A Fresh Approach to Managed Services

Interim Report 2012

JOHNSON
SERVICE GROUP PLC

Johnson Service Group PLC
Interim Report 2012

The established name in Textile Services and Facilities Management

1	Chairman's Statement
5	Responsibility Statement
6	Consolidated Income Statement
7	Consolidated Statement of Comprehensive Income
7	Consolidated Statement of Changes in Shareholders' Equity
8	Consolidated Balance Sheet
9	Consolidated Statement of Cash Flows
10	Notes to the Condensed Consolidated Interim Financial Statements
23	Directors and Advisors

Chairman's Statement

I am pleased to report an overall result in line with our expectations.

Within the newly formed Textile Services division, Textile Rental has performed very well and has focused on the integration of the newly acquired Cannon Textile Care contracts, which is progressing ahead of schedule. The restructuring of the Drycleaning division, which was announced in early July, is proceeding to plan with 103 branches now closed. The Facilities Management business, SGP, has successfully integrated the Nickleby business acquired in February and is identifying improvements across the wider portfolio.

Net debt at 30th June was £7.8 million higher at £57.5 million, reflecting the acquisitions made in the first quarter, although we continue to have significant headroom under existing bank facilities.

Based on the encouraging performance of the ongoing business, the Board has recommended an increase in the interim dividend to 0.36p (H1 2011: 0.33p) which will be paid on 9th November 2012 to shareholders on the register at close of business on 12th October.

John Talbot

Group Results

Throughout this statement "adjusted operating profit" refers to operating profit before amortisation and impairment of intangibles (excluding software amortisation) and exceptional items. "Adjusted profit before tax" refers to adjusted operating profit less finance costs.

Total revenue in the six months to 30th June 2012 was £126.3 million (H1 2011: £117.3 million), while underlying revenue, excluding costs recharged to customers, was £120.7 million (H1 2011: £113.6 million). Although the performance of the Textile Rental and Facilities Management businesses were in line with last year the difficult trading conditions experienced by the Drycleaning business resulted in adjusted operating profit of £7.7 million (H1 2011: £8.4 million).

Adjusted profit before tax amounted to £6.0 million (H1 2011: £6.5 million). The underlying tax rate was 25.9% (H1 2011: 25.6%) although after the recognition of prior year credits following agreement with HMRC on certain outstanding tax matters, the actual tax rate was only 14.0%.

Exceptional items in the first half of 2012 amounted to an aggregate £3.7 million (H1 2011: nil) and comprised £0.7 million in respect of acquisition fees and expenses, £2.7 million in relation to the integration of the two businesses acquired in the first quarter of the year and £0.3 million in relation to further exercises to reduce the quantum and risk relating to the Group's defined benefit pension schemes.

Net finance costs were £1.7 million (H1 2011: £1.9 million) with the benefit of lower average borrowings and margin more than offsetting the absence of any notional interest credit on pension liabilities of £0.4 million included in 2011.

After amortisation of intangibles (excluding software) of £1.4 million (H1 2011: £1.3 million) the pre-tax profit was £0.9 million (H1 2011: £5.2 million).

Adjusted fully diluted earnings per share were 1.9 pence (H1 2011: 1.8 pence) while fully diluted earnings per share after exceptional items and amortisation and impairment of intangibles (excluding software amortisation) were 0.5 pence (H1 2011: 1.4 pence).

Restructuring of the Drycleaning Business

As announced on 4th July 2012 the Board is implementing a restructuring of the Drycleaning business, the total cost of which is estimated at £23.9 million and will be charged as an exceptional item in the second half of the year.

Of this estimated charge, £3.7 million is non-cash and only £3.4 million is an additional cash requirement relating to the restructuring cost, as the balance is already contractually committed cash spend on property leases and obligations in the current and future years irrespective of the restructuring plan.

The anticipated tax credit in respect of this exceptional restructuring cost is estimated at £5.6 million. It is not expected that any further corporation tax payments in respect of 2012 earnings will be made in the second half of 2012 or in the first half of 2013.

We have now closed 103 of the branches identified in the review and the reduction of the back office and field teams is in progress and going to plan. The combination of the Textile Rental and Drycleaning businesses into a single Textile Services division is underway and will allow a unified branding strategy, significant cost savings and greater co-operation on sales opportunities in the future.

Pension Deficit

The recorded net deficit after tax for all post retirement obligations has reduced to £13.9 million at June 2012 from £15.2 million at December 2011, of which £12.9 million (December 2011: £14.1 million) is in relation to the Groups' defined benefit pension schemes. The reduction arises from the better than expected returns on asset investments which has more than offset the impact of a reduction in the discount rate applied to the valuation of the liabilities.

The current agreements reached with the Trustees of the three defined benefit pension schemes require additional contributions of £2.0 million in 2012 and 2013. Following on from previous initiatives undertaken over the last three years the Company has, during the period, undertaken an enhanced partial transfer value exercise, with a cost of £0.3 million charged to the Income Statement, with the purpose of reducing the overall size of the Scheme and therefore the level of risk assumed. This exercise removed a further £1.5 million of liabilities from the Schemes. Further actions are underway in order to continue the de-risking programme.

Finances

Total net debt at the end of the first half was £57.5 million (31st December 2011: £49.7 million). The higher net debt is largely due to the £8.6 million spent, in aggregate, on acquisitions and associated legal and restructuring costs during the period.

We have now reached agreement with HMRC and have agreed to repay £0.5 million of the £5.0 million refund received in 2011 relating to the de-grouping tax charge from 2008. This has been paid in the second half although, as mentioned above, in view of the restructuring costs for the Drycleaning business, no other tax payments in respect of 2012 earnings are expected to be made.

The available bank facility, which runs to May 2015, is currently £78.5 million and will reduce to £77.0 million by the end of December in line with the terms of the facility. This facility is significantly in excess of the anticipated level of borrowings, with comfortable cover on all bank covenants, for the foreseeable future.

Interest cover based on adjusted operating profit was 4.5 times (H1 2011: 4.4 times), with interest costs continuing to benefit from the current low levels of LIBOR on the unhedged portion of the debt. Hedges are in place for £40 million of the Term Loan, whereby LIBOR is replaced by a fixed rate of 3.0% for the period to 8th January 2013 and thereafter by a fixed rate of 1.8% to January 2016.

Dividend

In line with our stated intention of a progressive dividend policy whilst maintaining an adequate level of cover, the Board has proposed an interim dividend of 0.36 pence, representing an increase of 9.1% over the same period last year (H1 2011: 0.33 pence).

The interim dividend will be paid on 9th November 2012 to those Shareholders on the register of members at the close of business on 12th October 2012. The ex dividend date is 10th October 2012.

