2019
ANNUAL REPORT & ACCOUNTS

JOHNSON
Service Group PLC

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Strategic Report

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ADJUSTED OPERATING PROFIT

£52.8m

Increased from £46.0m in 2018


JOHNSONS
YOUR LINEN SERVICES
by STALBRIDGE
JOHNSONS
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Group Overview and Highlights

We continue to pursue our clear and focused strategy

Strategic acquisition of **Fresh Linen**

Continued focus on delivering service excellence

Organic revenue growth of 6.5%[1]

Significant ongoing investment in our processing facilities

New hotel linen production facility in Leeds on track

FULL YEAR DIVIDEND

increased 12.9% to

3.5 pence

(2018: 3.1 pence)

FINANCIAL HIGHLIGHTS

REVENUE

£350.6m

9.2%

Increased to £350.6m (2018: £321.1m)

ORGANIC REVENUE GROWTH[1]

6.5%

of 6.5% (2018: 7.8%)

ADJUSTED OPERATING PROFIT[2]

£52.8m

14.8%

Increased to £52.8m (2018: £46.0m)

OPERATING PROFIT

£42.7m

16.7%

Increased to £42.7m (2018: £36.6m)

ADJUSTED PROFIT BEFORE TAXATION[2]

£48.2m

13.4%

Increased to £48.2m (2018: £42.5m)

PROFIT BEFORE TAXATION

£38.1m

15.1%

Increased to £38.1m (2018: £33.1m)

ADJUSTED DILUTED EARNINGS PER SHARE[2]

10.5 pence

12.9%

Increased to 10.5 pence (2018: 9.3 pence)

DILUTED EARNINGS PER SHARE

8.3 pence

15.3%

Increased to 8.3 pence (2018: 7.2 pence)

Notes

1. Excluding revenue from the acquisition of customer contracts and business combinations completed in 2019 and the full year benefit of business combinations completed in 2018.
2. Before charging £10.1 million (2018: £8.8 million) of amortisation of intangible assets (excluding software amortisation) and net exceptional items of £nil (2018: £0.6 million) and, in the case of adjusted diluted earnings per share only, net of relevant taxation.

Strategic Review

The Strategic Report

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

Principal Activities and Business Overview

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

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

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

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

Values:

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

Targets:

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

Further information covering the activities of the business during the year are set out within the Chairman's Statement and the Chief Executive's Operating Review.

Our Business Model

For some time now, the Board's strategy has been to focus the Group on our core businesses, increase the scale of our business both organically and through targeted strategic acquisitions and to be the UK's market leader in textile services.

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

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

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

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

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

Key Performance Indicators (KPIs)

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

Duty to Promote the Success of the Company

Section 172 of the Companies Act 2006 requires the directors of a company to act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole, and in doing so have regard (amongst other matters) to:

a. the likely consequences of any decision in the long term;

b. the interests of the company's employees;

c. the need to foster the company's business relationships with suppliers, customers and others;

d. the impact of the company's operations on the community and the environment;

e. the desirability of the company maintaining a reputation for high standards of business conduct; and

f. the need to act fairly as between members of the company.

As part of their induction, a Director is briefed on their duties and they can access professional advice on these, either from the Company Secretary or, if they judge it necessary, from an independent advisor. At least annually, our nominated advisor (NOMAD) is invited to a Board meeting to provide a training update on directors' duties and any relevant legislative changes.

The Board confirms that, during the year, it has had regard to the matters set out above. Further details as to how the Directors have fulfilled their duties, together with references to relevant areas within this Annual Report, are set out below.

Strategic Review
Continued >

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

Risk Management
As we continue to grow, it is vital that we effectively identify, evaluate, manage and mitigate the risks we face. For details of our principal risks and uncertainties, and how we manage our risk environment, please see pages 30 to 33. The Board is also aware that an understanding of the future prospects of the Group is of vital importance to all stakeholders – a statement as such, together with further explanatory information, is set out below within our Viability Statement.

Our Employees
The Company is committed to being a responsible employer. For our business to succeed we need to manage our people's performance and develop and bring through talent while ensuring we operate as efficiently as possible. 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. We must also ensure we share common values that inform and guide our behaviour so we achieve our goals in the right way. For further details on our employees, please see pages 24 to 26.

Business Relationships
Our strategy prioritises growth, both organically and through acquisition. Organic growth is driven through cross-selling and up-selling services to existing clients as well as bringing new customers into the Group. To do this, we need to develop and maintain strong customer relationships. We value all of our suppliers and have multi-year contracts with our key suppliers. For further details on how we work with our customers and suppliers, please see page 27.

Community and Environment
The Company's approach is to use our position of strength to create positive change for the people and communities with which we interact, giving back wherever we can. We want to leverage our expertise and enable our people to support the communities around us. We recognise our responsibilities to achieve good environmental practice and to continue to strive for improvement in areas of environmental impact. We are committed to energy efficiency improvement and continue to take steps in a continuous improvement strategy. For further details on how with interact with communities and the environment, please see pages 27 to 28.

Culture and Values
The Board recognises the importance of having the right corporate culture. Our long-term success depends on achieving our strategic goals in the right way, so we look after the best interests of our employees, customers and other stakeholders. Further details on our mission, vision and values are set out on page 8 whilst details of our corporate culture can be found on pages 24 to 25.

Shareholders
The Board is committed to openly engaging with our Shareholders, as we recognise the importance of a continuing effective dialogue, whether with major institutional investors, private or employee Shareholders. It is important to us that Shareholders understand our strategy and objectives, so these must be explained clearly, feedback heard and any issues or questions raised properly considered. For further details on how we engage with our Shareholders, please see pages 28 to 29.

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

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

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

- it is concurrent with the Group's strategic budgeting process;
- it is consistent with the average contract life of key customers, which provide stable revenue streams, being approximately 36 months;
- the Group has committed banking facilities which although extend slightly beyond this period, to August 2023, will likely be renewed some six to nine months in advance of that date; and

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

The Directors have a reasonable expectation, having taken into consideration the principal risks and uncertainties facing the Group (as set out on pages 30 to 33) and, inter alia, the points set out below, that the trading performance and cash generation of the Group will not be materially adversely affected within that time frame, as:

- the Group has a committed bank facility, with significant headroom both in terms of covenant compliance and availability, through to August 2023 which is considered to be sufficient to meet the Group's current requirements throughout that period and it is confident of renewing its facilities in advance of that date;
- interest rate risk is mitigated through a number of hedging arrangements which replace floating LIBOR rates with fixed rates for varying tenors as far out as January 2023, thereby providing certainty over part of the Group's interest cash flows; further information is provided within note 26;
- our diversified customer base, the majority of which have a formal contract in place with varying expiry dates of up to five years, provides a secure future income stream whilst at the same time ensuring that the loss of any single key customer would not materially impact the Group's future trading performance and cash flows;
- the diverse and unrelated nature of the Group's customer base limits concentration of credit risk;
- the Group has prepared a three year financial budget which has been approved by the Board. Prior to approving the budget the Board reviewed, challenged and stress tested the financial projections and assumptions contained within the budget under a wide range of reasonably possible scenarios, for example, the effect on the Group's trading performance and its ability to generate sufficient cash flows following either a significant increase in interest rates, a significant decrease in profitability or a combination of both. The Board were able to conclude that none of the scenarios indicated a significant threat to the future prospects of the Group;
- the Group continuously strives to seek out and invest in plant and equipment that will help drive operational efficiencies;
- a significant number of the Group's key processing sites are owned on either a freehold or long leasehold basis thereby providing security of tenure;
- the wide geographic spread of processing sites mitigates the effect of a loss of any single processing facility (as demonstrated during 2016 following serious flooding damage at one of our sites and, more recently, in January 2020 following fire damage at one of our Johnsons Workwear sites) and, furthermore, appropriate insurance cover is in place such that the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered; and
- the Group continuously reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given and develops succession planning as part of the development programmes for our people.

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

Strategic Report Approval

The Strategic Report, outlined on pages 4 to 33, incorporates the Group Overview and Highlights, the Strategic Review, the Chairman's Statement, the Chief Executive's Operating Review, the Financial Review, the Environmental and Social Responsibility Statement and the Principal Risks and Uncertainties.

The Strategic Report was approved by the Board on 2 March 2020 and signed on its behalf by:

Tim Morris
Company Secretary

2 March 2020

Chairman's Statement

By Chairman, Bill Shannon

"We are looking forward to the opening of our new Leeds site which will bring further capacity on stream. In the short term, and as anticipated, this additional site may have a small adverse impact on the HORECA margin in 2020 as we build throughput of the site to reach the optimum level."


We care for what you wear
JOHNSONS
Workwear
The UK's Leading Workwear Supplier
JOHNSONS
MAN

Chairman's Statement

Continued >

Adjusted Diluted EPS

10.5p

Increased 12.9%

from 9.3p in 2018

Dividend

3.5p

Increased 12.9%

from 3.1p in 2018

Financial Results

Total revenue for the year to 31 December 2019 increased by 9.2% to £350.6 million (2018: £321.1 million). This reflects the Group's continuing strong organic growth performance of 6.5%, the benefit from the acquisition of Fresh Linen in November 2019 together with the purchase of a number of contracts in January 2019 and July 2019, as well as the full year benefit of acquisitions completed in 2018.

Adjusted operating profit increased by 14.8% to £52.8 million (2018: £46.0 million) and reflects the revenue growth, production efficiency improvements and a modest benefit of £1.1 million following the adoption of IFRS 16.

The total finance cost was £4.6 million (2018: £3.5 million). Whilst underlying borrowing costs have reduced slightly and notional interest reduced by £0.2 million, the implementation of IFRS 16 resulted in an additional cost of £1.5 million in respect of recognised lease liabilities.

Adjusted profit before taxation increased by 13.4% to £48.2 million (2018: £42.5 million) and was slightly adversely impacted by a net cost of £0.4 million from the adoption of IFRS 16.

Statutory profit before taxation, after amortisation of intangible assets (excluding software amortisation) of £10.1 million (2018: £8.8 million) and exceptional items of £nil (2018: £0.6 million), increased by 15.1% to £38.1 million (2018: £33.1 million).

Adjusted diluted earnings per share increased by 12.9% to 10.5 pence (2018: 9.3 pence). Diluted earnings per share after amortisation of intangible assets and exceptional items increased by 15.3% to 8.3 pence (2018: 7.2 pence).

Dividend

We are pleased to recommend an increased final dividend of 2.35 pence per share (2018: 2.1 pence), which reflects the Group's strong performance and the Board's confidence in the future prospects of the business. Together with the interim dividend, this takes the total dividend for the year to 3.5 pence per share (2018: 3.1 pence), an increase of 12.9% year-on-year.

The proposed final dividend, if approved by Shareholders, will be paid on 7 May 2020 to Shareholders on the register at close of business on 14 April 2020. The ex-dividend date is 9 April 2020.

Finances

Total net debt (excluding the impact of IFRS 16) at the year-end stood at £87.7 million (31 December 2018: £98.4 million). The Group's strong trading performance and cash generation helped to offset the impact of both the acquisitions we made in the year and our significant investment in plant and equipment across the business together with new rental stock to support growth. The Group's net debt to adjusted EBITDA leverage ratio (excluding the impact of IFRS 16) was 1.3:1 at the end of December 2019 (2018: 1.6:1). After including the impact of IFRS 16, net debt at December 2019 was £127.7 million.

The Group remains well funded. A revolving credit facility of £135.0 million runs to August 2023. This facility is considerably in excess of the anticipated level of borrowings with comfortable headroom on all bank covenants for the foreseeable future.

Interest payable on bank borrowings is based upon LIBOR plus a margin which is linked to gearing levels. The applicable margin during 2019 was an average of 1.625% and will be 1.5% for at least the first quarter of 2020. We have mitigated our exposure to future increases in LIBOR rates through the use of interest rate hedging, details of which are given in note 21.

Post-Employment Benefits
The recorded net deficit after taxation for all post-employment benefit obligations increased to £6.1 million at 31 December 2019 from £3.8 million at 31 December 2018. The increase reflects the net impact of a reduction in the discount rate and in the assumed inflation rate (RPI) offset by higher than assumed asset returns and the payment of the deficit contribution.

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

The current agreement with the Trustee of the defined benefit pension scheme required deficit recovery payments of £1.9 million in the year to December 2019 and this is expected to continue at least until after the actuarial valuation as at 30 September 2019 is finalised during 2020.

Employees
Our employees across the business have ensured that we continue to provide market leading customer service. The Board would like to thank them for their significant contribution to the continuing success of the Group.

Board Changes
Following the successful transition of Peter Egan into the role of CEO, a process has commenced to identify a new Chairman to take over from Bill Shannon when he steps down from the Board. A further announcement will be made at the appropriate time.

Macroeconomic Influences
The potential impact from Brexit and the continuing uncertainty around the post Brexit arrangements are not yet clear. We will continue to review the mitigating actions we have in place as the Brexit process evolves and will implement any appropriate actions.

Whilst we have not as yet seen any impact on trading from the Covid-19 virus, we will continue to monitor the situation over the coming weeks. We will seek to mitigate the risk of impact that the virus may have on our employees, customers and supply chain.

Outlook
The Group's performance since the year end has been in line with management expectations.

We are looking forward to the opening of our new Leeds site which will bring further capacity on stream. In the short term, and as anticipated, this additional site may have a small adverse impact on the HORECA margin in 2020 as we build throughput of the site to reach the optimum level.

We are continuing to plan for investment in our other sites, particularly where capacity is under pressure. This investment to provide capacity for further organic growth, together with identifying further prospective acquisitions, will ensure the future success of the Group.

Bill Shannon
Chairman

2 March 2020

Chief Executive's Operating Review

By Chief Executive Officer,
Peter Egan

"The Group has reported another year of substantial organic growth. Both the Workwear and HORECA (Hotel, Restaurant and Catering) divisions have delivered high levels of new business wins and maintained consistently high levels of customer satisfaction scores which in turn contributed to very high retention levels."

Chief Executive's Operating Review

Continued >

Revenue

£350.6m

Increased 9.2%

from £321.1m in 2018

Adjusted Operating Profit

£52.8m

Increased 12.9%

from £46.0m in 2018

Our Businesses

The Group has reported another year of substantial organic growth. Both the Workwear and HORECA (Hotel, Restaurant and Catering) divisions have delivered high levels of new business wins and maintained consistently high levels of customer satisfaction scores which in turn contributed to very high retention levels. The acquisition of Fresh Linen, a linen plant based in Clacton-on-Sea, was a welcome addition to our coverage for high volume linen in the South East.

We have continued to invest in a number of our plants to further improve production efficiencies and to increase capacity to support the organic sales growth being achieved.

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

As previously indicated, the rollout of the new Group wide corporate brand which links together the various local brands and extends national brand recognition is underway. This is expected to take up to three years to fully implement and the associated modest cost will not have a material impact on the reported earnings or cash flow of the Group over that period.

Strong new sales and business retention helped deliver revenue growth of 9.2% to £350.6 million (2018: £321.1 million). This increase includes an additional eight months of trading from South West Laundry, acquired in August 2018, one month of trading from Fresh, acquired on 30 November 2019, and additional revenue from a small number of hospitality contracts acquired in January and July 2019. Our underlying organic growth was 6.5% (2018: 7.8%).

Adjusted operating profit from our Textile Rental businesses increased by £6.8 million to £57.5 million (2018: £50.7 million), an increase of 13.4%, with the operating margin improving slightly to 16.4% (2018: 15.8%). This includes a benefit of £1.1 million from the implementation of IFRS 16, in the absence of which the margin would have been 16.1%.

Workwear Division

Now operating as Johnsons Workwear, we provide workwear rental and laundry services to some 36,000 customers in the UK from small local businesses to the largest companies covering food related and other industrial sectors.

The total revenue for the Workwear division was £135.3 million (2018: £128.8 million), an increase of 5.0%. Adjusted operating profit increased by 7.5% to £24.4 million (2018: £22.7 million) with an improved margin of 18.0% (2018: 17.6%). This includes a modest benefit of £0.4 million from the implementation of IFRS 16.

Trading for 2019 was strong, with revenue increasing 5% year on year and volumes exceeding 1.7 million items per week. Revenue was supported by strong new sales, with particular focus on 'new to rental' customers which accounted for 17.6% of new business won. Retention levels remained high at 95% as did the sale of additional products to existing customers. Sales and retention success have been complemented by excellent customer service provided at a local plant level, where the annual customer satisfaction survey results gave a high score of 86% satisfaction, in line with last year.

Rebranding has provided the opportunity to refresh all signage at our workwear premises, introduce a new colour format for vehicles from white to blue and create a bespoke new uniform for all employees.

The business continues to focus on efficiency, achieving this by continuous improvement of our processes and investment. Birmingham benefited from the installation of new folding equipment and conveyor systems for its high care area, improving its folding capacity by 20%. Perth, Bristol and Manchester also all received new folding equipment to

increase capacity. The Aberdeen depot was relocated to a new, significantly larger, location towards the end of the year, underpinning the opportunity for volume growth in the North of Scotland. Our Basingstoke site has been expanded with the addition of an 11,000 square foot unit adjacent to the current building which will provide increased office space and significant additional processing capacity of 40%. This unit will be fitted with the latest automated sortation system in order to maximise processing efficiencies and is expected to be operational during the second quarter of 2020.

On 25 January 2020 a fire occurred at our site in Exeter resulting in significant damage and preventing its use for processing. Our Operational team immediately mobilised our business continuity plans and has worked to ensure that the service to our customers has been maintained. The processing of garments for our Exeter customers is currently being undertaken by nearby workwear sites and a temporary depot established in Exeter. We are working closely with our insurers in relation to the insurance claim and to agree plans for the future of our Exeter site. The incident is not expected to have an impact on the trading performance of the business.

Our Academy continues to provide development opportunities for our employees. Our Learning Development Department is providing a wide range of blended training opportunities for employees at all levels throughout our business, including apprenticeship schemes. The training and development of our employees was recognised by the Princess Royal Training Award, presented by Her Royal Highness Princess Anne at St. James's Palace in October. The expertise within our business has been strengthened with the internal promotion and appointment of subject matter experts who have built strong relationships throughout the business. In September an Employee Engagement Survey was undertaken, achieving an excellent response rate and an 82% result for employee engagement. Results have provided five key areas for focus and various initiatives have been agreed for roll out during 2020.

The business has been nominated for two awards of the Institute of Customer Service – "Best Use of Customer Insight" and "Quality Service Provider".

Our Product Development Team successfully and proactively continues to manage our product range through our on-line dynamic catalogue, ensuring that our sales and service teams are aligned with our customers' requirements and are keeping pace with fabric and garment innovation. The business continues to focus on expanding the range of stocked garments for all customer sectors.

HORECA Division

The total revenue for the HORECA division was up 12.0% to £215.3 million (2018: £192.3 million). This increase includes contributions from additional months of trading from acquisitions completed in 2018 and 2019. New business sales were strong, contributing to underlying organic growth of 7.4%.

Adjusted operating profit increased to £33.1 million (2018: £28.0 million) with an operating margin of 15.4% (2018: 14.6%). This includes a benefit of £0.7 million from the implementation of IFRS 16.

Our Hotel, Restaurant and Catering brands, 'Stalbridge', 'South West Laundry' and 'London Linen' delivered strong organic growth during 2019. The expanded sales and marketing function, which is now in place across the three brands, is bringing benefits of additional sales lead generation, better database use and increased brand awareness. Websites have been upgraded and refreshed and we continue with search engine optimisation (SEO) activity, web chat and social media as means to support the more traditional methods of sales generation, such as the launch of the new London Linen sales brochure. Service levels have remained high and our customer survey results improved encouragingly during the year, especially the scores in relation to service response and actions.

We now have ten processing sites across the three brands and have continued to move customers between sites to deliver more locally where possible. We have further consolidated our

Chief Executive's Operating Review

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customer distribution in the West Country through South West Laundry and have moved work from plants where capacity is at a premium into Wrexham and Southall as we are realising the benefits of previous investment, improvement and expansion of those sites.

Further investments have been made in replacement ironing equipment across the estate to increase efficiency, maintain or improve quality and reduce energy use. A water recycling plant, able to return a significant percentage of our used water, is about to go on trial in our Shaftesbury location and we have reduced the weight of the clear wrap (which is recyclable) used to protect our finished linen and work wear. We are presently trialling an electric vehicle, for London deliveries, out of our Southall location.

Our operation in Grantham was expanded by installing a soiled bag system and increasing the size of the despatch and packing areas to accommodate sales growth and a significant amount of business acquired in the first quarter of 2019, which has been integrated successfully. The main Southall factory has added a new despatch area to accommodate extra capacity and better deal with the weekly work fluctuations caused by the London restaurant market, especially during peak season. A number of restaurant contracts were acquired in July and the work was integrated smoothly and successfully during the second half of 2019.

On 28 February 2020 we completed the purchase of a number of contracts which will be transferred into our Shaftesbury site, adding annualised revenue of £1.6 million. We expect that some 25 employees of the vendor will join us in Shaftesbury.

2019 marked another successful year in the ongoing development of our high volume linen business, 'Johnsons Hotel Linen', which has been created from the amalgamation of several leading family businesses across the UK including the 'Afonwen', 'Bourne' and 'PLS' brands. The acquisition of Fresh Linen in November further expands our geographic coverage in the South East.

Despite ever increasing record volumes across the business, service levels have continued to increase with outstanding levels of customer satisfaction and very high retention rates throughout the year. We have continued to work hard to ensure a real focus on delivering accurately the right quantity of linen, with the right quality, in full, on time and with no surprises for our customers. In any high volume linen service the accuracy of deliveries is key and we have achieved real progress in significantly reducing any missed or short deliveries. This has been achieved through strong operational focus on purchasing the right linen to meet customer demand whilst carefully managing linen investment to those areas most needed as well as improved purchasing processes throughout the business.

The construction of the building for our £10.0 million new operational facility in Leeds was completed on time and to budget with the construction developer. We were very pleased by the quality of the final build on handover. The tender of equipment and fit out progressed well and resulted in the award of a multi-million pound laundry equipment and fit out contract to three contractors all of whom have worked on similar projects on other Hotel Linen sites in the past and therefore have proven track records in successfully delivering projects of this size and scale.

Volumes during the year broadly held up and were maintained despite some periods of softness around points of Brexit uncertainty but these were more than offset by additional new business and improved efficiencies delivered across the business. Our national accounts and sales teams continued to perform well and ensure high retention rates.

We continue to win a significant amount of organic growth sales from both current and new customers. We were particularly delighted to win a major prestigious new customer account, in conjunction with our sister business, Johnsons Stalbridge, The Gleneagles Hotel, an iconic country estate and resort hotel in Scotland for our Edinburgh site towards the end of the year. We also continued to gain from a series of new build and bolt-on acquisitions within our customer base as the hotel market continues to consolidate and add new rooms.

Rebranding has gathered pace towards the end of the year with the formal launch of our new brand, including rolling out our highly visible washing line livery across our commercial fleet

at all sites which will become increasingly prevalent across the business in 2020.

We were also delighted when we received confirmation at the end of the year of our highest ever customer satisfaction scores, benchmarked externally, in recognition of the strong focus on service delivery and customer satisfaction during the year. We have also continued to invest in people and processes with employees from several sites undertaking customer service NVQ qualifications. Work has commenced on developing our new IT solution which will be rolled out during 2020 to provide a unified IT platform enabling further enhancements to our customer experience.

On 30 November 2019 we acquired Fresh Linen Holdings Limited, based in Clacton-on-Sea, with a distribution depot in Rainham, London. Fresh Linen is a leading laundry in the Essex and London markets, an area significantly underrepresented by Johnsons Hotel Linen. The business specialises in supplying hotels in the corporate 4 star and budget sectors as well as being the leading supplier of gym club towel facilities to leading brands in that market. This helps us to diversify our customer base and benefit from offering a service to a new segment in the market where we had limited previous experience. The integration of that business continues to progress well and to plan. As anticipated at the time of the acquisition we have just announced plans to refit the wash-house and finishing line with modern and highly efficient equipment at an estimated cost of £3.0 million. This will increase both the efficiency of the site as well as adding further capacity to service customers in the South East. We are delighted to welcome Fresh Linen's employees to the Johnsons family of businesses.

We also successfully tendered for and retained our largest customer, Premier Inn, in recognition of our strong ongoing relationship, strength of geographic coverage and understanding of their needs.

Overall, 2019 has proved to be a significant year in the ongoing development of Johnsons Hotel Linen, despite some capacity constraints which are being addressed through the opening in Q2 2020 of our new Leeds production facility. We continue to be pleased by the overall strong operational and financial performance of the business. It is a testament to the quality of the businesses that we have acquired over the last six years that we are increasingly seen as the market leader in our core markets.

System Development

During the year we completed the installation of the new finance system in our Workwear, Stalbridge and Hotel Linen businesses. Work has started on the installation of a new laundry management system with the first of our Hotel Linen plants expected to be live in the second quarter of 2020. Subsequent Hotel Linen plants will be rolled out over the next twelve months. Work is also underway on a new laundry management system for Workwear, which is expected to be rolled out in 2021.

Peter Egan
Chief Executive Officer

2 March 2020

Financial Review

By Chief Financial Officer, Yvonne Monaghan

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

NET ASSETS

£207.5m

8.2%

Increased to £207.5m (2018: £190.4m)

NET CASH GENERATED

£106.1m

28.6%

Increased to £106.1m (2018: £82.5m)

INVESTMENT IN PPE

£20.0m

10.5%

Increased to £20.0m (2018: £18.1m)

Overview

Revenue and adjusted profit before taxation increased significantly in 2019 through a combination of acquisitions and organic growth.

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

Taxation

The tax rate on adjusted profit before taxation, excluding exceptional items and the amortisation of intangible assets (excluding software amortisation), was 18.8% (2018: 18.9%) and in line with the effective tax rate of 19.0% (2018: 19.0%).

Cash Flow

We continue to generate strong cash flows with net cash generated from operating activities increasing by 28.6% to £106.1 million (2018: £82.5 million). Of this, we invested £20.0 million (2018: £18.1 million) in the purchase of property, plant and equipment including software.

We also invested £8.2 million, net of cash and debt acquired, in respect of the acquisition of Fresh Linen, a business serving the high volume hotel linen market and a further £2.3 million on the acquisition of customer contracts to be processed in our existing facilities. Deferred consideration of £1.4 million remains payable in respect of Fresh Linen, all of which is expected to be paid in 2020.

Bank Facilities and Finance Costs

The Group's bank facility, which comprises a Revolving Credit Facility of £135.0 million, was extended to August 2023. The facility provides headroom both in terms of covenant compliance and availability to allow further investment to be made by the Group.

A number of hedging arrangements were in place during the year in order to provide some certainty over borrowing costs. One arrangement, over £10.0 million of borrowings, replaced LIBOR with 0.5525% to June 2019 whilst a further arrangement, over £15.0 million of borrowings, replaces LIBOR with 1.665% to January 2020. In the early part of 2019 we entered into two further arrangements, each over £15.0 million of borrowings, to replace LIBOR with 1.07% to January 2021 and 1.144% to January 2022. In December 2019, we entered into an additional arrangement, over £15.0 million of borrowings, to replace LIBOR with 0.805% from January 2020 to January 2023.

The unhedged borrowings will be subject to LIBOR at market rates at the point of drawdown. Interest charges include an average margin of 1.625% for 2019 (2018: 1.72%). 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 2019, will remain at 1.5% for at least the first quarter of 2020.

The accounting standard on leasing arrangements (IFRS 16) was adopted by the Group with effect from 1 January 2019 using the modified retrospective approach. The interest charge in respect of this change in 2019 was £1.5 million and is included in total finance costs.

Total finance costs in 2019 included £0.1 million (2018: £0.3 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 2020 is estimated to be £0.1 million.

The bank covenants within the facility agreement measure interest cover and gearing ratios and contain some restrictions on pension fund deficit recovery payments. There remains considerable headroom on all measures to fund current plans. Bank covenants are currently measured excluding the impact of IFRS 16 (Leases), referred to as "Frozen GAAP". We have begun discussions with the banks regarding future covenant tests but until a suitable alternative is agreed they will continue to be based on Frozen GAAP.

Investment in Textile Rental Items

Spend on textile rental items amounted to £48.2 million (2018: £48.9 million). This will continue to be a significant annual investment for the Group as volumes processed increase both through organic growth and acquisition. We continue to work with our chosen workwear and linen suppliers to ensure both are available on a timely basis.

Capital Investments

We have continued to invest in plant and equipment, spending £18.8 million in the year plus a further £1.2 million on software. Of this, £2.1 million is in respect of the new Leeds high volume linen site with the balance of some £8.0 million to be incurred in 2020. The remaining spend is in respect of upgrading processing equipment across the estate to increase capacity and improve productivity.

Defined Benefit Pension Scheme Liabilities

As at 31 December 2019, the scheme's assets had increased by £12.6 million, to £221.3 million, after paying out benefits of £9.7 million. The net deficit, including deferred taxation, has increased slightly by £2.2 million to £5.2 million. Scheme liabilities have increased largely due to a decrease in the discount rate utilised in deriving their value.

The triennial valuation of the scheme, as at 30 September 2019, is now underway with the results expected towards the end of this year. Pending the outcome, the current deficit recovery payment of £1.9 million per annum will continue in equal monthly instalments.

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

Balance Sheet

The Group maintains a strong Balance Sheet, with net assets having increased to £207.5 million (2018: £190.4 million).

The distributable reserves of the Parent Company are set out in the Company Statement of Changes in Shareholders' Equity on page 141 and are not expected to influence the determination of future dividend payments.

Key Performance Indicators (KPIs)

The main KPIs used as part of the assessment of performance of the Group, and of each segment, referred to within this Financial Review, Consolidated Financial Statements, Chairman's Statement, Chief Executive's Operating Review or segmental information in note 1 are growth in revenue, adjusted operating profit and adjusted diluted earnings per share from Continuing Operations. Non-financial KPIs as referred to within The Chief Executive's operating review, include our employee and customer survey results and customer retention statistics.

Alternative Performance Measures (APMs)

Throughout the Annual Report and Accounts we refer to a number of APMs. APMs are used by the Group to provide further clarity and transparency of the Group's underlying financial performance. The APMs are 'adjusted operating profit' which refers to continuing operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items, 'adjusted profit before taxation' which refers to adjusted operating profit less total finance cost, 'adjusted EBITDA', used for gearing purposes, which refers to adjusted operating profit for the relevant year (adjusted for the timing of acquisitions and disposals) plus the depreciation charge for property, plant and equipment and software amortisation, as further adjusted to exclude the impact of the adoption of IFRS 16, 'net debt', adjusted to exclude the impact of the adoption of IFRS 16 and 'adjusted EPS' which refers to EPS calculated based on adjusted profit after taxation.

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

Summary

The strategy of the Group, which remains firmly on track, is to continue to expand our Textile Services business through targeted capital investment, organic growth and acquisition. We have a strong balance sheet to support this strategy with future funding in place to support planned investment. The opening of our Leeds facility will provide additional processing capacity to aid organic growth.

Yvonne Monaghan
Chief Financial Officer

2 March 2020

Environmental and Social Responsibility Statement

"We recognise our duty to stakeholders to operate the business in an ethical and responsible manner. We are committed to developing our Environmental and Social Responsibility ('ESR') agenda, recognising that it can play a major part in leading and influencing all of our people and operations".

Section 172 of the Companies Act 2006 requires the directors of a company to act in a way that they consider, in good faith, would be most likely to promote the success of the company for the benefit of its stakeholders. Our key stakeholders are our people, our customers, our suppliers, the environment, the communities in which we do business and our shareholders. 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 ESR.

Our People and the Work Place

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

Our Culture

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

Over the years, we have carefully developed a common set of expected behaviours based on our corporate values and an effective system of governance, both of which have been influential in shaping and embedding a strong ethical and governance culture across the Group. The Board is responsible for changes to corporate governance and culture, however, from a practical perspective,

the Executive Directors and senior managers are responsible for implementing behavioural and governance changes and for clearly articulating to colleagues in the wider business the reasons for change, its benefits or the consequences of not changing, providing encouragement and support to colleagues to ensure that ethical standards are maintained and good governance is put into practice.

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

Employment Policies

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

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

Code of Ethics and Bribery

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

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

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

Modern Slavery Act (the 'Act')

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

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

As part of any tender process, we will ask prospective suppliers to confirm compliance with the Act at the pre-qualifying questionnaire stage. We will not progress to working with any supplier which does not comply with the Act. Throughout the life cycle of any supply agreement we reserve the right to conduct

Environmental and Social Responsibility Statement

Continued >

audits on our suppliers to verify compliance with the Act. We will assess any instances of non-compliance on a case-by-case basis, taking any remedial action accordingly.

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

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

Diversity

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

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

Employee Communication

Each business takes responsibility for fostering employee engagement through appropriately structured communications, training and incentive arrangements. Employee views are sought by management and taken into consideration when making decisions that may affect the employees' interests. A broader understanding of the Group and opportunities within it are made available to employees through a Group wide magazine.

During 2019, we engaged an external research company to undertake an employee engagement survey within our Johnsons Workwear business. The response rate was a very encouraging 77% and the results of the confidential survey will enable managers to produce local action plans designed to make their part of the business an even greater place to work. The Board is aware that whilst surveys are a powerful way to engage people, and are a useful source of information, they are not alone sufficient as an indicator of workforce views. We are, therefore, currently in the process of organising local focus groups with employees in order to discuss and better understand the results of the survey in greater detail. Peter Egan, Chief Executive Officer, and Nick Gregg, Independent Non-Executive Director and Chair of the Remuneration Committee, will also attend certain of the focus group meetings. In 2020, our intention is to extend the employee engagement survey across our HORECA business in order to develop a wider understanding of our employees' views.

Share Schemes

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

Our Customers

We serve a range of organisations from small owner managed enterprises to large multinational brands across a multitude of industries, however, our offering is always tailored for the needs of our customers. Our customer service teams are always on hand to meet the needs of our customers and, each year, we survey a sample of our existing customers as well as potential customers across our markets.

Everything we do starts with the aim of delivering a differentiated customer experience to generate value and create loyalty. For example, during 2019, our Hotel Linen business continued to work hard to ensure a real focus on delivering the right quantity of linen, at the right quality, at the right time and with no surprises for our customers.

Our Suppliers

Our suppliers provide products and services that assist us in executing our strategy. Consequently, they are a vital part of our value chain and, because of our size, we are often a vital part of theirs. We are committed to establishing long-term, open and fair relationships with our suppliers.

The Board fully supports the standards set out within the Prompt Payment Code ('PPC') in respect of all suppliers. The main features of the PPC are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills will be paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Further details are set out within the Directors' Report.

As set out above, we are committed to implementing and enforcing effective systems and controls to confirm that slavery and human trafficking is not taking place anywhere in our supply chain, or in any part of our business, and we expect suppliers to have suitable anti-slavery and anti-human trafficking policies and processes within their own businesses and to cascade those policies to their own suppliers.

Environment

The industry we operate in is, by its very nature, energy intensive, however, we recognise our responsibilities to achieve good environmental practice and to continue to strive for improvement in areas of environmental impact. We are committed to energy efficiency improvement and continue to take steps in a continuous improvement strategy. Our approach is to work through education, communication and direct action wherever possible.

Board Responsibility

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

Environmental Risk Assessment

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

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

Environmental and Social Responsibility Statement

Continued >

Climate Change Agreement

The Group is party to a Climate Change Agreement, a voluntary agreement with the Environment Agency to reduce energy use and carbon dioxide (CO^2) emissions. In return, and subject to meeting the agreed predetermined energy reduction targets, the Group receives a discount on the Climate Change Levy, a tax added to electricity and gas bills.

As at 31 December 2019, all but two of our processing sites had reduced their energy usage by a double-digit percentage against the agreed base target. A significant increase in the volume of work being processed was the key reason behind two sites not yet having achieved the target.

Our Ongoing Initiatives

We continue to invest in energy efficient capital equipment. Current and future energy reduction initiatives include:

- replacing burners on main steam generation equipment;
- installing passive LED lighting in our main production areas which shutdown the power when required lighting levels are reached;
- provision of new skylights for increased natural light;
- installing inverter controlled equipment, which offers potential energy reduction of up to 10% on relevant equipment;
- installing 'grey' water recycling, which reuses final rinse water on first washes on selective wash processes;
- rollout of wastewater heat reclaimation which utilises the heat from used, outgoing water to heat incoming cold fresh water; and
- wherever possible, and with the agreement of our customers, reducing the amount of single use packaging.

Streamlined Energy and Carbon Reporting (SECR) Requirements

Recent legislation will require the Group to report, commencing in respect of its financial year ending 31 December 2020, its energy usage (to include electricity, gas and transport fuel), the associated Greenhouse Gas emissions and an explanation of energy efficiency action undertaken during the year. The Group is currently in the process of ensuring it has suitable procedures in place to capture the relevant data.

