8)	(1.8)
At 31st December 2014	5.4	1.7	2.1	58.9	68.1
Charged during the year	0.1	–	0.5	8.3	8.9
Eliminated on disposals	(0.6)	(0.1)	(0.1)	(7.4)	(8.2)
At 31st December 2015	4.9	1.6	2.5	59.8	68.8
Carrying amount					
At 31st December 2013	6.4	3.1	1.0	25.5	36.0
At 31st December 2014	9.9	3.1	2.3	36.0	51.3
At 31st December 2015	9.8	3.1	5.3	40.0	58.2

The value of assets under construction at 31st December 2015 was £0.5 million (2014: £1.5 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:

	2015 £m	2014 £m
Plant and equipment	7.4	3.5

15 Textile rental items

	2015 £m	2014 £m
Cost		
Brought forward	51.7	46.0
Additions	28.4	24.9
Business acquisitions (see note 31)	3.9	1.6
Disposals	(14.2)	(17.0)
Special charges	(4.4)	(3.8)
Carried forward	65.4	51.7
Accumulated depreciation		
Brought forward	21.2	20.0
Charged during the year	24.1	20.1
Disposals	(14.2)	(17.0)
Special charges	(2.2)	(1.9)
Carried forward	28.9	21.2
Carrying amount		
Opening	30.5	26.0
Closing	36.5	30.5

16 Inventories

	2015 £m	2014 £m
New textile rental items	1.6	0.8
Goods for resale	0.2	0.4
Raw materials and stores	0.9	0.9
	2.7	2.1

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

	2015 £m	2014 £m
Opening inventories	2.1	2.0
Purchases	38.1	35.2
Business acquisitions (see note 31)	0.7	0.3
Amounts transferred to textile rental items	(28.4)	(24.9)
Amounts transferred to cost of sales	(9.8)	(10.4)
Amounts written off during the year	–	(0.1)
	2.7	2.1

The amounts above are net of an inventory provision of £0.6 million (2014: £0.7 million). During the period, the Group recognised an inventory provision expense relating to continuing operations of £0.1 million (2014: £0.1 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

17 Trade and other receivables

	2015 £m	2014 £m
Amounts falling due within one year:		
Trade receivables	30.9	24.2
Less: provision for impairment of receivables	(1.7)	(1.6)
Trade receivables – net	29.2	22.6
Other receivables	4.4	2.3
Prepayments	3.8	3.1
Accrued income	3.1	2.3
	40.5	30.3
Amounts falling due after more than one year:		
Other receivables	0.4	3.3
	40.9	33.6

During the period, the Group recognised a bad debt provision expense relating to continuing operations of £0.8 million (2014: £0.5 million).

The ageing of trade receivables, other receivables and accrued income is analysed below:

	2015 Gross £m	2015 Provision £m	2015 Net £m	2014 Gross £m	2014 Provision £m	2014 Net £m
Trade receivables, other receivables and accrued income						
– Not yet due and up to 3 months overdue	37.8	(0.9)	36.9	30.7	(0.8)	29.9
– 3 to 6 months past due	0.3	(0.1)	0.2	0.7	(0.1)	0.6
– 6 to 12 months past due	0.1	(0.1)	–	0.2	(0.2)	–
– Over 12 months past due	0.6	(0.6)	–	0.5	(0.5)	–
	38.8	(1.7)	37.1	32.1	(1.6)	30.5

Trade and other receivables which are less than three months past due are not considered impaired unless specific information indicates otherwise. Trade and other receivables greater than three months past due are considered for recoverability, and where appropriate, a provision against bad debt is recognised.

All trade and other receivable balances at the balance sheet date are denominated in Sterling (2014: Sterling), and are held at amortised cost. Given the short term nature 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:

	2015 £m	2014 £m
At 1st January	(1.6)	(1.7)
Provisions for receivables impairment	(1.1)	(0.7)
Amounts unused reversed	0.3	0.2
Receivables written off during the year as uncollectable	0.7	0.6
At 31st December	(1.7)	(1.6)

The creation and release of the provision for impaired receivables has been included in 'administrative costs' 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 figures in the table above reflect both continuing and discontinued operations.

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.

18 Trade and other payables

	2015 £m	2014 £m
Trade payables	14.9	13.4
Other payables	3.0	2.7
Other taxation and social security liabilities	6.9	6.4
Deferred income	1.0	1.7
Deferred consideration	0.2	–
Accruals	26.6	19.5
	52.6	43.7

All trade and other payables balances at the balance sheet date are denominated in Sterling (2014: 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)

	2015 £m	2014 £m
Deferred consideration	0.9	–
Deferred income	0.6	–
Accruals	0.7	0.9
	2.2	0.9

The difference between the book value and fair value of non-current trade and other payables is deemed to be not material.

20 Borrowings

	2015 £m	2014 £m
Current		
Overdraft	4.5	5.1
Bank loans	1.3	0.8
Obligations under finance lease agreements	1.5	1.0
	7.3	6.9
Non-current		
Bank loans	58.5	19.7
Obligations under finance lease agreements	5.5	2.1
	64.0	21.8
	71.3	28.7
The maturity of non-current bank loans is as follows:		
– Between one and two years	–	–
– Between two and five years	59.0	20.0
– Unamortised issue costs of bank loans	(0.5)	(0.3)
	58.5	19.7

At the 31st December 2015, the Group had a banking facility under which bank loans were secured and drawn down under a committed facility dated 24th April 2015. This facility comprises a £100.0 million rolling credit facility (including an overdraft) which runs to April 2020 and a £20.0 million short term facility expiring on 23rd April 2016. The additional short term facility was, however, cancelled on 30th November 2015 such that available facilities at 31st December 2015 were £100.0 million (2014: available facility of £60.0 million).

The Group has two overdraft facilities for £5.0 million and £3.0 million with two of its principal bankers (2014: £5.0 million and £3.0 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 1.25% and 2.25%. As at 31st December 2015, £20.0 million of the bank facility was subject to hedging arrangements which had the effect of replacing LIBOR with a fixed rate of 1.79%.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

20 Borrowings continued

The secured bank loans are stated net of unamortised issue costs of £0.7 million (2014: £0.5 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:

	2015 £m	2014 £m
Not more than one year		
Minimum lease payments	1.7	1.1
Interest element	(0.2)	(0.1)
Present value of minimum lease payments	1.5	1.0
Between one and five years		
Minimum lease payments	4.7	2.2
Interest element	(0.4)	(0.1)
Present value of minimum lease payments	4.3	2.1
More than five years		
Minimum lease payments	1.2	–
Interest element	–	–
Present value of minimum lease payments	1.2	–

Finance lease obligations are secured on the assets to which they relate.

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	
Recognised deferred income tax assets and liabilities	2015 £m	2014 £m	2015 £m	2014 £m
Depreciation in excess/(less than) of capital allowances	–	0.3	(1.4)	–
Employee share schemes	0.2	0.1	–	–
Post-employment benefit obligations	3.0	3.7	–	–
Derivative financial liabilities	0.2	0.1	–	–
Other short term timing differences	–	0.4	(0.3)	–
Separately identifiable intangible assets	–	–	(5.0)	(1.8)
	3.4	4.6	(6.7)	(1.8)

The deferred income tax assets disclosed above are deemed to be recoverable.

Tax losses of approximately £23.7 million were acquired as part of the acquisition of Sketchley Limited in May 2004. The method of utilisation of the losses has been formally agreed with HM Revenue & Customs; however there is no certainty that the tax relating to these losses will be recovered in the future. Accordingly, no deferred tax asset has been recognised within these financial statements in respect of the unutilised losses. At 31st December 2015, £1.4 million of these losses have been utilised, leaving future tax losses available of £22.3 million. Should the Group receive relief for the losses at a future date, this will give rise to a liability to the vendor of Sketchley Limited of up to £2.5 million (assuming a corporation tax rate of 19%), offsetting, in part, the tax benefit of the losses. Any payments due to the vendor are only payable when the Group has first received the cash benefit of the losses. During 2015 none of these tax losses have been utilised (2014: £nil).

21 Deferred taxation continued

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 31st December 2013	2.4	1.0	0.9	0.1	0.1	–	4.5
(Charge)/credit to income	(1.3)	0.1	0.5	–	0.3	0.2	(0.2)
Deferred income tax liabilities acquired	(0.8)	–	–	–	–	(2.0)	(2.8)
Credit to other comprehensive income	–	–	2.3	–	–	–	2.3
Charge to Shareholders' equity	–	(1.0)	–	–	–	–	(1.0)
At 31st December 2014	0.3	0.1	3.7	0.1	0.4	(1.8)	2.8
(Charge)/credit to income	(0.9)	–	(0.3)	–	(0.7)	2.4	0.5
Deferred income tax liabilities acquired	(0.8)	–	–	–	–	(5.6)	(6.4)
(Charge)/credit to other comprehensive income	–	–	(0.4)	0.1	–	–	(0.3)
Credit to Shareholders' equity	–	0.1	–	–	–	–	0.1
At 31st December 2015	(1.4)	0.2	3.0	0.2	(0.3)	(5.0)	(3.3)

The deferred income tax charge to income in 2015 includes £nil in respect of discontinued activities (2014: £0.3 million credit).