DIVISIONAL PERFORMANCE

TEXTILE SERVICES

Textile Rental

The Textile Rental business has performed very strongly throughout the first six months of 2012. A significant focus during the period was the preparation for the acquisition and the ongoing integration of the Cannon Textile Care ("Cannon") business, a major textile rental operator in the UK, consisting of five laundries and two distribution depots, which completed with an effective date of 31st March 2012.

Revenue for the Textile Rental business increased by 10.3% to £64.0 million (H1 2011: £58.0 million), with organic growth of 4.1% excluding Cannon. The corresponding adjusted operating profit of the business, excluding Cannon, increased by 5.2% to £8.1 million (H1 2011: £7.7 million). The total adjusted operating profit including the initial loss of £0.4 million from the Cannon business remained constant at £7.7 million.

Although, as expected, Cannon was marginally loss making in the first half of the year we are confident that it will make a positive profit contribution for the full year.

Organic revenue growth for the business was largely driven by new business sales, which increased by over 26% over the previous year, combined with an 18% reduction in customer terminations over the same period.

In preparation for the acquisition, the business invested £2.6 million (H1 2011: £0.8 million), representing the majority of the 2012 budget, in new plant and equipment to be able to process additional volume and enable the closure of four of the five Cannon laundries. The closures are proceeding to plan and all four plants will be closed by the end of September 2012. Some investment is being made in the one remaining Cannon plant in Newmarket in order to improve the future productivity and efficiency of the location to a level which is more comparable to our existing laundry facilities.

As a result of the increased new business sales, combined with rental stock required for the renewal of several key national customers, rental stock additions increased by 18.5% to £10.9 million (H1 2011: £9.2 million).

Drycleaning

The Drycleaning business operates under the brands Johnson Cleaners, our national retail arm, Jeeves of Belgravia, our predominantly London based luxury business and Alex Reid, our consumables business and major supplier to the drycleaning and laundry sector.

Revenue for the division was 2.4% lower at £37.0 million (H1 2011: £37.9 million) and adjusted operating loss was £0.2 million (H1 2011: £0.6 million profit).The estimated like for like sales reduction for the six months to June for our retail Drycleaning business was 0.4% overall.

Whilst economic and high street trading conditions continued to be difficult in the first half of the year, there were some encouraging signs from branches that had received investment through the introduction of additional services. In 2011 there was a significant push on improving the laundry service in the estate, and this continued in 2012 with a further 75 branches converted to the 'Drop and Go' laundry concept.

Since we announced the restructuring of the Drycleaning division on 4th July 2012, a total of 103 branches have now been closed. Those branches identified for closure in the third quarter, as part of the strategic review, had a like for like sales decline in the seven months to July of 3.1% compared to the remainder of the estate which was positive by 0.2%.

The remaining stores are the basis for a resilient and profitable Drycleaning business. There are now sufficient GreenEarth® drycleaning machines available within the business to ensure that all locations will operate using the environmentally friendly process in the near future. Preparation for the relocation of the head office is underway and once completed, will provide the opportunity for significant cost savings going forward.

A new store was opened in Notting Hill under the Jeeves of Belgravia brand and the trading performance of this store is progressing to plan, whilst the two new openings of 2011 make steady progress.

Our consumables business, Alex Reid, has felt the impact of the wider economic factors with overall sales slightly lower than 2011.

FACILITIES MANAGEMENT

The FM division comprises SGP together with six Special Purpose Companies, with responsibility for PFI contracts, in the Healthcare and Education Sectors.

SGP provides smart property and facilities management solutions. The services include the full range from commercial agency and property management, to rating and service charge management, building services, energy management, planned and reactive maintenance and on site FM. SGP's flexible delivery model ensures that customers receive a tailored service unique to their requirements.

The revenue of the Division (excluding customer recharges) has increased by approximately 11% when compared to the first half of 2011 to £19.7 million (H1 2011: £17.7 million) whilst revenue including recharges was some 18% higher at £25.3 million (H1 2011: £21.4 million).

In the first half of 2012 nearly 59% of Divisional revenue, before costs recharged to customers, was derived from long term PFI contracts which generally have remaining terms in excess of 15 years with total revenue from these contracts increasing by almost 7%. There are now 21 such contracts within this increasingly valuable portfolio of business.

Adjusted operating profit at £2.0 million remains unchanged from that of the first half of 2011. Whilst there has been an increase in profits in the Education and Corporate sectors, this has been offset by the reduction in project work undertaken by clients within the Retail sector.

The acquisition in February 2012 of the business and assets of Nickleby and Co is already delivering results. The integration of the Nickleby business into SGP is largely completed and for the first half of 2012 has added £1.6 million to revenue, excluding customer recharges. This acquisition has also enabled us to strengthen our core capabilities in IT and Procurement/Supply Chain and will enable us to continue to deliver market leading activity in these key areas.

Contracts won within the first half of 2012 are currently being mobilised and will be operational and contributing in the second half. The increasing strength of our potential new business pipeline is encouraging.

During early 2012 we updated the "look and feel" of the SGP brand which can now be seen on the new website and better reflects the current identity of SGP.

The continued success in delivering for our customers has again been recognised within the FM industry. SGP was awarded the Partnerships Bulletin Award for "Best Facilities Provider 2012" for the second consecutive year. We are also delighted to be finalists in the upcoming PFM Awards, to be held in November 2012, in the "Partners in Education" category.

Staff

I would like to thank employees at all levels for their continuing support and commitment to the Group.

Outlook

I am pleased with the overall performance of the Group in the first half of the year, despite the challenging market conditions affecting each of our Divisions.

Our Textile Rental business has had a strong first half year and I am particularly pleased with the acquisition of Cannon which adds further scale to our operations. The success and speed of the integration of the acquired contracts means that we should see a significant improvement in the result for the second half.

The Drycleaning business had a difficult first half. However, as identified in the strategic review, we are confident that we have a viable, profitable and resilient core Drycleaning business. The actions being taken to reduce the number of loss making stores and combining the business into a larger Textile Services division will provide the basis for a stable platform with increasing profitability expected in future years.

SGP is starting to realise the anticipated benefits from the recent acquisition and should deliver an improved performance in the second half.

We are confident that the Group will perform well in the second half as the benefits of the acquisitions and restructuring are realised.

John Talbot
Executive Chairman
4th September 2012

Responsibility Statement

The condensed consolidated interim financial statements comply with the Disclosure and Transparency Rules ('DTR') of the United Kingdom's Financial Services Authority in respect of the requirement to produce a half-yearly financial report. The interim report is the responsibility of, and has been approved by, the Directors.