Community

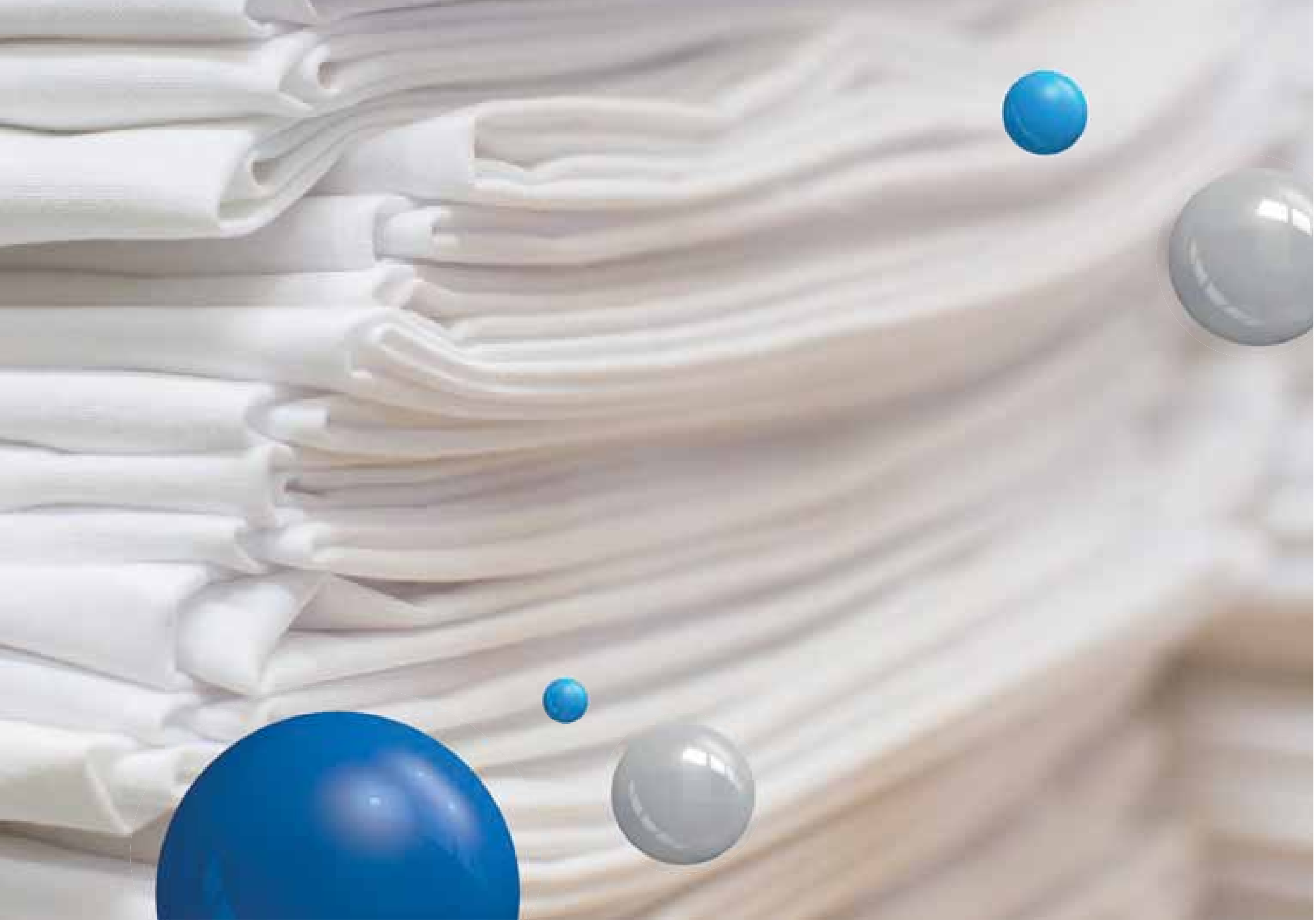
The Group believes that the interests of responsible businesses need to be aligned to the interests of the local communities where they operate and to that end, give back to the community where we can, contributing to charitable causes and local groups.

Our Shareholders

We have two main shareholder groups: institutional investors and individual, or retail, shareholders. We have an extensive investor relations programme aimed at keeping existing and prospective institutional investors informed on the business performance and strategy and we keep all shareholders up to date through regular communications, including the Annual Report, Interim Report and trading statements.

During the year, and as explained further within the Directors' Remuneration Report, we engaged in constructive dialogue with a number of institutional investors prior to making changes to our remuneration policy.

We also have a section of our website which is dedicated to shareholders and analysts (www.jsg.com/investor-relations/) which includes all of our financial results presentations since 2010.



The Annual General Meeting (AGM) provides the Board with the opportunity to communicate with private and institutional investors and we encourage their participation at the meeting. Shareholders attending the AGM have the opportunity to meet and question the Board; this provides the Board with valuable feedback and helps them to understand the views of shareholders.

Health and Safety

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

Board Responsibility

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

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

Health and Safety Policies

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

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

Safety Management Systems

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

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

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

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

Principal Risks and Uncertainties

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

OUR APPROACH TO RISK MANAGEMENT

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

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

The Board formally reviews the most significant risks facing the Group at its February and August meetings, or more frequently should new matters arise. Throughout 2019, the overall risk environment remained largely unchanged from that reported within the Group's 2018 Annual Report.

The principal risks and uncertainties affecting the Group are highlighted below, together with details on how the Board takes action to mitigate each risk. These risks and uncertainties do not comprise all of the risks that the Group may face and are not necessarily listed in any order of priority. Additional risks and uncertainties not presently known to the Board, or deemed to be less material at the date of this Annual Report, may also have an adverse effect on the Group. These include risks resulting from the UK's decision to leave the EU which could adversely affect the economic and political environment as well as affecting financial risks such as liquidity and credit. The Board views the potential impact of Brexit as an integral part of its principal risks rather than a stand-alone risk. However, there is still significant uncertainty about the withdrawal process, its timeframe, and the outcome of negotiations about future arrangements between the UK and the EU, and the period for which existing EU laws for member states will continue to apply to the UK. The Board will continue to assess the risk to the business as the Brexit process evolves and will implement any appropriate actions. Furthermore, whilst we have not yet seen any impact on trading from the Covid-19 virus, the Board will continue to monitor the situation over the coming weeks and will seek to mitigate the risk of impact that the virus may have on our employees, customers and supply chain.

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

FINANCIAL RISKS

Risk	Mitigation
COST INFLATION	
Our objective is always to deliver the right level of service in the most efficient way. An increase in the cost of labour or supplies could constitute a risk to our ability to maintain margin. The introduction of the National Living Wage in April 2016 had a material impact on our cost base and will continue to do so.	We seek to manage the impact of legislative changes and cost inflation by continuing to drive greater efficiencies through supplier rationalisation, labour scheduling and productivity improvements, the latter of which is evidenced by our ongoing investment in state of the art, energy efficient machinery. Cost indexation in certain of our contracts also gives us the contractual right to review pricing with our customers.
ECONOMY	
Our business could be susceptible to adverse changes in, inter alia, economic conditions and customer spending habits, which could impact our profitability and cash flow.	Given the diversity of our customer base and the various industries which we serve, it is generally possible to contain the impact of these adverse conditions. Each business continually reviews its routes to market, changes in customer demands and expectations and cost base so that it can react appropriately to the impact of the wider economy. Any adverse impact on cash flow could be mitigated in the short term by controls over capital expenditure and other discretionary spend.
INTEREST RATE FLUCTUATIONS	
The Group finances its operations through a mixture of retained profit, bank borrowings and lease arrangements. Fluctuations in the rates of applicable interest could adversely impact the profitability and cash flows of the Group.	The Group borrows at both fixed and floating rates and normally has hedging arrangements in place to provide fixed rate interest payments for a proportion of its floating rate debt over a specified period. This enables the Group to forecast borrowing costs with a degree of certainty. Details of the hedging arrangements in place as at 31 December 2019 are provided within note 21.
LIQUIDITY RISK	
Our key sources of liquidity in the foreseeable future are likely to be cash generated from operations and borrowings through committed bank facilities. Adverse changes in credit markets or our credit rating could increase the cost of borrowing and banks may be unwilling to renew credit facilities on existing terms.	The Group's policy on liquidity is to ensure that it has committed bank facilities available to provide continuity of funding. Appropriate bank facilities are in place through to August 2023.
TAXATION	
UK businesses are faced with increasingly demanding tax compliance and tax reporting requirements which, in turn, increase the risk that transactions or business relationships may have unforeseen adverse tax consequences giving rise to additional tax costs, increased administration and an increased likelihood of negative publicity.	The Group has published its Tax Risk Management Strategy ('Tax Strategy'), which sets out our approach to tax risk management and tax planning. Approved by the Board, the Tax Strategy states that the Board is ultimately responsible for the management of tax and related risk. In furtherance to this, the Audit Committee monitors the integrity of the Group's financial reporting systems, internal controls and risk management framework, including those elements relating to taxation. The Group does not enter into any transactions solely to take advantage of tax opportunities - all transactions are based on the commercial objectives of the Group. Furthermore, where legislation is unclear or judgment may be required, the Group makes use of external tax professionals, who have extensive knowledge of the business, to discuss the most appropriate tax position to take. The Group also seeks to develop strong, proactive relationships with HMRC based on transparency and trust.

Principal Risks and Uncertainties

Continued >

OPERATIONAL RISKS

Risk	Mitigation
LOSS OF A PROCESSING FACILITY	
The loss of a key processing facility could result in significant disruption to our business, due to the high utilisation of plant capacity.	A wide geographic spread of processing facilities mitigates the effect of a temporary loss of any single facility as our estate provides us the ability to relocate the processing of work. Detailed plans are in place for the processing to be relocated quickly and efficiently, as demonstrated in January 2020 following a fire at our Johnsons Workwear site in Exeter. Furthermore, insurance cover is in place such that the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered.
FAILURE OF STRATEGY	
Our current business model sets out our intentions to expand the Group by actively pursuing strategic acquisition opportunities within the textile services market. Failure to identify suitable targets, or failure to successfully integrate them, would adversely impact our growth plans.	There is considerable knowledge and expertise within the Group with regard to acquisitions. An experienced acquisition team, together with external advisors where appropriate, is involved in all acquisition activity and we have a proven track record of successfully integrating businesses into the wider Group.
CUSTOMERS	
For our businesses to grow organically, we are reliant on securing and retaining a diverse range of customers. A reliance on any one particular customer or group of customers may present a risk to the future cash flows of the Group should they not be retained. Adverse economic conditions may lead to an increased number of our customers and clients being unable to pay for existing or additional products and services.	We have strategies which strengthen our long term relationships with our customers based on quality, value and innovation. Regular customer feedback surveys are undertaken across the Group and, where applicable, appropriate action taken. Our business model is structured so that we are not reliant on one particular customer or group of customers. The Group has limited concentration of credit risk with regard to trade receivables given the diverse and unrelated nature of the Group's customer base.
COMPETITION	
We operate in a highly competitive marketplace. Aggressive pricing from our competitors could cause a reduction in our revenues and margins.	We aim to minimise this by continuing to promote our differentiated propositions and focusing on our points of strength, such as transparency of our pricing, flexibility in our cost base, quality and value of service and innovation.
RECRUITMENT, RETENTION AND MOTIVATION OF EMPLOYEES	
As a service orientated Group, retaining and motivating the best people with the right skills, at all levels of the organisation, is key to the long term success of the Group. The recently announced proposed changes to the UK's immigration system, whereby the existing freedom of movement currently in place for EU migrants may be replaced by a points-based system, could have an impact on employee availability in certain geographies where we operate. 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 at all levels. The Group regularly reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given such that there is not over reliance on any one individual. Furthermore, the Group has continued to develop succession planning as part of the development programmes for our people.
INFORMATION SYSTEMS AND TECHNOLOGY	
The digital world creates many risks for a business including technology failures, loss of confidential data and damage to brand reputation.	We seek to assess and manage the effectiveness of our security infrastructure and our ability to effectively defend against current and future cyber risks by using analysis tools and experienced professionals to evaluate and mitigate potential impacts. We are focused on the need to maximise the effectiveness and security of our information systems and technology as a business enabler and to reduce both cost and exposure as a result.

REGULATORY RISKS

Risk	Mitigation
HEALTH AND SAFETY	
Health and safety in the workplace is an extremely important consideration for an employer. Legislation is complex and failure to ensure that our employees remain safe at work may lead to serious business interruption and potential damage to our reputation.	The Group has policies, procedures and standards in place to ensure compliance with legal obligations and industry standards. Regular health and safety audits and risk assessments are undertaken across the Group. All management meetings throughout the Group feature a health and safety update as an agenda item.
COMPLIANCE AND FRAUD	
Ineffective management of compliance with laws and regulations, or evidence of fraud, could have an adverse effect on the Group's reputation and could result in an adverse impact on the Group's performance if significant financial penalties are levied or a criminal action is brought against the Company or its Directors.	The Group's zero tolerance based Code of Ethics govern all aspects of our relationships with our stakeholders. All alleged breaches of the Code, including any allegations of fraud, are investigated and action taken where appropriate. The Group's procedures include regular operating reviews, underpinned by a continual focus on ensuring the effectiveness of internal controls. Regulation and compliance risk is also considered as part of our annual business planning process.
CLIMATE CHANGE AND ENERGY COSTS	
Climate change is increasingly becoming more significant. The industry we operate in is, by its very nature, energy intensive. We are committed to energy efficiency improvement, however, there remains the potential for us to see increases in both the cost of energy as well as the potential introduction of associated levies or taxation.	The Group seeks to minimise volatility and manage price risk through hedging and forward buying arrangements for its diesel, electricity and gas requirements. Whilst we are unable to eradicate the risk of energy levies and/or taxes being introduced, we seek to mitigate such risk by continually investing in our sites and installing the latest technologically efficient machinery, for example, water and heat recovery systems.

Corporate Governance

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ADJUSTED PROFIT BEFORE TAXATION

£48.2m

Increased from £42.5m in 2018

Board of Directors

Bill Shannon
Non-Executive Chairman

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

Peter Egan
Chief Executive Officer

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

Yvonne Monaghan
Chief Financial Officer

Yvonne has significant experience in the Textile Services industry having joined the Group as Group Management Accountant in 1984 after qualifying as a Chartered Accountant with Deloitte Haskins and Sells. She was appointed as Company Secretary and Group Financial Controller in 1985 and joined the Board as Chief Financial Officer on 31 August 2007. Yvonne is currently the Senior Independent Non-Executive Director and Chair of the Audit Committee of NWF Group plc, but is stepping down from this Board on 24 September 2020, and is also the Senior Independent Non-Executive Director and Chair of the Audit Committee of The Pebble Group PLC. Both of these companies are listed on AIM.

Chris Girling
Senior Independent
Non-Executive Director

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

Nick Gregg
Independent Non-Executive Director

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

Tim Morris
Company Secretary

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

Directors' Report

The Directors have pleasure in presenting their Annual Report and the audited Consolidated and Company Financial Statements for the year ended 31 December 2019.

The Corporate Governance Report on pages 41 to 50, and the Environmental and Social Responsibility Statement on pages 24 to 29 (with regard to information about the employment of disabled persons, employee involvement and share schemes) are also incorporated into this Report by reference.

Principal Activities and Business Overview

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

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

Results and Dividends

The Group retained profit after taxation for the year from all operations amounted to £30.9 million (2018: £26.8 million).

The dividend comprises an interim dividend of 1.15 pence (2018: 1.0 pence) per Ordinary share and a proposed final dividend of 2.35 pence (2018: 2.1 pence) per Ordinary share. This total dividend of 3.5 pence (2018: 3.1 pence) per Ordinary share, subject to the approval of Shareholders, will amount to a distribution for the year of £13.0 million (2018: £11.4 million).

Share Capital

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

The total issued share capital at the end of the year and the outstanding share options are given in note 28 to the Consolidated Financial Statements.

Acquisitions and Discontinued Operations

Details of acquisitions and discontinued operations during the current and preceding year are given in notes 33 and 34 to the Consolidated Financial Statements.

Events after the Reporting Period

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

Major Interests in the Company's Share Capital

At 28 February 2020, this being the latest practicable date prior to publication of this document, the Company had been advised of the following interests, of a material nature, in its share capital:

	Shareholding (%)
PrimeStone Capital LLP	12.99%
Octopus Investments Nominees Ltd	5.02%
BlackRock Inc	Below 5%
Invesco Limited	Below 5%
Janus Henderson Group plc	Below 5%
Merian Global Investors (UK) Ltd	Below 5%
Schroders plc	Below 5%
Canaccord Genuity Group Inc	3.51%

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

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

At the 2019 Annual General Meeting, Shareholders authorised the Company to make market purchases of up to a maximum aggregate of 36,774,588 Ordinary shares, which represented approximately 10% of the Company's issued Ordinary share capital on the latest practicable date prior to publication of the 2019 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 2020 Annual General Meeting. Further details are given in the 2020 Notice of Annual General Meeting.

Directors

Details of the Directors of the Company are shown on page 36. Each held office throughout the year, and up to the date of approving this Report.

Directors' Interests

Share Capital

The interests of the Directors who were in office at 31 December 2019, 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 Directors' Remuneration Report. Details of the Company's interest in its own shares are disclosed in note 31 to the Consolidated Financial Statements.

Contracts

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

Directors' Report
Continued >

Directors' Indemnity

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

Articles of Association

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

Political Donations

It is the Company's policy not to make political donations. The Directors confirm that no donations for political purposes were made during the year (2018: £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 55, and as required by Section 489 of the Companies Act 2006, a resolution to reappoint the auditors will be proposed at the Annual General Meeting.

Policy on Payment to Suppliers

Prompt Payment Code

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

Payment Practice Reporting

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

Johnsons Textile Services Limited was required to publish supplier payment information for the six months ended 30 June 2019 and for the six months ended 31 December 2019; the average time taken to pay invoices in each of those periods was 56 days and 55 days respectively. The comparative figures for 2018 were 55 days and 53 days respectively. Johnsons Textile Services Limited trades through a number of brands, each of which have varying payment terms with its suppliers, however, such terms typically range from 60 days from date of invoice through to 60 days from end of the month in which the invoice was raised.

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

Dispute Resolution Process

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

Financial Risk Management

The Directors acknowledge that the Group's activities expose it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out centrally under policies approved by the Board. Further details are set out on pages 56 to 57.

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.

2020 Annual General Meeting

The Company's AGM will be held at the Doubletree by Hilton Chester, Warrington Road, Hoole, Chester, CH2 3PD on Tuesday 5 May 2020 at 11am. An explanation of the resolutions to be proposed at the meeting is included in the Notice of Annual General Meeting accompanying this Annual Report.

Going Concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Review, Chairman's Statement and Chief Executive's Operating Review. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review. In addition, note 26 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

2 March 2020

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

Directors' Responsibilities Statement

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

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

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

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

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

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

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

Each of the Directors, whose names and functions are disclosed on page 36, confirms that, to the best of their knowledge:

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

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

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

On behalf of the Board

Peter Egan
Chief Executive Officer

2 March 2020

Yvonne Monaghan
Chief Financial Officer

2 March 2020

Corporate Governance Report

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

Legislative Overview

For the year ended 31 December 2018, all companies with a Premium Listing of equity shares in the UK were required under the Listing Rules to comply with the Financial Reporting Council's 2016 UK Corporate Governance Code (the '2016 Code') or, state the areas in which they do not comply. The 2016 Code is a guide to a number of key components of effective board practice, the main principles, or sections, being:

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

On 16 July 2018, the Financial Reporting Council released the 2018 UK Corporate Governance Code (the '2018 Code') which has a number of differences to the 2016 Code and which applies to accounting periods beginning on or after 1 January 2019. The new shorter, sharper 2018 Code is the product of extensive consultation and places emphasis on businesses establishing a corporate culture that is aligned with the company purpose and business strategy and which promotes integrity and values diversity. The 2018 Code is again divided into five sections each of which contain an overriding set of 'Principles' supported by more detailed 'Provisions'.

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

In respect of the year ended 31 December 2019, the Group's compliance with the provisions and application of the principles of the 2018 Code are set out below.

Our Governance Structure

Chairman – Bill Shannon

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

The Board of Johnson Service Group PLC

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

Chairman: Bill Shannon

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

Audit Committee

Membership comprises the Non-Executive Directors

Chairman: Chris Girling

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

Nomination Committee

Membership comprises the Chairman and Non-Executive Directors

Chairman: Bill Shannon

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

Remuneration Committee

Membership comprises the Chairman and Non-Executive Directors

Chairman: Nick Gregg

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

Chief Executive Officer

Peter Egan

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

Group Management Board

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

Chairman: Peter Egan

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

Corporate Governance Report

Continued >

Compliance with the 2018 Code

The Company has applied the Principles and complied with the Provisions of the 2018 Code throughout the year ended 31 December 2019, other than in relation to the following:

Provision	Explanation
10, 19	**Chairman's tenure** Bill Shannon was first appointed to the Board on 8 May 2009 and was appointed as Chairman on 3 August 2018. Prior to his appointment as Chairman, the Board did consider Bill's independence in light of him being first appointed to the Board over nine years ago and concluded that, given Peter Egan's then recent appointment to the Board as Chief Operating Officer, the then upcoming change in Chief Executive Officer on 1 January 2019 and the fact that a new Non-Executive Director was to be appointed, it was in the best interests of the Company and its stakeholders that Bill be appointed as Chairman in order to retain his extensive knowledge and experience of the Group at the same time as overseeing an orderly succession of other Board members. Following the successful transition of Peter Egan into the role of Chief Executive Officer, Bill has indicated his intention to step down from the Board later this year. As a result, a process has now commenced to identify his replacement.
36	**Post-employment shareholding requirement** We have not introduced a formal post-employment shareholding requirement for the Executive Directors. We believe that our current approach provides for a sufficient long-term alignment of interests between executives and Shareholders through, for example, the LTIP and the existing shareholding requirement (which applies during employment). The Committee has though, for the LTIP granted in 2019 and will for all future grants, introduced a two-year post-vesting holding period. Furthermore, during the year, the Committee also increased the personal shareholding requirement from 100% to 200% of basic salary. We will keep this under regular review as market practice in this area develops.
38	**Pensions** We have not fully aligned Executive Director pensions with the wider workforce. Provision for both the CEO and the CFO remains above the workforce average, although we have moved the pension contribution rate for the CEO closer towards the rate payable to the wider workforce. Pension rates reflect historic entitlements and whilst we do not propose any further changes at this stage we will also keep this under review.

Section 1: Board Leadership & Company Purpose

Principles:

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Overview of the Board

The Board has overall responsibility for the long-term sustainable success of the Group. Operating in an effective and entrepreneurial spirit, the Board is responsible for agreeing the strategic direction of the Group, promoting high standards of corporate governance, setting the budget, overseeing performance and discharging certain legal responsibilities. The Board also plays a key role in developing and monitoring our culture, our values, our brand and our reputation.

The Board has spent time in the business both collectively and as individuals, exploring specific business areas through presentations, meetings and dialogue with colleagues and our stakeholders. Throughout the year, the Board, supported by its Committees, has covered a broad range of topics to ensure that we continually review and challenge matters of importance to our stakeholders.

Further details on the Group's mission, vision, values, targets and culture, together with information on our strategy and business model, are set out within the Strategic Report.

Specific Responsibilities of the Board

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

The specific responsibilities reserved for the Board include:

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

Key Board Activities in the Year

Key activities of the Board during 2019 included, inter alia:

- the review and approval of the acquisition of customer contracts in January and July 2019;
- the review and approval of the Group's investment in Fresh Linen Holdings Limited, acquired in November 2019;
- the review and approval of the half year and full year financial statements;
- the review and approval of major capital and investment projects, in particular, the building and subsequent lease of a new laundry in Leeds, which is expected to be operational in Spring 2020;
- ongoing monitoring of the Group's Health and Safety performance; and
- regular review, and formal approval in February and August, of the Group's risk assessment processes and principal risks and uncertainties.

Insight into the Boardroom

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

January

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

February

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

May

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

July

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

August

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

October

- Strategy meeting

November

- Health & safety
- CEO's review
- M&A and strategy update
- Financial performance
- Investor analysis
- Directors' responsibilities and AIM rules update
- 2020 budget and three-year plan
- Approval of Tax Strategy
- Approval of updated Modern Slavery Policy
- Review of Committee Terms of Reference

Corporate Governance Report

Continued >

Board Committees

The Committees of the Board are:

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

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

Group Management Board

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

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

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

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, the Chief Financial Officer and the Company Secretary to discuss business performance;
- hosting investor and analyst sessions at which senior management from relevant businesses deliver presentations which provide an overview of each of the individual businesses and operations; and
- attendance by senior executives across the business at relevant meetings throughout the year.

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 is of the opinion that additional routine meetings with either the Chairman or the Senior Independent Director would not assist further in the dialogue with Shareholders, however, both the Chairman and the Senior Independent Director are available to meet with Shareholders, at their request.

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

Workforce Policies & Workforce Engagement

Workforce Policies

Our employees are central to our business. We want them to use their skills, combined with our support, to deliver a great service to our customers. Our people strategy is summed up by our ambition to be a brilliant place to work - that means making Johnson Service Group PLC a place where our people feel engaged and inspired to be at their best. In addition to providing apprenticeships, on the job training and leadership development programmes, we tell our people about company results, major business decisions and other matters that affect them through several different channels, including our internal 'Vision' magazine, emails and the intranet. Further details are set out within our Environmental and Social Responsibility Statement.

Employee Surveys

During 2019, we engaged an external research company to undertake an employee engagement survey within our Johnsons Workwear business. The response rate was a very encouraging 77% and the results of the confidential survey will enable managers to produce local action plans designed to make their part of the business an even greater place to work.

The Board is aware that whilst surveys are a powerful way to engage people, and are a useful source of information, they are not sufficient as an indicator of workforce views. We are, therefore, currently in the process of organising local focus groups with employees in order to discuss and better understand the results of the survey in greater detail. Peter Egan, Chief Executive Officer, and Nick Gregg, Independent Non-Executive Director and Chair of the Remuneration Committee, will also attend certain of the focus group meetings.

In 2020, our intention is to extend the employee engagement survey across our HORECA business in order to develop a wider understanding of our employees' views.

Workforce Engagement

Whilst the Board is aware of the three methods of engagement specified in the 2018 Code, it is conscious that the methods specified are not the only ways of engaging with the workforce and that engagement through a range of both formal and informal channels may be more appropriate. The Board is keen to hear and discuss the ideas and concerns of the workforce and, throughout 2020, will consider which channels are the most appropriate. Such alternative channels may include, but not be limited to:

- meeting groups of elected workforce representatives;
- meeting future leaders without senior management present;
- visiting regional sites;
- inviting colleagues from different business functions to board meetings; and
- surveys.

The 2018 Code also provides for companies to create an environment in which the workforce feels it is safe to raise concerns; the Board wholly agrees that creating such an environment is a core part of an ethical and supportive business culture. Appropriate whistleblowing and anti-bribery and corruption policies are therefore in place and employees are encouraged to raise concerns about any wrongdoing or malpractice without fear of victimisation, discrimination, disadvantage or dismissal.

Section 2: Division of Responsibilities

Principles:

F. The chair leads the board and is responsible for its overall effectiveness in directing the company. They should demonstrate objective judgement throughout their tenure and promote a culture of openness and debate. In addition, the chair facilitates constructive board relations and the effective contribution of all non-executive directors, and ensures that directors receive accurate, timely and clear information.

G. The board should include an appropriate combination of executive and non-executive (and, in particular, independent non-executive) directors, such that no one individual or small group of individuals dominates the board's decision-making. There should be a clear division of responsibilities between the leadership of the board and the executive leadership of the company's business.

H. Non-executive directors should have sufficient time to meet their board responsibilities. They should provide constructive challenge, strategic guidance, offer specialist advice and hold management to account.

I. The board, supported by the company secretary, should ensure that it has the policies, processes, information, time and resources it needs in order to function effectively and efficiently.

Composition of the Board

The Board currently consists of the Non-Executive Chairman (the 'Chairman'), two Independent Non-Executive Directors and two Executive Directors. Biographies of the Directors of the Company are shown on page 36. They all held office throughout the year, and up to the date of approving this Report.

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

Corporate Governance Report

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		Date first appointed to the Board	Date first elected to the Board	Tenure since appointment (as at 31 December 2019)
Non-Executive Directors				
Bill Shannon*	Non-Executive Chairman	8 May 2009	5 May 2010	10 years 8 months
Chris Girling	Senior Independent Non-Executive Director	29 August 2018	8 May 2019	1 year 4 months
Nick Gregg	Independent Non-Executive Director	1 January 2016	5 May 2016	4 years
Executive Directors				
Peter Egan	Chief Executive Officer	1 April 2018	3 May 2018	1 year 9 months
Yvonne Monaghan	Chief Financial Officer	31 August 2007	17 June 2008	12 years 4 months

* **Under the 2016 Code, which was in operation at the time, Bill Shannon was considered independent on appointment to Chairman, however, under the 2018 Code he would not be considered independent as at the date of his appointment to Chairman (see below for further details).**

Provision A.3.1 of the 2016 Code states that a chairman should, on appointment, meet the independence criteria set out in Provision B.1.1, that is to say, inter alia, that they have not served on the board for more than nine years from the date of their first election. Bill Shannon was appointed as Chairman on 3 August 2018 at which time he had served on the Board for almost eight years and three months since being elected, hence meeting the independence test. Under the 2018 Code, however, the wording of Provision 10 (which effectively supersedes Provision B.1.1 of the 2016 Code) has been amended such that in order to be independent, an individual must have not served on the board for more than nine years from the date of their first appointment. In the case of Bill, he was first appointed to the Board some nine years and three months earlier than being appointed as Chairman.

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

Following the successful transition of Peter Egan into the role of Chief Executive Officer, Bill has indicated his intention to step down from the Board later this year. As a result, a process has now commenced to identify his replacement.

Division of Responsibility of Chairman and Chief Executive Officer

The 2018 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.

Board Meetings and Attendance

The Board met formally seven times during 2019 and, additionally, held a further unscheduled meeting in relation to, inter alia, acquisition related matters.

On the rare occasions that a Director is unavoidably unable to attend a meeting, they would generally hold a briefing with the Chairman prior to the meeting so that their comments and input can be taken into account at the meeting. The Chairman would provide an update to them after the meeting.

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

	Board (Scheduled)	Board (Unscheduled)	Audit Committee	Nomination Committee	Remuneration Committee (Scheduled)	Remuneration Committee (Unscheduled)
Maximum Number of Meetings	**7**	**1**	**3**	**1**	**3**	**2**
Bill Shannon	7	1	n/a	1	3	2
Chris Girling	7	1	3	1	3	2
Nick Gregg	7	–	3	1	3	2
Peter Egan	7	1	n/a	n/a	n/a	n/a
Yvonne Monaghan	7	1	n/a	n/a	n/a	n/a

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

External Executive Search Consultants

Appointments to the Board involve a rigorous selection process, led by the Nomination Committee, and external independent executive search consultants are usually engaged. Further information is set out within the Nomination Committee Report.

Induction, Training and Knowledge

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

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

Supply of Information

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

Service Agreements

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

External Appointments

The Board supports Executive Directors having a non-executive directorship as part of their continuing development provided they have sufficient time to balance their commitments to the Group with any external role. Such positions must receive prior Board approval. In accordance with the 2018 Code, full-time executive directors would not ordinarily take on more than one non-executive directorship in a FTSE 100 company.

The role of an Independent Non-Executive Director requires a time commitment in the order of 15 days per year plus additional time as necessary to properly discharge their duties. There is no restriction on outside appointments provided that they do not prevent the Directors from discharging their responsibilities effectively. Prior to appointment, each prospective Non-Executive Director must confirm that they will have sufficient time available to be able to discharge their responsibilities effectively and that they have no conflicts of interest.

The Board remains confident that individual members continue to devote sufficient time to undertake their responsibilities effectively. The commitments of each Executive Director are set out on page 36.

Corporate Governance Report

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Section 3: Composition, Succession & Evaluation

Principles:

J. Appointments to the board should be subject to a formal, rigorous and transparent procedure, and an effective succession plan should be maintained for board and senior management. Both appointments and succession plans should be based on merit and objective criteria and, within this context, should promote diversity of gender, social and ethnic backgrounds, cognitive and personal strengths.

K. The board and its committees should have a combination of skills, experience and knowledge. Consideration should be given to the length of service of the board as a whole and membership regularly refreshed.

L. Annual evaluation of the board should consider its composition, diversity and how effectively members work together to achieve objectives. Individual evaluation should demonstrate whether each director continues to contribute effectively.

Nomination Committee

The role of the Nomination Committee is to, inter alia, monitor the performance, appropriateness and future succession of the Company's executive and Board talent in order to ensure that the Board comprises individuals with the right blend of skills, knowledge and experience to maintain a high degree of effectiveness in discharging its responsibilities. Appointments to the Board are recommended, as appropriate, by the Nomination Committee. Board appointments are subject to approval by the Board as a whole. Further details are outlined in the Nomination Committee Report, on page 58.

Performance Evaluation

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

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

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

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

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

Re-election of Directors

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

Biographical details of all the Directors are set out on page 36 and are also available for viewing on the Company's website (www.jsg.com).

Section 4: Audit, Risk & Internal Control

Principles:

M. The board should establish formal and transparent policies and procedures to ensure the independence and effectiveness of internal and external audit functions and satisfy itself on the integrity of financial and narrative statements.

N. The board should present a fair, balanced and understandable assessment of the company's position and prospects.

O. The board should establish procedures to manage risk, oversee the internal control framework, and determine the nature and extent of the principal risks the company is willing to take in order to achieve its long-term strategic objectives.

Audit Committee

The Board has established an Audit Committee, comprising the independent Non-Executive Directors, which is responsible for:

- ensuring that formal and transparent policies and procedures are in place to protect the interests of Shareholders in relation to financial reporting, internal control and risk management;
- monitoring the financial reporting process and the integrity of the annual and interim financial statements;
- determining whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and whether they provide the information necessary for Shareholders to assess the Group's position and performance, business model and strategy;
- considering, and ultimately approving for publication, any formal announcements relating to the Company's financial performance;
- reviewing and challenging, as necessary, the judgments and actions of management in relation to the financial statements;
- monitoring, reviewing and concluding upon the system of internal control, including the work of internal audit;
- ensuring the maintenance of a control environment and the appropriate management of risk;
- recommendation of appointment of, and liaison with, the external auditor;
- reviewing and setting the terms of engagement and the remuneration of the external auditor;
- annual review and monitoring of the external auditor's independence and objectivity and the effectiveness of the audit process;
- development and implementation of policy on the engagement of the external auditor to supply non-audit services;
- reviewing the Group's systems and controls for the prevention and detection of fraud or bribery; and
- reviewing arrangements under which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ensuring that arrangements are in place for the proportionate and independent investigation and appropriate follow-up action.

The Audit Committee reports to the Board on how it has discharged its responsibilities. Further details are outlined in the Audit Committee Report, on pages 51 to 57.

Robust Risk Assessment

Throughout the year, and as described further within the Audit Committee Report, the Board has carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future position, performance, solvency or liquidity. Details of the principal risks and uncertainties facing the Group, together with how the risks and uncertainties are being managed or mitigated, are set out on pages 30 to 33.

Internal Control

The Board, with advice from the Audit Committee, is satisfied that an effective system of internal control and risk management processes are in place which enable the Company to identify, evaluate and manage key risks. These processes have been in place since the start of the financial year and up to the date of approval of the financial statements. Further details of risk management frameworks and how the Audit Committee has reviewed the effectiveness of the system of internal control are described further within the Audit Committee Report.

Going Concern

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

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

Corporate Governance Report

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Future Prospects

The Board has assessed the future prospects of the Group in accordance with Provision 31 of the 2018 Code. Based on the results of this analysis and having considered the nature and extent of the Company's principal risks and uncertainties, the Board has a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the 36 month period of its assessment. Details of the assessment performed by the Board, including an assessment of those risks most likely to impact the Group's future prospects are set out on pages 10 to 11.

Section 5: Remuneration

Principles:

P. Remuneration policies and practices should be designed to support strategy and promote long-term sustainable success. Executive remuneration should be aligned to company purpose and values and be clearly linked to the successful delivery of the company's long-term strategy.

Q. A formal and transparent procedure for developing policy on executive remuneration and determining director and senior management remuneration should be established. No director should be involved in deciding their own remuneration outcome.

R. Directors should exercise independent judgement and discretion when authorising remuneration outcomes, taking account of company and individual performance, and wider circumstances.

Remuneration Committee

The Remuneration Committee is responsible for overseeing the policy regarding executive remuneration. The Remuneration Committee reports to the Board on how it has discharged its responsibilities. Further details are outlined in the Directors' Remuneration Report, on pages 59 to 81.

Corporate Governance Report Approval

The Corporate Governance Report incorporates the Audit Committee Report, Nomination Committee Report and Directors' Remuneration Report, as well as the Directors' Report and the Environmental and Social Responsibility Statement.

The Corporate Governance Report was approved by the Board on 2 March 2020 and signed on its behalf by:

Tim Morris
Company Secretary

2 March 2020

Audit Committee Report

Responsibilities of the Audit Committee

The Board has established an Audit Committee (the 'Committee'), comprising the independent Non-Executive Directors, to which it has delegated day to day responsibility for the following:

- ensuring that formal and transparent policies and procedures are in place to protect the interests of Shareholders in relation to financial reporting, internal control and risk management;
- monitoring the financial reporting process and the integrity of the annual and interim financial statements;
- determining whether the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, and whether they provide the information necessary for Shareholders to assess the Group's position and performance, business model and strategy;
- considering, and ultimately approving for publication, any formal announcements relating to the Company's financial performance;
- reviewing and challenging, as necessary, the judgments and actions of management in relation to the financial statements;
- monitoring, reviewing and concluding upon the system of internal control, including the work of internal audit;
- ensuring the maintenance of a control environment and the appropriate management of risk;
- recommendation of appointment of, and liaison with, the external auditor;
- reviewing and setting the terms of engagement and the remuneration of the external auditor;
- annual review and monitoring of the external auditor's independence and objectivity and the effectiveness of the audit process;
- development and implementation of policy on the engagement of the external auditor to supply non-audit services;
- reviewing the Group's systems and controls for the prevention and detection of fraud or bribery; and
- reviewing arrangements under which employees may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters ensuring that arrangements are in place for the proportionate and independent investigation and appropriate follow-up action.

The Committee regularly reports to the Board on how it has discharged its responsibilities. The full terms of reference of the Committee are available on the Company's website, or on request to the Company Secretary.

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

This report sets out how the Committee has discharged its responsibilities.

