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 2017, the overall risk environment remained largely unchanged from that reported within the Group's 2016 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 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. Therefore, although the risks related to Brexit have been discussed by the Board, it remains too early to properly understand the impact on the business whilst negotiations continue to take place. The Board will continue to assess the risk to the business as the Brexit process evolves.

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 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. 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.
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. At 31 December 2017 all of the Group's bank borrowings incurred interest at rates linked to LIBOR, although hedging arrangements are in place which replace LIBOR with fixed rates of 1.4725% and 1.665%, each over a £15.0 million tranche of borrowings, until January 2019 and January 2020 respectively, and two further hedging arrangements which replace LIBOR with fixed rates of 0.49% and 0.5525%, each over a £10.0 million tranche of borrowings, until June 2018 and June 2019 respectively, providing certainty over part of the Group's interest cash flows.
Liquidity Risk	
Our key sources of liquidity in the foreseeable future are likely to be cash generated from operations and borrowings through committed bank facilities. Adverse changes in credit markets or our credit rating could increase the cost of borrowing and banks may be unwilling to renew credit facilities on existing terms.	The Group's policy on liquidity is to ensure that it has committed bank facilities available to provide continuity of funding. Appropriate bank facilities are in place through to April 2020.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Financial Risk	Mitigation
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 judgement 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.

Operational Risk	Mitigation
Failure of Strategy	
Our current business model sets out our intentions to expand the Group by actively pursuing strategic acquisition opportunities within the Textile 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.

Operational Risk	Mitigation
Loss of a Processing Facility	
The loss of a key processing facility could result in significant disruption to our business due to the high utilisation of plant capacity.	A wide geographic spread of processing facilities mitigates the effect of a temporary loss of any single facility. Furthermore, insurance cover is in place such that the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered.
Retention and Motivation of Employees	
As a service orientated Group, retaining and motivating the best people with the right skills, at all levels of the organisation, is key to the long term success of the Group. Short term disruption could occur if a key member of our team was unavailable at short notice, either on a temporary or permanent basis.	The Group has established training, development, performance management and reward programmes to retain, develop and motivate our people. The Group regularly reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given such that there is not over reliance on any one individual. Furthermore, the Group has continued to develop succession planning as part of the development programmes for our people.
Information Systems and Technology	
The digital world creates many risks for a business including technology failures, loss of confidential data and damage to brand reputation.	We seek to assess and manage the effectiveness of our security infrastructure and our ability to effectively defend against current and future cyber risks by using analysis tools and experienced professionals to evaluate and mitigate potential impacts. We are focused on the need to maximise the effectiveness and security of our information systems and technology as a business enabler and to reduce both cost and exposure as a result.

Regulatory 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. 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.