

CORPORATE GOVERNANCE REPORT

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

All companies with a Premium Listing of equity shares in the UK, and with a reporting period beginning before 17 June 2016, are required under the Listing Rules to comply with the Financial Reporting Council’s UK Corporate Governance Code 2014 (the ‘Code’) or, state the areas in which they do not comply. The Code is intended to enhance the quality of information investors receive about the long-term health and strategy of listed companies, and raises the bar for risk management. The Code can be accessed on the Financial Reporting Council’s website: <https://www.frc.org.uk>.

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

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

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

Our Governance Structure

Chairman - Paul Moody

Key objectives:

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

The Board of Johnson Service Group PLC

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

Chairman: Paul Moody

Key objectives:

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

Audit Committee

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

Key objectives:

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

Nomination Committee

Membership comprises the Chairman and Non-Executive Directors
Chairman: Paul Moody

Key objectives:

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

Remuneration Committee

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

Key objective:

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

Chief Executive Officer

Chris Sander

Key objectives:

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

Group Management Board

Membership comprises the two Executive Directors, divisional Managing Directors and Group function heads
Chairman: Chris Sander

Key objectives:

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

Compliance with the Code

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

Provision Explanation

E.1.1 Non-attendance by the Senior Non-Executive Independent Director (SID) at meetings with major Shareholders

The Chief Executive Officer and the Chief Financial Officer regularly meet with the Company's major Shareholders and the Board is of the opinion that additional regular meetings, other than those specifically requested by Shareholders, with the SID would not assist further in dialogue with Shareholders. The SID, and also the Chairman, are available to meet with Shareholders, at their request, and the Board believes this arrangement to be sufficient.

Section A: Leadership

Main principles:

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

Composition of the Board

The Board currently consists of the Non-Executive Chairman (the 'Chairman'), two Executive Directors and two Independent Non-Executive Directors. The Independent Non-Executive Directors are considered to be independent in character and judgement and are a strong element within the Board, with their views carrying significant weight in the decision making process.

Members of the Board, who are detailed on page 20, all held office throughout the year and up to the date of approving this report.

Division of Responsibility of Chairman and Chief Executive Officer

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

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

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

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

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

Responsibilities of the Board

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

The specific responsibilities reserved for the Board include:

- development and approval of the Group's long-term objectives, overall strategy, mission, vision, values and targets;
- approval of the annual budget;
- monitoring of operational and financial performance against plans and budgets;
- approval of major acquisitions, disposals and capital expenditure;
- design and approval of dividend policy;
- 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 in the current year included, inter alia:

- the review and approval of the Group's investment in Zip Textiles, acquired in January 2016;
- approval of the Group's refinancing of its external borrowings in April 2016;
- the review and approval of the Group's investment in Chester Textiles, acquired in April 2016;
- the review and approval of the Group's investment in Afonwen, acquired in April 2016;
- approval of the Group's fund raising, which raised net funds of £28.7 million in May 2016;
- approval and subsequent post year end enactment of the disposal of the Group's Drycleaning business, announced in January 2017;
- the review and approval of the half year and full year financial statements; and
- regular review, and formal approval in February and August, of the Group's risk assessment processes and principal risks and uncertainties.

Board Committees

The Committees of the Board are:

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

Current membership of each Committee consists wholly of the Chairman and the two Independent Non-Executive Directors. Each Committee has written terms of reference, which are available on the Company's website. Separate reports for each of these Committees are included in this Annual Report.

Group Management Board

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

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

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

Section B: Effectiveness

Main principles:

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

Induction, Training & Knowledge

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

The Directors have access to the advice and services of the Company Secretary and it is acknowledged that individual Directors may wish to seek independent professional advice in connection with their

Board Meetings and Attendance

The Board met formally six times during 2016 and, additionally, held a further four unscheduled meetings in relation to, inter alia, the acquisition of Zip, Afonwen and Chester, the refinancing of the Company's bank facility, the equity raising and the disposal of the drycleaning business.

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

	Board (Scheduled)	Board (Unscheduled)	Audit Committee	Nomination Committee	Remuneration Committee (Scheduled)	Remuneration Committee (Unscheduled)
Paul Moody	5	4	2	1	2	1
Chris Sander	6	4	n/a	n/a	n/a	n/a
Yvonne Monaghan	6	4	n/a	n/a	n/a	n/a
Bill Shannon	6	4	3	1	3	1
Nick Gregg	5	4	2	1	3	1
<i>Number of Meetings</i>	6	4	3	1	3	1

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

responsibilities and duties. The Company will meet reasonable expenses incurred in this regard.

Supply of Information

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

Performance Evaluation

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

The Board conducted an internal Board evaluation during the year. This process was led by the Chairman and each Director completed an in-depth questionnaire which covered, inter alia:

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

The completed questionnaires are reviewed on an individual basis by the Chairman, who then has discussions with each Director. The results of the review (including progress against the previous year's recommended actions) are summarised by the Chairman and considered in detail by the Board. 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.

The completed questionnaires are reviewed on an individual basis by the Chairman, who then has discussions with each Director. The results of the review (including progress against the previous year's recommended actions) are summarised by the Chairman and considered in detail by the Board. 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.

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Re-election of Directors

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

Notwithstanding this, and in the interests of good corporate governance, the Directors have resolved that, each year, all Directors will retire and offer themselves for re-election, if they wish to continue serving and are considered by the Board to be eligible. Accordingly, each member of the Board who served during the year 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 20 and are also available for viewing on the Company's website (www.jsjg.com).

Service Agreements

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

External Appointments

The Executive Directors may accept outside appointments provided that such appointments do not in any way prejudice their ability to perform their duties as Executive Directors of the Company. The commitments of each Executive Director are set out on page 20.

The role of 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.

Section C: Accountability

Main principles:

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

Audit Committee

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

The work undertaken by the Audit Committee helps to enable the Board to make the below statements relating to internal control and the going concern statement on page 22.

Further information is detailed in the Audit Committee Report.

Internal Control

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

There is an on-going process for identifying, evaluating and managing the Group's principal risks and uncertainties that has been in place throughout the year ended 31 December 2016 and up to the date of approval of the financial statements. This process has been regularly reviewed by the Board. The Audit Committee receives reports setting out key performance and risk indicators and considers possible control issues brought to its attention through early warning mechanisms which are embedded within our businesses and are reinforced by risk awareness training.

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

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

Financial Reporting

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

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previous year with corrective and/or investigative action initiated by the Board as appropriate.

Treasury Management

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

Risk Management

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

Financial Control

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

Robust risk assessment

Throughout the year, and as described further on pages 16 to 19, the Board has carried out a robust assessment of the principal risks and uncertainties facing the Group, including those that would threaten its business model, future position, performance, solvency or liquidity.

Future prospects

The Board have assessed the future prospects of the Group in accordance with provision C.2.2 of the Code. Based on the results of this analysis, the Board have 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 their assessment. Details of the assessment performed by the Board, including an assessment of those risks most likely to impact the Group's future prospects have been set out on pages 4 to 5.

Section D: Remuneration

Main principles:

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

Remuneration Committee

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

Section E: Relations with Shareholders

Main principles:

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

Investor Relations

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

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

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

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

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

The Audit Committee Report and the Nomination Committee Report form part of the Corporate Governance Report.

By order of the Board

Tim Morris
Company Secretary
28 February 2017