Composition of the Committee

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

In accordance with Provision 24 of the 2018 Code, small companies (i.e. those below the FTSE 350) should establish a Committee of at least two, independent non-executive directors. Membership of the Committee at each of its meetings during the year is shown below and is, therefore, in accordance with the 2018 Code:

	February	August	November
Chris Girling (Committee Chairman)	✓	✓	✓
Nick Gregg	✓	✓	✓

Evaluation of the Competence and Effectiveness of the Committee

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

By virtue of my former executive and current non-executive roles (full details of which are set out on page 36), together with the results of the above evaluation, the Board considers that I have recent and relevant financial experience. The Board further concluded that the Committee, as a whole, has sufficient competence relative to the sector in which the Company operates.

What the Committee did in 2019

In 2019, the Committee discharged its responsibilities by:

- reviewing the Group's draft financial statements, preliminary announcements and interim results statement prior to Board approval and reviewing the external auditor's reports thereon;
- reviewing and considering the significant matters in relation to the financial statements, as further detailed on page 53;

Audit Committee Report

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- reviewing the plan of the external auditor for the audit of the Consolidated and Company Financial Statements, confirmations of the auditor's independence and proposed audit fee, approving terms of engagement for the audit and considering the reappointment of PwC as auditor;
- considering and agreeing the annual internal audit plan;
- reviewing internal audit's progress and reports on its work during the year;
- considering the review of material business risks, including reviewing internal control processes used to identify and monitor principal risks and uncertainties;
- reviewing the Executive and Non-Executive Directors' expenses;
- monitoring the reporting, and follow up of items reported, on the employee hotline established in line with the Code of Ethics;
- initiating, for review by the Board as a whole, a Return on Investment review of all acquisitions made by the Group since 2014; and
- reviewing the Committee's composition and confirming that there is sufficient expertise and resource for it to fulfil its responsibilities effectively.

Fair, Balanced and Understandable

At the request of the Board, the Committee has considered whether, in its opinion, the 2019 Annual Report and Accounts are fair, balanced and understandable, and whether they provide the information necessary for Shareholders to assess the Group's position and performance, business model and strategy.

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

IS THE REPORT FAIR?

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

IS THE REPORT BALANCED?

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

IS THE REPORT UNDERSTANDABLE?

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

When forming its opinion, the Committee reflected on the information it had received and its discussions throughout the year. Following its review, the Committee was of the opinion that the 2019 Annual Report and Accounts were fair, balanced and understandable on the basis that:

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

Significant Matters Considered in Relation to the Financial Statements

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

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

Acquisition Accounting

During the year, the Group acquired 100% of the share capital of Fresh Linen Holdings Limited.

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

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

Goodwill Impairment

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

The Committee noted that the recoverable amount of a CGU was primarily determined based on value-in-use calculations, using pre-tax cash flow projections based on financial budgets, covering three years, which were Board approved. Cash flows beyond the budgeted period were extrapolated using an estimated annual growth rate, equal to the risk-free rate, of 1.23% into perpetuity. Furthermore, other than as included in the financial budgets, it had been assumed that there are no material adverse changes in legislation that would affect the forecast cash flows.

The pre-tax discount rate used in the 2019 calculations was 5.36% (2018: 5.47%) and was based upon the weighted average cost of capital of the Group. The discount rate takes into account, amongst other things, the risk-free rate of return (derived from a 20-year government bond price), the market risk premium and the Beta factor reflecting the average Beta for the Group and comparator companies.

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

Post-employment Benefit Obligations

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

Accounting for Complex Customer Arrangements

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

Income Taxes

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

Audit Committee Report

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Alternative Performance Measures (APMs)

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

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

- adjusted operating profit, which refers to continuing operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items;
- adjusted profit before taxation, which refers to adjusted operating profit less total finance cost;
- adjusted EBITDA, used for gearing purposes, which refers to adjusted operating profit for the relevant year (adjusted for the timing of acquisitions and disposals) plus the depreciation charge for property, plant and equipment and software amortisation, as further adjusted to exclude the impact of the adoption of IFRS 16;
- net debt, adjusted to exclude the impact of the adoption of IFRS 16; and
- adjusted earnings per share which refers to earnings per share calculated based on adjusted profit after taxation.

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

Assessment of External Auditor Effectiveness

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

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

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

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

Non-Audit Services

The Committee has adopted a policy on the engagement of the external auditor for the provision of non-audit services and reviews this annually. The policy is designed to ensure that such engagements do not result in the creation of a mutuality of interest between the external auditor and the Company, that a transparent process and reporting structure is established to enable the Committee to monitor policy compliance and that unnecessary restrictions on the engagement of the external auditor for non-audit services is avoided where the provision of advice is commercially sensible. The policy categorises the provision of non-audit services into three areas:

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

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

The total fees payable to the external auditor in respect of the year under review amount to £532,000 (2018: £515,000), of which £130,000 (2018: £124,000) related to non-audit services. For those non-audit related services received, the Committee considered that it was commercially sensible and more cost effective to use PwC rather than an alternative provider. Further details are set out below:

	Note	£000	2019 £000	£000	2018 £000
Audit related services	1		**402**		391
Non-audit related services					
- tax compliance	2	**96**		84	
- pension scheme audit	3	**19**		18	
- remuneration consultancy	4	**–**		13	
- business acquisition related activity	5	**15**		9	
			130		124
Total fees payable to the external auditor			**532**		515
Non-audit related fees as a % of total fees			**24%**		24%

Notes:

1. **The 2018 audit fee included additional one-off work undertaken as a result of the introduction of new and prospective accounting standards; IFRS 9, IFRS 15 and IFRS 16. Whilst such fees were not present in 2019, the modest overall increase in the audit fee reflects the cost of PwC redesigning a number of audit procedures in response to the external focus on the audit market offset, to a lesser extent, by efficiency savings as a result of the Group consolidating certain of its finance functions.**
2. **PwC have been tax advisors to the Company for a number of years; the Committee considers that retaining this historical knowledge is in the best interests of the Company.**
3. **The Trustee of the Johnson Group Defined Benefit Scheme (the 'JGDBS') has appointed PwC to perform the audit of the JGDBS.**
4. **As a result of the Company appointing Korn Ferry as remuneration consultants, no fees were payable to PwC during the year.**
5. **During the year, fees of £5,000 were payable in respect of advice on the tax arrangements of Fresh Linen Holdings Limited, acquired in November 2019. In addition, £10,000 was payable for advice on legacy tax matters relating to Ashbon Services Limited, which was acquired in 2015. The Company was reimbursed by the seller for these fees.**

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. During the year, and one year earlier than required, there was a change in the Senior Statutory Auditor. The previous Senior Statutory Auditor was appointed in 2015 and, in accordance with best practice and professional standards, would have been replaced no later than 2020. The current Senior Statutory Auditor, appointed in August 2019, will be rotated no later than August 2024. The external auditor is also required to assess periodically whether, in their professional opinion, they are independent and those views are shared with the Committee. The Committee has authority to take independent advice, as it determines necessary, in order to resolve issues on auditor independence. No such advice was required during the year.

Independence Assessment by the Committee

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

Re-appointment of the External Auditor

The re-appointment of PwC as the Group's external auditor was reviewed during the year. The Committee has assessed the performance, objectivity and independence of the external auditor, which underpins its recommendation to the Board to propose to Shareholders the re-appointment of PwC as auditor until the conclusion of the AGM in 2021. Full details are set out in the Notice of Annual General Meeting on pages 158 to 163. There are no contractual restrictions over choice of auditor.

Role of Internal Audit

The Group's internal audit process is undertaken by the centralised Group Finance team, which has a Group-wide remit and is independent of the business operations. The team, which is comprised entirely of qualified accountants, including the Company Secretary, undertakes an on-going programme to provide assurance on the adequacy of internal control and risk management processes across the Group's operations. The team is responsible for reviewing and reporting on the effectiveness of internal controls and risk management systems to the Committee and, ultimately, the Board. The Company Secretary attends each Committee meeting to present the findings of such reviews and to report on performance against the agreed annual internal audit plan, such plans being agreed during the year by the Committee.

Audit Committee Report

Continued >

Internal Control and Risk Management

Whilst day to day responsibility has been delegated to the Committee, the Board is ultimately responsible for the overall system of internal control for the Group and for reviewing its effectiveness. 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 Committee carries out a review, at least annually, covering all material controls, including financial, operational and compliance controls, and the risk management systems. The Committee also receives regular reports from the internal audit function and, where necessary, recommendations for improvement are considered and agreed. This process has been regularly reviewed by the Board.

The main features of the internal control framework are detailed below.

1. Financial Reporting

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

2. 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.

3. Risk Management

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 financial year and up to the date of approval of the financial statements. The identification of business risks is carried out in conjunction with operating management and reviewed by the 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.

4. 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 Committee. A review of control procedures is undertaken in respect of all new acquisitions 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.

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.

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

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

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

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

No significant failings or weaknesses were identified.

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

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

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

Bribery Act 2010

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

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

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

Modern Slavery Act

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

Whistleblowing

The Group is committed to 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.

Any matters raised through the whistleblowing process are reported to the Committee. Where such matters are raised a proportionate investigation is undertaken by independent management under the direction and guidance of the Committee.

Chris Girling
Chairman, Audit Committee

2 March 2020

Nomination Committee Report

Objectives

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

Composition

The members of the Committee comprise the Chairman of the Company and the two Independent Non-Executive Directors. The Committee is currently chaired by myself. Membership of the Committee is therefore in compliance with Provision 17 of the Financial Reporting Council's UK Corporate Governance Code 2018 (the '2018 Code').

Roles and Responsibilities

The principal responsibilities of the Committee are:

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

The Committee regularly reports to the Board on how it has discharged its responsibilities. The full terms of reference of the Committee are available on the Company's website, or on request to the Company Secretary.

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 2019

Following two relatively busy years for the Committee, with a number of changes being seen at Board level, 2019 has been less eventful. The main focus of the Committee's work during the year included:

- reviewing the performance of the Executive Directors and concluding that their performance continues to be effective and that each demonstrates sufficient commitment to their role;
- reviewing the independence of each Non-Executive Director, including each Non-Executive Director's actual, potential or perceived conflicts of interest and concluding that each Non-Executive Director was independent in character and judgment and that there were no circumstances that were likely to affect their judgment;
- recommending each Director for re-election at the Annual General Meeting; and
- reviewing the Committee's terms of reference and conducting the annual review of the Committee's performance.

Diversity

As referenced within Provision 23 of the 2018 Code, the Group Management Board, whose membership comprises the Executive Directors, divisional Managing Directors and Group function heads, is comprised of five males and two females, a proportionate ratio of 71% to 29%.

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

Bill Shannon
Chairman, Nomination Committee

2 March 2020

Directors' Remuneration Report

Letter from Nick Gregg, Chairman of the Remuneration Committee

Dear Shareholder,

On behalf of the Board, I present our 2019 Directors' Remuneration Report. This report includes a detailed overview of our remuneration policy, details of changes that have been made to that policy during the year as well as how we expect the policy to be applied for the year ahead.

As an AIM listed company, we are not required to fully apply the remuneration-related disclosures that Premium Listed companies incorporated in the UK are subject to i.e. the BEIS Directors' Remuneration Reporting Regulations (the 'Remuneration Regulations'). Nevertheless, the Board wishes to ensure that executive remuneration remains both transparent and stable and, therefore, considers it appropriate for the Company to provide Shareholders with detailed information with respect to executive remuneration. Furthermore, and as we have done for many years now, Shareholders will be asked to approve the Directors' Remuneration Report at the forthcoming Annual General Meeting. We consider that our current approach to remuneration is working well and has the support of Shareholders, as reflected by the voting results at the 2019 AGM, where we received 99.97% of votes in favour of the Board Report on Remuneration.

Remuneration in 2019

We operated our remuneration policy during 2019 broadly in line with the approach taken in previous years. As disclosed last year, Peter Egan's basic salary increased to £338,250 following his appointment as CEO with effect from 1 January 2019. The salary of Yvonne Monaghan, the CFO, increased by 2.5% to £307,500 with effect from the same date.

The Group reported a strong level of performance during 2019. Revenue increased by 9.2% to £350.6 million, adjusted operating profit increased by 14.8% to £52.8 million and adjusted profit before taxation increased by 13.4% to £48.2 million. Adjusted diluted earnings per share increased by 12.9% to 10.5 pence and, as a result, the Board was pleased to recommend an increased final dividend of 2.35 pence per share (2018: 2.1 pence), which reflects the Group's strong performance and confidence in the future prospects of the business. Together with the interim dividend, this takes the total dividend for the year to 3.5 pence per share (2018: 3.1 pence), an increase of 12.9% year-on-year. We believe that the remuneration outcomes for the year were in line with this level of performance and that this demonstrated that the remuneration policy is operating effectively.

The annual bonus scheme for the year was again based on an Adjusted Profit Before Taxation performance measure. A range of challenging targets were set, and performance for the year was ranked in between the on-target and maximum levels. This resulted in the payment of a bonus equivalent to 60.1% of the maximum opportunity to both Executive Directors.

The Committee considered, and implemented, adjustments to the annual bonus targets to take account of events which were not foreseen or allowed for at the start of the year when targets were set. The Committee increased the profit targets to reflect the aggregate impact of the acquisition of Fresh Linen Holdings Limited in November 2019 and the customer contracts acquired in August 2019, neither of which were included in the original target. This adjustment increased the base profit target by 0.2%.

The Committee reviewed the likely impact of IFRS 16 ('Leases') on the EPS measure for the LTIP awards granted in 2017, 2018 and 2019 and considered whether it would be appropriate to adjust the formulaic outcome to address the impact of the accounting change. IFRS 16 will reduce, albeit modestly, future EPS. Notwithstanding that this will likely adversely impact award holders, albeit modestly, the Committee agreed that vesting would be calculated on the reported EPS number, with no adjustment being made.

With regards to the LTIP, the Committee assessed the extent to which the targets had been met for the award made in 2017, with performance measured over the three-year period to 31 December 2019. Taking into account both the Group's Total Shareholder Return (TSR) performance relative to the FTSE AIM All-Share Industrial Goods and Services net return index and Adjusted Earnings Per Share (EPS) performance relative to RPI, the Committee determined that the LTIP award will vest in full, which reflects the very strong performance of the Group over this three year period.

Remuneration Policy Changes

Since the 2019 AGM, the Committee has reviewed the remuneration policy and its implementation, taking account of the 2018 UK Corporate Governance Code (the '2018 Code'), updates to the Remuneration Regulations and general market developments. It takes seriously its role in ensuring the interests of colleagues, Shareholders and other key stakeholders are considered fairly and in the context of wider societal expectations. During the year we have also engaged in constructive dialogue with a number of Shareholders, as explained further below.

The changes summarised below are described in further detail over the following pages:

- personal shareholding requirement increased from 100% to 200% of base salary;
- for the avoidance of any doubt, clarifying that the further two-year holding period over and above the three-year vesting period of an LTIP award, which was first applied to the award granted in 2019 and which will also apply to all future awards, will continue to apply in the event of cessation of employment;
- broadening of circumstances where malus or clawback may apply; and
- the start of a process to move the pension contribution rate for the CEO closer towards the rate payable to the wider workforce.

Directors' Remuneration Report

Letter from Nick Gregg, Chairman of the Remuneration Committee

Continued >

The Committee believes that the Group's approach to executive remuneration is consistent with the principles of the 2018 Code. There is a clear linkage between the performance metrics and targets used in the incentive schemes and the long-term growth strategy for the business. As outlined in this report, we have a formal and transparent procedure for developing our executive remuneration policy. Discretion is exercised appropriately when reviewing and authorising remuneration outcomes.

The remuneration policy is structured in line with the factors set out in Provision 40 of the 2018 Code. Pay is designed to be relatively simple and is disclosed transparently in this report. The size of potential awards under the annual bonus scheme and the LTIP is not considered excessive in the context of wider market practice and the likelihood of rewards which would be inconsistent with performance is limited. We set targets under the incentive schemes which are designed to be challenging but achievable and which do not encourage inappropriate risk-taking. We believe that the strong ethical and governance culture across the Group is echoed by the rigour with which executive remuneration is considered by the Committee and the commitment to openness highlighted in this report.

The Committee recognises the emphasis in the 2018 Code on the alignment of executive remuneration with pay for the wider workforce. We take into account the Group's approach for the broader employee base when considering executive remuneration and, for 2020, have made an initial step towards aligning the CEO's pension contribution with the wider workforce rate. We are also reporting on the ratio of the CEO's pay to that of other employees for the first time. The Committee believes that the differential between the CEO's remuneration and that of the wider employee group is reflective of a number of factors, including the nature of the CEO's role and responsibilities and his participation in incentive schemes designed for the senior executive population. Taking into account practice at other companies, and the competitive market for senior talent, we believe that pay for the Executive Directors, both in terms of quantum and structure, is appropriate.

We have identified the following two areas where we do not fully comply with the 2018 Code provisions on remuneration:

1. We have not introduced a formal post-employment shareholding requirement for the Executive Directors. We believe that our current approach provides for a sufficient long-term alignment of interests between executives and Shareholders through, for example, the LTIP and the existing shareholding requirement (which applies during employment). As noted above, both of these elements of the package have been enhanced and at the present time we have decided not to go further than this. We will, however, keep this under regular review as market practice in this area develops.
2. We have not fully aligned Executive Director pensions with the wider workforce. Provision for both the CEO and the CFO remains above the workforce average, although we have moved the pension contribution rate for the CEO closer towards the rate payable to the wider workforce. This reflects historic entitlements and while we do not propose to change this, we will also keep this under review.

Remuneration Consultants

During the year, and following a rigorous tender process, the Committee appointed Korn Ferry as its remuneration consultant. The Committee considers Korn Ferry to be independent in nature, an expert in their field and having the ability to design appropriate reward and governance programs that will allow the Company to attract, engage and retain the right calibre of individual whilst at the same time addressing governance and stakeholder views.

Looking Ahead

2020 will no doubt be another busy year for the Committee. Our primary aim is to ensure that executive pay continues to support the delivery of our business strategy, and that outcomes are appropriately aligned with Shareholders' interests. We will continue to keep a close eye on wider market practice, the expectations of our stakeholders and, of course, what is in the best interests of Johnson Service Group PLC.

As part of this process, we have increased the salary of Peter Egan to £420,000 with effect from 1 January 2020. Peter's salary for 2019 was deliberately set at a level lower than the market rate and the salary paid to his predecessor. This reflected the fact that this is Peter's first CEO appointment. The Committee wanted the opportunity to assess his performance in role before considering increases to a level consistent with his predecessor and with the market. The Committee and the Board have reviewed Peter's performance and we have been delighted with the progress he has made and his exceptional leadership of the Group. Both our interim and full-year results for 2019 have demonstrated the strong performance of the Group, and we have considerable confidence for the future prospects of the business under Peter's leadership.

In light of this progression and performance during 2019, the Committee believes that it is now right that Peter is paid a salary which is reflective of the current market rate and more in line with the salary paid to the previous CEO. The Committee did consider, as anticipated in the 2018 Annual Report, making smaller increments over a two to three-year period, however, concluded that the performance of Peter and the Group to date fully justified a larger increase at this time and it would be unfair to delay paying him at an appropriate level. We also reviewed relevant benchmarking data to ensure that our proposal is reasonable in the context of pay at other companies. We are comfortable that Peter's new salary is positioned at an appropriate level against the wider market.

I wrote to our major Shareholders at the end of 2019 to outline the proposal to increase Peter's salary. I am pleased to say that the majority of those consulted were comfortable with the proposal and understood the rationale for the increase. A number of investors requested additional clarification on certain points, which was provided. In light of the feedback received, we decided to proceed with the salary increase.

Peter's annual bonus and LTIP opportunities remain unchanged, being a maximum entitlement for each of 125% of base salary.

As a separate exercise, we also reflected on pension provision for the CEO in the context of the recommendation in the 2018 Code that contribution rates for executive directors should be aligned with the wider workforce. To date, Peter's contribution rate has been set at 14% of basic salary. The rate applicable to the majority of the wider workforce is approximately 6%. To progress towards this rate, we have fixed the value of Peter's employer pension contribution for 2020 at the cash value of the contribution in 2019.

As we have done so for many years, we will put our Directors' Remuneration Report to Shareholders for approval at the 2020 AGM - I hope you find the changes we have made during the year positive and that you will continue to support the resolution relating to remuneration.

Nick Gregg
Chairman, Remuneration Committee

2 March 2020

Directors' Remuneration Report
Committee Summary

Remuneration Committee
Membership and Attendance
Throughout 2019, the Remuneration Committee (the 'Committee') was comprised of the Chairman of the Company and the Independent Non-Executive Directors and has been chaired by Nick Gregg. 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.

	Member Since	Eligible to Attend[1]	Meetings Attended[1]
Nick Gregg (Committee Chairman)	Jan 2016	4	4
Chris Girling	Aug 2018	4	4
Bill Shannon	May 2009	4	4

Note 1: Includes scheduled and unscheduled meetings.

Main Responsibilities
In line with the authority delegated by the Board, the Committee sets the Company's Remuneration Policy and is responsible for determining remuneration terms and conditions of employment for the Chairman of the Board, Executive Directors and those members of the Group Management Board whom are not Executive Directors.

The Committee:

- ensures that the Executive Directors are appropriately incentivised to enhance the Group's performance and rewarded for their contribution to the success of the business by designing, monitoring and assessing incentive arrangements, including setting stretching targets and assessing performance and outcomes against them;
- reviews the remuneration arrangements for other senior executives within the Group, having regard to the wider remuneration philosophy of the organisation when developing policy and considering executives' packages, monitoring the relationship between them and those of the wider workforce; and
- maintains an active dialogue with Shareholders, ensuring their views and those of their advisors are sought and considered when setting executive remuneration.

The Committee regularly reports to the Board on how it has discharged its responsibilities. The full terms of reference of the Committee are available on the Company's website, or on request to the Company Secretary.

External Advisors
The Committee seeks and considers advice from independent remuneration advisors where appropriate. The current appointed advisors, Korn Ferry, were selected via a thorough process led by the Chairman of the Committee and were appointed by the Committee in June 2019. Prior to Korn Ferry's appointment, the remuneration advisors were PricewaterhouseCoopers (PwC). In an effort to reduce the amount of non-audit fees payable to the external auditor, the Committee determined to appoint Korn Ferry as remuneration consultant.

The Chairman of the Committee has direct access to the advisors as and when required, and the Committee determines the protocols by which the advisors interact with management, in particular the Company Secretary, in support of the Committee. The advice and recommendations of the external advisors are used as a guide, but do not serve as a substitute for thorough consideration of the issues by each Committee member. Advisors attend Committee meetings as and when required by the Committee.

Korn Ferry is a member of the Remuneration Consultants' Group and, as such, voluntarily operates under the Remuneration Consultants' Group Code of Conduct in relation to executive remuneration consulting in the UK. This is based upon principles of transparency, integrity, objectivity, competence, due care and confidentiality by executive remuneration consultants. Korn Ferry has confirmed that it has adhered to that Code of Conduct throughout the year for all remuneration services provided to the Group and therefore the Committee is satisfied that its advice is independent and objective. The Remuneration Consultants' Group Code of Conduct is available at remunerationconsultantsgroup.com.

Fees payable in respect of services provided to the Committee are as follows:

	2019 £000	2018 £000
Korn Ferry (note 1)	**27**	–
Hill Dickinson (note 2)	**2**	–
PwC (note 3)	**–**	13
	29	13

Note 1: Fees payable relate to advice on market practice, governance updates, provision of market data on executive reward, reward consultancy, attendance at Committee meetings and ad-hoc advice.

Note 2: Hill Dickinson, the Company's corporate lawyers, were engaged during the year to provide legal advice on, inter alia, changes to the malus and clawback provisions within the bonus and LTIP schemes.

Note 3: Fees payable relate to assistance in drafting of the 2018 LTIP Scheme rules, which were subsequently approved by Shareholders at the 2018 Annual General Meeting, the provision of benchmarking information and ad-hoc advice.

Directors' Remuneration Report

Remuneration Policy

Overview

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

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

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

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

Directors' Remuneration Report
Remuneration Policy
Continued >

Remuneration Policy Table

The current remuneration of Executive Directors comprises base salary, taxable benefits, annual bonus, pension and a Long-Term Incentive Plan (LTIP). Details of how the various components of remuneration are delivered are set out below.

Component and Link to Strategy	Operation	Maximum Opportunity	Performance Measures
Base Salary Reflects the individual's role, experience and contribution. Set at levels to attract and retain individuals of the calibre required to lead the business and to ensure no over reliance on variable pay.	Base salaries are reviewed annually with any increases normally taking effect on 1 January of each year. Salaries are appropriately benchmarked and reflect the role, job size and responsibility as well as the performance and effectiveness of the individual.	Whilst there is no prescribed formulaic maximum, any increases will take into account prevailing market and economic conditions as well as increases for the wider workforce. Increases may be above this when an Executive Director progresses in the role, gains substantially in experience, there is a significant increase in the scale of the role, or was appointed on a salary below the market. These will be appropriately explained in the relevant year's annual report.	None.
Taxable Benefits To provide a competitive level of benefits in order to attract and retain individuals of the calibre required to lead the business.	Taxable benefits, which are not performance related, principally include, but are not limited to, the provision of a car or car allowance and private medical insurance for Executive Directors and their dependants.	The cost of providing these benefits can vary in accordance with market conditions, which will, therefore, determine the maximum value.	None.
Pension To ensure the Company can provide a fully competitive level of benefits in order to attract and retain individuals of the calibre required to lead the business.	Executive Directors are invited to participate in the Company's defined contribution pension scheme or to take a cash alternative allowance in lieu of pension entitlement. In addition, the current executive Directors are both deferred members of the Company's defined benefit pension scheme.	For the Company's pension cash allowance (or pension contribution as appropriate), the CEO was entitled to a maximum of 14% of base salary in 2019. Having regard to recent developments in executive pensions, the Committee has determined that the CEO's maximum entitlement in 2020 will be capped at the cash value of his 2019 entitlement. The CFO is entitled to a maximum of 17.8% of base salary. Further details are set out on page 72.	None.

Remuneration Policy Table (Continued)

Component and Link to Strategy	Operation	Maximum Opportunity	Performance Measures
Annual Bonus To incentivise and reward the achievement of stretching one-year key performance targets set by the Committee at the start of each financial year.	The annual bonus is earned by the achievement of one-year performance targets set by the Committee at the start of each financial year and is delivered in cash. Performance targets are based on the Group's financial results. The Committee retains the discretion to adjust the targets to take account of events which were not foreseen or allowed for at the start of the year when targets were set, for example, acquisitions in the year. The Committee also retains the discretion to adjust the bonus outcomes and/or targets to ensure that they reflect the underlying business performance. The annual bonus is subject to malus and/or clawback. The Chairman and the Non-Executive Directors are not eligible to participate in the annual bonus scheme.	The maximum amount payable to the CEO is 125% of base salary; the target award is 62.5% of base salary, with a further maximum of 62.5% for enhanced performance. The maximum amount payable to the CFO is 110% of base salary; the target award is 55% of base salary, with a further maximum of 55% for enhanced performance. In both cases, no bonus is payable for below threshold performance but increases on a straight-line basis to target payout and from target to maximum.	Performance is measured over the financial year. Performance measures are determined by the Committee prior to the start of each financial year with a view to promoting the Company's business strategy and Shareholder value. The minimum performance target threshold in 2019 was linked to the Group's Adjusted Profit Before Taxation measure. No bonus is payable for below threshold performance; maximum payout requires performance significantly ahead of the minimum performance target threshold.

Directors' Remuneration Report

Remuneration Policy

Continued >

Remuneration Policy Table (Continued)

Component and Link to Strategy	Operation	Maximum Opportunity	Performance Measures
LTIP To incentivise and reward Executive Directors for the delivery of longer-term financial performance and Shareholder value. Share-based to provide alignment with Shareholder interests.	An annual conditional award of ordinary shares which may be earned after a single three-year performance period, based on the achievement of stretching performance conditions. Awards granted during or after 2019 require participants to hold vested LTIP shares (net of any shares sold to meet tax and social security liabilities) for a period of two years post vesting. Calculations of the achievement of the performance targets are independently performed and are approved by the Committee. To ensure continued alignment between Executive Directors' and Shareholders' interests, the Committee also reviews the underlying financial performance of the Group and retains its discretion to adjust vesting if it considers that performance is unsatisfactory. Malus and clawback rules operate in respect of the LTIP.	Annual LTIP awards may be made at the following levels of base salary: CEO: 125% CFO: 110%	The Committee will select the performance measures and weightings prior to the grant of awards that support the Company's longer-term strategy and shareholder value from time to time. The performance conditions currently attached to the awards are linked to the Company's Total Shareholder Return (TSR) and Earnings per Share (EPS) performance: • 50 per cent of an award will vest by reference to the annualised growth in the Company's net return index ('TSR') over the performance period relative to the annualised growth in the FTSE AIM All-Share Industrial Goods and Services net return index (the 'Index') over the performance period. • 50 per cent of an 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. Further details are set out on pages 74-78.

Notes to the Remuneration Policy Table

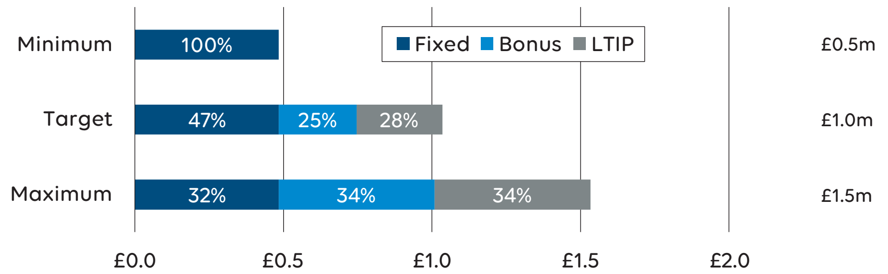
The Remuneration Policy for Executive Directors differs from that of other members of the Group Management Board solely in respect of quantum of the various components and remuneration. Executive Directors have a greater proportion of their total remuneration package at risk than other employees, however, the structure and principles of incentives are broadly consistent. The wider employee population of the Group will receive remuneration that is considered to be appropriate in relation to their geographic location, level of responsibility and performance.

Illustrations of the Application of the Remuneration Policy

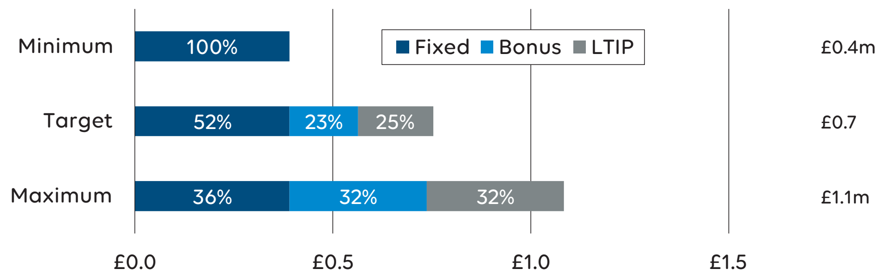
The Company's policy is to provide a total remuneration package that links corporate and individual performance with an appropriate balance between short and long term elements, and fixed and variable components. The graphs below show an example of the remuneration that could be receivable by Executive Directors in office at 1 January 2020 under the policy set out in this Directors' Remuneration Report for 2020. Each bar gives an indication of the minimum amount of remuneration payable, remuneration payable at target and at maximum performance to each director under the policy.

Each of the bars is broken down to show how the total under each scenario is made up of fixed elements of remuneration, the annual bonus and the LTIP.

Peter Egan
Illustration Only



Yvonne Monaghan
Illustration Only



The above illustration is based on a number of assumptions:

- fixed remuneration includes:
  - annual base salary as at 1 January 2020;
  - value of taxable benefits as shown in the single figure table on page 71; and
  - pension cash alternative allowance as at 1 January 2020.
- variable remuneration at minimum, target and maximum payout has been assumed at 0%, 50% and 100% respectively of maximum bonus opportunity;
- variable remuneration at minimum, target and maximum payout has been assumed at 0%, 55% and 100% respectively of maximum LTIP opportunity; and
- no share price appreciation or dividend accrual has been incorporated in the values of the LTIP.

Directors' Remuneration Report

Remuneration Policy

Continued >

Malus and Clawback

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

Those provisions enabled 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 enabled 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 included, but were not limited to:

- a material misstatement of the Company's audited financial results;
- a miscalculation of the extent to which a performance target has been met;
- a material failure of risk management by the Company; and
- serious reputational damage to the Company.

During 2019, the circumstances in which the Committee may apply the malus and clawback provisions were broadened to specifically include:

- misconduct by a participant; and
- a material downturn in the financial position of the Company.

The Committee also resolved that:

- the period for discovery of the circumstances for malus and clawback be increased from two years to three years from payment of bonuses and vesting of LTIP awards; and
- for the annual bonus, broaden the recovery methods to specifically include the ability to reduce future award levels and unvested and vested unexercised share incentive awards; and
- for the avoidance of any doubt, make it clear within the scheme documentation that, where the Committee is of the opinion that the formulaic outcome is either not reflective of the underlying performance of the Company or does not accord with Shareholder experience, or for any other circumstances that the Committee, acting fairly and reasonably, considers appropriate, then it shall have the discretion to adjust the formulaic outcome.

The additional provisions above will apply to all Awards granted on or after 1 January 2020.

Personal Shareholding Requirement and Holding Periods

In order that their interests are linked with those of Shareholders, Executive Directors were previously expected to build up and maintain a personal shareholding in the Company, equal to at least the value of base salary, over a period of five years from appointment.

In light of developments in best practice, and in order to ensure continued alignment between Executive Directors' and Shareholders' interests, Executive Directors are now expected to build and maintain a personal shareholding in the Company equal to at least 200% of the value of base salary. For the purpose of this requirement, the net number of vested but unexercised share awards will be included. The Committee agreed that, whilst the period in which an Executive Director is expected to build up a personal shareholding in the Company should remain as five years, in recognition of the significantly increased shareholding requirement such five year period should commence from 31 December 2019, or date of appointment if later. The Committee will monitor progress annually.

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

Accordingly, the grant of awards under the New LTIP in 2019 and going forward are subject to a two year post-vesting holding period over and above the three year vesting period of an LTIP award.

For the avoidance of any doubt, the committee has clarified that the two year holding period over and above the three year vesting period will continue to apply post-cessation of employment.

Approach to Recruitment Remuneration

The Committee would expect to apply the same Remuneration Policy as that which applies to existing Executive Directors when considering the recruitment of a new Executive Director.

Nevertheless, other arrangements may be established specifically to facilitate recruitment of a particular individual, albeit that any such arrangement would be made within the context of minimising the cost to the Company. An example might be the need to provide a level of compensation for forfeiture of bonus entitlements and/or unvested long term incentive awards from an existing employer, if any, or the additional provision of benefits in kind and other allowances, such as relocation, education and tax equalisation, as may be required in order to achieve a successful recruitment. Any arrangement established specifically to facilitate the recruitment of a particular individual would be intended to be of comparable form, timing, commercial value and capped as appropriate. The quantum, form and structure of any buyout arrangement will be determined by the Committee taking into account the terms of the previous arrangement being forfeited. The buyout may be structured as an award of cash or shares, however, the Committee will normally have a preference for replacement awards to be made in the form of shares, deliverable no earlier than the previous awards.

Where an Executive Director is appointed from either within the Company or following corporate activity/reorganisation, the normal policy would be to honour any legacy incentive arrangements to run off in line with the original terms and conditions.

The policy on the recruitment of new Non-Executive Directors would be to apply the same remuneration elements as for the existing Non-Executive Directors. It is not intended that variable pay, cash supplements, day rates or benefits in kind be offered, although in exceptional circumstances such remuneration may be required in currently unforeseen circumstances.

Executive Directors' Service Agreements

It is the Company's policy that Executive Directors have rolling service agreements. Peter Egan is employed under a service agreement dated 30 March 2018, as amended by a Variation Letter dated 21 December 2018 relating to his appointment to Chief Executive Officer from 1 January 2019. Yvonne Monaghan is employed under a service agreement dated 14 January 2004, as amended with the appointment to Chief Financial Officer on 31 August 2007.

The length of Board service as at 31 December 2019 for Peter Egan and Yvonne Monaghan was one year, nine months and 12 years, four months respectively.

The current Executive Directors' service agreements contain the key terms shown in the table below:

Provision	Detailed Terms
Remuneration[1]	• base salary, pension and benefits • car benefit • family private health insurance • life assurance • 30 days' paid annual leave • participation in the annual bonus plan, subject to plan rules • participation in the LTIP, subject to plan rules
Change of Control	• no special contractual provisions apply in the event of a change of control
Notice Period	• 12 months' notice from the Company • 6 months' notice from the director
Termination[2,3]	• Payment in lieu of notice for a period of up to 12 months
Restrictive Covenants	• during employment and for a period of up to 12 months after leaving

Note 1: **Whilst service agreements outline the components of remuneration payable, they do not prescribe how remuneration levels may be adjusted from year to year.**

Note 2: **In the event of termination without cause, the Company has a contractual obligation to compensate the Executive Director for the unexpired period of his or her notice. The Company will seek to reduce this payment by means of the Executive Director's duty to mitigate this payment wherever possible.**

Note 3: **Whilst unvested awards will ordinarily lapse upon termination, the Committee may in its absolute discretion allow for awards to continue until the normal vesting date or to be accelerated (for example on death), subject to achievement of the attendant performance conditions. In such circumstances, awards vesting will normally be prorated on a time apportioned basis, unless the Committee determines otherwise. Any such discretion in respect of leavers would only be applied by the Committee to 'good leavers' where it considers that continued participation is justified, for example, by reference to performance prior to the date of leaving. The malus and clawback provisions would continue to apply in the event that any such discretion was exercised.**

Directors' Remuneration Report

Remuneration Policy

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Chairman's Service Agreement

The Chairman has a fixed term appointment. The fee for the Chairman, which is commensurate with his experience and contribution to the Group, is reviewed annually with any increase taking effect on 1 January. The Chairman does not participate in decisions regarding his own remuneration. The Chairman is not eligible for pension scheme membership, bonus or incentive arrangements. Costs in relation to business expenses and travel will be reimbursed. The Chairman's appointment is terminable without compensation on three months' notice from either side.