The Directors confirm that to the best of their knowledge:
– this financial information has been prepared in accordance with IAS 34 as adopted by the European Union;
– this interim management report includes a fair review of the information required by DTR 4.2.7R (indication of important events during the first half and description of principal risks and uncertainties for the remaining half of the year); and
– this interim management report includes a fair review of the information required by DTR 4.2.8R (disclosure of related party transactions and changes therein).

The Directors of Johnson Service Group PLC are listed in the Johnson Service Group PLC Annual Report for 2011. There have been no changes since 31st December 2011 other than the resignation of Mr Paul Ogle with effect from 4th July 2012.

Details of current Directors are available on the Johnson Service Group PLC website: www.johnsonplc.com

By order of the Board

Yvonne Monaghan
Finance Director
4th September 2012

On behalf of the Board

Consolidated Income Statement

	Note	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year ended 31st December 2011 £m
Continuing Operations:				
Revenue	2	126.3	117.3	242.3
Costs recharged to customers		(5.6)	(3.7)	(8.8)
Revenue excluding costs recharged to customers		120.7	113.6	233.5
Operating profit	2	2.6	7.1	17.5
Operating profit before intangibles amortisation and impairment (excluding software amortisation) and exceptional items		7.7	8.4	18.5
Amortisation and impairment of intangible assets (excluding software amortisation)		(1.4)	(1.3)	(2.6)
Exceptional items	3			
– Restructuring costs		(2.7)	–	–
– Costs in relation to business acquisition activity		(0.7)	–	–
– Pension costs and credits		(0.3)	–	1.6
Operating profit	2	2.6	7.1	17.5
Ordinary finance cost				
– Finance cost		(1.7)	(2.4)	(4.4)
– Finance income		–	0.1	0.2
– Notional interest		–	0.4	0.7
		(1.7)	(1.9)	(3.5)
Exceptional finance cost		–	–	(0.3)
Net finance cost		(1.7)	(1.9)	(3.8)
Profit before taxation		0.9	5.2	13.7
Taxation	4	0.4	(1.3)	(3.4)
Profit for the period from continuing operations		1.3	3.9	10.3
Discontinued Operations:				
Profit for the period from discontinued operations	10	2.9	–	–
Profit for the period attributable to equity holders		4.2	3.9	10.3
Earnings per share *	6			
Basic earnings per share				
From continuing operations		0.5p	1.5p	4.1p
From discontinued operations		1.2p	–	–
From continuing and discontinued operations		1.7p	1.5p	4.1p
Fully diluted earnings per share				
From continuing operations		0.5p	1.4p	3.8p
From discontinued operations		1.1p	–	–
From continuing and discontinued operations		1.6p	1.4p	3.8p

* Earnings per share before intangibles amortisation and impairment (excluding software amortisation), exceptional items and exceptional finance costs are shown in Note 6.

The notes on pages 10 to 22 form an integral part of these condensed consolidated interim financial statements.

Consolidated Statement of Comprehensive Income

	Note	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year ended 31st December 2011 £m
Profit for the period		4.2	3.9	10.3
Other Comprehensive Income				
Actuarial gain/(loss) on defined benefit pension plans	8	0.9	10.0	(7.8)
Taxation in respect of actuarial (gain)/loss		(0.2)	(2.6)	1.9
Change in deferred tax due to change in tax rate		(0.2)	(0.2)	(0.3)
Cash flow hedges (net of taxation) – fair value of losses		(0.4)	(0.2)	(0.6)
– transfer to interest		0.3	0.3	0.6
Other comprehensive income for the period		0.4	7.3	(6.2)
Total comprehensive income for the period		4.6	11.2	4.1

Consolidated Statement of Changes in Shareholders' Equity

	Share Capital £m	Share Premium £m	Other Reserves £m	Retained Earnings £m	Total Equity £m
Balance at 1st January 2011	25.0	13.7	1.1	30.7	70.5
Total comprehensive income for the period	–	–	0.1	11.1	11.2
Share options (value of employee services)	–	–	–	0.4	0.4
Issue of Share capital	0.1	–	–	–	0.1
Dividends paid	–	–	–	(1.4)	(1.4)
Balance at 30th June 2011	25.1	13.7	1.2	40.8	80.8
Total comprehensive income for the period	–	–	(0.1)	(7.0)	(7.1)
Share options (value of employee services)	–	–	–	0.4	0.4
Issue of Share capital	0.3	0.1	–	–	0.4
Dividends paid	–	–	–	(0.8)	(0.8)
Balance at 31st December 2011	25.4	13.8	1.1	33.4	73.7
Total comprehensive income for the period	–	–	(0.1)	4.7	4.6
Share options (value of employee services)	–	–	–	0.4	0.4
Issue of Share capital	0.2	0.1	–	–	0.3
Dividends paid	–	–	–	(1.7)	(1.7)
Balance at 30th June 2012	25.6	13.9	1.0	36.8	77.3

Consolidated Balance Sheet

	Note	As at 30th June 2012 £m	As at 30th June 2011 £m	As at 31st December 2011 £m
Assets				
Non-Current Assets				
Goodwill		87.6	87.6	87.6
Intangible assets		11.3	9.2	7.8
Property, plant and equipment		43.1	43.1	42.8
Textile rental items		26.6	21.6	23.2
Trade and other receivables		0.9	0.6	0.8
Deferred income tax assets		6.5	3.4	6.8
		176.0	165.5	169.0
Current Assets				
Inventories		4.0	3.9	4.3
Trade and other receivables		46.2	39.2	38.6
Cash and cash equivalents		1.9	5.1	5.7
		52.1	48.2	48.6
Liabilities				
Current Liabilities				
Trade and other payables		56.5	48.5	46.6
Current income tax liabilities		2.7	7.7	5.7
Borrowings	11	4.9	2.7	2.7
Derivative financial liabilities		0.5	–	–
Provisions		3.4	4.7	4.2
		68.0	63.6	59.2
Net Current Liabilities		(15.9)	(15.4)	(10.6)
Non-Current Liabilities				
Retirement benefit obligations	8	18.3	5.7	20.2
Deferred income tax liabilities		1.1	1.0	1.4
Other non-current liabilities		2.1	2.0	2.1
Borrowings	11	52.9	51.5	51.4
Derivative financial liabilities		1.1	1.4	1.4
Provisions		7.3	7.7	8.2
		82.8	69.3	84.7
Net Assets		77.3	80.8	73.7
Equity				
Capital and Reserves Attributable to The Company's Equity Holders				
Called up share capital		25.6	25.1	25.4
Share premium		13.9	13.7	13.8
Other reserves		1.0	1.2	1.1
Retained earnings		36.8	40.8	33.4
Total Equity		77.3	80.8	73.7

The notes on pages 10 to 22 form an integral part of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements on pages 6 to 22 were approved by the Board of Directors on 4th September 2012 and signed on its behalf by:

Yvonne Monaghan
Finance Director

Consolidated Statement of Cash Flows

	Note	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year ended 31st December 2011 £m
Cash Flows From Operating Activities				
Profit for the period		4.2	3.9	10.3
Adjustments for:				
Income tax – continuing operations	4	(0.4)	1.3	3.4
– discontinued operations	10	(3.0)	–	(2.0)
Finance income and expense		1.7	1.9	3.8
Depreciation and impairment		11.5	9.8	20.5
Amortisation of intangible assets		1.6	1.4	2.9
Decrease/(increase) in inventories		0.3	(0.3)	(0.6)
Increase in trade and other receivables		(7.7)	(3.7)	(3.3)
Increase in trade and other payables		8.7	2.8	2.2
Profit on sale of property, plant and equipment		–	(0.2)	(0.1)
Acquisition fees charged to income statement		0.7	–	–
Additional contribution to defined benefit pension schemes		(1.0)	(0.5)	(1.5)
Share-based payments		0.4	0.4	0.8
Retirement benefit obligations		0.1	(0.2)	(2.2)
Provisions		(1.7)	(1.6)	(1.6)
Cash generated from operations		15.4	15.0	32.6
Interest paid		(3.0)	(1.8)	(3.4)
Taxation received		–	5.8	5.1
Net cash generated from operating activities		12.4	19.0	34.3
Cash Flows From Investing Activities				
Acquisition of business (net of cash acquired)	10	(7.2)	(0.2)	(0.2)
Purchase of property, plant and equipment		(3.4)	(1.9)	(5.3)
Proceeds from sale of property, plant and equipment		–	0.3	0.3
Purchase of intangible assets		(0.2)	(0.1)	(0.2)
Purchase of textile rental items		(9.7)	(7.5)	(18.5)
Proceeds from sale of textile rental items		1.1	1.0	2.0
Interest received		–	0.1	0.2
Net cash used in investing activities		(19.4)	(8.3)	(21.7)
Cash Flows From Financing Activities				
Proceeds from borrowings		9.5	2.5	2.5
Repayments of borrowings		(4.0)	(5.0)	(6.5)
Capital element of finance leases		(0.2)	(0.4)	(0.7)
Net proceeds from issue of Ordinary shares		0.3	0.1	0.5
Dividends paid to company Shareholders		(1.7)	(1.4)	(2.2)
Net cash generated from/(used in) financing activities		3.9	(4.2)	(6.4)
Net (decrease)/increase in cash and cash equivalents		(3.1)	6.5	6.2
Cash and cash equivalents at beginning of period		4.8	(1.4)	(1.4)
Cash and cash equivalents at end of period	12	1.7	5.1	4.8

The notes on pages 10 to 22 form an integral part of these condensed consolidated interim financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

Johnson Service Group PLC ('the Company') and its subsidiaries (together 'the Group') provide a unique range of managed services, operating in two principal areas: textile related services and facilities management.

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 has its primary listing on the London Stock Exchange, with its shares traded on AIM.

The condensed consolidated interim financial statements were approved for issue by the Board on 4th September 2012.

1 Basis of Preparation

These condensed consolidated interim financial statements of Johnson Service Group PLC are for the six months ended 30th June 2012. They have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

The condensed consolidated interim financial statements have not been reviewed or audited, nor do they comprise statutory accounts for the purpose of Section 434 of the Companies Act 2006, and do not include all of the information or disclosures required in the annual financial statements and should therefore be read in conjunction with the Group's 2011 consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Financial information for the year ended 31st December 2011 included herein is derived from the statutory accounts for that year, which have been filed with the Registrar of Companies. The auditors' report on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain a statement under Section 498 of the Companies Act 2006.

Financial information for the half year ended 30th June 2011 included herein is derived from the condensed consolidated interim financial statements for that period.

Going Concern

Current economic conditions create uncertainty over the level of demand for the Group's products and services, the price of raw materials and fuel and the exchange rate between Sterling, the US dollar and the Euro and thus the consequence for the cost of foreign supplies.

The Group currently has adequate financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. 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.

After due consideration, the Directors confirm that they have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group's financial statements.

2 Segment Analysis

Segment information is presented in respect of the Group's business segments, which are based on the Group's management and internal reporting structure as at 30th June 2012. Details of the Group's segments were provided on page 57 of the 2011 Annual Report.

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. Management has determined the operating segments based on these reports and on the internal reporting structure.

The Board assesses the performance of the operating segments based on a measure of earnings before interest and tax, both including and excluding the effects of non-recurring items from the operating segments, such as restructuring costs and impairments when the impairment is the result of an isolated, non-recurring event. Interest income and expenditure are not included in the result for each operating 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 the property company is credited back to the paying company for the purposes of segmental reporting.

Other information provided to the Board is measured in a manner consistent with that in the financial statements. Segmental assets exclude deferred tax assets, current tax assets and cash, all of which are managed on a central basis. Segmental liabilities include non-bank borrowings, but exclude deferred tax liabilities, current tax liabilities, bank borrowings, derivative financial liabilities and retirement benefit obligations that cannot be attributed directly to a segment, all of which are managed on a central basis. These balances are part of the reconciliation to total balance sheet assets and liabilities.

Inter-segment pricing is determined on an arm's length basis. The exceptional items have been included within the appropriate business segment as shown on pages 11 to 13.

The business segment results for the half year ended 30th June 2012, together with comparative figures, are as follows:

2 Segment Analysis continued

Half year ended 30th June 2012	Textile Rental £m	Drycleaning £m	Facilities Management £m	All Other Segments £m	Total £m
Revenue					
Revenue	64.0	37.0	25.5	–	126.5
Inter-segment revenue	–	–	(0.2)	–	(0.2)
Total revenue	64.0	37.0	25.3	–	126.3
Revenue Excluding Costs Recharged to Customers					
Revenue	64.0	37.0	19.9	–	120.9
Inter-segment revenue	–	–	(0.2)	–	(0.2)
Total Revenue Excluding Costs Recharged to Customers	64.0	37.0	19.7	–	120.7
Result					
Operating Profit before Intangibles Amortisation and Impairment (excluding Software Amortisation) and Exceptional Items	7.7	(0.2)	2.0	(1.8)	7.7
Amortisation and impairment of intangible assets	(0.3)	–	(1.1)	–	(1.4)
Exceptional Items:					
– Restructuring costs	(1.2)	–	(1.5)	–	(2.7)
– Costs in relation to business acquisition activity	(0.4)	–	(0.3)	–	(0.7)
– Pension costs and credits	–	–	–	(0.3)	(0.3)
Operating Profit	5.8	(0.2)	(0.9)	(2.1)	2.6
Ordinary finance cost					(1.7)
Profit before taxation					0.9
Taxation					0.4
Profit for the period – from continuing operations					1.3
Profit for the period – from discontinued operations					2.9
Profit for the period					4.2