Changes to the UK corporation tax rates were announced on 8th July 2015. These changes were substantively enacted as part of the Finance Bill 2015 on 26th October 2015 and include reductions to the main rate to reduce the rate to 19% from 1st April 2017 and to 18% from 1st April 2020.

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 19% being used to measure all deferred income tax balances as at 31st December 2015. The impact of the change in tax rates to 19% has been £0.3 million credit in the Income Statement and a £0.2 million credit recognised directly in Shareholders' equity.

The Group has estimated that £0.6m of the Group's net 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.

22 Provisions

	Property £m	Self Insurance £m	Total £m
At 31st December 2013	17.0	0.7	17.7
Additional provision in the year	0.7	0.1	0.8
Provision discount unwind	0.1	–	0.1
Utilised during the year	(3.8)	(0.1)	(3.9)
At 31st December 2014	14.0	0.7	14.7
Additional provision in the year	3.8	0.1	3.9
Provision discount unwind	0.1	–	0.1
Released during the year	(0.1)	–	(0.1)
Utilised during the year	(6.0)	(0.1)	(6.1)
At 31st December 2015	11.8	0.7	12.5

	2015 £m	2014 £m
Analysis of total provisions		
Current	6.2	4.6
Non-current	6.3	10.1
	12.5	14.7

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

22 Provisions continued

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 judgements 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 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 a 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

The JSG Pension Plan is a defined contribution scheme. The total cost of employer contributions for the year for continuing operations was £1.9 million (2014: £1.6 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 31st December 2014.

The Group is currently undertaking a Flexible Retirement Option exercise. Deferred members aged over 55 received an offer from the Group during the second half of 2015 and members have received advice from an Independent Financial Advisor. Transfer value payments for those members accepting the offer are expected to be paid in early 2016.

The expected financial impact of the exercise has been recognised as a change in the assumption of the expected number of future transfers out of the Scheme. Last year this assumption was nil. As the transfer values to be paid are higher than the equivalent liabilities calculated using the IAS19 assumptions as at 31st December 2015, this has resulted in a loss estimated at £1.2 million being recognised within the re-measurement gains and losses due to changes in demographic assumptions.

A full actuarial valuation of the JGDBS was carried out at 5th October 2013 and has been updated to 31st December 2015 by an independent qualified actuary.

The updated actuarial valuation at 31st December 2015 showed a deficit of £14.7 million (2014: £17.2 million). During the year, no employer contributions were made (2014: £0.5 million).

Deficit recovery payments of £1.9 million (2014: £2.0 million) were made to the Scheme during the year. Further deficit recovery payments of £1.9 million are expected to be made in 2016.

Actuarial assumptions

Considerations when calculating the IAS 19 liability

IAS19(R) 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 15 years (2014: 15 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.

23 Post-employment benefit obligations continued

A summary of relevant considerations is set out below:

Assumption for valuing pension liabilities	Comments on prescribed conditions
Discount rate (pre and post retirement)	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 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 (e.g. rates of mortality and early retirement)	Compatible assumptions that lead to a best estimate of future cash flows

Considerations when calculating the IAS19 interest income on Scheme assets

Under IAS19(R), interest income rate, is deemed to be the same as the rate used to discount the scheme liabilities.

Assumptions used	2015	2014
Rate used to discount scheme liabilities	3.90%	3.65%
Retail price inflation (RPI)	3.00%	2.95%
Consumer price inflation (CPI)	1.80%	1.65%
Rate of increase of pensions in payment (5.0% RPI linked)	2.90%	2.85%
Rate of increase of pensions in payment (2.5% RPI linked)	2.00%	2.00%
Rate of increase of pensions in payment (2.5% CPI linked)	1.55%	1.50%
Rate of increase of pensions in deferment (JGDBS Scheme)	1.80%	1.65%

Life expectancy at age 60 for current male pensioners is assumed to be 26.5 years (2014: 26.7 years). Life expectancy at age 60 for male future pensioners is assumed to be 27.3 years (2014: 27.4 years). "S1NXA CMI 2015 with a 1.0% long term trend rate" has been used to derive these mortality rates (2014: "S1NXA CMI 2014 with a 1.0% 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 (2014: 100% of members will commute 25% of pension).

It has been assumed that 50% (2014: 50%) of future pensioners at retirement will exchange their non-statutory pension increases at retirement for a higher, but non-increasing pension.

Sensitivity of key assumptions

The table below gives an approximation of the impact on the IAS19(R) 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/reduce discount rate by 0.1%	(£2.7 million)/£2.7 million
Increase/reduce price inflation assumption by 0.1%	£1.2 million/(£1.1 million)
Increase/drop in equity markets by 5.0%	(£3.1 million)/£3.1 million

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

23 Post-employment benefit obligations continued

The above sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied as when calculating the pension liability recognised within the Balance Sheet. The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous period.

Private healthcare

The Group operates an unfunded defined benefit private healthcare scheme for eligible retirees. At 31st December 2015, the deficit of the scheme was £1.3 million (2014: £1.3 million). The Group accounted for a current service cost of £2,000 and a notional interest cost of £45,000 in the Income Statement (2014: £nil and £0.1 million respectively). Following the latest formal review, current service cost in 2016 is expected to be £2,000 with a notional interest cost of £45,000.

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 31st December 2014.

The latest review was performed using the projected unit credit method, and a discount rate of 3.75%. 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 £0.1 million and the aggregate of the service cost and interest cost by £4,000 per annum. A decrease of 1% in the medical cost trend would reduce the scheme liabilities by £0.1 million and the aggregate of the service cost and interest cost by £4,000 per annum.

Post-employment benefit obligations disclosures

The amounts charged to the Income Statement are set out below:

	2015 £m	2014 £m
Current service costs – charged to administrative costs	–	0.3
Past service costs (including associated expenses) – charged as an exceptional item	–	4.9
Net interest on defined benefit net liability	0.6	0.2
Total amounts charged to the Income Statement	0.6	5.4

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. Past service costs or credits and settlement gains or losses are charged or credited to exceptional items.

The prior year past service costs of £4.7 million, along with associated costs of £0.2 million, arose as a result of the closure of the JGDBS to future accrual as at 31st December 2014.

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:

	2015 £m	2014 £m
(Loss)/return on scheme assets excluding interest income	(5.2)	12.5
Re-measurement gains/(losses) arising from changes in demographic assumptions	0.5	(2.0)
Re-measurement gains/(losses) arising from changes in financial assumptions	5.9	(17.0)
Experience losses on liabilities	–	(5.0)
Total amounts recognised in the Statement of Comprehensive Income	1.2	(11.5)

23 Post-employment benefit obligations continued

Amounts recognised in the Balance Sheet are as follows:

	2015 £m	2014 £m
Present value of funded obligations	(207.1)	(215.5)
Fair value of scheme assets	192.4	198.3
Net defined benefit pension obligations	(14.7)	(17.2)
Post-retirement healthcare obligations	(1.3)	(1.3)
Net post-employment benefit obligations	(16.0)	(18.5)

Movements in the fair value of scheme assets were as follows:

	2015 £m	2014 £m
Fair value of scheme assets at beginning of the year	198.3	185.0
Interest income	7.1	8.2
(Loss)/return on scheme assets (excluding interest income)	(5.2)	12.5
Employer contributions (including benefits paid and reimbursed)	1.9	2.5
Members' contributions	–	0.3
Benefits paid	(9.7)	(10.2)
Fair value of scheme assets at end of the year	192.4	198.3

Movements in the fair value of scheme liabilities were as follows:

	2015 £m	2014 £m
Fair value of scheme liabilities at beginning of the year	(216.8)	(189.3)
Current service cost	–	(0.3)
Members' contributions	–	(0.3)
Interest expense	(7.7)	(8.4)
Re-measurement gains/(losses) from changes in demographic assumptions	0.5	(2.0)
Re-measurement gains/(losses) from changes in financial assumptions	5.9	(17.0)
Experience losses on liabilities	–	(5.0)
Past service cost	–	(4.7)
Benefits paid	9.7	10.2
Fair value of scheme liabilities at the end of the year	(208.4)	(216.8)

Movements in post-employment benefit obligations were as follows:

	2015 £m	2014 £m
Opening post-employment benefit obligation	(18.5)	(4.3)
Current service cost	–	(0.3)
Past service cost	–	(4.7)
Notional interest	(0.6)	(0.2)
Employer contributions	1.9	2.5
Re-measurement and experience gains/(losses)	1.2	(11.5)
Closing post-employment benefit obligation	(16.0)	(18.5)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

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	2015 Total Scheme £m	Quoted Market Price Active Market £m	No Quoted Market Price Active Market £m	2014 Total Scheme £m
Equities	62.7	–	62.7	66.2	–	66.2
Bonds	38.9	–	38.9	38.0	–	38.0
Liability driven investments	22.4	–	22.4	31.6	–	31.6
Real return funds	25.7	–	25.7	26.8	–	26.8
Alternative return seeking assets	4.7	28.6	33.3	3.9	29.5	33.4
Cash and cash equivalents	9.4	–	9.4	2.3	–	2.3
Total market value of assets	163.8	28.6	192.4	168.8	29.5	198.3

The assets of the pension scheme include no (2014: none) shares in the Group.