The Chairman is expected to devote such time as is necessary for the proper fulfilment of the role. Whilst this is not ordinarily expected to exceed 40 days per annum, the nature of the role makes it impossible to be specific about the maximum time commitment.

The Chairman is encouraged, but is not required, to hold a personal shareholding in the Company.

At 31 December 2019, the unexpired terms of the Chairman's letter of appointment was:

	Date of Latest Letter of Appointment	Service Agreement Start Date	Service Agreement End Date	Unexpired Term at 31 December 2019
Bill Shannon	27 February 2019	8 May 2019	7 May 2020	**4 months**

Note 1: On 26 February 2020, a new letter of appointment was issued which extended the unexpired term shown above by 12 months.

Non-Executive Directors' Service Agreements

Non-Executive Directors each have fixed term appointments. Fees payable to the Non-Executive Directors, which are commensurate with their experience and contribution to the Group, are reviewed annually by the Board, with any increase taking effect on 1 January. Non-Executive Directors do not participate in decisions regarding their own remuneration. Non-Executive Directors are not eligible for pension scheme membership, bonus or incentive arrangements. Costs in relation to business expenses and travel will be reimbursed. A Non-Executive Director's appointment is terminable without compensation on three months' notice from the Company and one months' notice from the individual.

Non-Executive Directors are expected to devote such time as is necessary for the proper fulfilment of the role. Whilst this is not, ordinarily, expected to exceed 20 days per annum, the nature of the role makes it impossible to be specific about the maximum time commitment.

Non-Executive Directors are encouraged, but are not required, to hold a personal shareholding in the Company.

At 31 December 2019, the unexpired terms of the Non-Executive Directors letters of appointment were:

	Date of Latest Letter of Appointment	Service Agreement Start Date	Service Agreement End Date	Unexpired Term at 31 December 2019
Chris Girling	29 August 2018	29 August 2018	28 August 2021	**1 year 8 months**
Nick Gregg	16 October 2018	1 January 2019	31 December 2021	**2 years**

Directors' Remuneration Report

Annual Remuneration Report

Single Total Figure of Remuneration (Audited)

	Note	Peter Egan 2019 £000	Peter Egan 2018 £000	Yvonne Monaghan[6] 2019 £000	Yvonne Monaghan[6] 2018 £000	Chris Sander[7,8] 2019 £000	Chris Sander[7,8] 2018 £000
Fixed Pay							
Base Salary	1	**338**	165	**308**	294	**–**	405
Taxable Benefits	2	**16**	16	**19**	19	**–**	58
Pension	3	**43**	23	**55**	52	**–**	72
		397	204	**382**	365	**–**	535
Performance Related Pay							
Bonus	4	**254**	96	**203**	188	**–**	294
LTIP – Corporate Performance	4,5	**104**	82	**301**	204	**–**	268
LTIP – Share Price Growth	4,5	**67**	51	**193**	128	**–**	168
		425	229	**697**	520	**–**	730
Single Total Figure of Remuneration[9]		**822**	433	**1,079**	885	**–**	1,265

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

Note 2: Taxable benefits relate to the provision of a car or car allowance and private medical insurance. Peter Egan's car benefit for the year was £14,500 (2018: £14,749) and his private medical insurance benefit was £1,742 (2018: £1,306). Yvonne Monaghan's car benefit for the year was £17,500 (2018: £17,500) and her private medical insurance benefit was £1,393 (2018: £1,765).

Note 3: Details of the amounts shown for Pension are set out on page 72.

Note 4: Details of the performance measures and weighting as well as the achieved results for the bonus and LTIP components are shown on pages 72 and 75 to 78 respectively. No bonus was deferred.

Note 5: The amount shown for the LTIP award in 2019 is the indicative value based on the average market price of Johnson Service Group PLC shares over the three month period from 1 October 2019 to 31 December 2019 (179.92 pence) of LTIP awards, granted in 2017, that have become receivable as a result of the achievement of performance conditions relating to the three year performance period to 31 December 2019. The amount shown for the comparative figure in 2018 is the value based on the market price of Johnson Service Group PLC shares on the date of vesting (6 May 2019: 150.60 pence) of LTIP awards, granted in 2016, that became receivable as a result of the achievement of performance conditions relating to the three year performance period to 31 December 2018. Further details are provided on page 75 and 76.

Note 6: As set out within the Director biographies on page 36, Yvonne Monaghan is also a Non-Executive Director of NWF Group plc and The Pebble Group plc. She received, and retained, total fees of £44,416 and £39,000 in each of 2019 and 2018 respectively for her services to these other organisations.

Note 7: Chris Sander retired on 31 December 2018. The figures included in the table above for 2018 reflect the amounts paid or payable up until the date of retirement.

Note 8: During 2019, Chris Sander exercised LTIP awards previously granted him whilst serving as an Executive Director of the Company. Further details are provided below within 'Payments to Past Directors'.

Note 9: No Director waived any emoluments in respect of the years ended 31 December 2019 and 31 December 2018.

Directors' Remuneration Report

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Pensions

Executive Directors are contractually entitled to receive retirement benefits, which are calculated on base salary, under one or more of the Group's contributory defined benefit or defined contribution schemes. Details of the schemes are given in note 28 of the Consolidated Financial Statements.

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

	Accrued pension entitlement at December 2019 £000	Accrued pension entitlement at December 2018 £000
Peter Egan	**13**	12
Yvonne Monaghan	**55**	50

From 1 January 2015, Peter Egan became a deferred member of the JGDBS. From that date, he was contractually entitled to a monthly employer pension contribution, equal to up to 14% of his monthly salary, which was paid to the JSG Pension Plan (the 'Plan'), a defined contribution scheme. The majority of employees within the Group are eligible to participate in the Plan. Employer contribution rates to the Plan are on a matching plus basis determined with reference to the employee's own pension contribution together with their salary banding; the maximum employer contribution is 14%, based upon a 7% employee contribution, for all employees currently earning an annual salary greater than £111,022. With effect from April 2019, Peter opted to receive a cash alternative allowance in lieu of an employer pension contribution. From that date, the cash alternative allowance payable to Peter was 12.3% of his base salary – adjusted downwards to take account of the impact of employer's national insurance.

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

The cash alternative allowances payable in the year to Peter Egan and Yvonne Monaghan were £31,204 and £54,735 respectively (2018: £nil and £52,365 respectively). In addition, Peter received an employer pension contribution of £11,839 (2018: £23,100).

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

2019 Bonus Achievement

The annual bonus is earned by the achievement of one-year performance targets set by the Committee at the start of each financial year, adjusted accordingly to take account of events which were not foreseen or allowed for at the start of the year when targets were set, for example, acquisitions or changes in accounting policy.

Performance targets are based on the Group's financial results using the Adjusted Profit Before Taxation result but excluding notional interest and the impact of the adoption of IFRS 16. No bonus is payable for below minimum / threshold performance but increases on a straight-line basis to target performance and from target to maximum.

The performance targets for 2019 are as set out below:

	Minimum £m	Target £m	Maximum £m	Achieved £m	Bonus Achieved as % of Maximum Opportunity
Adjusted PBT (excluding notional interest)	43.3	46.8	56.2	48.7	60.1

The Committee increased the 2019 target to reflect the aggregate impact of the acquisition of Fresh Linen Holdings Limited in November 2019 and the customer contracts acquired in July 2019, neither of which were included in the original target. This adjustment, albeit modest, increased the target by 0.2%.

The Committee also considered whether to adjust the 2019 annual bonus targets following the implementation of IFRS 16 'Leases', the impact of which was not included within the original targets. For annual bonus targets that are set with reference to Adjusted Operating Profit, the Committee considered that it would be inequitable for scheme participants to benefit due to a change in accounting policy. Similarly, for annual bonus targets that are set with reference to Adjusted Profit Before Taxation, the Committee considered that it would be inequitable for scheme participants to be adversely affected due to a change in accounting policy. The Committee agreed in both circumstances that achievement should therefore be calculated excluding the impact of IFRS 16.

Bonuses will be paid in cash and subject to malus and clawback provisions.

Interests in Share Capital

The interests of the Directors who were in office at 31 December 2019, together with the interests of their close family, in the shares of the Company at the start and close of the financial year, were as follows:

	Beneficial		Conditional (note 4)		
	31 December 2019 Ordinary shares of 10p each	**31 December 2018 Ordinary shares of 10p each**	**31 December 2019 LTIP / SAYE options**	**31 December 2018 LTIP / SAYE options**	**Compliant with share ownership guidelines**
Peter Egan	**151,868**	34,716	**585,521**	522,699	Note 1
Yvonne Monaghan (note 3)	**614,086**	564,086	**768,963**	1,125,412	Yes
Bill Shannon	**125,000**	125,000	**n/a**	n/a	Note 2
Chris Girling	**8,638**	8,638	**n/a**	n/a	Note 2
Nick Gregg	**15,000**	15,000	**n/a**	n/a	Note 2

Note 1: At its meeting on 26 February 2020, and following dialogue with major institutional Shareholders in 2019, the Committee agreed that Executive Directors would now be expected to build and maintain a personal shareholding in the Company equal to at least 200% of the value of their base salary. Previously, Executive Directors were expected to build up and maintain a personal shareholding in the Company, equal to at least the value of their base salary. Based on the share price of the Company as at 31 December 2019, Peter Egan, who has been on the Board since 1 April 2018, has a personal shareholding equal to 88.0% of his then base salary and 70.9% of his base salary for 2020.

Note 2: Non-Executive Directors are encouraged, but are not required, to hold a personal shareholding in the Company.

Note 3: In addition to the beneficial and conditional interests shown above, Yvonne Monaghan is a Trustee of the Johnson Brothers Employee Benefit Trust (the "Trust"). The Trust is governed by a Trust deed dated 18 August 1936 and was set up for the benefit of employees or ex-employees of the Company or their respective widows, widowers, children or other dependants. The Trust owns 588,452 Ordinary shares of 10 pence each in the Company. The Company considers this to be a Non-Beneficial interest.

Note 4: Further details of the split between LTIP (with performance conditions attached) and SAYE (no performance conditions attached) options are shown below.

Note 5: There have been no changes in the Directors' interests in the shares of the Company during the period 31 December 2019 up until the date of signing this report.

Directors' Remuneration Report
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Beneficial Interests in Share Options (Audited)

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

	Date of Grant	At 31 December 2018	Options Granted During Year	Options Lapsed During Year	Options Cancelled During Year	Options Exercised During Year	At 31 December 2019	Option Price
Peter Egan								
Scheme 1	8 May 2015	120,000	-	**(16,433)**	-	**(103,567)**	-	nil
Scheme 2	8 May 2015	37,500	-	-	-	**(37,500)**	-	80.00p
Scheme 1	6 May 2016	110,000	-	**(21,516)**	-	**(88,484)**	-	nil
Scheme 1	27 March 2017	95,000	-	-	-	-	**95,000**	nil
Scheme 4	4 October 2017	7,157	-	-	-	-	**7,157**	125.75p
Scheme 1	28 February 2018	153,042	-	-	-	-	**153,042**	nil
Scheme 3	5 March 2019	-	**330,322**	-	-	-	**330,322**	nil
		522,699	**330,322**	**(37,949)**	-	**(229,551)**	**585,521**	
Yvonne Monaghan								
Scheme 1	8 May 2015	308,750	-	**(16,173)**	-	**(292,577)**	-	nil
Scheme 2	8 May 2015	37,500	-	-	-	**(37,500)**	-	80.00p
Scheme 1	6 May 2016	274,456	-	**(53,682)**	-	**(220,774)**	-	nil
Scheme 1	27 March 2017	274,364	-	-	-	-	**274,364**	nil
Scheme 4	4 October 2017	7,157	-	-	-	-	**7,157**	125.75p
Scheme 1	28 February 2018	223,185	-	-	-	-	**223,185**	nil
Scheme 3	5 March 2019	-	**264,257**	-	-	-	**264,257**	nil
		1,125,412	**264,257**	**(69,855)**	-	**(550,851)**	**768,963**	

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 - 2018 Long-Term Incentive Plan (the '2018 LTIP')
Scheme 4 - Sharesave Plan ('SAYE Scheme')

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

Details of the 2009 LTIP, the 2009 Approved LTIP, the 2018 LTIP and the SAYE Scheme are given on pages 76 to 78 of the Directors' Remuneration Report.

Awards Exercised in 2019

2015 Award

Awards were granted to certain employees on 8 May 2015 with an exercise price of £nil. A linked 2009 Approved LTIP award, over 37,500 options, was also granted on the same date. The combined awards give the holder the same potential gross gain as if they had just received the 2009 LTIP award (see page 77 for further details). The performance period was the three financial years starting 1 January 2015 and ending 31 December 2017. The performance conditions, calculated as set out below within 'Overview of Share Option Schemes', were met as follows:

	Minimum Growth / Return (per annum)	Maximum Growth / Return (per annum)	Actual Growth / Return (per annum)	% of Award Vesting	No. of Options Vesting (Peter Egan)	No. of Options Vesting (Yvonne Monaghan)
EPS (over RPI)	3%	8%	16.1%	100%	60,000	154,375
TSR (over Index)	0%	7%	18.0%	100%	60,000	154,375
					120,000	308,750
Less: Options lapsing due to exercise of linked Approved award					(16,433)	(16,173)
					103,567	292,577
Exercise of 2009 Approved LTIP award					37,500	37,500
Total options exercised					141,067	330,077

On 2 April 2019, Peter Egan and Yvonne Monaghan exercised their options under both the 2009 LTIP award and the 2009 Approved LTIP award. The total gross gain, at the point of exercise, attributable to each of Peter Egan and Yvonne Monaghan, prior to any taxation liabilities and dealing costs, was £167,040 and £429,780 respectively.

2016 Award

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

	Minimum Growth / Return (per annum)	Maximum Growth / Return (per annum)	Actual Growth / Return (per annum)	% of Award Vesting	No. of Options Vesting (Peter Egan)	No. of Options Vesting (Yvonne Monaghan)
EPS (over RPI)	3%	8%	10.8%	100%	55,000	137,228
TSR (over Index)	0%	7%	3.3%	60.9%	33,484	83,546
					88,484	220,774

On 20 May 2019, Peter Egan and Yvonne Monaghan exercised their options. The gross gain, at the point of exercise, attributable to each of Peter Egan and Yvonne Monaghan, prior to any taxation liabilities and dealing costs, was £131,879 and £329,048 respectively.

Directors' Remuneration Report
Annual Remuneration Report
Continued >

Outstanding Awards

2017 Award
Awards were granted to certain employees on 27 March 2017 with an exercise price of £nil. The closing mid-market share price of Johnson Service Group PLC on the day immediately preceding the date of grant was 109.75 pence. Peter Egan was granted 95,000 options; Yvonne Monaghan was granted 274,364 options. The performance period is the three financial years starting 1 January 2017 and ending 31 December 2019. The performance conditions are as set out below within 'Overview of Share Option Schemes'. If the minimum performance criteria were to be achieved, 25 per cent of the scheme interests would become receivable, however, whilst the award cannot vest at least until 27 March 2020, the performance period ended on 31 December 2019 and the performance conditions have been met as follows:

	Minimum Growth / Return (per annum)	Maximum Growth / Return (per annum)	Actual Growth / Return (per annum)	% of Award Vesting	No. of Options to Vest (Peter Egan)	No. of Options to Vest (Yvonne Monaghan)
EPS (over RPI)	3%	8%	8.4%	100%	47,500	137,182
TSR (over Index)	0%	7%	10.2%	100%	47,500	137,182
					95,000	274,364

2018 Award
Awards were granted to certain employees on 28 February 2018 with an exercise price of £nil. The closing mid-market share price of Johnson Service Group PLC on the day immediately preceding the date of grant was 136.4 pence. Peter Egan was granted 153,042 options; Yvonne Monaghan was granted 223,185 options. The performance period is the three financial years starting 1 January 2018 and ending 31 December 2020. The performance conditions are as set out below within 'Overview of Share Option Schemes'. If the minimum performance criteria were to be achieved, 25 per cent of the scheme interests would become receivable.

2019 Award
Awards were granted to certain employees on 5 March 2019 with an exercise price of £nil. The closing mid-market share price of Johnson Service Group PLC on the day immediately preceding the date of grant was 128.0 pence. Peter Egan was granted 330,322 options, equivalent to 125% of his base salary at the time; Yvonne Monaghan was granted 264,257 options, equivalent to 110% of her base salary at the time. The performance period is the three financial years starting 1 January 2019 and ending 31 December 2021. The performance conditions are as set out below within 'Overview of Share Option Schemes'. If the minimum performance criteria were to be achieved, 25 per cent of the scheme interests would become receivable.

Overview of Share Option Schemes

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

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

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

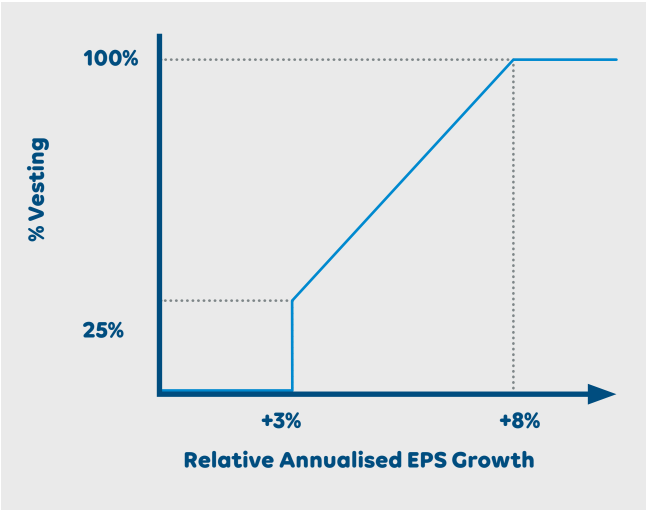
- 50 per cent of an award will vest by reference to the annualised growth in the Company's net return index ('TSR') over the performance period relative to the annualised growth in the FTSE AIM All-Share Industrial Goods and Services net return index (the 'Index') over the performance period. None of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

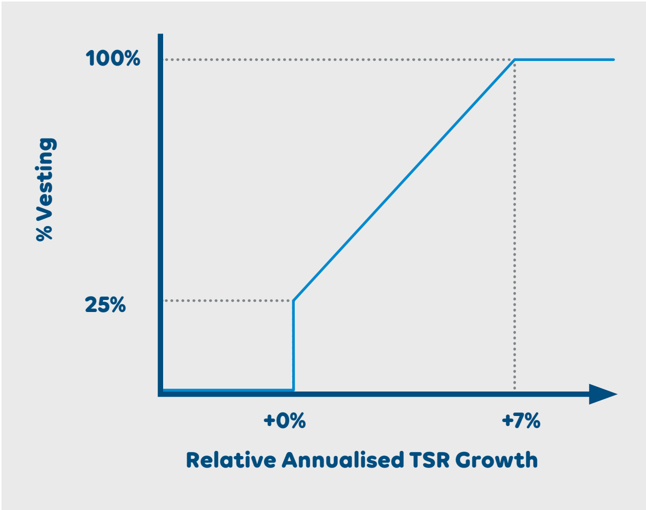
For the purpose of calculating TSR and Index growth, the average of the net return index over the dealing days falling in the period of one month ending on the last day of the performance period will be compared to the average of the net return index over the dealing days falling in the period of one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

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

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

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





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

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

On 8 May 2015, certain employees were granted awards under the Approved 2009 LTIP, linked to the awards granted on the same date under the 2009 LTIP, at an exercise price of 80 pence. The award vested in full on 8 May 2018, being the third anniversary of the linked 2015 Award grant date.

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

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

Directors' Remuneration Report

Annual Remuneration Report

Continued >

In addition to updating the CSOP section to take account of changes in tax law since the 2009 LTIP was introduced, malus and clawback provisions have been added to the rules of the 2018 LTIP, to reflect the fact that such provisions have been applicable to LTIP awards granted by the Company from 2015. In addition, to take into account developments in best practice, the rules of the 2018 LTIP contain provisions which allow the Committee to require that shares acquired from vesting LTIP awards must be retained for a prescribed period post vesting.

The first award under the 2018 LTIP was granted in March 2019. The performance conditions for this award are the same as those applying to the awards granted under the 2009 LTIP, as set out above.

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.

Non-Executive Directors' Remuneration (Audited)

Details of the amounts received by the Chairman and the Non-Executive Directors during the year ended 31 December 2019 are as follows:

	2019 £000	2018 £000
Bill Shannon (note 1)	**135**	83
Chris Girling (note 2)	**58**	19
Nick Gregg	**52**	44
	245	146

Note 1: Following the retirement of Paul Moody on 3 August 2018, Bill Shannon assumed the role of Non-Executive Chairman. The figure included in the table above for 2018 reflects the increased amount paid to him in respect of his additional responsibility since that date.

Note 2: Chris Girling was appointed as a Non-Executive Director on 29 August 2018. The figure included in the table above for 2018 reflects the amount paid to him since that date.

Total Director Remuneration

The aggregate total amount of remuneration received by all Directors in office during the year ended 31 December 2019, together with the aggregate total amount of remuneration received by all Directors in office during the year ended 31 December 2018, is shown below:

	2019 £000	2018 £000
Executive Directors	**1,901**	2,583
Chairman & Non-Executive Directors	**245**	208
	2,146	2,791

Payments to Past Directors

Chris Sander, former CEO, retired from the Board on 31 December 2018. Save for the payment of the annual bonus which was earned in 2018 and payable in April 2019, as disclosed within the 2018 Annual Report and Accounts, no payments of money or other assets were paid to him during 2019 in respect of his services as an Executive Director. Chris did, however, exercise LTIP options during the year which had been previously granted to him whilst serving as an Executive Director.

2015 Award

On 8 May 2015, Chris was granted an option over 393,750 Ordinary shares of 10 pence each in the Company with an exercise price of £nil. A linked 2009 Approved LTIP award, over 37,500 options, was also granted on the same date. The combined awards give the holder the same potential gross gain as if they had just received the 2009 LTIP award (see page 77 for further details). The performance period was the three financial years starting 1 January 2015 and ending 31 December 2017. The performance conditions, calculated as set out above within 'Overview of Share Option Schemes', were met as follows:

	Minimum Growth / Return (per annum)	Maximum Growth / Return (per annum)	Actual Growth / Return (per annum)	% of Award Vesting	No. of Options Vesting
EPS (over RPI)	3%	8%	16.1%	100%	196,875
TSR (over Index)	0%	7%	18.0%	100%	196,875
					393,750
Less: Options lapsing due to exercise of linked Approved award					(14,423)
					379,327
Exercise of 2009 Approved LTIP award					37,500
Total options exercised					416,827

Chris exercised his option under both the 2009 LTIP award and the 2009 Approved LTIP award in March 2019. The total gross gain, at the point of exercise and prior to any taxation liabilities and dealing costs, was £511,875.

2016 Award

On 6 May 2016, Chris was granted an option over 359,782 Ordinary shares of 10 pence each in the Company with an exercise price of £nil. The performance period was the three financial years starting 1 January 2016 and ending 31 December 2018. The performance conditions, calculated as set out above within 'Overview of Share Option Schemes', were met as follows:

	Minimum Growth / Return (per annum)	Maximum Growth / Return (per annum)	Actual Growth / Return (per annum)	% of Award Vesting	No. of Options Vesting
EPS (over RPI)	3%	8%	10.8%	100%	179,891
TSR (over Index)	0%	7%	3.3%	60.9%	109,519
					289,410

Chris exercised his option in May 2019. The gross gain, at the point of exercise and prior to any taxation liabilities and dealing costs, was £431,345.

2017 & 2018 Awards

In respect of good leavers, and as set out within the Remuneration Policy, the Committee may in its absolute discretion allow for awards to continue until the normal vesting date and be satisfied, subject to achievement of the attendant performance conditions. In such circumstances, awards vesting will normally be prorated on a time apportioned basis.

On 27 March 2017, Chris was awarded options over 456,120 Ordinary shares of 10 pence each in the Company and on 28 February 2018 he was awarded options over 371,036 Ordinary shares of 10 pence each in the Company, in each case with an exercise price of £nil. The respective performance periods are for the three financial years ending 31 January 2019 and the three financial years ending 31 December 2020. The performance conditions are as set out above within 'Overview of Share Option Schemes'.

Subject to achievement of the attendant performance conditions, and to reflect his performance prior to the date of him stepping down from the Board, the Committee's intention is that the number of options vesting will be prorated to two-thirds of the award granted to him in 2017 and one-third of the award granted to him in 2018.

Directors' Remuneration Report

Annual Remuneration Report

Continued >

Impementation of Remuneration Policy in 2020

The Committee anticipates the remuneration policy to apply as follows in the year ending 31 December 2020:

	Peter Egan	Yvonne Monaghan
Base Salary[1]	£420,000	£315,187
Taxable Benefits	Car allowance; Medical insurance	Car allowance; Medical insurance
Pension	Capped at the cash value of 2019 entitlement	17.8% of Base salary
Bonus[2]	Up to 125% of Base salary. Targets to be based on the Group's financial results using the Adjusted Profit Before Taxation result, including the impact of IFRS 16 'Leases', but excluding notional interest.	Up to 110% of Base salary. Targets to be based on the Group's financial results using the Adjusted Profit Before Taxation result, including the impact of IFRS 16 'Leases', but excluding notional interest.
LTIP	Up to 125% of Base salary. Three year performance period, commencing 1 January 2020 through to 31 December 2022. Performance targets to be in-line with 2019 award.	Up to 110% of Base salary. Three year performance period, commencing 1 January 2020 through to 31 December 2022. Performance targets to be in-line with 2019 award.

Note 1: **The rationale for the increase to Peter Egan's salary is set out in the letter from the Chairman of the Remuneration Committee on page 59. The salary for Yvonne Monaghan incorporates a 2.5% increase.**

Note 2: **Annual bonus targets are considered by the Committee and the Board to be commercially sensitive as they could inform the Company's competitors of its budgeting. Consequently, we do not publish details of the targets on a prospective basis, however, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time that the bonus outcome is reported.**

CEO Pay Ratio

Johnson Service Group PLC provides high quality textile rental and related services across a range of sectors throughout the UK and employs over 6,000 people. The majority of these employees work either within one of our processing facilities or in distribution. Irrelevant of the specific role, we aim to apply the same reward principles for all employees, in particular, that overall remuneration should be competitive when compared to similar roles in other organisations from which we draw our talent.

Although the Company is not listed on the Main Market of the London Stock Exchange, and hence is not required by law to publish the ratio of the CEO's pay to that of the wider employee base, as a matter of good practice we have decided to do so. We are aware that year-to-year movements in the pay ratio will be driven largely by our CEO's variable pay outcomes. These movements will significantly outweigh any other changes in pay within the organisation. Whatever the CEO pay ratio, the Company will continue to invest in competitive pay for all employees.

The total pay and benefits of our employees at the 25th, 50th and 75th percentile and the ratios between the CEO and these employees, using the CEO's single total remuneration figure for 2019 of £822,000, are as follows:

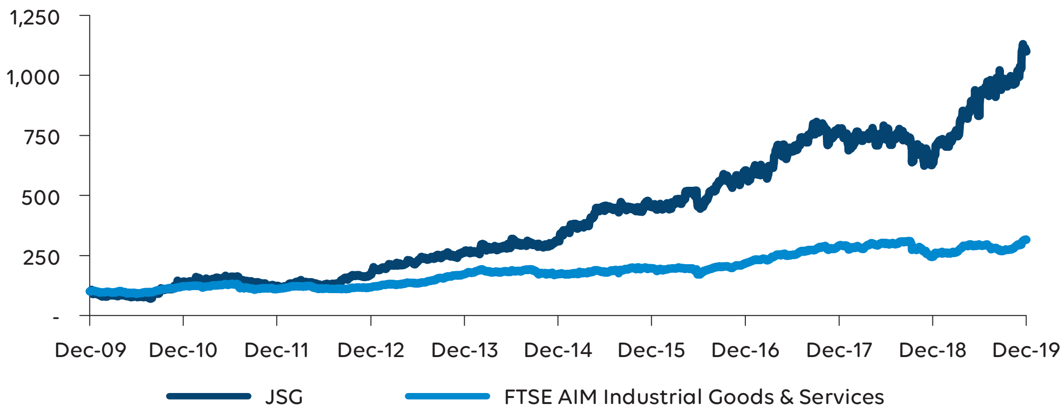
	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
Total Pay & Benefits	£17,964	£26,762	£31,525
CEO Pay Ratio	46:1	31:1	26:1

The pay ratio regulations provide companies with a number of options for gathering the data required to calculate the ratio. We have chosen to use "Option B" to calculate the CEO pay ratio which involves the use of data previously gathered for gender pay gap reporting purposes. This option was chosen given the size and complexity of the exercise required to produce these ratios using other means and on the basis that the Company has already completed comprehensive data collation and analysis for the purposes of gender pay gap reporting.

The increase in the CEO's base annual salary to £420,000, with effect from 1 January 2020 and as set out above, will have an impact on the 'CEO Pay Ratio' calculation in 2020.

Total Shareholder Return

The performance graph below shows the Company's TSR performance against the performance of the FTSE AIM Industrial Goods and Services Index over the ten-year period to 31 December 2019. The FTSE AIM Industrial Goods and Services Index has been selected for this comparison as, in the opinion of the Directors, it best represents the general sector in which the Group operates.



Relative Importance of Spend on Pay

The following table sets out the amounts payable in dividends and total employee costs in respect of the years ended 31 December 2019 and 31 December 2018. The Committee does not consider that there are any other significant distributions or payments outside the ordinary course of business that warrant disclosure.

	2019 £m	2018 £m	% Change
Dividends payable	**13.0**	11.4	14.0%
Total employee costs	**149.6**	139.0	7.6%

Other Details

The mid-market price of the Ordinary shares of 10p each on 31 December 2019 and 31 December 2018 was 196.0 pence and 117.0 pence respectively. During the year, the mid-market price of the Ordinary shares of 10p each ranged between 116.0 pence and 201.5 pence (2018: 113.6 pence and 145.2 pence).

Annual General Meeting

The table below shows the voting outcome at the 2019 AGM, held on 8 May 2019, for the 2018 Board Report on Remuneration.

No. of Votes 'For'[1]	% of Votes Cast	No. of Votes 'Against'	% of Votes Cast	Total No. of Votes Cast	No. of Votes 'Withheld'[2]
260,563,661	99.97%	65,621	0.03%	260,629,282	10,123

Note 1: **Includes 'Discretionary' votes.**

Note 2: **A vote 'Withheld' is not a vote in law.**

The Committee welcomed the endorsement of the 2018 Board Report on Remuneration by Shareholders.

At the 2020 AGM, due to be held on 5 May 2020, Shareholders will be invited to vote on the Directors' Remuneration Report for 2019.

Nick Gregg
Chairman, Remuneration Committee

2 March 2020

Group Financial Statements

3

ADJUSTED DILUTED EPS

10.5p

Increased from 9.3p in 2018

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

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

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

- give a true and fair view of the state of the Group's and of the company's affairs as at 31 December 2019 and of the Group's profit and the Group's and the company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report & Accounts (the "Annual Report"), which comprise: the Consolidated and Company Balance Sheets as at 31 December 2019; the Consolidated Income Statement; the Consolidated and Company Statements Of Comprehensive Income; the Consolidated and Company Statements Of Cash Flows; and the Consolidated and Company Statements Of Changes In Shareholders' Equity for the year then ended; the Statement of Significant Accounting Policies; and the Notes to the financial statements.

Basis for opinion

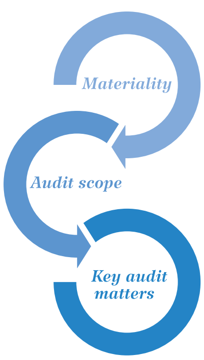
We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit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

Independence

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

Our audit approach

Overview



* Overall Group materiality: £2.6 million (2018: £2.3 million), based on 5% of adjusted operating profit.
* Overall company materiality: £716,000 (2018: £700,000), based on 0.5% of net assets.

* We focused our work over the Group's reporting packs for the key operating divisions; Workwear, Stalbridge, Hotel Linen and London Linen.
* We performed procedures over two Group companies, including Johnson Service Group PLC (the parent company of the Group), and the consolidation adjustments.
* The components where we performed our audit work, together with procedures over the consolidation adjustments, accounted for at least 95% of Group revenue and at least 95% of Adjusted Operating Profit from continuing operations.

* Accounting for complex customer arrangements (Group).
* Accounting for the acquisition of Fresh Linen Holdings Limited (Group)..

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

Key audit matters

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

Key audit matter	How our audit addressed the key audit matter
Accounting for complex customer arrangements – Group Refer to page 53 of the Audit Committee Report and page 96 of the Statement of Significant Accounting Policies. The Group, through the trading divisions, give rebates to certain key customers. These are contractual and vary by customer, but largely relate to volume based rebates on sales made throughout the financial year, with the value being determined by the level of spend. We focused on this area because the amount of customer rebates payable in respect of the year is determined by the contract terms for each customer, which are negotiated separately and, as a result, differ from one another. This means that the calculation of the rebates recognised in the Consolidated Income Statement, and as a payable at the year end, relies on a manual process, which is inherently more prone to error than systems-based processes. We also focused on the completeness of the Consolidated Income Statement charge and year end provision due to the risk of potential omission given the manual nature of the process.	To test customer rebates, we: ➔ recalculated, for a sample of customers, the customer rebate expense recognised within the Consolidated Income Statement in the year, and provided for at the Balance Sheet date; ➔ compared sales recorded in the year, and the contractual rebate arrangements agreed with each customer, to the Directors' calculation of the rebate expense; ➔ compared the provision made at the prior year end to the amounts paid in 2019 in respect of those provisions; ➔ tested whether any rebate arrangements had been omitted from the amounts charged in the year, and liabilities held at the Balance Sheet date, by checking the contractual arrangements with the Group's most significant customers to make sure that all rebate arrangements had been identified by the Directors'; and ➔ agreed amounts paid to customers post period end to source documentation to check they had been accounted for in the right accounting period.
Accounting for the acquisition of Fresh Linen Holdings Limited – Group Refer to page 53 of the Audit Committee Report, page 95 of the Statement of Significant Accounting Policies and note 33 of the Consolidated Financial Statements. On 30 November 2019, the Group acquired 100% of the share capital of Fresh Linen Holdings Limited, together with its trading subsidiary Fresh Linen Limited, for a gross consideration of £12.5 million. We focused on these areas because the accounting for acquisition involved judgment and estimates that have a material impact on the amounts recognised in the Group Financial Statements, including: ➔ determining the fair value of intangible assets acquired, including customer lists and contracts, which the Directors valued at £4.0 million, and the useful economic lives of those customer lists and contracts, which were assessed as five years, in line with prior year acquisitions; and ➔ determining the provisional fair value of other assets and liabilities acquired.	We obtained and read the relevant terms of the purchase agreement to inform our further audit procedures to test the accounting for the acquisition.: We tested the recognition in the Group Financial Statements of the fair value of the assets and liabilities acquired (and residual goodwill). In doing so, we: ➔ agreed consideration paid through to the bank statement; ➔ tested the Directors' valuation of the acquired customer list by testing if the assumptions used in the calculation were consistent with our understanding of the acquisition and through agreement to supporting evidence. In addition, we compared the assumption to previous acquisitions made by the Group in this industry, including estimated customer renewal rates, attrition rates and the discount rate applied; ➔ considered whether any other intangible assets should have been identified by the Directors, based on our understanding of the transaction, our knowledge of the business, the purchase agreement and discussions with the Directors; and ➔ tested whether other assets and liabilities acquired had been recognised at fair value..

We determined that there were no key audit matters applicable to the company to communicate in our report.

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

How we tailored the audit scope

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

Materiality

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

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

	Group financial statements	Company financial statements
Overall materiality	£2.6 million (2018: £2.3 million).	£716,000 (2018: £700,000).
How we determined it	5% of adjusted operating profit.	0.5% of Net assets.
Rationale for benchmark applied	Adjusted operating profit from continuing operations 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 of intangible assets (excluding software), and exceptional items..	Net assets is appropriate as it is not a profit oriented company. The main source of income is dividend income provided by other Group companies. The company holds all investments in subsidiaries and therefore net assets is deemed a generally accepted auditing benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was between £2,470,000 and £108,000. Certain components were audited to a local statutory audit materiality that was also less than our overall Group materiality.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.1 million (Group audit) (2018: £0.1 million) and £35,800 (Company audit) (2018: £35,000) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

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

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

Reporting on other information

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

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

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

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

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2019 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

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

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

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

- The directors' confirmation on page 49 of the Annual Report that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity.
- The disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The directors' explanation on page 10 of the Annual Report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We have nothing to report in respect of this responsibility.

Other Code Provisions

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

- The statement given by the directors, on page 40, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and company obtained in the course of performing our audit.
- The section of the Annual Report on page 51 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.

We have nothing to report in respect of this responsibility.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

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

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

Auditors' responsibilities for the audit of the financial statements

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

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

Use of this report

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

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

OTHER REQUIRED REPORTING

Companies Act 2006 exception reporting

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

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

We have no exceptions to report arising from this responsibility.