	Discontinued Operations £m	Textile Rental £m	Drycleaning £m	Facilities Management £m	All Other Segments £m	Total £m
Other Information						
Fixed asset additions						
– Property, plant and equipment	–	2.6	0.9	0.2	–	3.7
– Textile rental items	–	10.9	–	–	–	10.9
– Intangible software	–	–	–	0.1	–	0.1
Depreciation and amortisation expense						
– Property, plant and equipment	–	1.9	1.3	0.2	0.1	3.5
– Textile rental items	–	8.0	–	–	–	8.0
– Intangible software	–	–	0.1	0.1	–	0.2
Balance Sheet Information						
Segment assets	0.1	120.1	37.7	50.8	11.0	219.7
Unallocated assets: Deferred income tax assets						6.5
Cash and cash equivalents						1.9
Total assets						228.1
Segment liabilities	(2.1)	(34.4)	(16.0)	(12.5)	(4.5)	(69.5)
Unallocated liabilities: Bank borrowings						(56.8)
Deferred income tax liabilities						(1.1)
Current income tax liabilities						(2.7)
Derivative financial liabilities						(1.6)
Retirement benefit obligations						(19.1)
Total liabilities						(150.8)
Return on Capital Employed (rolling 12 months)		39.6%	8.8%	238.5%		

Notes to the Condensed Consolidated Interim Financial Statements

2 Segment Analysis continued

Half year ended 30th June 2011	Textile Rental £m	Drycleaning £m	Facilities Management £m	All Other Segments £m	Total £m
Revenue					
Revenue	58.0	37.9	21.6	–	117.5
Inter-segment revenue	–	–	(0.2)	–	(0.2)
Total Revenue	58.0	37.9	21.4	–	117.3
Revenue Excluding Costs Recharged to Customers					
Revenue	58.0	37.9	17.9	–	113.8
Inter-segment revenue	–	–	(0.2)	–	(0.2)
Total Revenue Excluding Costs Recharged to Customers	58.0	37.9	17.7	–	113.6
Result					
Operating Profit before Intangibles Amortisation and Impairment (excluding Software Amortisation) and Exceptional Items	7.7	0.6	2.0	(1.9)	8.4
Amortisation and impairment of intangible assets	(0.3)	–	(1.0)	–	(1.3)
Operating Profit/Loss	7.4	0.6	1.0	(1.9)	7.1
Ordinary finance cost					(1.9)
Profit before taxation					5.2
Taxation					(1.3)
Profit for the period					3.9

	Discontinued Operations £m	Textile Rental £m	Drycleaning £m	Facilities Management £m	All Other Segments £m	Total £m
Other Information						
Fixed asset additions						
– Property, plant and equipment	–	0.8	1.1	0.2	–	2.1
– Textile rental items	–	9.2	–	–	–	9.2
– Intangible software	–	–	–	0.1	–	0.1
Depreciation and amortisation expense						
– Property, plant and equipment	–	1.9	1.3	0.2	0.1	3.5
– Textile rental items	–	6.3	–	–	–	6.3
– Intangible software	–	–	–	0.1	–	0.1
Balance Sheet Information						
Segment assets	0.2	105.7	38.9	50.5	9.9	205.2
Unallocated assets: Deferred income tax assets						3.4
Cash and cash equivalents						5.1
Total assets						213.7
Segment liabilities	(0.5)	(28.7)	(18.5)	(10.7)	(5.4)	(63.8)
Unallocated liabilities: Bank borrowings						(52.8)
Deferred income tax liabilities						(1.0)
Current income tax liabilities						(7.7)
Derivative financial liabilities						(1.4)
Retirement benefit obligations						(6.2)
Total liabilities						(132.9)
Return on Capital Employed (rolling 12 months)		44.2%	15.7%	133.4%		

2 Segment Analysis continued

Year ended 31st December 2011	Textile Rental £m	Drycleaning £m	Facilities Management £m	All Other Segments £m	Total £m
Revenue					
Revenue	118.2	77.3	47.4	–	242.9
Inter-segment revenue	–	–	(0.6)	–	(0.6)
Total Revenue	118.2	77.3	46.8	–	242.3
Revenue Excluding Costs Recharged to Customers					
Revenue	118.2	77.3	38.6	–	234.1
Inter-segment revenue	–	–	(0.6)	–	(0.6)
Total Revenue Excluding Costs Recharged to Customers	118.2	77.3	38.0	–	233.5
Result					
Operating Profit before Intangibles Amortisation and Impairment (excluding Software Amortisation) and Exceptional Items	15.9	2.0	4.1	(3.5)	18.5
Amortisation and impairment of intangible assets	(0.5)	–	(2.1)	–	(2.6)
Exceptional items					
– Pension costs and credits	–	–	–	1.6	1.6
Operating Profit/Loss	15.4	2.0	2.0	(1.9)	17.5
Ordinary finance cost					(3.5)
Exceptional finance cost					(0.3)
Profit before taxation					13.7
Taxation					(3.4)
Profit for the period					10.3

	Discontinued Operations £m	Textile Rental £m	Drycleaning £m	Facilities Management £m	All Other Segments £m	Total £m
Other Information						
Fixed asset additions						
– Property, plant and equipment	–	2.5	2.6	0.6	–	5.7
– Textile rental items	–	18.9	–	–	–	18.9
– Intangible software	–	–	–	0.2	–	0.2
Depreciation and amortisation expense						
– Property, plant and equipment	–	4.0	2.5	0.4	0.2	7.1
– Textile rental items	–	13.4	–	–	–	13.4
– Intangible software	–	–	0.1	0.2	–	0.3
Balance Sheet Information						
Segment assets	0.1	105.5	38.3	49.2	12.0	205.1
Unallocated assets: Deferred income tax assets						6.8
Cash and cash equivalents						5.7
Total assets						217.6
Segment liabilities	(2.2)	(26.5)	(16.3)	(11.0)	(5.7)	(61.7)
Unallocated liabilities: Bank borrowings						(52.9)
Deferred income tax liabilities						(1.4)
Current income tax liabilities						(5.7)
Derivative financial liabilities						(1.4)
Retirement benefit obligations						(20.8)
Total liabilities						(143.9)
Return on Capital Employed (rolling 12 months)		40.6%	14.4%	266.9%		

Notes to the Condensed Consolidated Interim Financial Statements

3 Exceptional Items

	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year ended 31st December 2011 £m
Restructuring costs – Textile Rental	(1.2)	–	–
– Facilities Management	(1.5)	–	–
	(2.7)	–	–
Costs in relation to business acquisition activity	(0.7)	–	–
Pension costs and credits	(0.3)	–	1.6
Total exceptional items	(3.7)	–	1.6

Current year exceptional items

Restructuring costs – Textile Rental

Following the acquisition of the business and specified garment, linen, mat and towel contracts and related assets of Cannon Textile Care (Cannon), the Textile Rental business reorganised its management and support structures such that they were better aligned to the combined business needs going forward. Furthermore, redundancy costs have been recognised in the period to reflect the planned closure at certain of the Cannon sites acquired as a result of the majority of trade being transferred to existing plants within the Textile Rental business.