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 trustees 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 trustees 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

	2015 £m	2014 £m
Cash at bank and in hand		
– Sterling	0.1	0.2
– Euros	–	–
– US Dollars	–	–
At 31st December	0.1	0.2

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.

At the balance sheet date, cash was held with the following institutions:

	Rating	2015 £m	2014 £m
Cash at bank and in hand			
– Royal Bank of Scotland	A-2	0.1	0.2
– Lloyds Bank	A-1	–	–
Total cash and cash equivalents		0.1	0.2

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.

24 Financial instruments continued

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

	2015 As per Balance Sheet £m	2015 Future Interest Cost £m	2015 Total Cash Flows £m	2014 As per Balance Sheet £m	2014 Future Interest Cost £m	2014 Total Cash Flows £m
Overdraft	4.5	–	4.5	5.1	–	5.1
Bank loans*	59.8	–	59.8	20.5	–	20.5
Finance leases	7.0	0.6	7.6	3.1	0.2	3.3
Provisions	12.5	0.2	12.7	14.7	0.4	15.1
Derivative financial instruments	0.9	–	0.9	0.4	–	0.4
	84.7	0.8	85.5	43.8	0.6	44.4

The overdraft of £4.5 million (2014: £5.1 million) comprises cash balances of £4.5 million (2014: £2.6 million) and overdraft balances of £9.0 million (2014: £7.7 million) which are subject to offset.

* 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 £1.7 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%.

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.

	Overdrafts £m	Bank Loans £m	Finance Leases £m	Provisions £m	Derivative Financial Instruments £m	Total £m
As at 31st December 2015						
Due within one year	4.5	1.3	1.7	6.3	0.3	14.1
Due within one to two years	–	–	1.6	2.3	0.4	4.3
Due within two to five years	–	58.5	3.1	1.7	0.2	63.5
Due after more than five years	–	–	1.2	2.4	–	3.6
	4.5	59.8	7.6	12.7	0.9	85.5
As at 31st December 2014						
Due within one year	5.1	0.8	1.1	4.7	0.4	12.1
Due within one to two years	–	–	0.8	5.5	–	6.3
Due within two to five years	–	19.7	1.1	3.5	–	24.3
Due after more than five years	–	–	0.3	1.4	–	1.7
	5.1	20.5	3.3	15.1	0.4	44.4

Interest rate risk profile

	Fixed Rate Financial Liabilities £m	Floating Rate Financial Liabilities £m	Financial Liabilities on which no Interest is paid £m	Total £m
As at 31st December 2015				
Sterling	37.0	42.5	5.2	84.7
As at 31st December 2014				
Sterling	23.1	14.7	6.0	43.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

24 Financial instruments continued

The Group's creditors falling due within one year (other than bank and other borrowings) are excluded from the above tables either due to the exclusion of short term items or because they do not meet the definition of a financial liability.

Fixed rate financial liabilities

At 31st December 2015 the Group's fixed rate financial liabilities related to bank borrowings that are covered by interest rate swaps and assets held under finance leases (2014: Interest rate swaps and assets held under finance leases).

For assets held under finance leases the average interest rate incurred is 3.3% (2014: 3.6%) and the weighted average period remaining is 65 months (2014: 46 months).

The Group has entered into a number of interest rate swaps, the effect of which is to classify £30.0 million (2014: £20.0 million) of the Group's borrowings as fixed rate. The details of the two new interest swaps are as follows:

- Interest swaps classifying £15.0 million of debt as fixed rate from 8th January 2016 to 8th January 2019. The rate, excluding margin, is 1.4725%.
- Interest swaps classifying £15.0 million of debt as fixed rate from 8th January 2016 to 8th January 2020. The rate, excluding margin, is 1.665%.

At the 31st December 2015, there remains an interest swap in place for £20.0 million of borrowings, whereby LIBOR is replaced by a fixed rate of 1.79% until 8th January 2016.

Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31st December 2015 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 27 months (2014: 27 months).

The variation in the interest rate of floating rate financial liabilities (with all other variables held constant) required to increase post-tax profit for the year by £0.1 million is 50 basis points (2014: 100 basis points). The variation in the interest rate of floating rate financial liabilities (with all other variables held constant) required to decrease post-tax profit for the year by £0.1 million is 50 basis points (2014: 100 basis points).

Fair values of financial liabilities

Bank loans are drawn down and interest set for no more than a six month period (2014: 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 dependant 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 31st December 2015 and 31st December 2014 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 2015 £m	Fair Value 2014 £m
Derivative financial instruments held:		
– Interest rate products	(0.3)	(0.2)
– Commodity products	(0.6)	(0.2)

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.

The Group has hedged 4.8 million litres of diesel in the period to 31st December 2017 representing approximately 50% of its expected diesel consumption. The hedged price is 35.25 pence per litre.

24 Financial instruments continued

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 exchanges rates that would have a material effect on the Company.

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.

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 £156.0 million of bank facilities; 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

26 Called-up share capital

	2015 £m	2014 £m
Authorised		
383,025,739 (2014: 383,025,739) Ordinary shares of 10p each	38.3	38.3

Issued and Fully Paid	2015 Shares	2015 £m	2014 Shares	2014 £m
Ordinary shares of 10p each:				
– At start of period	299,985,593	30.0	262,326,451	26.2
– New shares issued	30,584,430	3.1	37,659,142	3.8
– At end of period	330,570,023	33.1	299,985,593	30.0

Issue of Ordinary shares of 10p each

An analysis of the new shares issued in each period is shown below:

Issued and Fully Paid		2015 Shares	2015 £	2014 Shares	2014 £
Ordinary shares of 10p each:					
– Placing	note 1	30,011,802	3,001,180	26,253,940	2,625,394
– EBT	note 2	–	–	9,090,000	909,000
– Approved LTIP	note 3	78,632	7,863	1,140,281	114,028
– SAYE	note 4	493,996	49,400	1,174,921	117,492
New shares issued		30,584,430	3,058,443	37,659,142	3,765,914

Note 1: During the period the Group placed 30,011,802 (2014: 26,253,940) Ordinary shares with existing and new institutional investors raising net proceeds of £21.1 million (2014: £12.8 million) of which £3.0 million (2014: £2.6 million) was credited to share capital. The placing was undertaken using a cash box structure. As a result, 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.

Note 2: During the year, nil (2014: 9,090,000) 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 in the year was £nil (2014: £909,000). In the prior year, at the time of allotment, the EBT already held 31,000 Ordinary shares of 10 pence each which, together with the 9,090,000 newly allotted Ordinary shares of 10 pence each, were part used to satisfy the exercise of 9,100,261 LTIP options.

Note 3: 78,632 (2014: 1,140,281) Approved LTIP options were exercised with a total nominal value of £7,863 (2014: £114,028).

Note 4: 493,996 (2014: 1,174,921) SAYE Scheme options were exercised with a total nominal value of £49,400 (2014: £117,492).

The total proceeds received on allotment in respect of all of the above transactions were £21.2 million (2014: £14.4 million) and were credited as follows:

	2015 £m	2014 £m
Share capital	3.1	3.8
Share premium	–	0.4
Retained earnings	18.1	10.2
	21.2	14.4

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 28.50 pence to 82.75 pence.