OTHER VOLUNTARY REPORTING

Other Code provisions

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

Jonathan Studholme (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Manchester
2 March 2020

Consolidated Income Statement

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Revenue	1	**350.6**	**321.1**
Operating profit	2	**42.7**	**36.6**
Operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items	1	**52.8**	**46.0**
Amortisation of intangible assets (excluding software amortisation)		(10.1)	(8.8)
Exceptional items	6		
– Costs in relation to business acquisition activity		–	(0.6)
Operating profit	2	**42.7**	**36.6**
Finance cost	7	(4.6)	(3.5)
Profit before taxation		**38.1**	**33.1**
Taxation charge	9	(7.2)	(6.3)
Profit for the year attributable to equity holders		**30.9**	**26.8**
Earnings per share	11		
Basic earnings per share		**8.4p**	**7.3p**
Diluted earnings per share		**8.3p**	**7.2p**
Adjusted basic earnings per share		**10.6p**	**9.4p**
Adjusted diluted earnings per share		**10.5p**	**9.3p**

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Profit for the year		**30.9**	**26.8**
Items that will not be subsequently reclassified to profit or loss			
Re-measurement and experience (losses)/gains on post-employment benefit obligations	25	(4.5)	5.7
Taxation in respect of re-measurement and experience losses/(gains)		0.7	(1.1)
Items that may be subsequently reclassified to profit or loss			
Cash flow hedges (net of taxation) – fair value losses		(0.2)	(0.3)
– transfers to administrative expenses		0.1	(0.4)
– transfers to finance cost		0.2	0.2
Total other comprehensive (loss)/income for the year		**(3.7)**	**4.1**
Total comprehensive income for the year		**27.2**	**30.9**

The notes on pages 104 to 137 are an integral part of these Consolidated Financial Statements.

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 31 December 2017	**36.6**	**15.2**	**1.6**	**0.6**	**(0.1)**	**113.7**	**167.6**
Change in accounting standard	–	–	–	–	–	1.0	1.0
Restated balance at 1 January 2018	36.6	15.2	1.6	0.6	(0.1)	114.7	168.6
Profit for the year	–	–	–	–	–	26.8	26.8
Other comprehensive (loss)/income	–	–	–	–	(0.5)	4.6	4.1
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(0.5)**	**31.4**	**30.9**
Share options (value of employee services)	–	–	–	–	–	0.8	0.8
Deferred tax on share options	–	–	–	–	–	0.1	0.1
Issue of share capital	0.2	0.5	–	–	–	–	0.7
Dividend paid	–	–	–	–	–	(10.7)	(10.7)
Transactions with Shareholders recognised directly in Shareholders' equity	**0.2**	**0.5**	**–**	**–**	**–**	**(9.8)**	**(9.1)**
Balance at 31 December 2018	**36.8**	**15.7**	**1.6**	**0.6**	**(0.6)**	**136.3**	**190.4**
Change in accounting standard (note 39)	–	–	–	–	–	0.2	0.2
Restated balance at 1 January 2019	36.8	15.7	1.6	0.6	(0.6)	136.5	190.6
Profit for the year	–	–	–	–	–	30.9	30.9
Other comprehensive income/(loss)	–	–	–	–	0.1	(3.8)	(3.7)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**0.1**	**27.1**	**27.2**
Share options (value of employee services)	–	–	–	–	–	0.8	0.8
Purchase of own shares by EBT	–	–	–	–	–	(0.2)	(0.2)
Current tax on share options	–	–	–	–	–	0.3	0.3
Deferred tax on share options	–	–	–	–	–	0.2	0.2
Issue of share capital	0.2	0.4	–	–	–	–	0.6
Dividend paid	–	–	–	–	–	(12.0)	(12.0)
Transactions with Shareholders recognised directly in Shareholders' equity	**0.2**	**0.4**	**–**	**–**	**–**	**(10.9)**	**(10.3)**
Balance at 31 December 2019	**37.0**	**16.1**	**1.6**	**0.6**	**(0.5)**	**152.7**	**207.5**

The Group has an Employee Benefit Trust (EBT) to administer share plans and to acquire shares, using funds contributed by the Group, to meet commitments to employee share schemes. At 31 December 2019 the EBT held 12,468 shares (2018: 16,256).

Consolidated Balance Sheet

	Note	As at 31 December 2019 £m	As at 31 December 2018 £m
Assets			
Non-current assets			
Goodwill	12	130.5	128.1
Intangible assets	13	36.7	39.3
Property, plant and equipment	14	104.0	96.0
Right of use assets	15	39.0	–
Textile rental items	16	56.8	56.4
Trade and other receivables	18	0.7	0.7
Deferred income tax assets	23	2.6	1.8
		370.3	**322.3**
Current assets			
Inventories	17	2.3	2.8
Trade and other receivables	18	54.5	52.1
Cash and cash equivalents		8.3	7.1
		65.1	**62.0**
Liabilities			
Current liabilities			
Trade and other payables	19	69.2	64.8
Current income tax liabilities		4.5	5.1
Borrowings	21	10.9	14.5
Lease liabilities	22	5.6	–
Provisions	24	1.4	1.5
		91.6	**85.9**
Non-current liabilities			
Post-employment benefit obligations	25	7.3	4.6
Deferred income tax liabilities	23	6.8	7.6
Trade and other payables	20	0.5	2.3
Borrowings	21	84.7	91.0
Lease liabilities	22	34.8	–
Derivative financial liabilities	26	0.5	0.7
Provisions	24	1.7	1.8
		136.3	**108.0**
Net assets		**207.5**	**190.4**
Equity			
Capital and reserves attributable to the company's shareholders			
Share capital	28	37.0	36.8
Share premium	30	16.1	15.7
Merger reserve		1.6	1.6
Capital redemption reserve		0.6	0.6
Hedge reserve		(0.5)	(0.6)
Retained earnings		152.7	136.3
Total equity		**207.5**	**190.4**

The notes on pages 104 to 137 are an integral part of these Consolidated Financial Statements.

The financial statements on pages 89 to 137 were approved by the Board of Directors on 2 March 2020 and signed on its behalf by:

Yvonne Monaghan
Chief Financial Officer

Consolidated Statement of Cash Flows

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Cash flows from operating activities			
Profit for the year		30.9	26.8
Adjustments for:			
Taxation charge	9	7.2	6.3
Total finance cost	7	4.6	3.5
Depreciation		66.1	55.3
Amortisation	13	10.2	8.9
Decrease in inventories		0.6	0.1
Increase in trade and other receivables		(0.5)	(2.8)
Increase/(decrease) in trade and other payables		2.2	(3.2)
Costs in relation to business acquisition activity	6	–	0.6
Deficit recovery payments in respect of post-employment benefit obligations		(1.9)	(1.9)
Share-based payments	29	0.8	0.8
Post-employment benefit obligations		–	(0.1)
Decrease in provisions		(0.2)	(0.5)
Cash generated from operations		120.0	93.8
Interest paid		(4.6)	(3.5)
Taxation paid		(9.3)	(7.8)
Net cash generated from operating activities		**106.1**	**82.5**
Cash flows from investing activities			
Acquisition of businesses (net of cash and overdrafts acquired)	33	(8.5)	(14.0)
Purchase of other intangible assets		(2.3)	–
Purchase of property, plant and equipment		(18.8)	(17.5)
Purchase of software		(1.2)	(0.6)
Proceeds from sale of property, plant and equipment		0.3	0.2
Purchase of textile rental items		(48.2)	(48.9)
Proceeds received in respect of special charges	16	2.3	2.2
Net cash used in investing activities		**(76.4)**	**(78.6)**
Cash flows from financing activities			
Proceeds from borrowings		88.0	86.0
Repayment of borrowings		(91.1)	(77.0)
Capital element of leases (2018: Capital element of finance leases)		(13.2)	(3.9)
Purchase of own shares by EBT		(0.2)	–
Proceeds from issue of Ordinary shares		0.6	0.7
Dividend paid		(12.0)	(10.7)
Net cash used in financing activities		**(27.9)**	**(4.9)**
Net increase/(decrease) in cash and cash equivalents		**1.8**	**(1.0)**
Cash and cash equivalents at beginning of year		(4.7)	(3.7)
Cash and cash equivalents at end of year	35	**(2.9)**	**(4.7)**
Cash and cash equivalents comprise:			
Cash		8.3	7.1
Overdraft		(11.2)	(11.8)
Cash and cash equivalents at end of year		**(2.9)**	**(4.7)**

The notes on pages 104 to 137 are an integral part of these Consolidated Financial Statements.

Statement of Significant Accounting Policies

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

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

The Group and Company financial statements were authorised for issue by the Board on 2 March 2020.

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. These financial statements and notes have been rounded to the nearest £0.1 million, unless otherwise stated.

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

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards, and amendments to standards, have been adopted by the Group for the first time for the financial year beginning on 1 January 2019:

- IFRS 16, 'Leases';
- IFRIC 23, Uncertainty over income tax treatment;
- Amendment to IAS 19 'Employee benefits' – Plan amendment, curtailment and settlement;
- Annual improvements IFRS 3 'Business Combinations', IAS 12 'Income taxes', IAS 23 'Borrowing costs' ;
- Amendments to IFRS 9 'Financial Instruments' – Prepayment features and negative compensation; and
- Amendments to IAS 39 and IFRS 7 interest rate benchmark reform.

Other than detailed in note 39, the adoption of these standards did not have a material impact on the Group Consolidated Financial Statements.

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

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2019 reporting periods and have not been early adopted by the Group:

- Amendments to IFRS 3, 'Business combinations', definition of a business;
- Amendments to IAS 1, 'Presentation of financial statements', and IAS 8, 'Accounting policies, changes in accounting estimates and errors' definition of material; and
- Amendments to the conceptual framework.

Judgments made in applying accounting policies

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

Statement of Significant Accounting Policies Continued >

Segmental analysis

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

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

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

Sources of estimation and uncertainty

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

(a) Other intangible assets

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

(b) Income taxes

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

(c) Post-employment benefit obligations

The Group operates two post retirement defined benefit arrangements (note 25). Asset valuations are based on the fair value of scheme assets. The valuations of the liabilities of the schemes are based on statistical and actuarial calculations, using various assumptions including discount rates, future inflation rates and pension increases, life expectancy of scheme members, flexible retirement options and cash commutations. The actuarial assumptions may differ materially from actual experience due to changes in economic and market conditions, variations in actual mortality, higher or lower cash withdrawal rates and other changes. Any of these differences could impact the assets or liabilities recognised in the Balance Sheet in future periods.

(d) Complex customer arrangements

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

(e) Dilapidations and environmental costs

The Group makes provision for the anticipated net costs of 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 24 of these Consolidated Financial Statements.

Forward looking statements

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

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

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

Consolidation

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

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

Inter-company transactions include those relating to internal property leases between Johnson Group Properties PLC (the property holding company of the Group) and each of our other businesses. Following adoption of IFRS 16 'Leases' from 1 January 2019 (note 39), each of the lessees are now required to recognise an asset (the right to use the leased item) and a financial liability to pay rentals. The accounting for lessors has not significantly changed. On consolidation, each of the right of use asset, lease liability, depreciation and interest recognised by the lessee, relating to internal property leases, is therefore eliminated.

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

Segment reporting

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

Alternative Performance Measures (APMs)

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

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

- adjusted operating profit, which refers to continuing operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items;
- adjusted profit before taxation, which refers to adjusted operating profit less total finance cost;
- adjusted EBITDA, used for gearing purposes, which refers to adjusted operating profit for the relevant year (adjusted for the timing of acquisitions and disposals) plus the depreciation charge for property, plant and equipment and software amortisation, as further adjusted to exclude the impact of the adoption of IFRS 16;
- net debt, adjusted to exclude the impact of the adoption of IFRS 16; and
- adjusted earnings per share which refers to earnings per share calculated based on adjusted profit after taxation.

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

Revenue recognition

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

Under IFRS 15, revenue recognition is based on the principle that revenue is recognised when control of a good or service transfers to a customer. Revenue is measured based on the consideration specified in a contract with a customer and is recognised when a customer obtains control of the services. The Group's service contracts are defined as having a single performance obligation whereby the Group has an obligation to provide the

Statement of Significant Accounting Policies Continued >

customer with clean garments or linen. The point of the customer obtaining control is therefore defined as occurring at various points in time across the life of a contract as deliveries of clean garments or linen are made.

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

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

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

Customers are generally invoiced weekly or monthly in arrears for service contracts with 30 day credit terms. Invoices are raised to customers for the sale of goods following delivery.

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

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

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

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

Rebates

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

Contract assets

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

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

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

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

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

Contract assets are included in the Balance Sheet within trade and other receivables, as shown in note 18, in line with the disclosure requirements of IFRS 15.

Exceptional items

Items that are material in size, non-operating or non-recurring in nature are presented as exceptional items in the Consolidated 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 certain properties, one off gains or losses relating to pension liabilities and expenses incurred and the subsequent reorganisation cost in relation to business acquisitions.

Employee benefits

Post-employment benefits

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

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

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

Current and past service costs are recognised immediately in the Consolidated 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 Consolidated Income Statement. Re-measurement gains and losses arising from experience adjustments and changes in actuarial and demographic assumptions are charged or credited to the Consolidated Statement of Comprehensive Income in the period in which they arise.

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

Other post-employment benefit obligations

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

Share-based compensation

The Group operates a number of equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the Consolidated Income Statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models, principally Binomial and Monte Carlo models. The fair value at the grant date of the award is recognised in the Consolidated 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 Consolidated 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 Consolidated 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 Consolidated Income Statement by any of the Group's subsidiaries is reflected in the books of the Company via an increase or decrease in investments, with a corresponding increase or decrease to equity. These entries are eliminated within the Consolidated Financial Statements.

Bonus plans

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

Termination benefits

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

Discontinued operations

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

Statement of Significant Accounting Policies Continued >

Impairment of non-financial assets

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

Intangible assets

Goodwill

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

Goodwill on business acquisitions is included in non-current assets. Negative goodwill arising on acquisition is recognised directly in the Consolidated 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 Consolidated Income Statement within amortisation and impairment of intangible assets (excluding software). Impairment losses on goodwill are not reversed.

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

Capitalised software

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

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

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

Other intangible assets

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

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.

Property, plant and equipment

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

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

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

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

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

Right of use assets and Lease liabilities

The Group has adopted IFRS 16 'Leases' from 1 January 2019, which results in almost all leases being recognised on the Consolidated Balance Sheet as, from a lessee perspective, the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases where costs continue to be charged to the Consolidated Income Statement on a straight line basis over the lease term, as under IAS 17. The accounting for lessors has not significantly changed.

At the date of lease inception, the Group determines whether the arrangement is a lease or contains a lease, while examining if it conveys the right to control the use of an identified asset for a period of time in exchange for consideration. In its assessment of whether an arrangement conveys the right to control the use of an identified asset, the Group assesses whether it has the following two rights throughout the lease term:

(a) The right to obtain substantially all the economic benefits from use of the identified asset; and

(b) The right to direct the identified asset's use.

Where a contract is deemed to contain a lease, the lease liability is initially recognised at the commencement day and measured at an amount equal to the present value of the lease payments during the lease term (the non-cancellable period) that are not yet paid.

Lease payments are discounted using the incremental borrowing rate of the lessee, since the interest rate implicit in the Group's leases is not readily determinable.

Variable lease payments that depend on an index or a rate, are initially measured using the index or rate existing at the commencement of the lease and are included in the measurement of the lease liability.

Each subsequent lease payment is allocated between the liability and finance cost. The finance cost is charged to the Consolidated Income Statement over the lease period using the effective interest method.

The right of use asset is initially recognised at the commencement date and measured at cost, consisting of the amount of the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date, plus any initial direct costs incurred by the Group, less any lease incentives received.

The right of use asset is subsequently depreciated in accordance with the requirements in IAS 16 'Property, Plant and Equipment' which results in depreciation on a straight-line basis over the shorter of the asset's useful life and the lease term. IAS 36 'Impairment of Assets' is also applied to determine whether the right of use asset is impaired and to account for any impairment loss identified.

Reassessment of a lease occurs where there is a change in cash flows based on contractual clauses that have been part of the contract since inception. Any remeasurement of the lease liability results in a corresponding adjustment of the right of use asset. If the carrying amount of the right of use asset has already been reduced to zero, the remaining remeasurement is recognised in Consolidated Income Statement. The Group remeasures the lease liability to reflect those revised lease payments only when there is a change in the cash flows, using an unchanged discount rate. Reassessment of leases in the Group occurs where lease consideration changes due to a market rent review clause or changes to variable lease payments dependent on an index or rate.

A modification to a lease occurs where there is a change in scope of the lease, or the consideration for a lease, that was not part of the original terms and conditions. Where the modification increases the scope of the lease by adding the right to use one or more underlying assets, and the consideration increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the contract's circumstances, the Group accounts for the modification as a separate lease.

In all other cases, on the initial date of the lease modification, the Group allocates the consideration in the modified contract to the contract components, determines the revised lease term and measures the lease liability by discounting the revised lease payments using a revised discount rate. This occurs in the case where the Group agrees property lease term extensions that were not contractual as part of the original lease.

The Group adopted the modified retrospective approach on transition and therefore the comparative information for 2018 has not been restated and is presented, as previously reported, under IAS 17.

Under IAS 17, 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 Consolidated Income Statement on a straight line basis over the lease term.

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

Obligations under finance lease agreements have been transferred from Borrowings to be disclosed within Lease liabilities following the adoption of IFRS 16.

Assets financed by leasing or hire purchase arrangements and which have an outstanding liability have been transferred from Property, plant and equipment to be disclosed within Right of use assets following the adoption of IFRS 16.

Note 39 details the impact of the new standard on the Consolidated Balance Sheet at 1 January 2019.

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 inventories. On issue to customers or into pool stock, rental items are transferred to non-current assets and are stated at invoiced cost. Depreciation is calculated on a straight line basis over the estimated lives of the items in circulation, which range from two to five years. Issued textile rental items bought through acquisition of other businesses are accounted for as the fair value of issued textile rental items acquired. This 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.

Inventories

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

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

Trade receivables

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

Under IFRS 9, effective from 1 January 2018, the Group elected to use the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

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

The amount of the provision is the difference between the carrying amount and the present value of estimated future cash flows of the asset, discounted, where material, at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in the Consolidated 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 Consolidated Income Statement. Only when amounts are confirmed irrecoverable, are they written off to the Consolidated Income Statement.

Cash and cash equivalents

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

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

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

Trade payables

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

Borrowings

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

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

Net debt

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

Provisions

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

Property

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

Self insurance

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

Taxation

Current tax

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

Deferred tax

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

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

Foreign currency translation

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the Consolidated 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 Consolidated Income Statement.

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

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the Consolidated Income

Statement of Significant Accounting Policies Continued >

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 Consolidated Income Statement.

The Group has elected to early adopt the 'Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the Consolidated Income Statement.

In summary, the reliefs provided by the amendments that apply to the Group are:

- When considering the 'highly probable' requirement, the Group has assumed that the GBP LIBOR interest rate on which our hedged interest rate risk exposure is based does not change as a result of IBOR reform.
- In assessing whether there is an economic relationship between the hedged item and the hedging instrument, the Group has assumed that the GBP LIBOR interest rate on which the interest payments and the interest rate swap that hedges it are based is not altered by IBOR reform.
- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

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 Consolidated Income Statement.

Investment in own shares

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

Dividend distribution

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

Shareholders' equity

Share capital

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

Share premium

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

Capital redemption reserve

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

Merger reserve

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

Hedging reserve

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

FINANCIAL RISK MANAGEMENT

1 Financial risk factors

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

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

(a) Market risk

Currency risk

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

As further detailed in note 26 of these Consolidated Financial Statements, the Group exposure to currency risk is minimal.

Cash flow and fair value interest rate risk

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

The Group's interest rate risk arises from its borrowings and lease liabilities. 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. Lease liabilities are calculated on commencement of a lease as the remaining lease payments discounted using the incremental borrowing rate of the Group, thus exposing the Group to fair value interest rate risk.

Further details are provided in the Principal Risks and Uncertainties section. Note 26 to the Consolidated Financial Statements provides additional disclosures regarding cash flow and fair value interest rate risk.

Price risk – Utilities and fuel

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

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

To try and mitigate the price risk associated with diesel costs the Group has entered into certain forward contracts with financial institutions to fix an element of the diesel cost being incurred by the Group. Contracts are in place to cover a portion of the Group's forecast diesel usage and allow for actual costs to be swapped for a fixed rate on a monthly basis. Additional details of the contracts entered into by the Group are included in note 26.

(b) Credit risk

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

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

Note 18 and Note 26 provide 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 21) and cash and cash equivalents (note 26)) 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 26.

Notes to the Consolidated Financial Statements

1 SEGMENT ANALYSIS

Segment information is presented based on the Group's management and internal reporting structure as at 31 December 2019.

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, the Board considered the aggregation criteria set out within IFRS 8, 'Operating Segments', which allows for two or more operating segments to be combined as a single reporting segment if:

1) aggregation provides financial statement users with information that allows them to evaluate the business and the environment in which it operates; and

2) they have similar economic characteristics (e.g. similar long-term average gross margins would be expected) and are similar in each of the following respects:

- the nature of the products and services;
- the nature of the production processes;
- the type or class of customer for their products and services;
- the methods used to distribute their products or provide their services; and
- the nature of the regulatory environment (i.e. banking, insurance or public utilities), if applicable.

The Board deem it appropriate to present two reporting segments (in addition to 'Discontinued Operations' and 'All Other Segments'), being:

1) Workwear: comprising of our Workwear business only; and

2) Hotel, Restaurants and Catering ('HORECA'): comprising of our Stalbridge, London Linen, Hotel Linen and Fresh Linen businesses, each of which are a separate operating segment.

The Board's rationale for aggregating the Stalbridge, London Linen, Hotel Linen and Fresh Linen operating segments into a single reporting segment is set out below:

- the gross margins of each operating segment are within a similar range, with the long-term average margin expected to further align;
- the nature of the customers, products and production processes of each operating segment are very similar;
- the nature of the regulatory environment is the same due to the similar nature of products, processes and customers involved; and
- distribution is via exactly the same method across each 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 (the property holding company of the Group) is credited back, where appropriate, to the paying company for the purpose of segmental reporting. There have been no changes in measurement methods used compared to the prior year.

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

Exceptional items have been included within the appropriate reporting segment as shown on pages 105 to 106.

Workwear

Supply and laundering of workwear garments and protective wear.	• Workwear

HORECA

Linen services for the hotel, restaurant and catering sector.	• Stalbridge • London Linen • Hotel Linen • Fresh Linen

All Other Segments

Comprising of central and Group costs.

1 SEGMENT ANALYSIS (Continued)

Year ended 31 December 2019	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Revenue				
Rendering of services	131.3	215.0	–	346.3
Sale of goods	4.0	0.3	–	4.3
Total revenue	**135.3**	**215.3**	**–**	**350.6**
Result				
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation) and exceptional items	**24.4**	**33.1**	**(4.7)**	**52.8**
Amortisation of intangible assets (excluding software amortisation)	(0.5)	(9.6)	–	(10.1)
Exceptional items:				
– Costs in relation to business acquisition activity	–	–	–	–
Operating profit/(loss)	**23.9**	**23.5**	**(4.7)**	**42.7**
Total finance cost				(4.6)
Profit before taxation				**38.1**
Taxation				(7.2)
Profit for the year attributable to equity holders				**30.9**

		Discontinued Operations £m	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Balance sheet information						
Segment assets		–	139.3	284.0	1.2	424.5
Unallocated assets:	Deferred income tax assets					2.6
	Cash and cash equivalents					8.3
Total assets						**435.4**
Segment liabilities		(3.5)	(39.3)	(65.6)	(4.8)	(113.2)
Unallocated liabilities:	Current income tax liabilities					(4.5)
	Bank borrowings					(95.6)
	Derivative financial liabilities					(0.5)
	Post-employment benefit obligations					(7.3)
	Deferred income tax liabilities					(6.8)
Total liabilities						**(227.9)**
Other information						
Non-current asset additions						
– Property, plant and equipment		–	5.6	13.9	–	19.5
– Right of use assets		–	1.7	4.8	–	6.5
– Textile rental items		–	20.5	25.6	–	46.1
– Intangible software		–	1.3	–	–	1.3
Depreciation and amortisation expense						
– Property, plant and equipment		–	4.6	9.3	–	13.9
– Right of use assets		–	2.2	4.9	–	7.1
– Textile rental items		–	17.9	27.2	–	45.1
– Intangible software		–	0.1	–	–	0.1
– Customer contracts		–	0.5	9.6	–	10.1

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 31 December 2018	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Revenue				
Rendering of services	124.2	192.0	–	316.2
Sale of goods	4.6	0.3	–	4.9
Total revenue	**128.8**	**192.3**	**–**	**321.1**
Result				
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation) and exceptional items	**22.7**	**28.0**	**(4.7)**	**46.0**
Amortisation of intangible assets (excluding software amortisation)	(0.5)	(8.3)	–	(8.8)
Exceptional items:				
– Costs in relation to business acquisition activity	–	(0.6)	–	(0.6)
Operating profit/(loss)	**22.2**	**19.1**	**(4.7)**	**36.6**
Total finance cost				(3.5)
Profit before taxation				**33.1**
Taxation				(6.3)
Profit for the year attributable to equity holders				**26.8**

		Discontinued Operations £m	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Balance sheet information						
Segment assets		–	121.9	252.0	1.5	375.4
Unallocated assets:	Deferred income tax assets					1.8
	Cash and cash equivalents					7.1
Total assets						**384.3**
Segment liabilities		(3.9)	(29.2)	(41.0)	(3.7)	(77.8)
Unallocated liabilities:	Current income tax liabilities					(5.1)
	Bank borrowings					(98.1)
	Derivative financial liabilities					(0.7)
	Post-employment benefit obligations					(4.6)
	Deferred income tax liabilities					(7.6)
Total liabilities						**(193.9)**
Other information						
Non-current asset additions						
– Property, plant and equipment		–	5.0	11.4	–	16.4
– Textile rental items		–	21.7	27.4	–	49.1
– Intangible software		–	0.7	–	–	0.7
Depreciation and amortisation expense						
– Property, plant and equipment		–	4.8	8.7	–	13.5
– Textile rental items		–	16.5	25.3	–	41.8
– Intangible software		–	–	0.1	–	0.1
– Customer contracts		–	0.5	8.3	–	8.8

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

2 EXPENSES BY FUNCTION

	2019 £m	2018 £m
Revenue		
Rendering of services	346.3	316.2
Sale of goods	4.3	4.9
Total revenue	**350.6**	**321.1**
Cost of sales	(197.6)	(182.0)
Administrative expenses	(42.5)	(41.0)
Distribution costs	(57.7)	(52.1)
Operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items	**52.8**	**46.0**
Amortisation of intangible assets (excluding software amortisation)	(10.1)	(8.8)
Exceptional items	–	(0.6)
Operating profit	**42.7**	**36.6**

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

	2019 £m	2018 £m
Employee benefit expense (note 4)	149.6	139.0
Auditors' remuneration (note 3)	0.5	0.5
Exceptional items	–	0.6
Amortisation of intangible assets (note 13):		
Capitalised software	0.1	0.1
Customer contracts	10.1	8.8
Depreciation and impairment of tangible fixed assets:		
Property, plant and equipment held under finance lease agreements	–	2.7
Owned property, plant and equipment	13.9	10.8
Right of use assets (note 15)	7.1	–
Textile rental items (note 16)	45.1	41.8
Operating leases:		
Land and buildings	0.2	4.0
Sublet rental income	–	(0.4)
Plant and equipment	1.1	4.1

Following the adoption of IFRS 16 at 1 January 2019, the majority of operating lease costs are no longer recognised within the Consolidated Income Statement but have been replaced with right of use asset depreciation costs. The remaining costs within the Consolidated Income Statement relate to low-value and short term leases which are excluded from IFRS 16.

3 AUDITORS' REMUNERATION

	2019 £m	2018 £m
Fees payable for the audit of the Company	0.1	0.1
Fees payable for the audit of the Company's subsidiaries and pension schemes	0.3	0.3
Fees payable for services relating to tax compliance	0.1	0.1
	0.5	**0.5**

Included within the above is an amount of £19,000 (2018: £18,000) in respect of fees payable to the Company's auditors for services relating to the audit of the Company's pension schemes.

Notes to the Consolidated Financial Statements Continued >

4 EMPLOYEE BENEFIT EXPENSE

	2019 £m	2018 £m
Wages and salaries	134.1	125.1
Social security costs	10.7	9.9
Redundancy costs	0.1	0.1
Cost of employee share schemes (Note 29)	1.0	0.9
Private healthcare costs	0.4	0.4
Pension costs – defined contribution plans (Note 25)	3.3	2.6
Total	**149.6**	**139.0**

Redundancy costs of £nil (2018: £0.1 million) have been included within exceptional items.

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

	2019	2018
Workwear	2,291	2,244
HORECA	3,494	3,260
All other segments	18	18
Total	**5,803**	**5,522**

5 DIRECTORS' EMOLUMENTS

Detailed disclosures that form part of these consolidated financial statements are given in the Directors' Remuneration Report on pages 59 to 81.

6 EXCEPTIONAL ITEMS

	2019 £m	2018 £m
Costs in relation to business acquisition activity	–	0.6
Total exceptional items	**–**	**0.6**

CURRENT YEAR EXCEPTIONAL ITEMS

Costs in relation to business acquisition activity

During the year, professional fees of £0.1 million were paid relating to the acquisition of Fresh Linen Holdings Limited, together with its trading subsidiary Fresh Linen Limited ('Fresh Linen') and a further dormant company Pure Laundry Limited. Further information relating to the acquisition is provided in note 33. This has been offset by £0.1 million of prior year credits relating to previous acquisitions.

PRIOR YEAR EXCEPTIONAL ITEMS

Costs in relation to business acquisition activity

During the prior year, professional fees of £0.2 million were paid relating to the acquisition of South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Limited ('South West'). In addition, costs of £0.3 million were incurred as part of the integration of recent acquisition. Further information relating to the acquisitions is provided in note 33. The remainder of the cost relates to fees and expenses incurred during negotiations with undisclosed targets.

7 TOTAL FINANCE COST

	2019 £m	2018 £m
Finance cost:		
– Interest payable on bank loans and overdrafts	2.4	2.6
– Amortisation of bank facility fees	0.3	0.3
– Finance costs on lease liabilities relating to IAS 17	–	0.3
– Finance costs on lease liabilities relating to IFRS 16	1.8	–
– Notional interest on post-employment benefit obligations	0.1	0.3
Total finance cost	**4.6**	**3.5**

8 ADJUSTED PROFIT BEFORE AND AFTER TAXATION

	2019 £m	2018 £m
Profit before taxation	38.1	33.1
Amortisation of intangible assets (excluding software amortisation)	10.1	8.8
Costs in relation to business acquisition activity	–	0.6
Adjusted profit before taxation	48.2	42.5
Taxation thereon	(9.1)	(8.0)
Adjusted profit after taxation	**39.1**	**34.5**

9 TAXATION CHARGE

	2019 £m	2018 £m
Current tax		
UK corporation tax charge for the year	9.4	9.5
Adjustment in relation to previous years	(0.5)	(0.5)
Current tax charge for the year	**8.9**	**9.0**
Deferred tax		
Origination and reversal of temporary differences	(1.7)	(2.6)
Changes in tax rate	(0.2)	(0.2)
Adjustment in relation to previous years	0.2	0.1
Deferred tax credit for the year	**(1.7)**	**(2.7)**
Total charge for taxation included in the Consolidated Income Statement	**7.2**	**6.3**

The tax charge for the year is the same as (2018: the same as) the effective rate of Corporation Tax in the UK of 19.00% (2018: 19.00%). A reconciliation is provided below:

	2019 £m	2018 £m
Profit before taxation	38.1	33.1
Profit before taxation multiplied by the effective rate of Corporation Tax in the UK	7.2	6.3
Factors affecting taxation charge for the year:		
Tax effect of expenses not deductible for tax purposes	0.5	0.6
Changes in tax rate	(0.2)	(0.2)
Adjustments in relation to previous years	(0.3)	(0.4)
Total charge for taxation included in the Consolidated Income Statement	**7.2**	**6.3**

Taxation in relation to amortisation of intangible assets (excluding software amortisation) has reduced the charge for taxation on continuing operations by £1.9 million (2018: £1.7 million reduction). There is no taxation in relation to exceptional items in either year.

Changes to the UK corporation tax rates were announced on 8 July 2015. These changes were substantively enacted as part of Finance Bill 2015 on 26 October 2015 and include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A further change to reduce the rate from 1 April 2020 from 18% to 17% was announced on 16 March 2016. This change was substantively enacted as part of Finance Bill 2016 on 15 September 2016.

Deferred income taxes at the balance sheet date have been measured at 17.0% (2018: 17.5%). The impact of the change in tax rates to 17.0% has been a £0.2 million credit (2018: £0.2 million credit) in the Consolidated Income Statement and £nil (2018: £0.1 million charge) recognised within other comprehensive income.

During the year, a £0.7 million credit relating to deferred taxation (2018: £1.0 million charge) has been recognised in other comprehensive income.

During the year, a £0.3 million credit relating to current taxation (2018: £nil) and a £0.2 million credit relating to deferred taxation (2018: £0.1 million credit) have been recognised directly in Shareholders' equity.

Notes to the Consolidated Financial Statements Continued >

10 DIVIDENDS

	2019	2018
Dividend per share		
Final dividend proposed	2.35p	–
Interim dividend proposed and paid	1.15p	1.00p
Final dividend proposed and paid	–	2.10p

	2019 £m	2018 £m
Shareholders' funds committed		
Final dividend proposed	8.7	–
Interim dividend proposed and paid	4.3	3.7
Final dividend proposed and paid	–	7.7

The Directors propose the payment of a final dividend in respect of the year ended 31 December 2019 of 2.35 pence per share. This will utilise Shareholders' funds of £8.7 million and will be paid, subject to Shareholder approval, on 7 May 2020 to Shareholders on the register of members on 14 April 2020. The Trustee of the EBT has waived the entitlement to receive dividends on the Ordinary shares held by the Trust. In accordance with IAS 10 there is no payable recognised at 31 December 2019 in respect of this proposed dividend.

11 EARNINGS PER SHARE

	2019 £m	2018 £m
Profit for the financial year from continuing operations attributable to Shareholders	30.9	26.8
Amortisation of intangible assets from continuing operations (net of taxation)	8.2	7.1
Exceptional costs from continuing operations (net of taxation)	–	0.6
Adjusted profit attributable to Shareholders	39.1	34.5
Weighted average number of Ordinary shares	369,145,562	366,547,752
Dilutive potential Ordinary shares	2,710,583	3,053,927
Diluted number of Ordinary shares	371,856,145	369,601,679
Basic earnings per share	8.4p	7.3p
Adjustments for amortisation of intangible assets	2.2p	1.9p
Adjustment for exceptional items	–	0.2p
Adjusted basic earnings per share	10.6p	9.4p
Diluted earnings per share	8.3p	7.2p
Adjustments for amortisation of intangible assets	2.2p	1.9p
Adjustment for exceptional items	–	0.2p
Adjusted diluted earnings per share	10.5p	9.3p

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

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

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

Potentially dilutive Ordinary shares are dilutive at the point, from a continuing operations level, when their conversion to Ordinary shares would decrease earnings per share or increase loss per share. For the years ended 31 December 2019 and 31 December 2018, potentially dilutive Ordinary shares have been treated as dilutive, as their inclusion in the diluted earnings per share calculation decreases earnings per share from continuing operations.

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

12 GOODWILL

	2019 £m	2018 £m
Cost		
Brought forward	128.1	120.3
Business combinations (see note 33)	2.4	7.8
Carried forward	**130.5**	**128.1**
Accumulated impairment losses		
Brought forward	–	–
Carried forward	**–**	**–**
Carrying amount		
Opening	128.1	120.3
Closing	**130.5**	**128.1**

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:

	2019 £m	2018 £m
Workwear	41.7	41.7
Stalbridge (note a)	19.1	19.0
London Linen	29.2	29.2
Hotel Linen (note b)	40.5	38.2
HORECA	88.8	86.4
Total	**130.5**	**128.1**

Note a

The net increase during the year relates to the goodwill of the 2018 acquisition of South West increasing by £0.1 million as a result of a fair value adjustment to textile rental items acquired (note 33).

Note b

The net increase during the year relates to the acquisition of Fresh Linen (note 33).

The recoverable amount for each of the Cash Generating Units (CGUs) is as follows:

	2019 £m	2018 £m
Workwear	596.8	576.7
Stalbridge	289.2	250.8
London Linen	170.1	168.2
Hotel Linen	464.7	337.3
HORECA	924.0	756.3
Total	**1,520.8**	**1,333.0**

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

The pre-tax discount rate used within the recoverable amount calculations was 5.36% (2018: 5.47%) and is based upon the weighted average cost of capital reflecting specific principal risks and uncertainties. The discount rate takes into account, amongst other things, the risk free rate of return (derived from a 20 year government bond price), the market risk premium and beta factor reflecting the average Beta for the Group and comparator companies which are used in deriving the cost of equity.

Notes to the Consolidated Financial Statements Continued >

12 GOODWILL (Continued)

The same discount rate has been used for each CGU as the principal risks and uncertainties associated with the Group, as highlighted on pages 30 to 33, would also impact each CGU in a similar manner. The Board acknowledge that there are additional factors that could impact the risk profile of each CGU. These additional factors were considered by way of sensitivity analysis performed as part of the annual impairment tests. The level of impairment recognised is predominantly dependent upon judgments used in arriving at future growth rates and the discount rate applied to cash flow projections. Key drivers to future growth rates are dependent on the Group's ability to maintain and grow income streams whilst effectively managing operating costs. The level of headroom may change if different growth rate assumptions or a different pre-tax discount rate were used in the cash flow projections. Where the value-in-use calculations suggest an impairment, the Board would consider alternative use values prior to realising any impairment, being the fair value less costs to dispose.

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

	2019	2018
Annual growth rate (after budget period)	1.23%	1.87%
Risk free rate of return	1.23%	1.87%
Market risk premium	6.25%	6.25%
Beta Factor	0.72	0.64
Cost of debt	3.27%	3.62%

Having completed the 2019 impairment review, no impairment has been recognised in relation to the CGUs (2018: no impairment). Sensitivity analysis has been performed in assessing the recoverable amounts of goodwill. There are no changes to the key assumptions of growth rate or discount rate that are considered by the Directors to be reasonably possible, which would give rise to an impairment of goodwill relating to the CGUs.