Although these costs were directly as a result of the acquisition they have not been classified as 'costs in relation to business acquisition activity' as they more closely fit the definition of 'restructuring costs'.

Restructuring costs – Facilities Management

Following the acquisition of the business of Nickleby & Co Limited, the Facilities Management division reorganised its management and support structures such that they were better aligned to the combined business needs going forward.

Although these costs were directly as a result of the acquisition they have not been classified as 'costs in relation to business acquisition activity' as they more closely fit the definition of 'restructuring costs'.

Costs in relation to business acquisition activity

FRS 3 (revised), 'Business combinations', is effective for reporting periods beginning on or after 1st July 2009. The revised standard requires all acquisition related costs (e.g. professional fees) to be expensed to the Income Statement. With effect from 1st January 2010, the Group has classified fees and expenses incurred on business acquisition activities as exceptional.

During the period, fees and expenses have been incurred in relation to business acquisition activity.

Fees totalling £0.4 million were incurred in relation to the acquisition of the business and specified garment, linen, mat and towel contracts and related assets of Cannon Textile Care and fees totalling £0.3 million were incurred in relation to the acquisition of the Nickleby business.

Further details on business acquisitions are shown in note 10.

Pension costs and credits

During the period an enhanced partial or full transfer value exercise was offered to those members of the Johnson Group Staff Pension Scheme whose scheme pension was in excess of the minimum income requirement. 23 members were offered the enhancement; three accepted, resulting in an exceptional cost of £0.3 million (including fees) which has been included as a settlement loss.

Prior year exceptional items

Pension costs and credits

The statutory change for the indexation of certain future benefits has been implemented. The impact of the change from RPI to CPI was recognised in the 2011 income statement as a past service credit of £2.2 million.

The Company had offered enhanced terms to certain categories of deferred members who chose to transfer their benefits out of the Johnson Group Staff Pension Scheme by increasing the transfer value that would normally be payable by the Scheme Trustee. The 2011 exercise was rolled out to deferred members aged under 50 years old. 532 members were offered the enhancement, and 110 accepted, equating to some 35% take up by liability for this group of members. This resulted in an exceptional cost of £0.6 million (including fees and employer's national insurance) and has been included as a settlement loss.

4 Taxation

Continuing operations	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year ended 31st December 2011 £m
Current tax			
UK corporation tax charge for the period	0.7	1.4	2.7
Adjustment in relation to previous periods	(0.7)	(0.1)	(0.6)
Current tax charge for the period	–	1.3	2.1
Deferred tax			
Origination and reversal of temporary differences	(0.4)	–	1.4
Adjustment in relation to previous periods	–	–	(0.1)
Deferred tax (credit)/charge for the period	(0.4)	–	1.3
Total taxation (credit)/charge for continuing operations	(0.4)	1.3	3.4

Tax relief on intangibles amortisation has reduced the taxation charge in the current period by £0.3 million (half year ended 30th June 2011: £0.3 million reduction in the charge; year ended 31st December 2011: £0.6 million reduction in the charge). Tax relief on exceptional items has reduced the taxation charge in the current period by £0.9 million (half year ended 30th June 2011: no exceptional items; year ended 31st December 2011: increased tax charge by £0.3 million).

Changes in the UK corporation tax rate

The 2012 Budget announced that the UK corporation tax rate will reduce to 22% over a period of 3 years from 2012.

The first reduction in the UK corporation tax rate from 26% to 24% was substantively enacted on 26th March 2012 (effective from 1st April 2012). Whilst the reduction will have no effect on current tax assets and liabilities which arose prior to the effective date of change, there are implications for deferred tax accounting. The effect of this rate change has been reflected in the above deferred taxation credit.

The second reduction in the UK corporation tax rate to 23% with effect from 1st April 2013 was substantively enacted on 3rd July 2012. As this legislation had not been substantively enacted at the balance sheet date the effect has not been included in these financial statements, however, the future rate reduction is not expected to have a material effect on the deferred tax provision of the Group.

The third reduction to 22% is expected to be enacted through the 2013 Finance Act.

The above changes will result in a weighted average rate of 24.5% for 2012 (2011: 26.5%), 23.25% for 2013 and 22.25% for 2014.

Reconciliation of effective tax rate

Taxation on non-exceptional items for the six months to 30th June 2012 is calculated based on the estimated average annual effective tax rate (excluding prior year items) of 25.9% (half year ended 30th June 2011: 25.6%; year ended 31st December 2011: 24.6%).

This compares to the tax rate expected to be enacted or substantively enacted at the annual balance sheet date of 24.0% (half year ended 30th June 2011: 26.0%; year ended 31st December 2011: 26.0%).

Taxation on exceptional items is calculated based on the actual tax charge or credit for each specific item.

Differences between the estimated average annual effective tax rate and statutory rate include, but are not limited to, the effect of non-deductible expenses and the effect of tax losses utilised. The adjustment for under/over provisions in previous years is recognised when the amounts are agreed.

5 Adjusted Profit Before and After Taxation

	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year ended 31st December 2011 £m
Profit before taxation (continuing activities)	0.9	5.2	13.7
Intangibles amortisation and impairment (excluding software amortisation)	1.4	1.3	2.6
Restructuring costs	2.7	–	–
Costs in relation to business acquisition activity	0.7	–	–
Pension costs and credits	0.3	–	(1.6)
Exceptional finance cost in respect of bank fees	–	–	0.3
Adjusted profit before taxation	6.0	6.5	15.0
Taxation on adjusted profit before taxation	(0.8)	(1.6)	(3.7)
Adjusted profit after taxation attributable to continuing operations	5.2	4.9	11.3