26 Called-up share capital continued

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 31st December 2015, 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	13th March 2014	1,089,483	Note 1	Nil
LTIP	8th May 2015	1,182,500	Note 1	Nil
Approved LTIP	8th May 2015	225,000	Note 1	80.00p
		2,496,983		
SAYE Scheme	6th October 2011	454,490	1st December 2016	28.50p
SAYE Scheme	1st October 2013	1,393,481	1st December 2016	43.75p
SAYE Scheme	1st October 2013	398,934	1st December 2018	43.75p
SAYE Scheme	1st October 2015	1,237,014	1st December 2018	82.75p
SAYE Scheme	1st October 2015	561,598	1st December 2020	82.75p
		4,045,517		
		6,542,500		

Note 1: 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 exercise price is determined by the Remuneration Committee. 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.

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 day 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 period in respect of all share schemes are summarised below:

	2015 Number of Options	2015 Weighted Average Exercise Price (p)	2014 Number of Options	2014 Weighted Average Exercise Price (p)
Executive schemes				
Outstanding at beginning of the period	1,233,543	2p	11,048,675	4p
Granted during the period	1,407,500	13p	1,089,483	–
Exercised during the period	(78,632)	31p	(10,240,542)	3p
Lapsed during the period	(65,428)	9p	(664,073)	6p
Outstanding at the end of the period	2,496,983	7p	1,233,543	2p
Exercisable at the end of the period	–	–	144,060	21p
SAYE schemes				
Outstanding at beginning of the period	3,008,543	37p	4,381,284	33p
Granted during the period	1,798,612	83p	–	–
Exercised during the period	(493,083)	21p	(1,174,921)	26p
Lapsed during the period	(268,555)	31p	(197,820)	25p
Outstanding at the end of the period	4,045,517	59p	3,008,543	37p
Exercisable at the end of the period	–	–	137,913	29p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

27 Share based payments continued

For options outstanding at 31st December 2015, the exercise date and the exercise price are disclosed within note 26.

During the year the Group recognised total expenses of £0.6 million including associated social security costs of £0.1 million (2014: £0.4 million) in relation to equity-settled share based payment transactions.

The average share price of Johnson Service Group PLC during the period was 82.0 pence (2014: 57.8 pence).

The aggregate gain made by Directors on the exercise of share options during the period was £nil (2014: £4,491,158). Further details are disclosed within the Board Report on Remuneration on pages 34 to 40.

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 2015	Options Granted During 2014
Weighted average share price at date of grant (pence)	87	61
Weighted average exercise price (pence)	34	–
Weighted average fair value (pence)	41	43
Expected volatility (%)	24.8	23.3
Expected life (years)	3.4	3.0
Risk free interest rate (%)	0.8	1.1
Expected dividend yield (%)	2.4	2.8

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

	2015 £m	2014 £m
Balance brought forward	14.5	14.1
Received on allotment of shares	–	0.4
Balance carried forward	14.5	14.5

29 Own shares

	2015 £m	2014 £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 (see note 26).

The number of shares and the market value at the balance sheet date are as follows:

	2015	2014
Number of shares held	20,739	20,739
Market value £m	–	–

30 Reconciliation of movements in shareholders' equity

	2015 £m	2014 £m
Profit for the period	10.3	8.6
Dividends	(5.7)	(3.9)
	4.6	4.7
Other recognised gains and losses relating to the year:		
Issue of share capital	21.2	14.4
Share options (value of employee service)	0.5	0.4
Purchase of shares by Employee Benefit Trust	–	(0.9)
Re-measurement and experience gains/(losses) (net of taxation)	1.0	(9.2)
Change in deferred tax due to change in tax rate	(0.2)	–
Current tax on share options	–	1.2
Deferred tax on share options	0.1	(1.0)
Cash flow hedges movement	(0.4)	(0.1)
Net addition to Shareholders' equity	26.8	9.5
Opening Shareholders' equity	80.0	70.5
Closing Shareholders' equity	106.8	80.0

31 Business combinations

London Linen

On 30th April 2015 the Group acquired the entire share capital of London Linen Supply Limited ('London Linen') for a net consideration of £64.9 million (being £69.3 million consideration less cash acquired of £4.4 million) plus associated fees of £0.8 million.

London Linen's operations are focused on the restaurant and catering linen rental market and it currently supplies some 900 customers at over 3,400 locations. London Linen operates from a 76,000 sq ft leased premises located in Southall, West London, which processes, on average, 1.6 million pieces of linen per week, with a peak of some 2.0 million pieces.

Since acquisition, London Linen has generated a profit of £2.3 million on revenue of £23.1 million. Had the business been acquired at the start of the year it is estimated that profit of £3.6 million would have been generated on revenue of £33.2 million.

The fair values of the assets and liabilities acquired are as follows:

	Net assets acquired £m	Fair value adjustments £m	Accounting policy realignment £m	Fair value of assets acquired £m
Intangible assets – Goodwill	–	35.1	–	35.1
Intangible assets – Customer contracts	–	25.5	–	25.5
Intangible assets – Software	0.6	–	–	0.6
Property, plant and equipment	6.6	–	(0.3)	6.3
Textile rental items	2.9	–	0.6	3.5
Inventories	1.0	–	(0.3)	0.7
Trade and other receivables	4.4	–	0.2	4.6
Cash	4.4	–	–	4.4
Trade and other payables	(4.6)	–	(0.2)	(4.8)
Current income tax liability	(0.7)	–	0.1	(0.6)
Deferred income tax liability	(0.9)	(5.1)	–	(6.0)
	13.7	55.5	0.1	69.3

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.

Ashbon

On 27th November 2015, the Group acquired the entire share capital of Ashbon Services Limited ('Ashbon') for a net consideration of £5.5 million, of which £1.1 million was deferred, plus associated fees of £0.2 million. £0.2 million of the deferred consideration was payable to the vendors upon finalisation of the completion accounts. This amount was paid subsequent to the year end. The remaining £0.9 million will be payable, either to the vendors, to HMRC, or proportionately between the vendors and HMRC, upon reaching agreement with HMRC as to certain employment taxation matters relating to prior years. Such agreement is not expected within 12 months of the balance sheet date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

31 Business combinations continued

Ashbon, which serves the catering, hotel and leisure industries from its processing plant in Grantham, complements the Group's existing Stalbridge, Bourne and London Linen businesses, providing operational efficiencies and additional production capacity for the Midlands and North of England.

Since acquisition, Ashbon has generated a profit of £nil on revenue of £0.3 million. Had the business been acquired at the start of the period it is estimated that profit of £0.5 million would have been generated on revenue of £5.1 million.

The fair values of the assets and liabilities acquired are as follows:

	Net assets acquired £m	Fair value adjustments £m	Accounting policy realignment £m	Fair value of assets acquired £m
Intangible assets – Goodwill	–	2.2	–	2.2
Intangible assets – Customer contracts	–	2.4	–	2.4
Property, plant and equipment	1.3	–	–	1.3
Textile rental items	0.6	–	(0.2)	0.4
Trade and other receivables	2.7	–	–	2.7
Deferred income tax asset	0.1	–	–	0.1
Trade and other payables	(1.6)	–	–	(1.6)
Loan obligations	(0.9)	–	–	(0.9)
Finance Lease obligations	(0.4)	–	–	(0.4)
Current income tax liability	(0.2)	–	–	(0.2)
Deferred income tax liability	–	(0.5)	–	(0.5)
	1.6	4.1	(0.2)	5.5

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.

Both London Linen and Ashbon have been included in the textile rental segment, London Linen as a separate CGU and Ashbon within the Stalbridge CGU.

Cash flows from business acquisition activity

The cash flows in relation to business acquisition activity are summarised below:

	2015 £m	2014 £m
Consideration paid	73.7	26.7
Cash acquired	(4.4)	(4.9)
Costs in relation to business acquisition activity	1.1	0.6
	70.4	22.4

A further £0.4 million of business acquisition costs are expected to be paid in 2016.

In 2014, the Group acquired the entire share capital of Bourne Services Group Limited along with its subsidiary company Bourne Textile Services Limited (together 'Bourne') for gross consideration of £26.7 million plus fees. Full details were provided in the 2014 Annual Report. There have been no changes to the fair values stated.

32 Disposals and discontinued operations

There were no business disposals in the current or prior year.

On 30th June 2013, the assets and liabilities of the Facilities Management division were classed as a disposal group and, as a result, the value of the assets held for resale was impaired by £9.0 million. On the 7th August 2013 the Facilities Management division was disposed of for total consideration of £37.7 million (including £1.5 million of deferred and contingent consideration), of which £36.2 million was received at completion, resulting in a profit on disposal of £1.1 million. Full details of the assets and liabilities disposed of are provided in the 2013 Annual Report.

At the point of disposal, the deferred and contingent consideration of £1.5 million represented £0.8 million of deferred consideration and £1.4 million of contingent consideration less a provision of £0.7 million representing the Group's best estimate of the contingent consideration to be received. A further £0.4 million of provision against contingent consideration was recognised in the prior year taking the provision against contingent consideration to a total of £1.1 million.