13 INTANGIBLE ASSETS

	Capitalised Software £m	Other Intangible Assets £m	Total £m
Cost			
At 31 December 2017	**0.7**	**71.6**	**72.3**
Additions	0.7	–	0.7
Business combinations (see note 33)	–	4.0	4.0
At 31 December 2018	**1.4**	**75.6**	**77.0**
Additions	1.3	2.3	3.6
Business combinations (see note 33)	–	4.0	4.0
At 31 December 2019	**2.7**	**81.9**	**84.6**
Accumulated amortisation			
At 31 December 2017	**0.6**	**28.2**	**28.8**
Charged during the year	0.1	8.8	8.9
At 31 December 2018	**0.7**	**37.0**	**37.7**
Charged during the year	0.1	10.1	10.2
At 31 December 2019	**0.8**	**47.1**	**47.9**
Carrying amount			
At 31 December 2017	**0.1**	**43.4**	**43.5**
At 31 December 2018	**0.7**	**38.6**	**39.3**
At 31 December 2019	**1.9**	**34.8**	**36.7**

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

13 INTANGIBLE ASSETS (Continued)

Other intangible assets comprise of customer contracts and relationships together with the customer contracts acquired not as part of a business combination. 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. For assets not acquired as part of a business combination, fair value is deemed to be the amounts to purchase the contracts plus associated costs less value of stock acquired.

Other intangible assets have a finite useful life and are carried at cost less accumulated amortisation. Amortisation of other intangible assets is calculated using the straight-line method to allocate the cost of the assets over their estimated useful lives (four to ten years). The longest estimated useful life remaining at 31 December 2019 is five years.

14 PROPERTY, PLANT AND EQUIPMENT

	Properties				
	Freehold £m	Long Leasehold £m	Short Leasehold £m	Plant and Equipment £m	Total £m
Cost					
At 31 December 2017	**22.3**	**6.2**	**8.3**	**120.9**	**157.7**
Business combinations (note 33)	–	–	0.1	3.9	4.0
Additions	0.7	–	0.2	15.5	16.4
Disposals	–	–	–	(2.6)	(2.6)
At 31 December 2018	**23.0**	**6.2**	**8.6**	**137.7**	**175.5**
Transfers to right of use asset	–	–	–	(17.0)	(17.0)
At 1 January 2019	**23.0**	**6.2**	**8.6**	**120.7**	**158.5**
Business combinations (note 33)	1.8	–	–	2.5	4.3
Additions	0.2	–	0.5	18.8	19.5
Disposals	–	–	–	(2.7)	(2.7)
Re-classification	–	–	0.5	(0.5)	–
Transfers in from right of use assets (note 15)	–	–	–	16.9	16.9
At 31 December 2019	**25.0**	**6.2**	**9.6**	**155.7**	**196.5**
Accumulated depreciation and impairment					
At 31 December 2017	**5.3**	**1.8**	**3.2**	**58.1**	**68.4**
Charged during the year	0.3	0.2	0.5	12.5	13.5
Eliminated on disposals	–	–	–	(2.4)	(2.4)
At 31 December 2018	**5.6**	**2.0**	**3.7**	**68.2**	**79.5**
Transfers to right of use asset	–	–	–	(5.1)	(5.1)
At 1 January 2019	**5.6**	**2.0**	**3.7**	**63.1**	**74.4**
Charged during the year	0.4	0.2	0.6	12.7	13.9
Eliminated on disposals	–	–	–	(2.4)	(2.4)
Transfers in from right of use assets (note 15)	–	–	–	6.6	6.6
At 31 December 2019	**6.0**	**2.2**	**4.3**	**80.0**	**92.5**
Carrying amount					
At 31 December 2017	**17.0**	**4.4**	**5.1**	**62.8**	**89.3**
At 31 December 2018	**17.4**	**4.2**	**4.9**	**69.5**	**96.0**
At 31 December 2019	**19.0**	**4.0**	**5.3**	**75.7**	**104.0**

The value of assets under construction at 31 December 2019 was £2.8 million (2018: £3.8 million).

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

Following the adoption of IFRS 16 on 1 January 2019, the net book value of plant and equipment held under finance leases is no longer recognised within property, plant and equipment and is instead recognised within right of use assets (note 15).

Notes to the Consolidated Financial Statements Continued >

14 PROPERTY, PLANT AND EQUIPMENT (Continued)

The transfer of assets to right of use assets represents the reclassification of the cost and associated depreciation of finance lease assets at 1 January 2019 from property, plant and equipment. The transfer of assets in from right of use assets represents the reclassification of the cost and associated depreciation of finance lease assets back from right of use assets where the lease expired in the year to 31 December 2019 and the asset is now owned.

15 RIGHT OF USE ASSETS

	Properties £m	Plant and Equipment £m	Total £m
Cost			
At 31 December 2018	**–**	**–**	**–**
Recognition of right of use assets	30.8	5.3	36.1
Transfers in from property, plant and equipment	–	17.0	17.0
Right of use assets recognised at 1 January 2019	**30.8**	**22.3**	**53.1**
Business combinations (note 33)	–	0.7	0.7
Additions	4.3	2.2	6.5
Reassessment/modification of assets previously recognised	1.3	(0.1)	1.2
Transfers back to property, plant and equipment	–	(16.9)	(16.9)
At 31 December 2019	**36.4**	**8.2**	**44.6**
Accumulated depreciation and impairment			
At 31 December 2018	**–**	**–**	**–**
Transfers in from property, plant and equipment	–	5.1	5.1
At 1 January 2019	**–**	**5.1**	**5.1**
Charged during the year	3.3	3.8	7.1
Transfers back to property, plant and equipment	–	(6.6)	(6.6)
At 31 December 2019	**3.3**	**2.3**	**5.6**
Carrying amount			
At 31 December 2018	**–**	**–**	**–**
At 1 January 2019	**30.8**	**17.2**	**48.0**
At 31 December 2019	**33.1**	**5.9**	**39.0**

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

The reassessment/modification of leases relates to rent increases and extensions to lease terms that have been agreed during the year to 31 December 2019 for leases which were in place on 1 January 2019 following the adoption of IFRS 16.

Following the adoption of IFRS 16, the transfer of assets in from property, plant and equipment represents the reclassification of the cost and associated depreciation of finance lease assets at 1 January 2019 to the right of use assets. The transfer of assets back to property, plant and equipment represents the reclassification of the cost and associated depreciation of finance lease assets back to property, plant and equipment where the lease expired in the year to 31 December 2019 and the asset is now owned.

16 TEXTILE RENTAL ITEMS

	2019 £m	2018 £m
Cost		
Brought forward	120.6	103.1
Additions	46.1	49.1
Business combinations (see note 33)	1.7	1.3
Disposals	(38.7)	(28.5)
Special charges	(4.6)	(4.4)
Carried forward	**125.1**	**120.6**
Accumulated depreciation		
Brought forward	64.2	53.1
Charged during the year	45.1	41.8
Disposals	(38.7)	(28.5)
Special charges	(2.3)	(2.2)
Carried forward	**68.3**	**64.2**
Carrying amount		
Opening	56.4	50.0
Closing	**56.8**	**56.4**

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

17 INVENTORIES

	2019 £m	2018 £m
New textile rental items	1.2	1.6
Goods for resale	0.2	0.2
Raw materials and stores	0.9	1.0
	2.3	**2.8**

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

	2019 £m	2018 £m
Opening inventories	2.8	2.9
Purchases	57.2	62.2
Business combinations (note 33)	0.1	–
Amounts transferred to textile rental items (note 16)	(46.1)	(49.1)
Amounts transferred to cost of sales	(11.7)	(13.2)
	2.3	**2.8**

The amounts above are net of an inventory provision of £0.5 million (2018: £0.6 million). There has been £0.1 million (2018: £0.1 million) stock provision recognised within cost of sales in the Consolidated Income Statement.

Notes to the Consolidated Financial Statements Continued >

18 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Amounts falling due within one year:		
Trade receivables	48.7	45.5
Less: provision for impairment of trade receivables	(2.4)	(2.1)
Trade receivables – net	46.3	43.4
Other receivables	2.3	1.9
Prepayments	2.0	3.2
Contract assets	0.7	0.7
Accrued income	3.2	2.9
	54.5	**52.1**
Amounts falling due after more than one year:		
Other receivables	0.3	0.3
Contract assets	0.4	0.4
	0.7	**0.7**
	55.2	**52.8**

The charge recognised during the year relating to contract assets is £0.9 million (2018: £0.9 million).

Costs capitalised as contract assets during the year total £0.9 million (2018: £0.8 million).

Costs capitalised in relation to contract assets are expected to be recoverable.

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

	Gross £m	Provision £m	2019 Net £m	Gross £m	Provision £m	2018 Net £m
Trade receivables, other receivables and accrued income						
– Not yet due and up to 3 months overdue	52.9	(0.8)	52.1	49.7	(1.2)	48.5
– 3 to 6 months past due	0.9	(0.9)	–	0.6	(0.6)	–
– 6 to 12 months past due	0.4	(0.4)	–	0.2	(0.2)	–
– Over 12 months past due	0.3	(0.3)	–	0.1	(0.1)	–
	54.5	**(2.4)**	**52.1**	**50.6**	**(2.1)**	**48.5**

Under IFRS 9, the Group is required to utilise objective evidence as well as consider forward looking information and the probability of default when calculating expected credit losses. The maturity of financial assets is therefore used as an indicator as to the probability of default.

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

Under IFRS 9, effective from 1 January 2018, the Group elected to use the simplified approach to measure the loss allowance at an amount equal to lifetime expected credit losses for trade receivables.

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:

	2019 £m	2018 £m
At 1 January	(2.1)	(1.8)
Provisions for receivables impairment	(1.0)	(1.0)
Amounts unused reversed	–	0.1
Receivables written off during the year as uncollectable	0.7	0.6
At 31 December	**(2.4)**	**(2.1)**

18 TRADE AND OTHER RECEIVABLES (Continued)

The creation and release of the provision for impaired receivables has been included in administrative expenses in the Consolidated 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.

All trade and other receivable balances at the balance sheet date are denominated in Sterling (2018: Sterling) and are held at amortised cost. Given the short term nature of current receivables there is deemed to be no difference between this and fair value. The difference between the book value and fair value of non-current trade and other receivables is deemed to be not material.

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.

19 TRADE AND OTHER PAYABLES (CURRENT)

	2019 £m	2018 £m
Trade payables	24.0	23.3
Other payables	3.8	3.5
Other taxation and social security liabilities	11.6	10.6
Deferred income	0.3	0.1
Deferred consideration	1.7	0.3
Accruals	27.8	27.0
	69.2	**64.8**

All trade and other payables balances at the balance sheet date are denominated in Sterling (2018: Sterling), and are held at amortised cost. Given the short term nature there is deemed to be no difference between this and fair value.

Trade payables are unsecured and are usually paid within 60 days of recognition.

20 TRADE AND OTHER PAYABLES (NON-CURRENT)

	2019 £m	2018 £m
Deferred consideration	–	0.3
Deferred income	0.5	1.5
Accruals	–	0.5
	0.5	**2.3**

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

21 BORROWINGS

	2019 £m	2018 £m
Current		
Overdraft	11.2	11.8
Bank loans	(0.3)	(0.3)
Obligations under finance lease agreements	–	3.0
	10.9	**14.5**
Non-current		
Bank loans	84.7	86.6
Obligations under finance lease agreements	–	4.4
	84.7	**91.0**
	95.6	**105.5**
The maturity of non-current bank loans is as follows:		
– Between two and five years	85.0	87.0
– Unamortised issue costs of bank loans	(0.3)	(0.4)
	84.7	**86.6**

Notes to the Consolidated Financial Statements Continued >

21 BORROWINGS (Continued)

At 31 December 2019, borrowings were secured and drawn down under a committed facility dated 21 February 2014, as amended and restated on 24 April 2015 and as further amended and restated on 22 April 2016 and 9 August 2018. This amended facility comprised a £135.0 million rolling credit facility (including an overdraft) which runs to August 2023. 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%.

The Group has two net overdraft facilities for £5.0 million and £3.0 million with two of its principal bankers (2018: £5.0 million and £3.0 million).

As at 31 December 2019, £45.0 million of borrowings were subject to hedging arrangements which have the effect of replacing LIBOR with fixed rates as follows:

- for £15.0 million of borrowings, LIBOR is replaced with 1.665% from 8 January 2016 to 8 January 2020; and
- for £15.0 million of borrowings, LIBOR is replaced with 1.070% from 30 January 2019 to 29 January 2021; and
- for £15.0 million of borrowings, LIBOR is replaced with 1.144% from 30 January 2019 to 31 January 2022.

A further hedging arrangement is in place as at 31 December 2019 which commenced on 8 January 2020:

- for £15.0 million of borrowings, LIBOR is replaced with 0.805% from 8 January 2020 to 9 January 2023.

The Group has elected to early adopt the 'Amendments to IAS 39 and IFRS 7 Interest Rate Benchmark Reform' issued in September 2019. In accordance with the transition provisions, the amendments have been adopted retrospectively to hedging relationships that existed at the start of the reporting period or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve at that date.

The amendments provide temporary relief from applying specific hedge accounting requirements to hedging relationships directly affected by IBOR reform. The reliefs have the effect that IBOR reform should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness continues to be recorded in the Consolidated Income Statement.

In summary, the reliefs provided by the amendments that apply to the Group are:

- When considering the 'highly probable' requirement, the Group has assumed that the GBP LIBOR interest rate on which our hedged interest rate risk exposure is based does not change as a result of IBOR reform.
- In assessing whether there is an economic relationship between the hedged item and the hedging instrument, the Group has assumed that the GBP LIBOR interest rate on which the interest payments and the interest rate swap that hedges it are based is not altered by IBOR reform.
- The Group has not recycled the cash flow hedge reserve relating to the period after the reforms are expected to take effect.

Amounts drawn under the revolving credit facility have been classified as either current or non-current depending upon when the loan is expected to be repaid.

The secured bank loans are stated net of unamortised issue costs of £0.6 million (2018: £0.7 million) of which £0.3 million is included within current borrowings (2018: £0.3 million). Details of the security are provided in note 27 to the Consolidated Financial Statements.

Following the adoption of IFRS 16 at 1 January 2019, obligations under finance lease agreements are recognised within lease liabilities and are no longer included within borrowings.

Finance leases

Obligations under finance lease agreements are as follows:

	2019 £m	2018 £m
Not more than one year		
Minimum lease payments	–	3.2
Interest element	–	(0.2)
Present value of minimum lease payments	**–**	**3.0**
Between one and five years		
Minimum lease payments	–	4.6
Interest element	–	(0.2)
Present value of minimum lease payments	**–**	**4.4**

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

Following the adoption of IFRS 16 at 1 January 2019, obligations under finance lease agreements are recognised within lease liabilities (note 22) and are no longer included within borrowings.

22 LEASE LIABILITIES

	Properties £m	Plant and Equipment £m	Total £m
At 31 December 2018	–	–	–
Recognition of lease liability under IFRS 16	32.0	5.2	37.2
Previously recognised as finance lease obligations in borrowings	–	7.4	7.4
Opening lease liabilities recognised at 1 January 2019	**32.0**	**12.6**	**44.6**
Business combinations (note 33)	–	1.3	1.3
Additions	4.1	2.4	6.5
Reassessment/modification of liabilities previously recognised	1.3	(0.1)	1.2
Lease liability payments (including finance costs)	(4.3)	(10.7)	(15.0)
Finance costs	1.4	0.4	1.8
At 31 December 2019	**34.5**	**5.9**	**40.4**

The reassessment/modification of leases relates to rent increases and extensions to lease terms that have been agreed during the year to 31 December 2019 for leases which were in place on 1 January 2019 following the adoption of IFRS 16.

Lease liabilities are comprised of the following balance sheet amounts:

	2019 £m	2018 £m
Amounts due within one year (Lease liabilities, Current Liabilities)	5.6	–
Amounts due after more than one year (Lease liabilities, Non-Current Liabilities)	34.8	–
	40.4	**–**

Lease liabilities are as follows:

	2019 £m	2018 £m
Not more than one year		
Minimum lease payments	7.2	–
Interest element	(1.6)	–
Present value of minimum lease payments	**5.6**	**–**
Between one and five years		
Minimum lease payments	20.6	–
Interest element	(4.6)	–
Present value of minimum lease payments	**16.0**	**–**
More than five years		
Minimum lease payments	26.4	–
Interest element	(7.6)	–
Present value of minimum lease payments	**18.8**	**–**

Notes to the Consolidated Financial Statements Continued >

23 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	
	2019 £m	2018 £m	2019 £m	2018 £m
Recognised deferred income tax assets and liabilities				
Depreciation in excess of capital allowances	–	–	(1.2)	(0.9)
Employee share schemes	0.6	0.5	–	–
Post-employment benefit obligations	1.2	0.8	–	–
Derivative financial liabilities	0.1	0.1	–	–
Other short term timing differences	0.7	0.4	–	–
Separately identifiable intangible assets	–	–	(5.6)	(6.7)
	2.6	**1.8**	**(6.8)**	**(7.6)**

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

The following provides a reconciliation of the movement in each of the deferred income tax assets and liabilities:

	Depreciation in Excess of Capital Allowances £m	Employee Share Schemes £m	Post-employment Benefit Obligations £m	Derivative Financial Instruments £m	Short Term Timing Differences £m	Other Intangible Assets £m	Total £m
At 31 December 2017	**(1.9)**	**0.4**	**2.2**	**–**	**0.3**	**(7.6)**	**(6.6)**
Adjustment on adoption of IFRS 15	–	–	–	–	(0.2)	–	(0.2)
Credit/(charge) to income	1.0	–	(0.3)	–	0.3	1.7	2.7
Deferred income tax liabilities acquired	–	–	–	–	–	(0.8)	(0.8)
Credit to Shareholders equity	–	0.1	–	–	–	–	0.1
(Charge)/credit to other comprehensive income	–	–	(1.1)	0.1	–	–	(1.0)
At 31 December 2018	**(0.9)**	**0.5**	**0.8**	**0.1**	**0.4**	**(6.7)**	**(5.8)**
(Charge)/credit to income	(0.3)	(0.1)	(0.3)	–	0.5	1.9	1.7
Deferred income tax liabilities acquired (note 33)	–	–	–	–	(0.2)	(0.8)	(1.0)
Credit to Shareholders equity	–	0.2	–	–	–	–	0.2
Credit to other comprehensive income	–	–	0.7	–	–	–	0.7
At 31 December 2019	**(1.2)**	**0.6**	**1.2**	**0.1**	**0.7**	**(5.6)**	**(4.2)**

Changes to the UK corporation tax rates were announced on 8 July 2015. These changes were substantively enacted as part of Finance Bill 2015 on 26 October 2015 and include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020. A further change to reduce the rate from 1 April 2020 from 18% to 17% was announced on 16 March 2016. This change was substantively enacted as part of Finance Bill 2016 on 15 September 2016.

Deferred income taxes at the balance sheet date have been measured at a tax rate of 17.0% as at 31 December 2019 (2018: 17.5%). The impact of the change in tax rates to 17.0% has been a £0.2 million credit (2018: £0.2 million credit) in the Consolidated Income Statement and £nil (2018: £0.1 million charge) within other comprehensive income.

The Group has estimated that £1.4 million of the Group's net deferred income tax liability will be realised in the next 12 months. This is management's current best estimate and may not reflect the actual outcome in the next 12 months.

24 PROVISIONS

	Property £m	Self Insurance £m	Total £m
At 31 December 2017	**3.0**	**0.7**	**3.7**
Utilised during the year	(0.3)	(0.1)	(0.4)
At 31 December 2018	**2.7**	**0.6**	**3.3**
Utilised during the year	(0.1)	(0.1)	(0.2)
At 31 December 2019	**2.6**	**0.5**	**3.1**

	2019 £m	2018 £m
Analysis of total provisions		
Current	1.4	1.5
Non-current	1.7	1.8
	3.1	**3.3**

Property

The property provision includes onerous leases, expected lease dilapidation costs and the estimated remediation costs of property where an environmental problem has been identified and the costs to rectify can be reliably measured. The estimates and judgments used in determining the value of provisioning are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The majority of the property provision is expected to be utilised over a period of up to four years.

Self insurance

The self insurance provision is in respect of the estimated payments due to existing claimants under the self funded incapacity scheme over an estimated period of 13 years. This scheme is now closed.

25 POST-EMPLOYMENT BENEFIT OBLIGATIONS

The Group operates pension schemes of both the funded defined benefit and the defined contribution type for a substantial number of employees. In addition, the Group also operates an unfunded defined benefit private healthcare scheme for eligible retirees. The disclosures below are in respect of all of the Group schemes.

Pensions – defined contribution

Several defined contribution pension schemes are used within the Group. The total cost of employer contributions for the year was £3.3 million (2018: £2.6 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 31 December 2014.

A full actuarial valuation of the JGDBS was carried out at 30 September 2016 and has been updated to 31 December 2019 by an independent qualified actuary. The updated actuarial valuation at 31 December 2019 showed a deficit of £6.3 million (2018: £3.6 million). During the year, no employer or employee contributions were made (2018: £nil).

Deficit recovery payments of £1.9 million (2018: £1.9 million) were made to the Scheme during the year. Further deficit recovery payments of £1.9 million are expected to be made in 2020.

Actuarial assumptions

Considerations when calculating the IAS 19 liability

IAS19 sets out prescribed (qualitative) conditions for selecting the actuarial assumptions used to calculate the pension liabilities and pension costs. A key assumption is the discount rate which is used to determine the value of pension liabilities at the balance sheet date. The selection of the price inflation assumptions (both RPI and CPI) is also critical as these are relevant for the pre-retirement revaluation and pension increases in payment assumptions.

These assumptions are based on market yields at the balance sheet date, and may not be borne out in practice due to the long-term expected duration of the Scheme. The weighted average duration of the defined benefit obligation is approximately 14 years (2018: 14 years). Within the prescribed conditions however, assumptions must be mutually compatible and lead to the best estimate of the future cash flows in respect of pension liabilities.

Notes to the Consolidated Financial Statements Continued >

25 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 expected long term differences between the RPI and CPI indices
Pension increases	Compatible with the rate of price inflation above taking into account the effects of scheme rules and valid expectations of discretionary increases based on best past practice
Demographic assumptions (e.g. rates of mortality and early retirement)	Compatible assumptions that lead to a best estimate of future cash flows

Assumptions used

	2019	2018
Rate used to discount scheme liabilities	2.10%	2.90%
Retail price inflation (RPI)	3.00%	3.20%
Consumer price inflation (CPI)	2.05%	2.00%
Rate of increase of pensions in payment (5.0% RPI linked)	2.95%	3.07%
Rate of increase of pensions in payment (2.5% RPI linked)	2.15%	2.10%
Rate of increase of pensions in payment (2.5% CPI linked)	1.73%	1.71%
Rate of increase of pensions in deferment (JGDBS Scheme)	2.00%	2.00%

Life expectancy at age 60 for current male pensioners is assumed to be 26.1 years (2018: 26.5 years). Life expectancy at age 60 for male future pensioners is assumed to be 26.5 years (2018: 26.9 years). "S2PXA 102%/99% males/females (YoB) CMI 2018 with a 1.25% long term trend rate with core parameters" has been used to derive these mortality rates (2018: "S2PXA 102%/99% males/females CMI 2017 with a 1.25% long term trend rate" used).

It is assumed that 100% of non-retired members of the JGDBS will commute 25% of their pension at retirement (2018: 100% of members will commute 25% of pension).

It has been assumed that 50% (2018: 50%) of future pensioners at retirement will exchange their non-statutory pension increases at retirement for a higher, but non-increasing pension.

On 26 October 2018, the High Court handed down a judgment involving the Lloyds Banking Group's defined benefit pension schemes. The judgment concluded the schemes should be amended to equalise pension benefits for men and women in relation to guaranteed minimum pension (GMP) benefits for the effect of unequal GMPs accrued between 1990 and 1997. The issues determined by the judgment affect many other UK defined benefit pension schemes. We are working with the trustee of our pension scheme, and our actuarial and legal advisors, to understand the extent to which the judgment crystallises additional liabilities for the pension scheme.

The pension scheme has historically included a reserve in the actuarial valuation, and in the value of the scheme's liabilities on the balance sheet in previous financial years, to allow for a potential need to recognise equalised GMP benefits in the future. The clarity provided by the judgment has allowed us to approximately update our estimate of the expected impact of GMP equalisation. The estimated impact of the equalisation of GMP benefits after allowance for the existing reserve, were recognised through OCI as an actuarial loss in the year ended 31 December 2018.

25 POST-EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Sensitivity of key assumptions

The table below gives an approximation of the impact on the IAS19 pension scheme liabilities to changes in assumptions and experience. Note that all figures are before allowing for deferred tax.

Item	Approximate increase/(decrease) on Post-employment benefit obligation
Increase/decrease discount rate by 0.1%	(£3.0 million)/£3.1 million
Increase/decrease price inflation assumption by 0.1%	£1.3 million/(£1.0 million)
1 year increase/decrease in life expectancy at age 60	£9.1 million/(£9.0 million)

The above sensitivities are applied to adjust the defined benefit obligations at the end of the reporting period. Whilst the analysis does not take account of the full distribution of cash flows expected under the scheme, it does provide an approximation of the sensitivity of the assumptions shown. No changes have been made to the method and assumptions used in this analysis from those used in the previous period.

Private healthcare

The Group operates an unfunded defined benefit private healthcare scheme for eligible retirees. At 31 December 2019, the deficit of the scheme was £1.0 million (2018: £1.0 million). The Group accounted for a current service cost of £nil and a notional interest cost of £26,000 in the Consolidated Income Statement (2018: £nil and £26,000 respectively). The current service cost in 2020 is expected to be £nil with a notional interest cost of £26,000.

The scheme is subject to a periodic independent actuarial review which assesses the cost of providing benefits for current and future eligible retirees. The latest formal review was undertaken as at 31 December 2017.

The latest review was performed using the projected unit credit method, and a discount rate of 2.50%. The main long term actuarial assumptions used in the review were that the retirement age of eligible employees will be 60 for females and males and the rate of increase in medical costs is to be 5.5% throughout. There have been no material changes in circumstances since the last formal review.

An increase of 1% in the medical cost trend would increase the scheme liabilities by an estimated £0.1 million and the aggregate of the service cost and interest cost by an estimated £2,000 per annum. A decrease of 1% in the medical cost trend would reduce the scheme liabilities by an estimated £0.1 million and the aggregate of the service cost and interest cost by an estimated £2,000 per annum.

Post-employment benefit obligations disclosures

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

	2019 £m	2018 £m
Current service costs – charged to administrative expenses	–	–
Notional interest on post-employment benefit obligations	0.1	0.3
Total amounts charged to the Consolidated Income Statement	**0.1**	**0.3**

Current service costs are charged or credited to the Consolidated Income Statement in arriving at operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items.

The interest income on scheme assets and the interest cost on scheme liabilities are included within total finance costs.

In addition, the following amounts have been recognised in the Consolidated Statement of Comprehensive Income:

	2019 £m	2018 £m
Return/(loss) on scheme assets excluding interest income	14.5	(5.7)
Re-measurement gains arising from changes in demographic assumptions	4.5	1.2
Re-measurement (losses)/gains arising from changes in financial assumptions	(23.1)	10.8
Experience losses on liabilities	(0.4)	(0.6)
Total amounts recognised in the Consolidated Statement of Comprehensive Income	**(4.5)**	**5.7**

Notes to the Consolidated Financial Statements Continued >

25 POST-EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Amounts recognised in the Balance Sheet are as follows:

	2019 £m	2018 £m
Present value of funded obligations	(227.6)	(212.3)
Fair value of scheme assets	221.3	208.7
Net defined benefit pension obligations	(6.3)	(3.6)
Post-retirement healthcare obligations	(1.0)	(1.0)
Net post-employment benefit obligations	**(7.3)**	**(4.6)**

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

	2019 £m	2018 £m
Fair value of scheme assets at beginning of the year	208.7	218.6
Interest income	5.9	5.3
Return/(loss) on scheme assets (excluding interest income)	14.5	(5.7)
Deficit recovery payments	1.9	1.9
Benefits paid – defined benefit pension obligations	(9.7)	(11.4)
Fair value of scheme assets at end of the year	**221.3**	**208.7**

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

	2019 £m	2018 £m
Fair value of scheme liabilities at beginning of the year	(213.3)	(230.6)
Interest expense	(6.0)	(5.6)
Re-measurement gains from changes in demographic assumptions	4.5	1.2
Re-measurement (losses)/gains from changes in financial assumptions	(23.1)	10.8
Experience losses on liabilities	(0.4)	(0.6)
Benefits paid – defined benefit pension obligations	9.7	11.4
Premiums paid – post-retirement healthcare obligations	–	0.1
Fair value of scheme liabilities at the end of the year	**(228.6)**	**(213.3)**

Movements in post-employment benefit obligations were as follows:

	2019 £m	2018 £m
Opening post-employment benefit obligation	(4.6)	(12.0)
Notional interest	(0.1)	(0.3)
Deficit recovery payments	1.9	1.9
Utilisation of post-retirement healthcare obligation	–	0.1
Re-measurement and experience (losses)/gains	(4.5)	5.7
Closing post-employment benefit obligation	**(7.3)**	**(4.6)**

The major categories of scheme assets were as follows:

	Quoted Market Price Active Market £m	No Quoted Market Price Active Market £m	2019 Total Scheme £m	Quoted Market Price Active Market £m	No Quoted Market Price Active Market £m	2018 Total Scheme £m
Equities	–	–	–	7.5	–	7.5
Bonds	–	47.5	47.5	10.2	26.4	36.6
Liability driven investments	47.2	–	47.2	57.0	–	57.0
Real return funds	49.8	–	49.8	27.3	–	27.3
Alternative return seeking assets	0.6	67.3	67.9	8.9	69.8	78.7
Cash and cash equivalents	8.9	–	8.9	1.6	–	1.6
Total market value of assets	**106.5**	**114.8**	**221.3**	**112.5**	**96.2**	**208.7**

The assets of the pension scheme include no (2018: none) shares in the Group.

25 POST-EMPLOYMENT BENEFIT OBLIGATIONS (Continued)

Scheme assets held with no quoted market price on active market are valued by the fund managers. The managers determine fair value of their holdings based on several factors. They may use secondary market prices, internal valuation models or independent valuations. This process adopted will vary by manager and asset class, although independent third parties are typically used to verify and support the net asset value valuations.

The Liability Driven Investments (LDI) shown above comprise of nominal and real LDI funds, investing in partly funded leveraged gilts and funds for liability matching and liquidity funds investing in pooled cash funds. Under these arrangements, if interest rates fall, the value of the LDI investments would be expected to rise, all else being equal, to help offset the expected increase in the present value placed on the schemes liabilities arising from a fall in the discount rate (and vice versa).

The deficit recognised in respect of the JGDBS is influenced by both the measurement of plan liabilities and the valuation of plan assets. The Group, in conjunction with the Trustee, has tried to ensure an appropriate balance of investments has been made by the scheme to mitigate potential price volatility in individual asset categories. The Group and Trustee regularly monitor the composition of plan assets and amend the composition accordingly to try and match scheme assets with the liabilities they are intended to fund. However, any underperformance of scheme assets could result in future increases in the deficit recognised on the JGDBS.

26 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 18. 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

	2019 £m	2018 £m
Cash at bank and in hand		
Sterling	8.3	6.9
US Dollars	–	0.2
At 31 December	**8.3**	**7.1**

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	2019 £m	2018 £m
Cash at bank and in hand			
Royal Bank of Scotland	A-1	4.6	5.1
Lloyds Bank	A-1	3.7	2.0
Total cash and cash equivalents		**8.3**	**7.1**

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.

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.

Notes to the Consolidated Financial Statements Continued >

26 FINANCIAL INSTRUMENTS (Continued)

Financial liabilities

	As per Balance Sheet £m	Future Interest Cost £m	2019 Total Cash Flows £m	As per Balance Sheet £m	Future Interest Cost £m	2018 Total Cash Flows £m
Trade and other payables*	57.3	–	57.3	54.9	–	54.9
Overdraft	11.2	–	11.2	11.8	–	11.8
Bank loans**	85.0	–	85.0	87.0	–	87.0
Finance leases	–	–	–	7.4	0.4	7.8
Lease liabilities	40.4	13.8	54.2	–	–	–
Provisions	3.1	–	3.1	3.3	–	3.3
Derivative financial instruments	0.5	–	0.5	0.7	–	0.7
	197.5	**13.8**	**211.3**	**165.1**	**0.4**	**165.5**

* **Trade and other payables comprise both current and non-current payables as disclosed within notes 19 and 20, excluding other taxation and social security liabilities and deferred income:**

	Current £m	Non-Current £m	2019 Total £m	Current £m	Non-Current £m	2018 Total £m
Trade and other payables	69.2	0.5	69.7	64.8	2.3	67.1
Less: Other taxation and social security liabilities	(11.6)	–	(11.6)	(10.6)	–	(10.6)
Less: Deferred income	(0.3)	(0.5)	(0.8)	(0.1)	(1.5)	(1.6)
	57.3	**–**	**57.3**	**54.1**	**0.8**	**54.9**

** **IFRS 7 requires the contractual future interest cost of a financial liability to be included within the above table. As disclosed in note 21 of these financial statements, all the bank loans are currently drawn under an RCF arrangement and as such there is no contractual future interest cost. Interest paid in the year in relation to bank loans drawn down amounted to £2.4 million. Interest is payable at a rate of LIBOR prevailing at the time of drawdown plus the applicable margin, which ranges from 1.25% and 2.25%.**

Bank loans in the table above do not include unamortised bank fees (note 21):

	Current £m	Non-Current £m	2019 Total £m	Current £m	Non-Current £m	2018 Total £m
Bank loans	–	85.0	85.0	–	87.0	87.0
Less: Unamortised bank fees	(0.3)	(0.3)	(0.6)	(0.3)	(0.4)	(0.7)
	(0.3)	**84.7**	**84.4**	**(0.3)**	**86.6**	**86.3**

26 FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

The maturity of financial liabilities based on contracted cash flows is shown in the table below.

This table has been drawn up using the undiscounted cash flows of financial liabilities based on the earliest date on which the Group is obliged to pay. The table includes both interest and principal cash flows. Floating rate interest payments have been calculated using the relevant interest rates prevailing at the year end, where applicable.

	Trade and Other Payables £m	Overdrafts £m	Bank Loans £m	Finance Leases £m	Lease Liabilities £m	Provisions £m	Derivative Financial Instruments £m	Total £m
As at 31 December 2019								
Due within one year	57.3	11.2	–	–	7.2	1.3	–	77.0
Due within one to two years	–	–	–	–	6.3	1.1	0.3	7.7
Due within two to five years	–	–	85.0	–	14.3	0.3	0.2	99.8
Due after more than five years	–	–	–	–	26.4	0.4	–	26.8
	57.3	**11.2**	**85.0**	**–**	**54.2**	**3.1**	**0.5**	**211.3**
As at 31 December 2018								
Due within one year	54.1	11.8	–	3.2	–	1.5	–	70.6
Due within one to two years	0.1	–	–	2.6	–	1.0	0.3	4.0
Due within two to five years	0.5	–	87.0	2.0	–	0.3	0.4	90.2
Due after more than five years	0.2	–	–	–	–	0.5	–	0.7
	54.9	**11.8**	**87.0**	**7.8**	**–**	**3.3**	**0.7**	**165.5**

Following the adoption of IFRS 16 at 1 January 2019, Finance lease liabilities are now included within Lease liabilities.

	Fixed Rate Financial Liabilities £m	Floating Rate Financial Liabilities £m	Financial Liabilities on which no interest is paid £m	Total £m
Interest rate risk profile				
As at 31 December 2019				
Sterling	99.2	51.2	60.9	211.3
As at 31 December 2018				
Sterling	47.8	58.8	58.9	165.5

Fixed rate financial liabilities

At 31 December 2019 the Group's fixed rate financial liabilities related to bank borrowings that are covered by interest rate swaps and lease liabilities (2018: Interest rate swaps and assets held under finance leases).

For lease liabilities, the weighted average interest rate incurred is 4.1% (2018: For assets held under finance leases, the weighted average interest rate incurred was 3.5%) and the weighted average period remaining is 140 months (2018: For assets held under finance leases the weighted average period remaining was 32 months).

The Group enters into interest rate swaps (hedging instrument) to economically hedge the Group's borrowings (hedged item). The fair values of the hedging instrument and the hedged item move in the opposite direction because of the interest rate risk. Therefore, there is an economic relationship between the hedged item and the hedging instrument. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the swaps.

Hedge ineffectiveness for interest rate may occur due to differences in critical terms between the interest rate swaps and loans or due to changes in fair value affecting the hedging instrument, such as credit risk, which is not replicated on the hedged item. There was no ineffectiveness recognised within the Consolidated Income Statement during 2019 or 2018 in relation to the interest rate swaps.

Notes to the Consolidated Financial Statements Continued >

26 FINANCIAL INSTRUMENTS (Continued)

At 31 December 2019, the Group had entered into a number of interest rate swaps, the effect of which was to classify £45.0 million (2018: £40.0 million) of the Group's borrowings as fixed rate as follows:

- for £15.0 million of borrowings, LIBOR is replaced with 1.665% from 8 January 2016 to 8 January 2020;
- for £15.0 million of borrowings, LIBOR is replaced with 1.070% from 30 January 2019 to 29 January 2021: and
- for £15.0 million of borrowings, LIBOR is replaced with 1.144% from 30 January 2019 to 29 January 2022.

In addition to the above, the following future interest rate swap had been entered into:

- for £15.0 million of borrowings, LIBOR is replaced with 0.805% from 8 January 2020 to 9 January 2023.

Gains and losses recognised in the hedging reserve in equity on interest rate swap contracts as of 31 December 2019 will be continuously released to the Consolidated 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 34 months (2018: 25 months).

The variation in the interest rate of floating rate financial liabilities (with all other variables held constant) required to increase or decrease post-tax profit for the year by £0.1 million is 24 basis points (2018: 21 basis points).