Notes to the Condensed Consolidated Interim Financial Statements

6 Earnings Per Share

	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year ended 31st December 2011 £m
Profit for the period from continuing operations attributable to Ordinary Shareholders	1.3	3.9	10.3
Profit for the period from discontinued operations attributable to Ordinary Shareholders	2.9	–	–
Intangibles amortisation from continuing operations (excluding software) (net of taxation)	1.1	1.0	2.0
Exceptional items from continuing operations (net of taxation)	2.8	–	(1.2)
Exceptional items from discontinued operations (net of taxation)	(2.9)	–	–
Exceptional finance costs from continuing operations (net of taxation)	–	–	0.2
Adjusted profit attributable to Ordinary Shareholders	5.2	4.9	11.3
Weighted average number of Ordinary shares	253,614,135	249,214,647	249,834,780
Potentially dilutive options *	18,444,284	21,628,279	20,998,433
Fully diluted number of Ordinary shares	272,058,419	270,842,926	270,833,213
Basic earnings per share			
From continuing operations	0.5p	1.5p	4.1p
From discontinued operations	1.2p	–	–
From continuing and discontinued operations	1.7p	1.5p	4.1p
Adjustment for intangibles amortisation	0.4p	0.4p	0.8p
Adjustment for exceptional items (continuing operations)	1.1p	–	(0.5p)
Adjustment for exceptional items (discontinued operations)	(1.2p)	–	–
Adjustment for exceptional finance costs	–	–	0.1p
Adjusted basic earnings per share (continuing operations)	2.0p	1.9p	4.5p
Adjusted basic earnings per share (discontinued operations)	–	–	–
Adjusted basic earnings per share (continuing and discontinued operations)	2.0p	1.9p	4.5p
Diluted earnings per share			
From continuing operations	0.5p	1.4p	3.8p
From discontinued operations	1.1p	–	–
From continuing and discontinued operations	1.6p	1.4p	3.8p
Adjustment for intangibles amortisation	0.4p	0.4p	0.7p
Adjustment for exceptional items (continuing operations)	1.0p	–	(0.4p)
Adjustment for exceptional items (discontinued operations)	(1.1p)	–	–
Adjustment for exceptional finance costs	–	–	0.1p
Adjusted basic earnings per share (continuing operations)	1.9p	1.8p	4.2p
Adjusted basic earnings per share (discontinued operations)	–	–	–
Adjusted basic earnings per share (continuing and discontinued operations)	1.9p	1.8p	4.2p

* Includes outstanding share options granted to employees and warrants issued to the Company's banks.

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

Adjusted earnings per share figures are given to exclude the effects of intangibles amortisation and impairment (excluding software amortisation), exceptional items and exceptional finance costs, all net of taxation, and are considered to show the underlying results of the Group.

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all potential dilutive Ordinary shares. The Company has potential dilutive Ordinary shares arising from share options granted to employees where the exercise price is less than the average market price of the Company's Ordinary shares during the period and warrants issued to the Company's banks.

Potential dilutive Ordinary shares are dilutive at the profit from continuing operations level when their conversion to Ordinary shares would decrease earnings per share from continuing operations. In all periods the potential dilutive Ordinary shares are dilutive, as their inclusion in the diluted basic earnings per share calculation decreases earnings per share from continuing operations.

There were no material events occurring after the balance sheet date that would have changed significantly the number of Ordinary shares or potential dilutive Ordinary shares outstanding at the balance sheet date, if those transactions had occurred before the end of the reporting period.

7 Dividends

Dividend per share (pence)	Half year to 30th June 2012	Half year to 30th June 2011	Year ended 31st December 2011
2012 Interim dividend proposed	0.36	–	–
2011 Interim dividend proposed and paid	–	0.33	0.33
2011 Final dividend proposed and paid	–	–	0.67
	0.36	0.33	1.00

Shareholders' funds utilised (£m)	Half year to 30th June 2012	Half year to 30th June 2011	Year ended 31st December 2011
2012 Interim dividend proposed	0.9	–	–
2011 Interim dividend proposed and paid	–	0.8	0.8
2011 Final dividend proposed and paid	–	–	1.7

On 18th May 2012, a final dividend of 0.67 pence per Ordinary share in respect of 2011 was paid to Shareholders, utilising £1.7 million of Shareholders' funds.

The Directors are proposing an interim dividend in respect of the year ended 31st December 2012 of 0.36 pence which will reduce Shareholders' funds by £0.9 million. The dividend will be paid on 9th November 2012 to Shareholders on the register of members at the close of business on 12th October 2012. The Trustee of the ESOP has waived the entitlement to receive dividends on the Ordinary shares held by the Trust.

In accordance with International Financial Reporting Standards, these condensed consolidated interim financial statements do not reflect a liability in respect of the proposed interim dividend.

8 Retirement Benefit Obligations

The Group has applied the requirements of IAS 19, 'Employee Benefits' to its employee pension schemes and post-retirement healthcare benefits.

As part of the Group's objective to reduce its overall pension liability, and in accordance with the Schedule of Contributions, additional contributions of £0.8 million were paid by the Group to the Johnson Group Staff Pension Scheme (JGSPS) during the period to 30th June 2012 (half year ended 30th June 2011: £0.2 million; year ended 31st December 2011: £1.2 million). A further contribution of £0.2 million was paid to the WML Final Salary Pension Scheme in the period to 30th June 2012 (half year ended 30th June 2011: £0.3 million; year ended 31st December 2011: £0.3 million).

Following discussions with the Group's appointed actuary it has been identified that an actuarial gain of £0.9 million should be recognised in the period to 30th June 2012. This is principally as a result of a gain on the return on assets of £1.3 million offset by a £0.4 million loss on assumption changes.

In addition, following on from previous initiatives undertaken over the last three years the Group has, during the period, undertaken an enhanced partial or full transfer value exercise with the purpose of reducing the overall size of the JGSPS and therefore the level of risk assumed. The exercise removed a further £1.5 million of liabilities from the JGSPS, utilising £1.7 million of assets, which resulted in a settlement loss of £0.2 million. This, together with related costs of £0.1 million is shown as an exceptional item (see note 3). Further actions are underway in order to continue the de-risking programme.

The gross retirement benefit liability and associated deferred tax asset thereon, together with the net liability is shown below:

	As at 30th June 2012 £m	As at 30th June 2011 £m	As at 31st December 2011 £m
Gross retirement benefit liability	(18.3)	(5.7)	(20.2)
Deferred tax asset thereon	4.4	1.5	5.0
Net retirement benefit liability	(13.9)	(4.2)	(15.2)

Notes to the Condensed Consolidated Interim Financial Statements

8 Retirement Benefit Obligations continued

The reconciliation of the opening gross retirement benefit liability to the closing gross retirement benefit liability is shown below:

	As at 30th June 2012 £m	As at 30th June 2011 £m	As at 31st December 2011 £m
Opening gross retirement benefit liability	20.2	16.8	16.8
Current service cost	0.3	0.3	0.5
Past service gain	–	–	(2.2)
Settlement loss	0.2	–	0.2
Notional interest	–	(0.4)	(0.7)
Employer contributions	(1.3)	(0.8)	(2.1)
Actuarial (gain) / loss	(0.9)	(10.0)	7.8
Utilisation of healthcare provision	(0.2)	(0.2)	(0.1)
Closing gross retirement benefit liability	18.3	5.7	20.2

The IASB has published an amendment to IAS 19, 'Employee benefits' which, subject to EU endorsement, will be effective for financial reporting periods beginning on or after 1st January 2013. Comparative information will need to be restated.