32 Disposals and discontinued operations continued

The deferred consideration of £0.8 million, together with £0.2 million of the contingent consideration (£0.1 million received in 2014), has been received in 2015.

Of the total disposal costs of £2.2 million, payments totalling £1.9 million were made in 2013. In 2015, payments of £0.1 million were made. As at 31st December 2015 there is an outstanding creditor in relation to the costs of disposal of £0.2 million. This is expected to be paid in 2016.

No further costs for discontinued operations have been recognised in the year.

In 2014 discontinued operations includes the following items:
- Additional provisions of £0.3 million relating to future lease commitments on properties, along with the related taxation credit.
- A revision of the best estimate of the contingent consideration receivable which has resulted in a loss of £0.4 million.
- A tax credit of £0.6 million relating to the disposal of the Facilities Management division in 2013.

The total result relating to discontinued operations is as follows:

	2015 £m	2014 £m
Operating loss before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	–	(0.3)
Loss before exceptional finance costs and taxation from discontinued operations	–	(0.3)
Taxation credit	–	0.1
Loss for the period	–	(0.2)
Pre-tax loss on disposal	–	(0.4)
Taxation credit	–	0.6
Gain on disposal	–	0.2
Retained result from discontinued operations	–	–

Cash flows from discontinued operations

The cash flows from discontinued operations included within the Consolidated Statement of Cash Flows are as follows:

	2015 £m	2014 £m
Proceeds from disposal	1.0	0.1
Payment of costs relating to disposals	(0.1)	–
Net proceeds from sale of business	0.9	0.1
Net cash used in operating activities	(1.2)	(0.8)
Net cash flow	(0.3)	(0.7)

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.

December 2015

	At 1st January 2015 £m	Cash Flow £m	Non-cash Changes £m	At 31st December 2015 £m
Cash and cash equivalents (per Consolidated Statement of Cash Flows)	(4.9)	0.5	–	(4.4)
Debt due within one year	(0.8)	0.3	(0.8)	(1.3)
Debt due after more than one year	(19.7)	(39.0)	0.2	(58.5)
Finance leases	(3.1)	1.6	(5.5)	(7.0)
	(28.5)	(36.6)	(6.1)	(71.2)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

33 Analysis of net debt continued

December 2014

	At 1st January 2014 £m	Cash Flow £m	Non-cash Changes £m	At 31st December 2014 £m
Cash and cash equivalents (per Consolidated Statement of Cash Flows)	3.4	(8.3)	–	(4.9)
Debt due within one year	–	(1.0)	0.2	(0.8)
Debt due after more than one year	(25.0)	5.0	0.3	(19.7)
Finance leases	(2.9)	0.8	(1.0)	(3.1)
	(24.5)	(3.5)	(0.5)	(28.5)

34 Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
Increase / (decrease) in cash (per the Consolidated Statement of Cash Flows)	0.5	(8.3)
Cash (outflow) / inflow on change in debt and lease financing	(37.1)	4.8
Change in net debt resulting from cash flows	(36.6)	(3.5)
Debt acquired through business acquisition	(0.9)	–
Movement in unamortised bank facility fees	0.3	0.5
New finance leases	(5.5)	(1.0)
Movement in net debt	(42.7)	(4.0)
Opening net debt	(28.5)	(24.5)
Closing net debt	(71.2)	(28.5)

35 Financial commitments

Capital expenditure

Contracts placed for future financial expenditure contracted but not provided for in the consolidated financial statements are shown below:

	2015 £m	2014 £m
Property, plant and equipment	0.6	1.5

Revenue expenditure

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

	2015 £m	2014 £m
Land and buildings		
– within one year	9.2	10.0
– between two and five years	27.6	25.4
– in five years or more	29.0	24.8
	65.8	60.2
Plant and machinery		
– within one year	1.8	1.9
– between two and five years	1.7	2.3
	3.5	4.2

The total of future minimum sublease payments to be received under non-cancellable leases at the balance sheet date is £2.4 million (2014: £3.2 million).

36 Events after the reporting period

The following event occurring after the balance sheet date has been disclosed in accordance with IAS 10, 'Events after the reporting period'.

Acquisition

On 31st January 2016 the Group acquired the entire share capital of Zip Textiles (Services) Limited ('Zip') for a cash consideration of £15.0 million on a debt-free, cash-free basis, together with additional debt of £2.7 million in relation to the financing of recently installed processing equipment.

Zip, which serves the high volume hotel and leisure sectors from its processing plant in Birmingham, complements JSG's existing Bourne business provides geographical reach, operational efficiencies and additional production capacity for central England, with the potential to expand this further.

Whilst expected to be immediately earnings enhancing, the main focus of this acquisition is to improve operational capacity and extend the Company's reach of existing hotel customers.

Zip reported revenue of £7.0 million for the year to 31st January 2015. The business operates from a freehold property (book value of £4.4 million) which was extended in 2015 and fitted out with modern equipment at a cost of some £2.7 million.

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF JOHNSON SERVICE GROUP PLC

Report on the Company financial statements

Our opinion

In our opinion, Johnson Service Group PLC's Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Company's affairs as at 31st December 2015 and of its 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 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.

What we have audited

The financial statements, included within the Annual Report, comprise:

- the Company Balance Sheet as at 31st December 2015;
- the Company Statement of Changes in Shareholders Equity for the year then ended;
- the Company Statement of Cash Flows for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

The directors have chosen to voluntarily comply with the UK Corporate Governance Code (the 'Code') as if the company were a premium listed company. Under International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)') we are required to report to you if, in our opinion, information in the Annual Report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the company acquired in the course of performing our audit; or
- otherwise misleading.

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors' Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

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.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the Group financial statements of Johnson Service Group PLC for the year ended 31st December 2015.

Graham Parsons (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
1st March 2016

COMPANY BALANCE SHEET

	Note	As at 31 December 2015 £m	As at 31 December 2014 £m
Assets			
Non-current assets			
Property, plant and equipment	2	–	–
Trade and other receivables	5	113.7	45.1
Deferred income tax assets	3	3.7	4.3
Investments	4	510.9	436.0
		628.3	485.4
Current assets			
Trade and other receivables	5	3.0	0.9
Current income tax assets		1.5	1.2
Cash and cash equivalents		–	–
		4.5	2.1
Liabilities			
Current liabilities			
Trade and other payables	6	3.6	4.1
Borrowings	7	10.3	7.9
Derivative financial liabilities	10	0.3	–
		14.2	12.0
Net current liabilities		(9.7)	(9.9)
Non-current liabilities			
Post-employment benefit obligations	8	16.0	18.5
Trade and other payables	9	429.6	343.2
Borrowings	7	58.5	19.7
Derivative financial liabilities	10	0.6	0.4
		504.7	381.8
Net assets		113.9	93.7
Equity			
Capital and reserves attributable to the company's shareholders			
Share capital	12	33.1	30.0
Share premium	13	14.5	14.5
Merger reserve		3.5	3.5
Capital redemption reserve		0.6	0.6
Hedge reserve		(0.8)	(0.4)
Retained earnings		63.0	45.5
Total Shareholders equity		113.9	93.7

The financial statements on pages 94 to 104 were approved by the Board of Directors on 1st March 2016 and signed on its behalf by:

Yvonne Monaghan
Chief Financial Officer

COMPANY STATEMENT OF COMPREHENSIVE INCOME

	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Profit for the year	3.8	13.7
Items that will not be subsequently reclassified to profit or loss		
Re-measurement and experience gains/(losses) on post-employment obligations	1.2	(11.5)
Taxation in respect of re-measurement and experience (gains)/losses	(0.2)	2.3
Change in deferred tax due to change in tax rate	(0.2)	–
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges (net of taxation) – fair value losses	(1.0)	(0.4)
– transfers to administrative cost	0.3	–
– transfers to finance cost	0.3	0.3
Other comprehensive income/(loss) for the year	0.4	(9.3)
Total comprehensive income for the year	4.2	4.4