Fair values of financial liabilities

Bank loans are drawn down and interest set for no more than a six month period (2018: six month period). In view of this the fair value of bank loans is not materially different from the book value. The fair value of other financial liabilities was not materially different from the book value.

The Group recognises financial instruments that are held at fair value. Financial instruments have been classified as Level 1, Level 2 or Level 3 dependent on the valuation method applied in determining their fair value.

The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The only financial instruments held at fair value by the Group relate to interest rate swaps on a portion of the Group's long term borrowings and commodity swaps.

For both the years ended 31 December 2019 and 31 December 2018 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 2019 £m	Fair Value 2018 £m
Derivative financial instruments held:		
– Interest rate products	(0.2)	(0.1)
– Commodity products	(0.3)	(0.6)

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 enters into commodity swaps (hedging instrument) to economically hedge the Group's exposure to changes in diesel prices (hedged item). The fair values of the hedging instrument and the hedged item move in the opposite direction because of the price risk. Therefore, there is an economic relationship between the hedged item and the hedging instrument. The annual diesel usage of the Group in litres is 100% hedged by the commodity hedges in place for the current year.

Hedge ineffectiveness for price risk may occur due to differences in critical terms between the commodity swaps and diesel purchases such as payment date or due to changes in fair value affecting the hedging instrument, such as credit risk, which is not replicated on the hedged item. There was no ineffectiveness recognised within the Consolidated Income Statement during 2019 or 2018 in relation to the commodity swaps.

As at the balance sheet date, the Group has the following commodity hedges in place:

- 8.7 million litres of diesel at a weighted average price of 40.63 pence per litre for the period 1 January 2020 to 31 December 2020
- 8.7 million litres of diesel at a weighted average price of 38.20 pence per litre for the period 1 January 2021 to 31 December 2021
- 3.0 million litres of diesel at a weighted average price of 37.24 pence per litre for the period 1 January 2022 to 31 December 2022

26 FINANCIAL INSTRUMENTS (Continued)

Gains and losses recognised in the hedging reserve in equity on commodity swap contracts as of 31 December 2019 will be continuously released to the Consolidated Income Statement within cost of sales until the end of the hedged period.

Where available, market rates have been used to determine fair value.

All financial instruments are Level 2 financial instruments for all periods and there have been no transfers between either Level 1 and 2 or Level 2 and 3 in any period.

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade receivables and other receivables
- Cash and cash equivalents
- Trade and other payables

Valuation techniques used to derive Level 2 fair values

Level 2 trading and hedging derivatives comprise interest rate swaps and commodity swaps. Interest rate swaps are fair valued using forward interest rates extracted from observable yield curves. Commodity swaps are using a mark to market valuation at the balance sheet date. The effects of discounting are generally insignificant for Level 2 derivatives.

Group's valuation processes

The Group's finance function includes a treasury team that performs the valuations of financial assets required for financial reporting purposes, including Level 3 fair values (as required). This team reports directly to the Chief Financial Officer (CFO). Discussions of valuation processes and results are held between the CFO and the treasury team at least once every six months, in line with the Group's reporting dates.

Foreign currency risk

The Group purchases such a small proportion in currencies other than Sterling that there is no reasonable change in exchanges rates that would have a material effect on the Group.

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 therefore manages capital which includes cash and cash equivalents, bank borrowings and finance leases (banking covenants currently exclude the impact of IFRS 16 Leases). The Group remains compliant with its banking covenants.

The Group aims to maintain its gearing below two times, except where circumstances may increase gearing above this level but the cash flow forecasts prepared by the Group show gearing to reduce back below the two times threshold in the short term, for example, in the case of a material acquisition. Gearing is defined as the ratio of net debt (excluding unamortised fees) to adjusted EBITDA (which is the rolling 12 month adjusted EBITDA for the Group in the relevant period, further adjusted to:

a) add the adjusted EBITDA of a member of the Group acquired during the relevant period for the part of that period when it was not a member of the Group (unless such adjusted EBITDA was negative); and

b) exclude the adjusted EBITDA attributable to any member of the Group sold during the relevant period so long as the cash consideration has been received.

The gearing ratios at 31 December 2019 and 31 December 2018 were as follows:

	2019 £m	2018 £m
Net debt (pre-IFRS 16 and excluding amortised fees)	88.4	99.1
Adjusted EBITDA (pre-IFRS 16)	69.4	60.9
Gearing ratio	1.3 times	1.6 times

Capital management by the Group also aims to maintain a progressive dividend cover of 3.0x. The Board considers this provides an appropriate return to Shareholders but also enables the Group to invest in the business, such as through strategic acquisitions, purchasing energy efficient equipment and improving production efficiencies.

Notes to the Consolidated Financial Statements Continued >

27 CONTINGENT LIABILITIES

The Group operates from a number of sites across the UK. Some of the sites have operated as laundry sites for many years and historic environmental liabilities may exist. Such liabilities are not expected to give rise to any significant loss.

The Group has granted its Bankers and Trustee of the Pension Scheme (the 'Trustee') security over the assets of the Group. The priority of security is as follows:

- first ranking security for £28.0 million to the Trustee ranking pari passu with up to £155.0 million of bank liabilities; and
- second ranking security for the balance of any remaining liabilities to the Trustee ranking pari passu with any remaining bank liabilities.

During the period of ownership of the Facilities Management division the Company had given guarantees over the performance of contracts entered into by the division. As part of the disposal of the division the purchaser has agreed to pursue the release or transfer of obligations under the Parent Company guarantees and this is in process. The Sale and Purchase agreement contains an indemnity from the purchaser to cover any loss in the event a claim is made prior to release. In the period until release the purchaser is to make a payment to the Company of £0.2 million per annum, reduced pro rata as guarantees are released. Such liabilities are not expected to give rise to any significant loss.

As a condition of the sale of the Facilities Management division in August 2013, the Group has put in place indemnities, to the purchaser, in relation to any future amounts payable in respect of contingent consideration related to the Nickleby acquisition completed in February 2012. As set out in the 2012 Annual Report and Accounts the maximum amount payable under the terms of the indemnity could be up to £5.0 million. The Directors believe the risk of settlement at, or near, the maximum level to be remote.

28 SHARE CAPITAL

Issued and Fully Paid	Shares	2019 £m	Shares	2018 £m
Ordinary shares of 10p each:				
– At start of year	367,574,210	36.8	366,499,375	36.6
– New shares issued	2,186,614	0.2	1,074,835	0.2
At end of year	**369,760,824**	**37.0**	**367,574,210**	**36.8**

Issue of Ordinary shares of 10p each

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

Issued and Fully Paid		Shares	2019 £m	Shares	2018 £m
Ordinary shares of 10p each:					
– Approved LTIP	Note a	150,000	15,000	37,500	3,750
– EBT	Note b	1,655,000	165,000	110,000	11,000
– SAYE	Note c	381,614	38,161	927,335	92,734
New shares issued		**2,186,614**	**218,161**	**1,074,835**	**107,484**

Note a: **150,000 (2018: 37,500) Ordinary shares were allotted in relation to employee share option exercises. The total nominal value received was £15,000 (2018: £3,750).**

Note b: **1,655,000 (2018: 110,000) Ordinary shares were allotted to the EBT at nominal value to be used in relation to employee share option exercises. The total nominal value received was £165,000 (2018: £11,000). At the time of allotment, the EBT already held 16,256 (2018: 16,256) Ordinary shares of 10 pence each which, together with the 1,655,000 (2018: 110,000) newly allotted Ordinary shares of 10 pence each, were used to satisfy the exercise of 1,654,934 (2018: 110,000) LTIP options. In addition, the EBT sold a further 3,854 shares and retained the net proceeds.**

Note c: **381,614 (2018: 927,335) SAYE Scheme options were exercised with a total nominal value of £38,161 (2018: £92,734).**

The total proceeds received on allotment in respect of all of the above transactions were £0.6 million (2018: £0.7 million) and were credited as follows:

	2019 £m	2018 £m
Share capital	0.2	0.2
Share premium	0.4	0.5
	0.6	**0.7**

28 SHARE CAPITAL (Continued)

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 nil costs.

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 82.75 pence to 155.75 pence.

Options granted under the SAYE Scheme are normally exercisable within six months from the date exercisable as shown below. Options under the Executive Schemes are normally exercisable, subject to the achievement of performance conditions, three years after the date of grant and within seven years from the date exercisable as shown below. Upon exercise, all options are generally settled in equity.

The number of shares subject to option under each scheme which were outstanding at 31 December 2019, 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	27 March 2017	958,444	Note d	Nil
LTIP	28 February 2018	821,105	Note d	Nil
LTIP	5 March 2019	979,402	Note d	Nil
		2,758,951		
SAYE Scheme	1 October 2015	444,869	1 December 2020	82.75p
SAYE Scheme	4 October 2017	863,099	1 December 2020	125.75p
SAYE Scheme	4 October 2017	310,481	1 December 2022	125.75p
SAYE Scheme	3 October 2019	830,727	1 December 2022	155.75p
SAYE Scheme	3 October 2019	218,284	1 December 2024	155.75p
		2,667,460		
		5,426,411		

Note d: The LTIP options granted are subject to performance conditions linked to the Company's Earnings Per Share and Total Shareholder Return and will ordinarily vest three years from grant. Further details are set out within the Directors' Remuneration Report.

The weighted average remaining contractual life of options outstanding at end of period is 1.65 years (2018: 1.51 years).

29 SHARE BASED PAYMENTS

Executive Schemes

The 2009 Long-Term Incentive Plan (the 'LTIP') provides for an exercise price of nil. The 2009 Long-Term Incentive Plan Approved Section (the 'Approved LTIP') provides for an exercise price equal to the quoted closing mid-market price of the Company shares on the business day immediately preceding the date of grant. The vesting period is generally three years. Both market based and non-market based performance conditions are generally attached to the options, for which an appropriate adjustment is made when calculating the fair value of an option. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest, unless under exceptional circumstances.

The 2018 Long-Term Incentive Plan (the 'LTIP') provides for an exercise price of nil. The 2018 Long-Term Incentive Plan also contains a sub-plan which permits the grant of options ('LTIP CSOP Options') for an exercise price equal to the quoted closing mid-market price of the Company shares on the business day immediately preceding the date of grant. The vesting period is generally three years and will be subject to a further holding period at the discretion of the Remuneration Committee. Both market based and non-market based performance conditions are generally attached to the options, for which an appropriate adjustment is made when calculating the fair value of an option. If the options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options are forfeited if the employee leaves the Group before the options vest, unless under exceptional circumstances.

SAYE Schemes

The Johnson Service Group Sharesave Plan provides for an exercise price equal to the average of the quoted mid-market price of the Company shares on the business days immediately preceding the date of grant, less a discount of up to ten per cent. The vesting period under the scheme is either three or five years and no performance conditions, other than remaining a Group employee, are attached to the options.

Notes to the Consolidated Financial Statements Continued >

29 SHARE BASED PAYMENTS (Continued)

Disclosures

Movements in the current and prior year in respect of all share schemes are summarised below:

	2019 Number of Options	2019 Weighted Average Exercise Price (p)	2018 Number of Options	2018 Weighted Average Exercise Price (p)
Executive schemes				
Outstanding at beginning of the year	4,235,685	3p	3,324,722	5p
Granted during the year	979,402	–	1,068,463	–
Exercised during the year	(1,804,934)	7p	(146,087)	21p
Cancelled during the year	(651,202)	–	(11,413)	–
Outstanding at the end of the year	2,758,951	–	4,235,685	3p
Exercisable at the end of the year	–	–	1,092,500	11p
SAYE schemes				
Outstanding at beginning of the year	2,185,966	106p	3,289,064	97p
Granted during the year	1,062,568	156p	–	–
Exercised during the year	(381,614)	68p	(927,335)	73p
Lapsed during the year	(199,460)	120p	(175,763)	115p
Outstanding at the end of the year	2,667,460	130p	2,185,966	106p
Exercisable at the end of the year	–	–	377,512	68p

For options outstanding at 31 December 2019, the exercise date and the exercise price are disclosed within note 28.

During the year the Group recognised total expenses of £1.0 million (2018: £0.9 million) including associated social security costs of £0.2 million (2018: £0.1 million) in relation to equity-settled share based payment transactions.

The average share price of Johnson Service Group PLC during the year was 158.0 pence (2018: 133.6 pence).

The aggregate gain made by Directors on the exercise of share options during the year was £1.1 million (2018: £nil). Further details are disclosed within the Directors' Remuneration Report.

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 2019	Options Granted During 2018
Weighted average share price at date of grant (pence)	151	136
Weighted average exercise price (pence)	81	–
Weighted average fair value (pence)	61	95
Expected volatility (%)	24.5	22.9
Expected life (years)	3.3	3.0
Risk free interest rate (%)	0.5	0.8
Expected dividend yield (%)	2.1	2.1

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.

30 SHARE PREMIUM

	2019 £m	2018 £m
Balance brought forward	15.7	15.2
Received on allotment of shares	0.4	0.5
Balance carried forward	**16.1**	**15.7**

31 OWN SHARES

	2019 £m	2018 £m
Balance brought forward and carried forward	–	–

Own shares represent the cost of shares in Johnson Service Group PLC purchased in the market and held by the Trustee of the EBT, to satisfy options under the Group's share option schemes.

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

	2019	2018
Number of shares held	12,468	16,256
Market value £m	–	–

32 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY

	2019 £m	2018 £m
Profit for the year	30.9	26.8
Dividends	(12.0)	(10.7)
	18.9	**16.1**
Other recognised gains and losses relating to the year:		
Issue of share capital	0.6	0.7
Share options (value of employee services)	0.8	0.8
Purchase of own shares by EBT	(0.2)	–
Re-measurement and experience (losses)/gains (net of taxation)	(3.8)	4.6
Current tax on share options	0.3	0.1
Deferred tax on share options	0.2	–
Cash flow hedges movement	0.1	(0.5)
Net addition to Shareholders' equity	**16.9**	**21.8**
Opening Shareholders' equity	190.4	167.6
Change in accounting standard (Note 39)	0.2	1.0
Closing Shareholders' equity	**207.5**	**190.4**

33 BUSINESS COMBINATIONS

On 30 November 2019, the Group acquired 100% of the share capital of Fresh Linen Holdings Limited, together with its trading subsidiary Fresh Linen Limited ('Fresh Linen') and a further dormant company Pure Laundry Limited, for a net consideration of £9.3 million (being a gross consideration of £12.5 million adjusted for normalised working capital, cash and debt like items) plus associated fees. Since acquisition, Fresh Linen has incurred £0.1 million loss on revenue of £1.6 million. Had the business been acquired at the start of the period it is estimated that a profit of £0.7 million would have been generated on revenue of £17.6 million.

The provisional fair value of assets and liabilities acquired are as follows:

	Fresh Linen £m	Fair value adjustments to previous acquisitions £m	Total £m
Intangible assets – Goodwill	2.3	0.1	2.4
Intangible assets – Customer contracts	4.0	–	4.0
Property, plant and equipment	4.3	–	4.3
Right of use assets	0.7	–	0.7
Textile rental items	1.8	(0.1)	1.7
Inventories	0.1	–	0.1
Trade and other receivables	3.2	–	3.2
Cash and cash equivalents/(overdraft)	(0.3)	–	(0.3)
Trade and other payables	(3.3)	–	(3.3)
Borrowings	(1.1)	–	(1.1)
Lease liabilities	(1.3)	–	(1.3)
Current income tax liability	(0.1)	–	(0.1)
Deferred income tax liability	(1.0)	–	(1.0)
Net consideration	**9.3**	**–**	**9.3**

Notes to the Consolidated Financial Statements Continued >

33 BUSINESS COMBINATIONS (Continued)

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.

Fresh Linen has been included within the HORECA reporting segment and within the Hotel Linen CGU.

In 2018, the Group acquired the entire share capital of South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Limited ('South West'). Full details are provided in the 2018 Annual Report and Accounts.

During 2019, the initial fair value of the textile rental items acquired as part of the South West acquisition was reduced by £0.1 million, with a corresponding increase in goodwill.

Cash flows from business acquisition activity

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

	2019 £m	2018 £m
Net consideration payable	9.3	13.3
Deferred consideration	(1.1)	0.2
Overdraft/(cash) acquired	0.3	(0.1)
Costs in relation to business acquisition activity	–	0.6
	8.5	**14.0**

In respect of deferred consideration

- the 2018 figure of £0.2 million reflects the payment of the Star contingent consideration recognised in the prior year;
- the 2019 figure of £1.1 million reflects the recognition of deferred consideration of £1.4 million for the Fresh Linen acquisition along with the payment of £0.3 million deferred consideration relating to the acquisition of Ashbon in 2015.

In respect of 'costs in relation to business acquisition activity':

- the 2018 cash outflow of £0.6 million included in the table above relates to costs incurred during the prior year.

34 DISCONTINUED OPERATIONS

Other than for a £0.4 million (2018: £0.1 million) cash outflow in respect of the ongoing utilisation of a provision relating to discontinued property liabilities and payments in respect of the contingent liability relating to the Nickleby acquisition in 2012, there were no other transactions during the prior year relating to discontinued operations.

Cash Flows

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

	2019 £m	2018 £m
Net cash used in operating activities	(0.4)	(0.1)
Net cash flow	**(0.4)**	**(0.1)**

35 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, new finance leases entered into during the year and, following the adoption of IFRS 16, the recognition of lease liabilities entered into during the period.

December 2019	At 31 December 2018 £m	Adoption of IFRS 16 £m	At 1 January 2019 £m	Cash Flow £m	Non-cash Changes £m	At 31 December 2019 £m
Debt due within one year	0.3	–	0.3	1.1	(1.1)	0.3
Debt due after more than one year	(86.6)	–	(86.6)	2.2	(0.3)	(84.7)
Finance leases	(7.4)	7.4	–	–	–	–
Lease liabilities (note 22)	–	(44.6)	(44.6)	13.2	(9.0)	(40.4)
Total debt and lease financing	(93.7)	(37.2)	(130.9)	16.5	(10.4)	(124.8)
Cash and cash equivalents	(4.7)	–	(4.7)	1.8	–	(2.9)
Net debt	**(98.4)**	**(37.2)**	**(135.6)**	**18.3**	**(10.4)**	**(127.7)**

35 ANALYSIS OF NET DEBT (Continued)

December 2018	At 1 January 2018 £m	Cash Flow £m	Non-cash Changes £m	At 31 December 2018 £m
Debt due within one year	(1.7)	2.0	–	0.3
Debt due after more than one year	(75.9)	(11.0)	0.3	(86.6)
Finance leases	(10.0)	3.9	(1.3)	(7.4)
Total debt and lease financing	(87.6)	(5.1)	(1.0)	(93.7)
Cash and cash equivalents	(3.7)	(1.0)	–	(4.7)
Net debt	**(91.3)**	**(6.1)**	**(1.0)**	**(98.4)**

The cash and cash equivalents figures are comprised of the following balance sheet amounts:

	2019 £m	2018 £m
Cash (Current assets)	8.3	7.1
Overdraft (Borrowings, Current liabilities)	(11.2)	(11.8)
	(2.9)	**(4.7)**

Lease liabilities (2018: Finance leases) are comprised of the following balance sheet amounts:

	2019 £m	2018 £m
Amounts due within one year (Borrowings, Current liabilities)	–	(3.0)
Amounts due within one year (Lease liabilities, Current liabilities)	(5.6)	–
Amounts due after more than one year (Borrowings, Non-current liabilities)	–	(4.4)
Amounts due after more than one year (Lease liabilities, Non-current liabilities)	(34.8)	–
	(40.4)	**(7.4)**

36 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2019 £m	2018 £m
Increase/(decrease) in cash in the year	1.8	(1.0)
Decrease/(increase) in debt and lease financing	16.5	(5.1)
Change in net debt resulting from cash flows	18.3	(6.1)
Debt acquired through business acquisition	(2.4)	(1.3)
Leases previously recognised as operating leases under IAS 17	(37.2)	–
Lease liabilities recognised during the period	(7.7)	–
Non-cash movement in unamortised bank facility fees	(0.3)	0.3
Movement in net debt	(29.3)	(7.1)
Opening net debt	(98.4)	(91.3)
Closing net debt	**(127.7)**	**(98.4)**

37 FINANCIAL COMMITMENTS

Capital expenditure

Contracts placed for future capital expenditure contracted but not provided for in the Consolidated Financial Statements are shown below:

	2019 £m	2018 £m
Capitalised software	0.8	–
Property, plant and equipment	10.3	5.2

38 EVENTS AFTER THE REPORTING PERIOD

There were no events occurring after the balance sheet date that require disclosing in accordance with IAS 10, 'Events after the reporting period'.

Notes to the Consolidated Financial Statements Continued >

39 CHANGES IN ACCOUNTING STANDARDS

IFRS 16, 'Leases'

The Group has adopted this new standard from 1 January 2019, applying the modified retrospective approach, which results in the cumulative effect of initially applying this standard being an adjustment to the opening balance of retained earnings as at 1 January 2019. The comparative information for 2018 has not been restated and is presented, as previously reported, under IAS 17.

The new standard results in almost all leases being recognised on the Balance Sheet as, from a lessee perspective, the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors has not significantly changed.

The Group currently leases both properties and vehicles, comprising cars and commercial vehicles, which under IAS 17, were classified as a series of operating lease contracts with payments made (net of any incentives received from the lessor) charged to profit or loss on a straight-line basis over the period of the lease. From 1 January 2019, under IFRS 16, these leases are recognised as a right of use asset and a corresponding lease liability at the date at which the leased asset is available for use by the Group. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the Consolidated Income Statement over the lease period using the effective interest method.

The right of use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- in determining whether existing contracts meet the definition of a lease, the Group has not reassessed those contracts previously identified as leases and has not applied the standard to those contracts not previously identified as leases;
- short-term leases (leases of less than 12 months and leases with less than 12 months remaining) as at the date of adoption of the new standard are not within the scope of IFRS 16;
- leases for which the asset is of low value (IT equipment and small items of office equipment), are not within the scope of IFRS 16; and
- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics.

On adoption of IFRS 16, the Group recognised lease liabilities in relation to leases which had previously been classified as 'operating leases' under the principles of IAS 17, 'Leases'. For vehicles, these liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate on the current facility as of 1 January 2019, which was 2.48%. The Group also leases various offices and plants, which can differ significantly in terms of property value, location and with leases negotiated on an individual basis, they can contain a wide range of different terms and conditions. The discount rate applied therefore differs by property and ranges from 2.85% – 7.15%. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 4.46%.

Under the modified retrospective approach, the associated right of use assets were measured using the approach set out in IFRS 16.C8(b)(ii), whereby right of use assets are equal to the lease liability, adjusted by the amount of any prepaid (£1.0 million) or accrued lease payments (£2.3 million) (including unamortised lease incentives such as rent free periods). There were no onerous lease contracts that would have required an adjustment to the right of use assets at the date of initial application.

For leases previously classified as finance leases, which relate to equipment and vehicles, the Group recognised the carrying amount of the lease asset and lease liability immediately before transition as the carrying amount of the right of use asset and the lease liability at the date of initial application.

The overall impact of the adoption of IFRS 16 on the Group's opening Consolidated Balance Sheet is as follows:

	As at 31 December 2018 £m	IFRS 16 adjustment £m	As at 1 January 2019 £m
Non-current assets			
Plant, property and equipment	96.0	(11.9)	84.1
Right of use assets (note 15)	–	48.0	48.0
Current assets			
Trade and other receivables	52.1	(1.0)	51.1
Current liabilities			
Trade and other payables	64.8	(2.3)	62.5
Borrowings	14.5	(3.0)	11.5
Lease liabilities (note 22)	–	9.2	9.2
Non-current liabilities			
Borrowings	91.0	(4.4)	86.6
Lease liabilities (note 22)	–	35.4	35.4
Net assets	190.4	0.2	190.6
Capital and reserves attributable to the Company's Shareholders			
Retained earnings	136.3	0.2	136.5
Total equity	190.4	0.2	190.6

39 CHANGES IN ACCOUNTING STANDARDS (Continued)

The adoption of IFRS 16 increased retained earnings as at 1 January 2019 by £0.2 million. This represents the reversal of previously recognised property cost accruals which are no longer required under the new standard.

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019.

	£m
Operating lease commitments disclosed as at 31 December 2018	51.6
(Less): short-term and low value leases recognised on a straight-line basis as an expense	(0.9)
	50.7
Discounted using the lessee's incremental borrowing rate at the date of initial application	37.2
Add: finance lease liabilities recognised as at 31 December 2018	7.4
Lease liability recognised as at 1 January 2019	44.6
Of which are:	
Current lease liabilities	9.2
Non-current lease liabilities	35.4
Lease liability recognised as at 1 January 2019	**44.6**

The tables below shows the split of the total right of use asset and lease liability following the adoption of IFRS 16:

	As at 1 January 2019 £m
Properties	30.8
Plant and equipment	5.3
Leases previously held under finance leases	11.9
Total right of use assets	**48.0**
Properties	32.0
Plant and equipment	5.2
Leases previously held under finance leases	7.4
Total lease liabilities	**44.6**

During the year, the application of IFRS 16 resulted in an increase in operating profit in the Consolidated Income Statement of £1.1 million in comparison to treatment under IAS 17, as operating lease payments under IAS 17 were replaced by a depreciation charge on right of use assets and operating lease payments in relation to short term and low value leases. Profit before taxation reduced by £0.4 million with the inclusion of £1.5 million of finance costs under the new standard.

The table below shows a reconciliation between profit under IAS 17 and the new standard, IFRS 16.

	Year ended 31 December 2019 £m
Operating lease costs under IAS 17	8.1
(Less): Depreciation of right of use assets for leases previously recognised as operating leases under IAS 17	(5.7)
(Less): Short term and low value lease expense under IFRS 16	(1.3)
Impact on operating profit for the year	1.1
(Less): Finance costs associated with lease liabilities for leases previously recognised as operating leases under IAS 17	(1.5)
Impact on profit before taxation for the year	(0.4)

Company Financial Statements

4

DIVIDEND

3.5p

Increased from 3.1p in 2018

Company Statement of Comprehensive Income

	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Profit for the year	**11.8**	11.7
Items that will not be subsequently reclassified to profit or loss		
Re-measurement and experience (losses)/gains on post-employment obligations	(4.5)	5.7
Taxation in respect of re-measurement and experience losses/(gains)	0.7	(1.1)
Items that may be subsequently reclassified to profit or loss		
Cash flow hedges (net of taxation) – fair value losses	(0.2)	(0.3)
– transfers to administrative expenses	0.1	(0.4)
– transfers to finance cost	0.2	0.2
Other comprehensive (loss)/income for the year	**(3.7)**	**4.1**
Total comprehensive income for the year	**8.1**	**15.8**

Company Statement of Changes in Shareholders' Equity

	Share Capital £m	Share Premium £m	Merger Reserve £m	Capital Redemption Reserve £m	Hedge Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2018	**36.6**	**15.2**	**3.5**	**0.6**	**(0.1)**	**82.8**	**138.6**
Profit for the year	–	–	–	–	–	11.7	11.7
Other comprehensive (loss)/income	–	–	–	–	(0.5)	4.6	4.1
Total comprehensive (loss)/income for the year	–	–	–	–	(0.5)	16.3	15.8
Share options (value of employee services)	–	–	–	–	–	0.8	0.8
Deferred tax on share options	–	–	–	–	–	0.1	0.1
Issue of share capital	0.2	0.5	–	–	–	–	0.7
Dividends paid	–	–	–	–	–	(10.7)	(10.7)
Transactions with Shareholders recognised directly in Shareholders' Equity	0.2	0.5	–	–	–	(9.8)	(9.1)
Balance at 31 December 2018	**36.8**	**15.7**	**3.5**	**0.6**	**(0.6)**	**89.3**	**145.3**
Balance at 1 January 2019	**36.8**	**15.7**	**3.5**	**0.6**	**(0.6)**	**89.3**	**145.3**
Profit for the year	–	–	–	–	–	11.8	11.8
Other comprehensive income/(loss)	–	–	–	–	0.1	(3.8)	(3.7)
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**0.1**	**8.0**	**8.1**
Share options (value of employee services)	–	–	–	–	–	0.8	0.8
Purchase of own shares by EBT	–	–	–	–	–	(0.2)	(0.2)
Current tax on share options	–	–	–	–	–	0.3	0.3
Deferred tax on share options	–	–	–	–	–	0.2	0.2
Issue of share capital	0.2	0.4	–	–	–	–	0.6
Dividends paid	–	–	–	–	–	(12.0)	(12.0)
Transactions with Shareholders recognised directly in Shareholders' Equity	0.2	0.4	–	–	–	(10.9)	(10.3)
Balance at 31 December 2019	**37.0**	**16.1**	**3.5**	**0.6**	**(0.5)**	**86.4**	**143.1**

All of the Retained Earnings reserve is considered to be distributable as at 31 December 2019 subject to the offset of the Hedge Reserve (2018: all distributable subject to the offset of the Hedge Reserve).

Company Balance Sheet

	Note	As at 31 December 2019 £m	As at 31 December 2018 £m
Assets			
Non-current assets			
Right of use assets	5	0.1	–
Trade and other receivables	8	157.4	163.9
Deferred income tax assets	6	2.2	1.7
Investments	7	568.4	558.9
		728.1	**724.5**
Current assets			
Trade and other receivables	8	0.5	0.5
Current income tax assets		4.9	4.3
		5.4	**4.8**
Liabilities			
Current liabilities			
Trade and other payables	9	6.6	5.9
Borrowings	11	10.9	11.5
Lease liabilities	12	0.1	–
Provisions	15	0.4	0.4
		18.0	**17.8**
Non-current liabilities			
Post-employment benefit obligations	13	7.3	4.6
Trade and other payables	10	479.2	473.6
Borrowings	11	84.7	86.6
Provisions	15	0.7	0.7
Derivative financial liabilities	14	0.5	0.7
		572.4	**566.2**
Net assets		**143.1**	**145.3**
Equity			
Capital and reserves attributable to the company's shareholders			
Share capital	17	37.0	36.8
Share premium	18	16.1	15.7
Merger reserve		3.5	3.5
Capital redemption reserve		0.6	0.6
Hedge reserve		(0.5)	(0.6)
Retained earnings		86.4	89.3
Total Shareholders' equity		**143.1**	**145.3**

Profit for the year for the Company was £11.8 million (2018: Profit of £11.7 million).

The financial statements on pages 140 to 154 were approved by the Board of Directors on 2 March 2020 and signed on its behalf by:

Yvonne Monaghan
Chief Financial Officer

Company Statement of Cash Flows

	Note	Year ended 31 December 2019 £m	Year ended 31 December 2018 £m
Cash flows from operating activities			
Profit for the year		11.8	11.7
Adjustments for:			
Income tax credit		(0.4)	(0.4)
Total finance income		(2.3)	(2.5)
Depreciation		0.1	–
Dividend income		(13.6)	(13.6)
Decrease in trade and other receivables		0.5	0.1
(Decrease)/increase in trade and other payables		(1.1)	0.2
Increase in amounts due from subsidiary companies		(3.5)	(0.4)
Costs in relation to business acquisition activity		–	0.3
Deficit recovery payments in respect of post-employment benefit obligations		(1.9)	(1.9)
Share-based payments		0.7	0.6
Post-employment benefit obligations		–	(0.1)
Provisions		–	(0.1)
Cash used in operations		(9.7)	(6.1)
Interest paid		(4.1)	(4.4)
Taxation paid		(9.3)	(7.7)
Net cash used in operating activities		**(23.1)**	**(18.2)**
Cash flows from investing activities			
Acquisition of investment in subsidiary		(8.2)	(13.8)
Dividends received		13.6	13.6
Interest received		6.9	7.3
Loans advanced to subsidiary companies		(2.0)	(4.1)
Net cash generated from investing activities		**10.3**	**3.0**
Cash flows from financing activities			
Loans received from subsidiary companies		27.1	13.4
Proceeds from borrowings		88.0	86.0
Repayments of borrowings		(90.0)	(77.0)
Capital element of lease liabilities		(0.1)	–
Purchase of own shares by EBT		(0.2)	–
Net proceeds from issue of Ordinary shares		0.6	0.7
Dividend paid		(12.0)	(10.7)
Net cash generated from financing activities		**13.4**	**12.4**
Net increase/(decrease) in cash and cash equivalents		0.6	(2.8)
Cash and cash equivalents at beginning of year		(11.8)	(9.0)
Cash and cash equivalents at end of year	20	**(11.2)**	**(11.8)**

Cash and cash equivalents at the end of the year include cash of £nil and an overdraft of £11.2 million (2018: £nil and £11.8 million respectively).

Statement of Significant Accounting Policies

The Company is incorporated and domiciled in the UK. The Company's registered number is 523335. The address of its registered office is Johnson House, Abbots Park, Monks Way, Preston Brook, Cheshire, WA7 3GH.

The Company is a public limited company and has its primary listing on the AIM division of the London Stock Exchange.

The Company financial statements were authorised for issue by the Board on 2 March 2020.

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 93 to 103 with the addition of the policies set out below. These policies have been consistently applied to the information presented, unless otherwise stated.

INVESTMENTS

Investments in Group Undertakings are recorded at cost, which is the fair value of the consideration paid. Investments are tested for impairment and carried at cost less accumulated impairment losses. Where an impairment is identified, it is charged to the Income Statement within intangibles amortisation and impairment (excluding software). Investments that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

SHARE BASED COMPENSATION

The Company operates a number of equity-settled, share based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the employing company's Income Statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models, principally Binomial and Monte Carlo models. The fair value of the award is recognised in the employing company's Income Statement over the vesting period of the award. The grant by the Company of options over its equity instruments to the employees of the subsidiary undertakings is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to the investment in that subsidiary undertaking, with a corresponding credit to equity in the Company's accounts.

CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Carrying value of investments in subsidiaries

Annually, the Directors consider whether there are any indicators of impairment that may suggest that the recoverable amount of the Company's investments in subsidiaries is less than their carrying amount. The assessment of impairment indicators requires management to apply judgment in assessing current and forecast trading performance as well as assessing the impact of principal risks and uncertainties specific to the investments it holds. Details of the Company's investments are set out in note 6 and in the current year the Directors have concluded that, other than those disclosed in note 7, no indicators of impairment existed.

(b) Income taxes

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

(c) Post-employment benefit obligations

The Company operates two post retirement defined benefit arrangements (see note 25 of the Consolidated Financial Statements). Asset valuations are based on the fair value of scheme assets. The valuations of the liabilities of the schemes are based on statistical and actuarial calculations, using various assumptions including discount rates, future inflation rates and pension increases, life expectancy of scheme members, flexible retirement options and cash commutations. The actuarial assumptions may differ materially from actual experience due to changes in economic and market conditions, variations in actual mortality, higher or lower cash withdrawal rates and other changes. Any of these differences could impact the assets or liabilities recognised in the Balance Sheet in future periods.

Notes to the Company Financial Statements

1 COMPANY INCOME STATEMENT

As permitted by Section 408(3) of the Companies Act 2006, the Income Statement of the Parent Company is not presented with these financial statements. Details of dividends paid are included in note 10 of the Consolidated Financial Statements. Details of Auditor's remuneration are shown in note 3 of the Consolidated Financial Statements.

2 DIRECTORS' EMOLUMENTS

Detailed disclosures that form part of these financial statements are given in the Directors' Remuneration Report on pages 59 to 81.

3 EMPLOYEE BENEFIT EXPENSE

	2019 £m	2018 £m
Wages and salaries	2.5	2.8
Social security costs	0.3	0.4
Cost of employee share schemes	0.9	0.7
Pension costs – defined contribution plans	0.1	0.1
Total	**3.8**	**4.0**

The monthly average number of persons employed for the Company during the year was 17 (2018: 17).

4 PROPERTY, PLANT AND EQUIPMENT

	Plant And Equipment £m
Cost	
At 31 December 2017, 2018 & 2019	0.3
Accumulated depreciation and impairment	
At 31 December 2017, 2018 & 2019	0.3
Carrying Amount	
At 31 December 2017, 2018 & 2019	–

There were £nil assets under construction at 31 December 2019 (2018: £nil).

5 RIGHT OF USE ASSETS

	Properties £m
Cost	
At 31 December 2018	–
Recognition of right of use assets	0.2
Right of use assets recognised at 1 January 2019	0.2
At 31 December 2019	0.2
Accumulated depreciation and impairment	
At 31 December 2018	–
At 1 January 2019	–
Charged during the year	0.1
At 31 December 2019	0.1
Carrying amount	
At 31 December 2018	–
At 1 January 2019	0.2
At 31 December 2019	**0.1**

Notes to the Company Financial Statements Continued >

6 DEFERRED INCOME TAX ASSETS

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

	2019 £m	2018 £m
Deferred income tax balances in respect of:		
Depreciation in excess of capital allowances	0.1	0.1
Post-employment benefit obligations	1.2	0.8
Derivative financial instruments	0.1	0.1
Employee share schemes	0.5	0.4
Other short term timing differences	0.3	0.3
	2.2	**1.7**

The following provides a reconciliation of the movement in each of the deferred income tax assets:

	Depreciation in Excess of Capital Allowances £m	Post-employment Benefit Obligations £m	Derivative Financial Instruments £m	Employee Share Schemes £m	Other Short Term Timing Differences £m	Total £m
At 31 December 2017	**0.1**	**2.2**	**–**	**0.3**	**0.2**	**2.8**
(Charge)/credit to income	–	(0.3)	–	–	0.1	(0.2)
Credit to Shareholders' equity	–	–	–	0.1	–	0.1
(Charge)/credit to other comprehensive income	–	(1.1)	0.1	–	–	(1.0)
At 31 December 2018	**0.1**	**0.8**	**0.1**	**0.4**	**0.3**	**1.7**
(Charge)/credit to income	–	(0.3)	–	(0.1)	–	(0.4)
Credit to Shareholders' equity	–	–	–	0.2	–	0.2
Credit to other comprehensive income	–	0.7	–	–	–	0.7
At 31 December 2019	**0.1**	**1.2**	**0.1**	**0.5**	**0.3**	**2.2**

The tax charge for the year is based on the effective rate of UK Corporation Tax for the period of 19.00% (2018: 19.00%). Changes to the UK corporation tax rates were announced on 8 July 2015. These changes were substantively enacted as part of Finance Bill 2015 on 26 October 2015. These include reductions to the main rate to reduce the rate to 19% from 1 April 2017 and to 18% from 1 April 2020.

