

# 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 2016.

The Corporate Governance Report on pages 24 to 28, and the Corporate Social Responsibility Report on pages 12 to 15 (with regard to information about the employment of disabled persons, employee involvement and share schemes) are also incorporated into this Report by reference.

## Principal Activities and Business Overview

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

## Results and Dividends

The Group retained profit after taxation for the year from all operations amounted to £20.6 million (2015: £10.3 million).

The dividend comprises an interim dividend of 0.80 pence (2015: 0.65 pence) per Ordinary share and a proposed final dividend of 1.70 pence (2015: 1.45 pence) per Ordinary share. This total dividend of 2.50 pence (2015: 2.10 pence) per Ordinary share, subject to the approval of Shareholders, will amount to a distribution for the year of £9.1 million (2015: £6.9 million).

## Share Capital

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

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

## Acquisitions and Discontinued Operations

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

## Events after the Reporting Period

On 4 January 2017, the Company disposed of its Drycleaning business. Further details are set out within note 36 of the Consolidated financial statements.

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

## Major Interests in the Company's Share Capital

At 27 February 2017, 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

	Date of Notification	Shareholding (%)	Cumulative Shareholding (%)
Henderson Global Investors Limited	25/02/2015	11.89	11.89
PrimeStone Capital LLP	23/01/2017	11.74	23.63
Old Mutual Plc	24/11/2016	11.03	34.66
Schroders plc	29/01/2016	9.96	44.62
BlackRock Inc	03/05/2016	6.43	51.05
Invesco Limited	21/02/2017	6.18	57.23
Ruffer LLP	20/02/2015	4.99	62.22
Miton Group plc	08/05/2015	4.65	66.87
Other Shareholders	n/a	33.13	100.00

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.

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

At the 2016 Annual General Meeting, Shareholders authorised the Company to make market purchases of up to a maximum aggregate of 33,061,541 Ordinary shares, which represented approximately 10% of the Company's issued Ordinary share capital on the latest practicable date prior to publication of the 2016 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 2017 Annual General Meeting. Further details are given in the Notice of the Annual General Meeting on pages 107 to 112.

## Directors

Details of the Directors of the Company are shown on page 20. They all held office throughout the year, and up to the date of approving this report. Michael Del Mar, previously the Senior Independent Non-Executive Director, retired from the Board at the conclusion of the 2016 Annual General Meeting.

## Directors' Interests

### Share Capital

The interests of the Directors who were in office at 31 December 2016, together with the interests of their close family, in the shares of the Company at the commencement or, if later, date of appointment, and close of the financial year are disclosed in the Board Report on Remuneration. Details of the Company's interest in its own shares are disclosed in note 29 to the Consolidated Financial Statements.

## Contracts

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

## DIRECTORS' REPORT CONTINUED

### Directors' Indemnity

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

### 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 (2015: £nil).

### Independent Auditors

The auditors, PricewaterhouseCoopers LLP ('PwC'), have indicated their willingness to continue in office. In accordance with the recommendation of the Audit Committee, as disclosed on page 31, and as required by Section 489 of the Companies Act 2006, a resolution to reappoint the auditors will be proposed at the Annual General Meeting.

### Policy on Payment to Suppliers

The Company and its subsidiaries fully support the CBI initiative on payments to suppliers and have continued to apply the Prompt Payment Code in respect of all suppliers. The main features of the Code are that payment terms are agreed at the outset of a transaction and are adhered to; that there is a clear and consistent policy that bills will be paid in accordance with the contract; and that there are no alterations to payment terms without prior agreement. Copies of the Code can be obtained from the CBI.

### Financial Risk Management

The Directors acknowledge that the Group's activities expose it to a variety of financial risks, including interest rate risk, credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out centrally under policies approved by the Board. Further details are set out on pages 59 to 60.

### 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.jsjg.com](http://www.jsjg.com).

### 2017 Annual General Meeting

The Company's AGM will be held at the Doubletree by Hilton Chester, Warrington Road, Hoole, Chester, CH2 3PD on Thursday 4 May 2017 at 11am. An explanation of the resolutions to be proposed at the meeting is included in the Notice of Annual General Meeting accompanying this Annual Report.

### Going Concern

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

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

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

By order of the Board

Tim Morris

Company Secretary

28 February 2017

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