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 1st January 2014	26.2	14.1	3.5	0.6	(0.3)	35.0	79.1
Profit for the year	–	–	–	–	–	13.7	13.7
Other comprehensive loss	–	–	–	–	(0.1)	(9.2)	(9.3)
Total comprehensive (loss)/income for the year	–	–	–	–	(0.1)	4.5	4.4
Share options (value of employee services)	–	–	–	–	–	0.4	0.4
Purchase of shares by Employee Benefit Trust	–	–	–	–	–	(0.9)	(0.9)
Current tax on share options	–	–	–	–	–	1.1	1.1
Deferred tax on share options	–	–	–	–	–	(0.9)	(0.9)
Issue of share capital	3.8	0.4	–	–	–	10.2	14.4
Dividends paid	–	–	–	–	–	(3.9)	(3.9)
Transactions with Shareholders recognised directly in Shareholders' Equity	3.8	0.4	–	–	–	6.0	10.2
Balance at 31st December 2014	30.0	14.5	3.5	0.6	(0.4)	45.5	93.7
Balance at 1st January 2015	30.0	14.5	3.5	0.6	(0.4)	45.5	93.7
Profit for the year	–	–	–	–	–	3.8	3.8
Other comprehensive (loss)/income	–	–	–	–	(0.4)	0.8	0.4
Total comprehensive (loss)/income for the year	–	–	–	–	(0.4)	4.6	4.2
Share options (value of employee services)	–	–	–	–	–	0.5	0.5
Issue of share capital	3.1	–	–	–	–	18.1	21.2
Dividends paid	–	–	–	–	–	(5.7)	(5.7)
Transactions with Shareholders recognised directly in Shareholders' Equity	3.1	–	–	–	–	12.8	16.0
Balance at 31st December 2015	33.1	14.5	3.5	0.6	(0.8)	63.0	113.9

All of the Retained Earnings reserve is considered to be distributable as at 31st December 2015 subject to the offset of the Hedge Reserve (2014: all distributable subject to the offset of the hedge reserve).

COMPANY STATEMENT OF CASH FLOWS

	Note	Year ended 31 December 2015 £m	Year ended 31 December 2014 £m
Cash flows from operating activities			
Profit for the year		3.8	13.7
Adjustments for:			
Income tax credit		(0.8)	(2.7)
Total finance cost		2.6	2.8
Dividend income		(10.0)	(31.3)
Increase in trade and other receivables		(0.4)	–
Decrease in trade and other payables		(0.6)	(0.7)
Increase in amounts due from subsidiary companies		(0.5)	(0.2)
Investment impairment		–	60.8
Intercompany loans waived		–	(52.6)
Loss on disposal of investments		–	0.4
Costs in relation to business acquisition activity		1.1	0.6
Deficit recovery payments in respect of post-employment benefit obligations		(1.9)	(2.0)
Share-based payments		0.4	0.3
Post-employment benefit obligations		(0.1)	4.6
Cash used in operations		(6.4)	(6.3)
Interest paid		(2.3)	(2.3)
Taxation (paid)/received		(2.1)	0.1
Net cash used in operating activities		(10.8)	(8.5)
Cash flows from investing activities			
Acquisition of business (net of cash acquired)		(74.5)	(27.3)
Proceeds from sale of subsidiary		0.9	0.1
Dividends received		10.0	31.3
Interest received		2.3	1.1
Loans advanced to subsidiary companies		(9.6)	(29.2)
Net cash used in investing activities		(70.9)	(24.0)
Cash flows from financing activities			
Loans received from subsidiary companies		24.8	19.3
Proceeds from borrowings		93.0	66.0
Repayments of borrowings		(53.5)	(70.0)
Net proceeds from issue of Ordinary shares		21.2	14.4
Purchase of own shares by EBT		–	(0.9)
Dividend paid		(5.7)	(3.9)
Net cash generated from financing activities		79.8	24.9
Net decrease in cash and cash equivalents		(1.9)	(7.6)
Cash and cash equivalents at beginning of period		(7.1)	0.5
Cash and cash equivalents at end of period	15	(9.0)	(7.1)

Cash and cash equivalents at the end of the period include cash of £nil and an overdraft of £9.0 million (2014: £nil and £7.1 million respectively).

COMPANY 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 1st March 2016.

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 51 to 59 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.

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. The retained profit of the Parent Company is shown in note 14. Details of dividends paid are included in note 10 of the consolidated financial statements.

2 Property, plant and equipment

	Plant And Equipment £m
Cost	
At 31st December 2013, 2014 & 2015	0.3
Accumulated depreciation and impairment	
At 31st December 2013	0.2
Charged in the year	0.1
At 31st December 2014	0.3
Charged in the year	–
At 31st December 2015	0.3
Carrying Amount	
At 31st December 2013	0.1
At 31st December 2014 & 2015	–

There were £nil assets under construction at 31st December 2015 (2014: £nil).

3 Deferred tax

Deferred income tax assets attributable to the Company are as follows:

Deferred income tax balances in respect of:	2015 £m	2014 £m
Depreciation in excess of capital allowances	0.1	0.2
Post-employment benefit obligations	3.0	3.7
Derivative financial instruments	0.2	0.1
Employee share schemes	0.2	–
Other short term timing differences	0.2	0.3
	3.7	4.3

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 31st December 2013	0.2	0.9	0.1	0.9	–	2.1
(Charge)/credit to income	–	0.5	–	–	0.3	0.8
Credit to other comprehensive income	–	2.3	–	–	–	2.3
Charge to shareholders' equity	–	–	–	(0.9)	–	(0.9)
At 31st December 2014	0.2	3.7	0.1	–	0.3	4.3
(Charge)/credit to income	(0.1)	(0.3)	–	0.2	(0.1)	(0.3)
(Charge)/credit to other comprehensive income	–	(0.4)	0.1	–	–	(0.3)
At 31st December 2015	0.1	3.0	0.2	0.2	0.2	3.7

Changes to the UK corporation tax rates were announced on 8th July 2015. These changes were substantively enacted as part of Finance Bill 2015 on 26th October 2015. These include reductions to the main rate to reduce the rate to 19% from 1st April 2017 and to 18% from 1st April 2020.

3 Deferred tax continued

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 19% being used to measure all deferred balances as at 31st December 2015. The impact of the change in tax rates to 19% has been £nil credit in the Income Statement and a £0.2 million credit recognised directly in Shareholders' equity.

It is estimated that £0.3 million of the deferred tax balances will unwind in the next 12 months.

4 Investments

Investment in subsidiary undertakings	2015 £m	2014 £m
Cost		
Brought forward	506.9	480.1
Additions	74.8	26.7
Movement relating to share options	0.1	0.1
Disposal	(60.9)	–
Carried forward	520.9	506.9
Accumulated impairment		
Brought forward	70.9	10.1
Impairment	–	60.8
Disposal	(60.9)	–
Carried forward	10.0	70.9
Carrying amount		
Opening	436.0	470.0
Closing	510.9	436.0

Particulars of subsidiary undertakings are shown in note 20.

During the year the Company acquired London Linen Supply Limited for a cost of £69.3 million and Ashbon Services Limited for £5.5 million. Details of these acquisitions are shown in note 31 of the Consolidated Financial Statements. In addition, investments in a number of non-trading companies, which were fully impaired, were disposed of in the year, with a net impact on the Income Statement of £nil.

During the prior year the Company acquired Bourne Services Group Limited for a cost of £26.7 million. Details of this acquisition are shown in note 31 of the Consolidated Financial Statements. In addition, investments in a number of non-trading companies were impaired following the cancellation of the intercompany payable, due from the company relating to those companies, with a net impact on the Income Statement of £nil.

The Directors deem the investments to be recoverable based on the future forecasts of the Group.

5 Trade and other receivables

	2015 £m	2014 £m
Amounts falling due within one year:		
Receivables from subsidiaries	0.3	0.1
Other receivables	2.4	0.7
Prepayments and accrued income	0.3	0.1
	3.0	0.9
Amounts falling due after more than one year:		
Other receivables	–	2.6
Receivables from subsidiaries	113.7	42.5
	113.7	45.1

Amounts owed by subsidiaries due within one year relate to invoiced services and are due according to the invoice terms.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

5 Trade and other receivables continued

Amounts owed by subsidiaries due after more than one year, are unsecured and have no fixed date of repayment and the Company has no 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 0.37%, as at the balance sheet date, the fair value of amounts receivable from subsidiaries would be circa £110.6 million.

Other receivables which are less than three months past due are not considered impaired unless specific information indicates otherwise. Trade and other receivables greater than three months past due are considered for recoverability, and where appropriate, 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 (2014: 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.

6 Trade and other payables

	2015 £m	2014 £m
Trade payables	0.1	0.5
Other payables	1.8	1.8
Other taxation and social security liabilities	0.2	0.2
Accruals	1.5	1.6
	3.6	4.1

All trade and other payable balances at the balance sheet date are denominated in Sterling (2014: 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.