A further change to reduce the rate from 1 April 2020 from 18% to 17% was announced on 16 March 2016. This change was substantively enacted as part of Finance Bill 2016 on 15 September 2016.

Deferred income taxes at the balance sheet date have been measured at the tax rate expected to be applicable at the date the deferred income tax assets and liabilities are realised. Management has performed an assessment, for all material deferred income tax assets and liabilities, to determine the period over which the deferred income tax assets and liabilities are forecast to be realised, which has resulted in an average deferred income tax rate of 17.0% being used to measure all deferred tax balances as at 31 December 2019 (2018: 17.5%). The impact of the change in tax rates to 17.0% has been £nil (2018: £nil) within other comprehensive income.

The Company has estimated that £0.3 million of the Company's deferred income tax asset will be realised in the next 12 months. This is management's current best estimate and may not reflect the actual outcome in the next 12 months.

7 INVESTMENTS

	2019 £m	2018 £m
Investment in subsidiary undertakings		
Cost		
Brought forward	566.6	575.6
Additions	9.3	13.3
Movement relating to share options	0.2	0.2
Disposal	–	(22.5)
Carried forward	**576.1**	566.6
Accumulated impairment		
Brought forward	7.7	30.2
Impairment	–	–
Disposal	–	(22.5)
Carried forward	**7.7**	7.7
Carrying amount		
Opening	558.9	545.4
Closing	**568.4**	558.9

Particulars of subsidiary undertakings are shown in note 26.

During the year the Company acquired Fresh Linen Holdings Limited, together with its trading subsidiary Fresh Linen Limited and a dormant company Pure Laundry Limited for a cost of £9.3 million. Details of these acquisitions are shown in note 33 of the Consolidated Financial Statements.

During the prior year the Company acquired South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Limited for a cost of £13.3 million. Details of these acquisitions are shown in note 33 of the Consolidated Financial Statements.

During the prior year the Company's previous subsidiary companies Cleanology Limited and Subco 21 Limited were struck off.

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

8 TRADE AND OTHER RECEIVABLES

	2019 £m	2018 £m
Amounts falling due within one year:		
Receivables from subsidiaries	0.4	0.4
Prepayments and accrued income	0.1	0.1
	0.5	**0.5**
Amounts falling due after more than one year:		
Receivables from subsidiaries	157.4	163.9
	157.4	**163.9**

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

Amounts owed by subsidiaries due after more than one year are unsecured and have no fixed date of repayment and the Company has no present intention of demanding repayment in less than 12 months and therefore the amounts have been presented as non-current assets. The Directors have considered the difference between the book value and fair value of the amounts receivable to subsidiaries. Taking into account the one year risk free rate of return of 0.57% (2018: 0.74%), as at the balance sheet date, the fair value of amounts receivable from subsidiaries would be £156.5 million (2018: £162.7 million).

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 (2018: Sterling), and are held at amortised cost. Given their short term nature there is deemed to be no difference between this and their fair value.

Notes to the Company Financial Statements Continued >

9 TRADE AND OTHER PAYABLES (CURRENT)

	2019 £m	2018 £m
Trade payables	0.4	0.1
Other payables	2.1	2.1
Other taxation and social security liabilities	0.6	1.0
Deferred consideration	1.7	0.3
Accruals	1.8	2.4
	6.6	**5.9**

All trade and other payable balances at the balance sheet date are denominated in Sterling (2018: 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.

10 TRADE AND OTHER PAYABLES (NON-CURRENT)

	2019 £m	2018 £m
Deferred consideration	–	0.3
Payables to subsidiaries	479.2	473.3
	479.2	**473.6**

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 0.57% (2018: 0.74%), as at the balance sheet date, the fair value of amounts payable to subsidiaries would be circa £476.5 million (2018: £469.8 million).

11 BORROWINGS

	2019 £m	2018 £m
Current		
Overdraft	11.2	11.8
Bank loans	(0.3)	(0.3)
	10.9	**11.5**
Non-current		
Bank loans	84.7	86.6
Total Borrowings	**95.6**	**98.1**
The maturity of non-current bank loans is as follows:		
– Between two and five years	85.0	87.0
– Unamortised issue costs of bank loans	(0.3)	(0.4)
	84.7	**86.6**

All Group bank loans are held by the Company. Full details of Group facilities are provided in note 21 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 (2018: £5.0 million and £3.0 million). Certain cash balances in certain Group bank accounts can be offset with overdrawn balances in those bank accounts. The maximum amount any individual Company may be overdrawn, with each bank, is £10.0 million and £5.0 million respectively (2018: £10.0 million and £5.0 million).

12 LEASE LIABILITIES

	Properties £m
At 31 December 2018	–
Recognition of lease liability under IFRS 16	0.2
At 1 January 2019	0.2
Lease liability payments (including finance costs)	(0.1)
At 31 December 2019	**0.1**

Lease liabilities are comprised of the following balance sheet amounts:

	2019 £m	2018 £m
Amounts due within one year (Lease liabilities, Current Liabilities)	**0.1**	–

Lease liabilities are as follows:

	2019 £m	2018 £m
Not more than one year		
Minimum lease payments	0.1	–
Interest element	–	–
Present value of minimum lease payments	**0.1**	**–**

13 POST-EMPLOYMENT BENEFIT OBLIGATIONS

Details of the Group's pension schemes are provided in note 25 of the Consolidated Financial Statements.

As at the 31 December 2019 and 31 December 2018 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 (2018: £0.1 million).

14 DERIVATIVE FINANCIAL LIABILITIES

Details of derivative financial liabilities are shown in note 26 of the Consolidated Financial Statements. All of the Group's derivative financial liabilities are held by the Company.

15 PROVISIONS

	Properties £m
At 31 December 2017	**1.2**
Utilised during the year	(0.1)
At 31 December 2018 and 31 December 2019	**1.1**

	2019 £m	2018 £m
Analysis of total provisions		
Current	0.4	0.4
Non-current	0.7	0.7
	1.1	**1.1**

Property

The property provision relates to expected lease dilapidation costs for properties no longer in use by the Group. The estimates and judgments used in determining the value of provisioning are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The non-current element of the property provision is expected to be utilised within 36 months of the balance sheet date.

Notes to the Company Financial Statements Continued >

16 CONTINGENT LIABILITIES

The Company has guaranteed the banking facilities of certain UK subsidiary undertakings under a cross guarantee arrangement. No losses are expected to result from this arrangement.

As a condition of the sale of the Facilities Management division in August 2013, the Company has put in place indemnities, to the buyer, in relation to any future amounts payable in respect of contingent consideration related to the Nickleby acquisition completed in February 2012. As set out in the 2012 Annual Report and Accounts the maximum amount payable under the terms of the indemnity could be up to £5.0 million. The Directors believe the risk of settlement at, or near, the maximum level to be remote.

During the period of ownership of the Facilities Management division the Company had given guarantees over the performance of contracts entered into by the division. As part of the disposal of the division the purchaser has agreed to pursue the release or transfer of obligations under the Parent Company guarantees and this is in process. The Sale and Purchase agreement contains an indemnity from the purchaser to cover any loss in the event a claim is made prior to release. In the period until release the purchaser is to make a payment of £0.2 million per annum, reduced pro rata as guarantees are released. Such liabilities are not expected to give rise to any significant loss.

17 SHARE CAPITAL

Issued and Fully Paid	Shares	2019 £m	Shares	2018 £m
Ordinary shares of 10p each:				
At start of year	367,574,210	36.8	366,499,375	36.6
New shares issued	2,186,614	0.2	1,074,835	0.2
At end of year	**369,760,824**	**37.0**	**367,574,210**	**36.8**

Full details relating to the issue of Ordinary shares in the year are shown in note 28 of the Consolidated Financial Statements.

18 SHARE PREMIUM

	2019 £m	2018 £m
Balance brought forward	15.7	15.2
Received on allotment of shares	0.4	0.5
Balance carried forward	**16.1**	**15.7**

19 RECONCILIATION OF MOVEMENTS IN SHAREHOLDERS' EQUITY

	2019 £m	2018 £m
Profit for the year	11.8	11.7
Dividends	(12.0)	(10.7)
	(0.2)	1.0
Other recognised gains and losses relating to the year:		
Issue of share capital	0.6	0.7
Share option (value of employee services)	0.8	0.8
Purchase of own shares by EBT	(0.2)	–
Current tax on share options	0.3	–
Deferred tax on share options	0.2	0.1
Re-measurement and experience (losses)/gains (net of taxation)	(3.8)	4.6
Cash flow hedges movement	0.1	(0.5)
Net (reduction)/addition to Shareholders' equity	**(2.2)**	**6.7**
Opening Shareholders' equity	**145.3**	**138.6**
Closing Shareholders' equity	**143.1**	**145.3**

20 ANALYSIS OF NET DEBT

Net debt is calculated as total borrowings plus, following the adoption of IFRS 16 on 1 January 2019, lease liabilities less cash and cash equivalents, less unamortised facility fees. Non-cash changes represent the effects of the recognition and subsequent amortisation of fees relating to the bank facility and changing maturity profiles.

	At 31 December 2018 £m	IFRS 16 Adoption £m	At 1 January 2019 £m	Cash Flow £m	Other Non-cash Changes £m	At 31 December 2019 £m
Debt due within one year	0.3	–	0.3	–	–	0.3
Debt due after more than one year	(86.6)	–	(86.6)	2.2	(0.3)	(84.7)
Lease liabilities	–	(0.2)	(0.2)	0.1	–	(0.1)
Total debt and lease liabilities	(86.3)	(0.2)	(86.5)	2.3	(0.3)	(84.5)
Cash and cash equivalents	(11.8)	–	(11.8)	0.6	–	(11.2)
Net debt	**(98.1)**	**(0.2)**	**(98.3)**	**2.9**	**(0.3)**	**(95.7)**

	At 1 January 2018 £m	Cash Flow £m	Other Non-cash Changes £m	At 31 December 2018 £m
Debt due within one year	(1.7)	2.0	–	0.3
Debt due after more than one year	(75.9)	(11.0)	0.3	(86.6)
Total debt	(77.6)	(9.0)	0.3	(86.3)
Cash and cash equivalents	(9.0)	(2.8)	–	(11.8)
Net debt	**(86.6)**	**(11.8)**	**0.3**	**(98.1)**

21 RECONCILIATION OF NET CASH FLOW TO MOVEMENT IN NET DEBT

	2019 £m	2018 £m
Increase/(decrease) in cash in year	0.6	(2.8)
Decrease/(increase) in debt financing	2.3	(9.0)
Change in net debt resulting from cash flows	2.9	(11.8)
Leases previously recognised as operating leases under IAS 17	(0.2)	–
Non-cash movement in unamortised bank facility fees	(0.3)	0.3
Movement in net debt in year	2.4	(11.5)
Opening net debt	(98.1)	(86.6)
Closing net debt	**(95.7)**	**(98.1)**

22 FINANCIAL COMMITMENTS

CAPITAL EXPENDITURE

As at 31 December 2019 the Company had no contracts placed for future capital expenditure that were not provided for in the financial statements (2018: £nil).

Notes to the Company Financial Statements Continued >

23 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:

	2019 £m	2018 £m
Dividends received	13.6	13.6
Interest paid	(1.8)	(1.6)
Interest received	6.9	7.3
	18.7	**19.3**

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.

24 EVENTS AFTER THE REPORTING PERIOD

There were no events occurring after the balance sheet date which should be disclosed in accordance with IAS 10, 'Events after the reporting period'.

25 CHANGES IN ACCOUNTING STANDARDS

IFRS 16, 'Leases'

The Company has adopted this new standard from 1 January 2019, applying the modified retrospective approach, which results in the cumulative effect of initially applying this standard being an adjustment to the opening balance of retained earnings as at 1 January 2019. The comparative information for 2018 has not been restated and is presented, as previously reported, under IAS 17.

Details of the changes in accounting policies and transition approach applied following the adoption of IFRS 16 'Leases' are shown in note 39 of the Consolidated Financial Statements.

The overall impact of the adoption of IFRS 16 on the Company's opening Balance Sheet is as follows:

	As at 31 December 2018 £m	IFRS 16 adjustment £m	As at 1 January 2019 £m
Non-current assets			
Right of use assets	–	0.2	0.2
Current liabilities			
Lease liabilities	–	0.1	0.1
Non-current liabilities			
Lease liabilities	–	0.1	0.1
Net assets	**145.3**	**–**	**145.3**

The table below presents a reconciliation from operating lease commitments disclosed at 31 December 2018 to lease liabilities recognised at 1 January 2019.

	£m
Operating lease commitments disclosed as at 31 December 2018	0.2
Discounted using the lessee's incremental borrowing rate at the date of initial application	0.2
Lease liability recognised as at 1 January 2019	0.2
Of which are:	
Current lease liabilities	0.1
Non-current lease liabilities	0.1
Lease liability recognised as at 1 January 2019	**0.2**

25 CHANGES IN ACCOUNTING STANDARDS (Continued)

The tables below shows the split of the total right of use asset and lease liability following the adoption of IFRS 16:

	As at 1 January 2019 £m
Properties	0.2
Total right-of-use assets	**0.2**
Properties	0.2
Total lease liabilities	**0.2**

During the year, the application of IFRS 16 had no impact on the overall profit in the Company Income Statement in comparison to treatment under IAS 17, as operating lease payments under IAS 17 were replaced by a depreciation charge on right of use assets. Finance costs under the new standard were nil.

The table below shows a reconciliation between profit under IAS 17 and the new standard, IFRS 16.

	Year ended 31 December 2019 £m
Operating lease costs under IAS 17	0.1
(Less): Depreciation of right of use assets for leases previously recognised as operating leases under IAS 17	(0.1)
Impact on operating profit and profit before taxation for the year	**–**

26 SUBSIDIARIES

The company has a number of subsidiary companies, a list of which is shown below.

Subsidiary companies at the balance sheet date	Principal Activity	Registered Office
Johnsons Apparelmaster Limited * **	Textile and linen rental	1
Fresh Linen Limited *	Textile and linen rental	2
Johnson Group Properties PLC	Property holding	1
Semara Estates Limited *	Property holding	1
Fresh Linen Laundry Holdings Limited	Holding company	2
Johnson Investment Limited	Holding company	1
Johnson Group Inc (UK) Limited	Holding company	1
Semara Group Limited*	Holding company	1
Semara Investments Limited*	Holding company	1
Semara Contract Services Limited*	Holding company	1
South West Laundry Holdings Limited	Holding company	1
Afonwen Laundry Limited*	Non-trading company	1
Ashbon Services Limited	Non-trading company	1
Bentley Textile Services Limited*	Non-trading company	1
Bourne Services Group Limited	Non-trading company	1
Bourne Textile Services Limited*	Non-trading company	1
Caterers Linen Supply Limited*	Non-trading company	1
Catering Linen Supply Limited*	Non-trading company	1
Chester Laundry Limited	Non-trading company	1
Clayfull Limited	Non-trading company	1
Clifton Cleaning Limited	Non-trading company	1
Greenearth Cleaning Europe Limited	Non-trading company	1
Greenearth Cleaning Limited	Non-trading company	1
Johnson Group Cleaners Trustee Company (no 1) Limited	Non-trading company	1
Johnson Group Cleaners Trustee Company (no 2) Limited	Non-trading company	1
Johnson Group Management Services Limited	Non-trading company	1
Johnson Group Pension Nominees Limited	Non-trading company	1
Johnson Hospitality Services Limited	Non-trading company	1
Johnsons Hotel Linen Limited	Non-trading company	1
Johnsons Hotel, Restaurant and Catering Linen Limited	Non-trading company	1
Johnsons Restaurant and Catering Limited	Non-trading company	1

Notes to the Company Financial Statements Continued >

26 SUBSIDIARIES (Continued)

Subsidiary companies at the balance sheet date	Principal Activity	Registered Office
Johnsons Textile Services Limited **	Non-trading company	1
Johnsons Workwear Limited	Non-trading company	1
JSG PLC*	Non-trading company	1
London Linen Management Services Limited*	Non-trading company	1
London Linen Supply Limited	Non-trading company	1
London Workwear Rental Limited*	Non-trading company	1
Pure Laundry Limited *	Non-trading company	2
Portgrade Limited	Non-trading company	1
Quality Textile Services Limited	Non-trading company	1
Roboserve Limited	Non-trading company	1
Semara Nominees Limited *	Non-trading company	1
Semara Trustees Limited *	Non-trading company	1
South West Laundry Limited *	Non-trading company	1
Stalbridge Linen Services Limited *	Non-trading company	1
StarCounty Textile Services Limited	Non-trading company	1
Whiteriver Laundry Limited *	Non-trading company	1
Wintex UK Limited	Non-trading company	1
Zip Textiles (Services) Limited	Non-trading company	1

Johnson Service Group PLC owns directly or indirectly the entire share capital of each of these companies. The share capital of the companies annotated * are held through intermediate holding companies. All companies above are incorporated in Great Britain and registered in England and Wales, apart from Clayfull Limited which is registered in Scotland.

On 6 January 2020, companies annotated with ** swapped names.

In the table above, references to Registered Offices are as follows:

1) Johnson House, Abbots Park, Monks Way Preston Brook, Runcorn, Cheshire, WA7 3GH
2) Stephenson Road, Gorse Lane Industrial Estate, Clacton On Sea, Essex, CO15 4XA

Shareholder Information

5

FINANCIAL CALENDAR

Results for the year
2 March 2020

Results for the half year
September 2020

Annual General Meeting
5 May 2020

Dividend payment dates

Interim 2019:	**1 November 2019**
Proposed Final 2019:	**7 May 2020**
Interim 2020:	**November 2020**

Notice of Annual General Meeting

JOHNSON
Service Group PLC

Company Number: 00523335

This Document is important and requires your immediate attention. If you are in any doubt as to any aspect of the contents of this Document or the action you should take, you are recommended to consult immediately your stockbroker, solicitor, accountant or other independent advisor 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 advisor.

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 Tuesday 5 May 2020 at 11:00 to transact the business set out in the Resolutions below.

Resolutions 1 to 11 (inclusive) will be proposed as Ordinary Resolutions and Resolutions 12 to 14 (inclusive) will be proposed as Special Resolutions.

The business of the meeting will be:

Ordinary Business

To consider and, if thought fit, pass the following resolutions which will be proposed as Ordinary Resolutions:

1. To receive and adopt the financial statements for the year ended 31 December 2019 together with the reports of the Directors and the auditor on those financial statements.
2. To approve the Directors' Remuneration Report as set out on pages 59 to 81 of the 2019 Annual Report.
3. To confirm the payment of the interim dividend of 1.15 pence per Ordinary Share and to declare a final dividend of 2.35 pence per Ordinary Share for the year ended 31 December 2019.
4. To re-elect Bill Shannon as a Director.
5. To re-elect Peter Egan as a Director.
6. To re-elect Yvonne Monaghan as a Director.
7. To re-elect Chris Girling as a Director.
8. To re-elect Nick Gregg as a Director.
9. To re-appoint PricewaterhouseCoopers LLP as auditor to the Company until the conclusion of the next general meeting at which accounts are laid before the Company.
10. To authorise the Audit Committee to determine the remuneration of the auditor.

Special Business

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

    "That, in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and they are hereby generally and unconditionally authorised for the purposes of section 551 of the Companies Act 2006 to exercise all powers of the Company to allot equity securities (as defined in section 560 of the Companies Act 2006) ("Equity Securities") to such persons at such times and on such terms and conditions as the Directors may determine and subject always to the Articles of Association, provided that the aggregate of the nominal amount of such Equity Securities that may be allotted under this authority shall not exceed £12,325,361.

    This authority shall, unless previously renewed, varied or revoked by the Company in general meeting, expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution or, if earlier, on 1 July 2021, save that the Directors of the Company may, before such expiry make an offer or agreement which would or might require Equity Securities to be allotted after such expiry and the

Directors of the Company may allot Equity Securities in pursuance of any such offer or agreement as if the authority conferred hereby had not expired.

All unutilised authorities previously granted to the Directors of the Company under section 551 of the Companies Act 2006 shall cease to have effect at the conclusion of the Annual General Meeting (save to the extent that the same are exercisable pursuant to section 551(7) of the Companies Act 2006 by reason of any offer or agreement made prior to the date of this resolution which would or might require equity securities to be allotted on or after that date)."

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

"That, subject to and conditional upon the passing of the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company and in substitution for all existing and unexercised authorities and powers, the Directors of the Company be and are hereby generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 to allot Equity Securities pursuant to the authority conferred upon them by the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company as if section 561 of the Companies Act 2006 did not apply to any such allotment of Equity Securities, provided that this power shall be limited to:

(i) the allotment of Equity Securities in connection with a rights issue or similar offer to or in favour of ordinary shareholders where the Equity Securities respectively attributable to the interests of all ordinary shareholders are proportionate (as nearly as may be) to the respective numbers of shares held by them on that date provided that the Directors of the Company may make such exclusions or other arrangements to deal with any legal or practical problems under the laws of any territory or the requirement of any regulatory body or any stock exchange or with fractional entitlements as they consider necessary or expedient; and

(ii) the allotment (otherwise than pursuant to sub paragraph (i) above) of Equity Securities pursuant to the authority granted under the Ordinary Resolution numbered 11 in this notice of Annual General Meeting up to an aggregate nominal amount of £1,848,804 (representing approximately 5% of the Company's share capital as at 28 February 2020).

This power shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution or, if earlier, on 1 July 2021, unless previously renewed, varied or revoked by the Company in general meeting, save that the Company may before such expiry make any offer or enter into any agreement which would or might require Equity Securities to be allotted after such expiry and the Directors of the Company may allot Equity Securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired. All previous authorities under Section 571 of the Companies Act 2006 shall cease to have effect at the conclusion of the Annual General Meeting."

13. To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution:

"That, subject to and conditional upon the passing of the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company and in addition to any authority granted under the Special Resolution numbered 12 in this notice of Annual General Meeting of the Company, the Directors of the Company be and are hereby generally and unconditionally empowered pursuant to section 570 of the Companies Act 2006 to allot Equity Securities pursuant to the authority conferred upon them by the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company as if section 561 of the Companies Act 2006 did not apply to any such allotment of Equity Securities, provided that this power shall be:

(i) limited to the allotment of Equity Securities pursuant to the authority granted under the Ordinary Resolution numbered 11 in this notice of Annual General Meeting of the Company up to an aggregate nominal amount of £1,848,804 (representing approximately 5% of the Company's share capital as at 28 February 2020); and

(ii) used only for the purposes of financing (or refinancing, if the authority is to be used within six months after the original transaction) a transaction which the Directors of the Company determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice of Annual General Meeting of the Company.

This power shall expire at the conclusion of the next Annual General Meeting of the Company to be held after the passing of this resolution or, if earlier, on 1 July 2021, unless previously renewed, varied or revoked by the Company in general meeting, save that the Company may before such expiry make any offer or enter into any agreement which would or might require Equity Securities to be allotted after such expiry and the Directors of the Company may allot Equity Securities in pursuance of any such offer or agreement as if the power conferred hereby had not expired. All previous authorities under Section 571 of the Companies Act 2006 shall cease to have effect at the conclusion of the Annual General Meeting."

14. To consider and, if thought fit, pass the following resolution which will be proposed as a Special Resolution:

"That, in accordance with article 11 of the Articles of Association and in accordance with the Companies Act 2006, the Directors of the Company be and are hereby generally and unconditionally authorised for the purposes of section 701 of the Companies Act 2006 to make market purchases (within the meaning of section 693(4) of the Companies Act 2006) of ordinary shares of 10 pence each in the capital of the Company ("Ordinary Shares") on such terms and in such manner as the Directors of the Company may from time to time determine, provided that:

(i) the maximum number of Ordinary Shares that may be purchased under this authority is 36,976,082;

(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

Notice of Annual General Meeting

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(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 1 July 2021 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
2 March 2020

Johnson Service Group PLC
Abbots Park, Monks Way, Preston Brook, Cheshire, WA7 3GH

Accompanying Notes

1. A member of the Company entitled to attend and vote at the Annual General Meeting may appoint one or more persons as his/her proxy to exercise all or any of his/her rights to attend, speak and vote at the Annual General Meeting of the Company. A member may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise rights attached to a different share or shares held by him/her. A proxy need not be a member of the Company. The form of proxy is enclosed. The form of proxy and power of attorney or other authority, if any, under which it is signed or a certified copy of such power of authority must be received by the Company's Registrars, Link Asset Services, PXS, 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 agreements between the Executive Directors and the Company together with other appropriate documentation; and

   (iii) copies of the terms and conditions of appointment of the Non-Executive Directors.

4. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those Shareholders registered in the Register of Members of the Company 48 hours before the time fixed for holding the meeting, or in the event that the Meeting is adjourned, in the Register of Members 48 hours prior to the time fixed for holding 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 within 48 hours of the time fixed for holding the meeting or, in the event that the Meeting is adjourned, within 48 hours of the time for holding any adjourned meeting, shall be disregarded in determining the rights of any person to attend or vote at the Meeting.

5. As at 28 February 2020 (being the last business day prior to publication of this notice) the Company's issued share capital consists of 369,760,824 Ordinary Shares carrying one vote each. The total voting rights in the Company as at 28 February 2020 are, therefore, 369,760,824.

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:

   (i) (in the case of a resolution only) it would, if passed, be ineffective (whether by reason of inconsistency with any enactment or the Company's constitution or otherwise);

   (ii) it is defamatory of any person; or

   (iii) it is frivolous or vexatious.

Notice of Annual General Meeting

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Such a request may be in hard copy form or in electronic form, must identify the resolution of which notice is to be given or the matter to be included in the business, must be authenticated by the person or persons making it, must be received by the Company not later than 6 weeks before the meeting, and (in the case of a matter to be included in the business only) must be accompanied by a statement setting out the grounds for the request.

Explanatory Notes

The following notes give an explanation of the proposed resolutions.

Resolutions 1 to 11 (inclusive) are proposed as Ordinary Resolutions. This means that for each of those resolutions to be passed, more than half of the votes cast must be in favour of the resolution. Resolutions 12 to 14 (inclusive) are proposed as Special Resolutions. This means that for each of those resolutions to be passed, at least three-quarters of the votes cast must be in favour of the resolution.

The Directors consider the passing of all of the Resolutions to be in the best interests of the Company and its Shareholders and accordingly recommend that you vote in favour of these Resolutions as they intend to do so in respect of their own shareholdings.

Report and Accounts (Resolution 1)

The Directors of the Company must present the accounts to the AGM.

Directors' Remuneration Report (Resolution 2)

It is proposed that the Directors' Remuneration Report for the financial year ended 31 December 2019, as set out on pages 59 to 81 of the Annual Report, be approved. The Directors' Remuneration Report 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 Industrial Goods and Services Index, details of the Directors' service agreements, the 'Single Total Figure of Remuneration' table and specific disclosures relating to each Director's remuneration.

Declaration of a Dividend (Resolution 3)

A final dividend can only be paid after the Shareholders at a general meeting have approved it. A final dividend of 2.35 pence per Ordinary Share is recommended by the Directors for payment to Shareholders who are on the Register at the close of business on 14 April 2020. If approved, the date of payment of the final dividend will be 7 May 2020. An interim dividend of 1.15 pence per Ordinary Share was paid on 1 November 2019.

Election of Directors (Resolutions 4 to 8 inclusive)

Provision 18 of the Financial Reporting Council's 2018 UK Corporate Governance Code (the 'Code'), requires all Directors to be subject to annual re-election. Biographical details of all the Directors offering themselves for re-election are set out on page 36 of the 2019 Annual Report and are also available for viewing on the Company's website (www.jsg.com).

During the year, the Independent Non-Executive Directors conducted a performance evaluation of the Chairman, after taking into account the views of the Executive Directors. The Chairman also conducted an appraisal of each member of the Board, the Board composition and the format and effectiveness of the Board meetings. In addition, the Remuneration Committee regularly reviewed the performance of each Executive Director. As a result of these reviews, it is considered that the performance of each Director continues to be effective, that each Director demonstrates sufficient commitment to their role and that the contribution of each Director continues to be important to the Company's long-term sustainable success.

Reappointment of the Auditor (Resolution 9)

The Company is required to appoint the auditor at each general meeting at which accounts are presented, to hold office until the end of the next such meeting. Resolution 9, which is recommended by the Audit Committee, proposes the reappointment of the Company's existing auditor, PricewaterhouseCoopers LLP.

Remuneration of the Auditor (Resolution 10)

This Resolution follows best practice in corporate governance by separately seeking authority for the Audit Committee to determine the auditor's remuneration.

Renewal of Directors' Authority to Allot Securities (Resolution 11)

The Company's Directors may only allot Ordinary Shares or grant rights over Ordinary Shares if authorised to do so by Shareholders. The authority granted at the last AGM under section 551 of the Companies Act 2006 to allot relevant securities is due to expire at the conclusion of this year's AGM. Accordingly, this resolution seeks to grant a new authority to authorise the Directors to allot shares in the Company or grant rights to subscribe for, or convert any security into, shares in the Company and will expire at the conclusion of the next AGM of the Company in 2021 or, if earlier, the close of business on 1 July 2021.

If passed, the authority granted by the passing of this resolution will be limited to an aggregate nominal value of £12,325,361 of Ordinary Shares which represents approximately one third of the Ordinary share capital in issue as at 28 February 2020 (being the latest practicable date prior to publication of this Notice).

Other than in respect of allotting Ordinary Shares in order to satisfy employee share schemes, the Directors have no present intention of exercising this authority. However, it is considered prudent to maintain the flexibility that this authority provides. The Company's Directors intend to renew this authority annually.

Renewal of General Disapplication of Pre-emption Rights (Resolution 12)

Under section 561(1) of the Companies Act 2006, if the Directors wish to allot any of the unissued shares or grant rights over shares or sell treasury shares for cash (other than pursuant to an employee share scheme) they must in the first instance offer them to existing Shareholders in proportion to their holdings. There may be occasions, however, when the Directors will need the flexibility to finance business opportunities by the issue of shares without a pre-emptive offer to existing Shareholders. This cannot be done under the Companies Act 2006 unless the Shareholders have first waived their pre-emption rights.

In 2015, the Pre-Emption Group (which represents the Investment Association and the Pension and Lifetime Savings Association) published a revised statement of principles for the disapplication of pre-emption rights (the "Principles"). The Principles relate to issues of equity securities for cash other than on a pre-emptive basis (i.e. other than pro rata to existing shareholders) by all companies (wherever incorporated) with shares admitted to the Premium Listing segment of the Official List of the UK Listing Authority and to trading on the Main Market for listed securities of the London Stock Exchange. Certain other companies, including those with shares admitted to trading on AIM, are encouraged to adopt the Principles.

The Principles provide that a general authority for the disapplication of pre-emption rights over approximately 5 per cent of the Company's issued ordinary share capital should be treated as routine.

Other than in connection with a rights issues or any other pre-emptive offer concerning Equity Securities, and subject to the passing of Resolution 11, this resolution seeks to replace the authority conferred on the Directors at the 2019 AGM to allot ordinary shares, or grant rights to subscribe for, or convert securities into, ordinary shares or sell treasury shares for cash (other than pursuant to an employee equity incentive share scheme) without application of pre-emption rights. The authority will be limited to the issue of shares for cash up to a maximum aggregate nominal value of £1,848,804, which is equivalent to approximately 5 per cent of the Company's issued ordinary share capital as at 28 February 2020 (being the latest practicable date prior to publication of this Notice).

This resolution also seeks a disapplication of the pre-emption rights on a rights issue so as to allow the Directors to make exclusions or such other arrangements as may be appropriate to resolve legal or practical problems which, for example, might arise with overseas Shareholders.

Shareholders will note that this resolution also relates to treasury shares and will be proposed as a Special Resolution. If renewed, the authority will expire at the conclusion of the next AGM of the Company in 2021 or, if earlier, the close of business on 1 July 2021. The Directors intend to renew this authority annually and confirm their intention to follow best practice, as set out in the Principles, which provide that usage of this authority in excess of 7.5 per cent of the Company's issued ordinary share capital in a rolling three year period would not take place without prior consultation with key Shareholders.

General Disapplication of Pre-emption Rights in Connection with an Acquisition or Specified Capital Investment (Resolution 13)

The Principles further provide that the Company may, as a routine, seek to disapply pre-emption rights over the equivalent of approximately an additional 5 per cent of the issued ordinary share capital of the

Company, so long as certain criteria are met. Subject to the passing of Resolution 11, Resolution 13 seeks to replace the authority conferred on the Directors at the 2019 AGM (in addition to the authority referred to above in relation to Resolution 12) to allot ordinary shares, or grant rights to subscribe for, or convert securities into, ordinary shares or sell treasury shares for cash (other than pursuant to an employee equity incentive share scheme) up to an aggregate nominal value of approximately 5 per cent of the Company's issued ordinary share capital without application of pre-emption rights pursuant to section 561 of the Companies Act 2006, provided that this authority will only be used for the purpose of:

(i) an acquisition; or

(ii) a specified capital investment in respect of which sufficient information regarding the effect of the investment on the Company, the assets that are the subject of the investment and (where appropriate) the profits attributable to those assets is made available to shareholders to enable them to reach an assessment of the potential return on the investment which is announced contemporaneously with the issue or which has taken place in the preceding six month period and is disclosed in the announcement of the issue.

Other than in connection with a rights, scrip dividend, or other similar issue, the authority contained in Resolution 13 would be limited to the issue of shares for cash up to a maximum aggregate nominal value of £1,848,804 (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 28 February 2020 (being the latest practicable date prior to the publication of this Notice).

If approved, the authority will expire at the conclusion of the next AGM of the Company in 2021 or, if earlier, the close of business on 1 July 2021. The Directors intend to renew this authority annually.

Renewal of Company's authority to purchase Ordinary Shares (Resolution 14)

In certain circumstances it may be advantageous for the Company to purchase its own shares and this resolution seeks the authority from Shareholders to continue to do so. Authority was given to the Company to make market purchases up to an aggregate of 36,774,588 of its Ordinary Shares at the AGM held on 8 May 2019 (being equal to approximately 10 per cent of the Company's issued ordinary share capital as at 1 March 2019, the latest practicable date prior to the publication of the notice for the AGM held on 8 May 2019). This authority is due to expire at the end of the AGM and it is proposed that the Company be authorised to continue to make market purchases up to an aggregate of 36,976,082 Ordinary Shares, representing approximately 10 per cent of the Company's issued ordinary share capital as at 28 February 2020, being the latest practicable date prior to the publication of this Notice.

Renewing the authority for the Company to purchase Ordinary Shares in the market is intended to allow your Board to take advantage of opportunities that may arise to increase Shareholder value. The Directors will exercise this power only when, in the light of market conditions prevailing at the time, they believe that the effect of such purchases will be to increase earnings per share and will be likely to promote the success of the Company for the benefit of its members as a whole. Other investment opportunities, appropriate gearing levels and the overall position of the Company will be taken into account when exercising this authority. The price paid for shares will not be less than the nominal value of 10p per share nor more than 5% above the average of the middle market quotation of the Company's Ordinary Shares as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the shares are purchased.

The Company may hold in treasury any of its own shares that it purchases pursuant to the Companies Act 2006 and the authority conferred by this resolution. This gives the Company the ability to reissue treasury shares quickly and cost-effectively and provides the Company with greater flexibility in the management of its capital base. It also gives the Company the opportunity to satisfy employee share scheme awards with treasury shares. The total number of options to subscribe for Ordinary Shares that were outstanding at 28 February 2020 (being the latest practicable date prior to publication of this Notice) was 5,426,411. The proportion of issued share capital that they represented at that time was 1.5 per cent and the proportion of issued share capital that they will represent if the full authority to purchase shares (existing and being sought) is used is 1.6 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 2021, or, if earlier, the close of business on 1 July 2021. It is the present intention of the Directors to seek renewal of this authority annually.

Directors and Advisors

Directors

William (Bill) Mervyn Frew Carey Shannon, CA
Non-Executive Chairman
Chairman of Nomination Committee
Member of Remuneration Committee

Peter Egan, MBA
Chief Executive Officer
Director responsible for Health, Safety and the Environment

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

Christopher (Chris) Francis Girling, MBA, FCA
Senior Independent Non-Executive Director
Chairman of Audit Committee
Member of Nomination Committee
Member of Remuneration Committee

Nicholas (Nick) Mark Gregg
Independent Non-Executive Director
Member of Audit Committee
Member of Nomination Committee
Chairman of Remuneration Committee

Company Secretary & Group Financial Controller

Timothy (Tim) James Morris BA (Hons), FCA

Registered Office

Johnson House
Abbots Park
Monks Way
Preston Brook
Cheshire
WA7 3GH

Advisors

Nominated Advisor, Financial Advisor and Stockbrokers
Investec Investment Banking
30 Gresham Street
London
EC2V 7QP

Bankers
Lloyds Bank plc
40 Spring Gardens
Manchester
M2 1EN

The Royal Bank of Scotland plc
10th Floor, The Plaza
100 Old Hall Street
Liverpool
L3 9QJ

Bank of Ireland
26 Cross Street
Manchester
M2 7AF

Lawyers
Hill Dickinson LLP
No1 St Paul's Square
Liverpool
L3 9SJ

Registrar and Transfer Office
Link Asset Services
34 Beckenham Road
Beckenham
BR3 4ZF

Independent Auditor
PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
No 1 Spinningfields
Hardman Square
Manchester
M3 3EB

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, Link 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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