7 Borrowings

	2015 £m	2014 £m
Current		
Overdraft	9.0	7.1
Bank loans	1.3	0.8
	10.3	7.9
Non-current		
Bank loans	58.5	19.7
	68.8	27.6
The maturity of non-current bank loans is as follows:		
– Between one and two years	–	–
– Between two and five years	59.0	20.0
– Unamortised issue costs of bank loans	(0.5)	(0.3)
	58.5	19.7

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 (2014: £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 is £10.0 million and £5.0 million respectively (2014: £10.0 million and £5.0 million).

8 Post-employment benefit obligations

Details of the Group's pension schemes are provided in note 23 of the consolidated financial statements.

As at the 31st December 2015 and 31st December 2014 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 (2014: £0.1 million).

9 Trade and other payables (non-current)

	2015 £m	2014 £m
Deferred consideration	0.9	–
Payables to subsidiaries	428.7	343.2
	429.6	343.2

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 0.37%, as at the balance sheet date, the fair value of amounts payable to subsidiaries would be circa £427.1 million.

10 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.

11 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.

The Company has entered into 30 Rent Deposit Deeds for up to £1.7 million guaranteeing the payment of rent by its subsidiary undertaking, Johnson Cleaners UK Limited, on specified properties included in a sale and leaseback transaction in June 2006. The guaranteed amount began to amortise from December 2013 and expires in June 2016. No loss is expected to result from this arrangement.

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.

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.

12 Called-up share capital

Authorised	2015 £m	2014 £m
383,025,739 (2014: 383,025,739) Ordinary shares of 10p each	38.3	38.3

Issued and Fully Paid	2015 Shares	2015 £m	2014 Shares	2014 £m
Ordinary shares of 10p each:				
At start of period	299,985,593	30.0	262,326,451	26.2
New shares issued	30,584,430	3.1	37,659,142	3.8
At end of period	330,570,023	33.1	299,985,593	30.0

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

13 Share premium

	2015 £m	2014 £m
Balance brought forward	14.5	14.1
Received on allotment of shares	–	0.4
Balance carried forward	14.5	14.5

14 Reconciliation of movements in shareholders' funds

	2015 £m	2014 £m
Profit for the year	3.8	13.7
Dividends	(5.7)	(3.9)
	(1.9)	9.8
Other recognised gains and losses relating to the year:		
Issue of share capital	21.2	14.4
Share option (value of employee services)	0.5	0.4
Purchase of shares by EBT	–	(0.9)
Re-measurement and experience gains / (losses) (net of taxation)	1.0	(9.2)
Change in deferred tax due to change in tax rate	(0.2)	–
Current tax on share options	–	1.1
Deferred tax on share options	–	(0.9)
Cash flow hedges movement	(0.4)	(0.1)
Net addition to Shareholders' equity	20.2	14.6
Opening Shareholders' equity	93.7	79.1
Closing Shareholders' equity	113.9	93.7

15 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 issue costs relating to the bank facility and changing maturity profiles.

December 2015

	At 1st January 2015 £m	Cash Flow £m	Other Non-cash Changes £m	At 31st December 2015 £m
Cash and cash equivalents (per Company Statement of Cash Flows)	(7.1)	(1.9)	–	(9.0)
Debt due within one year	(0.8)	(0.5)	–	(1.3)
Debt due after more than one year	(19.7)	(39.0)	0.2	(58.5)
	(27.6)	(41.4)	0.2	(68.8)

December 2014

	At 1st January 2014 £m	Cash Flow £m	Other Non-cash Changes £m	At 31st December 2014 £m
Cash and cash equivalents (per Company Statement of Cash Flows)	0.5	(7.6)	–	(7.1)
Debt due within one year	–	(1.0)	0.2	(0.8)
Debt due after more than one year	(25.0)	5.0	0.3	(19.7)
	(24.5)	(3.6)	0.5	(27.6)

16 Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
(Decrease)/Increase in cash in year (per Company Statement of Cash Flows)	(1.9)	(7.6)
Cash outflow on change in debt and lease financing	(39.5)	4.0
Change in net debt resulting from cash flows	(41.4)	(3.6)
Movement in unamortised bank facility fees	0.2	0.5
Movement in net debt in year	(41.2)	(3.1)
Opening net debt	(27.6)	(24.5)
Closing net debt	(68.8)	(27.6)

17 Financial commitments

Capital expenditure

As at 31st December 2015 the Company had no contracts placed for future capital expenditure that were not provided for in the financial statements (2014: £nil).

Revenue expenditure

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

	2015 £m	2014 £m
Land and buildings		
– within one year	0.1	0.1
– between two and five years	0.4	0.4
	0.5	0.5
Plant and machinery		
– within one year	0.1	0.1
	0.1	0.1

18 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:

	2015 £m	2014 £m
Intercompany loans payable waived	–	52.6
Dividends received	10.0	31.3
Interest received	2.2	1.0
Interest paid	(2.4)	(2.3)
	9.8	82.6

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.

19 Events after the reporting period

The following event occurring after the balance sheet date has been disclosed in accordance with IAS 10, 'Events after the reporting period'.

Acquisition

On 31st January 2016 the Group acquired the entire share capital of Zip Textiles (Services) Ltd for a cash consideration of £15.0 million on a debt-free, cash-free basis, together with additional debt of £2.7 million in relation to the financing of recently installed processing equipment. See note 36 of the Consolidated Financial Statements for further details.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

20 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
Johnsons Apparelmaster Limited *	Textile and linen rental
Johnson Cleaners UK Limited *	Drycleaning
Jeeves of Belgravia Limited	Drycleaning
Jeeves International Limited *	Drycleaning franchises
Johnson Group Properties PLC	Property holding
Semara Estates Limited *	Property holding
Johnson Investment Limited	Holding company
Johnson Group Inc (UK) Limited	Holding company
Semara Group Limited*	Holding company
Semara Investments Limited*	Holding company
Semara Contract Services Limited*	Holding company
Ashbon Services Limited	Non-trading company
Bentley Textile Services Limited*	Non-trading company
Bright Clothing Limited*	Non-trading company
Bourne Service Group Limited	Non-trading company
Bourne Textile Services Limited*	Non-trading company
Caterers Linen Supply Limited*	Non-trading company
Catering Linen Supply Limited*	Non-trading company
Clifton Cleaning Limited	Non-trading company
ELT Uniforms Limited*	Non-trading company
Fresh Water Linen Services Limited*	Non-trading company
Greaseaters Limited*	Non-trading company
Greenearth Cleaning Europe Limited	Non-trading company
Greenearth Cleaning Limited	Non-trading company
Johnson Group Cleaners Limited	Non-trading company
Johnson Group Cleaners Properties Limited	Non-trading company
Johnson Group Cleaners Trustee Company (no 1) Limited	Non-trading company
Johnson Group Cleaners Trustee Company (no 2) Limited	Non-trading company
Johnson Group Management Services Limited	Non-trading company
Johnson Group Pension Nominees Limited	Non-trading company
Johnson Hospitality Services Limited	Non-trading company
Johnson Sketchley Limited*	Non-trading company
JSG PLC*	Non-trading company
Lilliman & Cox Limited*	Non-trading company
London Linen Management Services Limited*	Non-trading company
London Linen Supply Limited	Non-trading company
London Workwear Rental Limited*	Non-trading company
Oxford Software Limited*	Non-trading company
Quality Cleaners Limited*	Non-trading company
Quality Shirt Services Limited*	Non-trading company
Quality Textile Services Limited	Non-trading company
Semara Limited*	Non-trading company
Semara Nominees Limited*	Non-trading company
Semara Trustees Limited*	Non-trading company
Stalbridge Linen Services Limited	Non-trading company
Stuarts Express Dyers and Cleaners Limited*	Non-trading company
Subco 21 Limited	Non-trading company
Tothills Dry Cleaning Limited*	Non-trading company
Warrander Aircraft Services Limited*	Non-trading company
Wintex UK Limited	Non-trading company
Workplace Direct Limited	Non-trading company

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.

FINANCIAL CALENDAR

Results for the year
Announced in March 2016

Results for the half year
Announced in September 2016

Annual General Meeting
To be held on 5th May 2016

Dividend payment dates

Interim 2015	6th November 2015
Proposed Final 2015	13th May 2016
Interim 2016	November 2016

NOTICE OF ANNUAL GENERAL MEETING

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 immediately consult 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 Thursday 5th May 2016 at 11am to transact the business set out in the Resolutions below.

Resolutions 1 to 10 (inclusive) and 12 will be proposed as Ordinary Resolutions and Resolutions 11, 13 and 14 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 31st December 2015 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 34 to 40 of the 2015 Annual Report.

3. To confirm the payment of the interim dividend of 0.65 pence per Ordinary Share and to declare a final dividend of 1.45 pence per Ordinary Share for the year ended 31st December 2015.

4. To re-elect Mr. P. Moody, who retires in accordance with Section B.7.1 of the UK Corporate Governance Code and whom, being eligible, offers himself for re-election as a Director.

5. To re-elect Mr. C. Sander, who retires in accordance with Section B.7.1 of the UK Corporate Governance Code and whom, being eligible, offers himself for re-election as a Director.

6. To re-elect Mrs. Y. Monaghan, who retires in accordance with Section B.7.1 of the UK Corporate Governance Code and whom, being eligible, offers herself for re-election as a Director.

7. To re-elect Mr. W. Shannon, who retires in accordance with Section B.7.1 of the UK Corporate Governance Code and whom, being eligible, offers himself for re-election as a Director.

8. To elect Mr. N. Gregg, who joined the Board on 1st January 2016 and, in accordance with Section B.7.1 of the UK Corporate Governance Code and whom, being eligible, offers himself for election 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 a Special Resolution:

    "That the articles of association of the Company be and are hereby amended by the deletion of:

    (i) article 3 (authorised share capital);

    (ii) paragraph (a)(i) of article 9 (power to increase, consolidate, sub-divide and cancel shares); and

    (iii) the limit on the maximum number of shares which the Company may issue imposed as a result of the authorised share capital of the Company on 1 October 2009 being treated, by virtue of section 28 of the Companies Act 2006, as a provision of the Company's articles of association with effect from 1 October 2009."

12. To consider and, if thought fit, pass the following resolution which will be proposed as an Ordinary Resolution:

    "That, subject to and conditional upon the passing of the Special 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 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 £11,020,514.

    In the event that Special Resolution numbered 11 in this notice of Annual General Meeting of the Company is not passed and 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 £5,241,033.

    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 1st July 2017, 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)."

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 12 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 Ordinary Resolution numbered 12 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 Ordinary Resolution 12 in this notice of Annual General Meeting up to an aggregate nominal amount of £1,653,077 (representing approximately 5% of the Company's share capital as at 29th February 2016).

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 1st July 2017, 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 33,061,541;

(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).

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 1st July 2017 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
Abbots Park
Monks Way
Preston Brook
Cheshire WA7 3GH

1st March 2016

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

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, Capita 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 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 6.00pm on 3rd May 2016, or in the event that the Meeting is adjourned, in the Register of Members 48 hours before the time of 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 6.00pm on 3rd May 2016 or, in the event that the Meeting is adjourned, less than 48 hours before the time of any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

5. As at 29th February 2016 (being the last business day prior to publication of this notice) the Company's issued share capital consists of 330,615,405 Ordinary Shares carrying one vote each. The total voting rights in the Company as at 29th February 2016 are, therefore, 330,615,405.

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 (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 (a) (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), (b) it is defamatory of any person, or (c) 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.

NOTICE OF ANNUAL GENERAL MEETING CONTINUED

Explanatory Notes

The following notes give an explanation of the proposed resolutions.

Resolutions 1 to 10 (inclusive) and 12 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 11, 13 and 14 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.

Your 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)

Although, as a company listed on AIM, there is no requirement for the Board Report on Remuneration to be approved by members, the Directors believe that it is best practice to do so. It is proposed, therefore, that the Board Report on Remuneration for the financial year ended 31st December 2015, as set out on pages 34 to 40 of the Company's 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 1.45 pence per Ordinary Share is recommended by the Directors for payment to Shareholders who are on the Register at the close of business on 15th April 2016. If approved, the date of payment of the final dividend will be 13th May 2016. An interim dividend of 0.65 pence per Ordinary Share was paid on 6th November 2015.

Election of Directors (Resolutions 4 to 8 inclusive)

Under the Company's Articles of Association, and in line with the recommendations of the UK Corporate Governance Code (the "Code") for non-FTSE 350 companies, 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 AGM following their appointment. Notwithstanding the provisions of the Articles of Association, 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 are set out on page 20 of the 2015 Annual Report and are also available for viewing on the Company's website (www.jsg.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 auditors' remuneration.

Removal of Limit on Number of Shares that can be Issued (Resolution 11)

If the Directors want to issue shares above the authorised share capital, then the authorised share capital has to be increased by an ordinary resolution of the Shareholders. Many companies built or build "headroom" into their authorised capital, giving them the flexibility to issue further shares in the future without the need to increase the authorised capital. Companies are no longer required to have an authorised share capital. The removal of the restriction imposed by the authorised share capital, which operates as a limit on the number of shares that may be issued, removes the requirement for the Company to seek authority to create more than the authorised share capital and provides greater flexibility. The Directors propose that the Company takes advantage of that flexibility. Notwithstanding the proposed removal of the authorised share capital (which is a limit on the number of shares), the Directors will still require authority from the Shareholders to issue shares. Additionally, the restrictions on the issue of shares on a non-pre-emptive basis will continue to apply. Consequently, the Directors consider these alternative ways of controlling the Company's ability to issue shares (through the requirement for the Directors to have an authority to issue shares and the application of pre-emption rights) are suitable and appropriate controls and will avoid having to build sufficient "headroom" in the number of shares the Company may issue.

Renewal of Directors' Authority to Allot Securities (Resolution 12)

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 2017 or, if earlier, the close of business on 1st July 2017.

Subject to and conditional upon the passing of the Special Resolution numbered 11 in this notice of Annual General Meeting of the Company, the authority granted by the passing of this resolution will be limited to an aggregate nominal value of £11,020,514 of Ordinary Shares which represents approximately one third of the Ordinary share capital in issue as at 29th February 2016 (being the latest practicable date prior to publication of this Notice). In the event that Special Resolution numbered 11 in this notice of Annual General Meeting of the Company is not passed, the authority granted by the passing of this resolution will be limited to an aggregate nominal value of £5,241,033 of Ordinary Shares which represents approximately 15.9 per cent of the Ordinary share capital in issue as at 29th February 2016 (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 Disapplication Pre-emption Rights (Resolution 13)

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.

This resolution asks the Shareholders to do this and, apart from rights issues or any other pre-emptive offer concerning Equity Securities, the authority will be limited to the issue of shares for cash up to a maximum aggregate nominal value of £1,653,077 (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 29th February 2016 (being the latest practicable date prior to publication of this Notice). The Company undertakes to restrict its use of this authority to a maximum of 7.5 per cent of the Company's issued ordinary share capital in any three year period. Shareholders will note that this resolution also relates to treasury shares and will be proposed as a Special Resolution.

This resolution 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. If renewed, the authority will expire at the conclusion of the next AGM of the Company in 2017 or, if earlier, the close of business on 1st July 2017. The Company's 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 30,001,416 of its Ordinary Shares at the AGM held on 7th May 2015 (being equal to approximately 10 per cent of the Company's issued ordinary share capital as at 2nd March 2015, the latest practicable date prior to the publication of the notice for the AGM held on 7th May 2015). 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 33,061,541 Ordinary Shares, representing approximately 10 per cent of the Company's issued ordinary share capital as at the 29th February 2016, 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 proceeding 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 29th February 2016 (being the latest practicable date prior to publication of this Notice) was 6,497,118. The proportion of issued share capital that they represented at that time was 2.0 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 2.2 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 2017, or, if earlier, the close of business on 1st July 2017. It is the present intention of the Directors to seek renewal of this authority annually.

DIRECTORS AND ADVISORS

Directors

Paul Stephen Moody
Non-Executive Chairman
Chairman of Nomination Committee
Member of Remuneration Committee
Member of Audit Committee

Christopher Sander
Chief Executive Officer
Director responsible for Health, Safety and the Environment

Yvonne May Monaghan BSc (Hons), FCA
Chief Financial Officer

Michael Bernard Del Mar
Non-Executive Senior Independent Director
Chairman of Remuneration Committee
Member of Nomination Committee
Member of Audit Committee

William Mervyn Frew Carey Shannon CA
Non-Executive Director
Chairman of Audit Committee
Member of Remuneration Committee
Member of Nomination Committee

Nicholas Mark Gregg
Non-Executive Director
Member of Audit Committee
Member of Remuneration Committee
Member of Nomination Committee

Company Secretary & Group Financial Controller

Timothy 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
2 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

Capita Asset Services
34 Beckenham Road
Beckenham
BR3 4ZF

Independent Auditor

PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
101 Barbirolli Square
Lower Mosley Street
Manchester
M2 3PW

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.jsg.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, Capita Asset Services, on 0871 664 0300 (calls cost 12p per minute plus network extras, lines are open 9.00am-5.30pm Mon-Fri).

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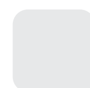

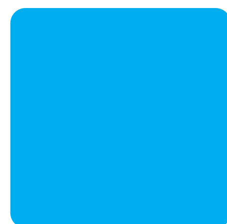

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