The changes mean that the Group will recognise a higher notional interest expense in the Income Statement as we will no longer be able to take credit for anticipated investment out-performance of equities above corporate bonds.

Had the amended standard been effective and/or adopted in 2012, the additional notional interest charge to the Income Statement at 30th June would have been £0.5 million and the full year incremental charge would have been £1.0 million, as opposed to the existing charge in 2012 of £nil. Note that this is a non-cash charge and does not impact on scheme funding.

9 Capital Expenditure and Commitments

Capital Expenditure

In the six months ended 30th June 2012 the Group acquired property, plant and equipment and intangible assets with a net book value of £3.8 million (half year ended 30th June 2011: £2.2 million; year ended 31st December 2011: £5.9 million), not including property, plant and equipment and intangible assets acquired through business combinations. In addition, textile rental items with a net book value of £10.9 million were acquired during the period (half year ended 30th June 2011: £9.2 million; year ended 31st December 2011: £18.9 million), not including textile rental items acquired through business combinations.

Property, plant and equipment and intangible assets with a net book value of nil were disposed of during the period (half year ended 30th June 2011: £0.1 million; year ended 31st December 2011: £0.2 million). In addition, textile rental items with a net book value of £1.1 million were disposed of during the period (half year ended 30th June 2011: £1.0 million; year ended 31st December 2011: £2.0 million).

Capital Commitments

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

	As at 30th June 2012 £m	As at 30th June 2011 £m	As at 31st December 2011 £m
Property, plant and equipment	1.0	0.8	1.4

10 Business Combinations and Disposals

Business Combinations

On 14th February 2012 the Group acquired the business of Nickleby & Co Limited for an initial cost of £0.9 million plus fees. Of the consideration of £0.9 million, £0.2 million was paid in July 2012. Since acquisition the business acquired has not generated a profit on revenue of £1.6 million. Had the business been acquired at the start of the period it is estimated that no profit would have been generated on revenue of £2.1 million.

The initial fair value of assets and liabilities acquired are as follows:

	Net Assets Acquired £m	Fair Value Adjustments £m	Accounting Policy Realignment £m	Initial Fair Value of Assets Acquired £m
Intangible assets – Customer lists and contracts	–	0.8	–	0.8
Intangible assets – Software	–	–	0.1	0.1
	–	0.8	0.1	0.9

On 31st March 2012 the Group acquired the Cannon Textile Care (Cannon) business from OCS Group Limited for a cost of £5.9 million plus fees. Since acquisition the business acquired has generated a loss of £0.4 million on revenue of £3.6 million. Had the business been acquired at the start of the period it is estimated that profits of £0.1 million would have been generated on revenue of £6.9 million.

10 Business Combinations and Disposals continued

Business Combinations continued

The initial fair value of assets and liabilities acquired are as follows:

	Net Assets Acquired £m	Fair Value Adjustments £m	Accounting Policy Realignment £m	Initial Fair Value of Assets Acquired £m
Intangible assets – Customer lists and contracts	–	4.0	–	4.0
Property plant and equipment	0.3	–	–	0.3
Rental stock items in circulation	1.6	–	–	1.6
	1.9	4.0	–	5.9

Both acquisitions have had a relatively short period of ownership and these amounts may therefore be subject to adjustment.

During the year to 31st December 2011 there were no business combinations. Payments totalling £0.2 million were made during that period relating to acquisition costs incurred during the previous year.

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

	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year to 31st December 2011 £m
Consideration for Cannon business	5.9	–	–
Fees paid in relation to Cannon business acquisition	0.3	–	–
Consideration for Nickleby business	0.7	–	–
Fees paid in relation to Cannon business acquisition	0.3	–	–
Prior period acquisition fees	–	0.2	0.2
	7.2	0.2	0.2

Disposals

There have been no business disposals in the six months to 30th June 2012 or in the year to 31st December 2011.

Discontinued Operations

During 2011 a tax repayment of £5.0 million was received from HMRC relating to the disposal of the Corporatewear division in 2008, pending finalisation of tax computations. £1.5 million of this was recognised in the year to 31st December 2011. The tax computations have now been finalised resulting in a payment back to HMRC of £0.5 million which was paid in July 2012. The balance of £3.0 million has been recognised as a credit to the Income Statement in the current period within Discontinued Operations. Professional fees of £0.1 million incurred in connection with this matter have also been recongnised as arising from discontinued operations.

During 2011 £2.0 million of additional provisions were recognised relating to future lease commitments on properties previously used in operations which are discontinued. If not provided these costs would have been incurred in future years. A tax credit of £0.5 million was recognised in relation to this provision together with the credit of £1.5 million referred to above.

	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year to 31st December 2011 £m
Loss before taxation from discontinued operations	(0.1)	–	(2.0)
Taxation	3.0	–	2.0
Profit for the period	2.9	–	–

11 Borrowings

The Group has a banking facility under which bank loans are secured and are drawn down under a committed facility initially comprising of an amortising Term Loan of £53.5 million and a Revolving Credit Facility, including an overdraft facility, of £25.0 million of which £2.5 million matures in December 2013 with the remainder maturing in May 2015. 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 which ranges from 2.5% to 3.0%.

As at 30th June 2012, the bank facilities available to the Group were £78.5 million. The Term Loan will reduce by £1.5 million on the 31st December 2012, by £1.5 million on the 30th June 2013 and by £3.0 million on the 31st December 2013 and at six monthly intervals thereafter.

Bank loans are stated net of unamortised issue costs of £0.9 million (30th June 2011: £0.7 million; 31st December 2011: £nil).

Notes to the Condensed Consolidated Interim Financial Statements

12 Analysis of Net Debt

	Cash and Cash Equivalents (including Lifecycle Funds) £m	Less Lifecycle Funds £m	Cash and Cash Equivalents (excluding Lifecycle Funds) £m	Debt Due Within One Year £m	Debt Due After More Than One Year £m	Finance Leases £m	Total Net Debt £m
Balance at 31st December 2010	(1.4)	(1.8)	(3.2)	(2.2)	(52.7)	(1.4)	(59.5)
Cash flow	6.5	(0.1)	6.4	1.5	1.0	0.4	9.3
Other non-cash changes	–	–	–	(1.6)	1.2	(0.4)	(0.8)
Balance at 30th June 2011	5.1	(1.9)	3.2	(2.3)	(50.5)	(1.4)	(51.0)
Cash flow	(0.3)	0.6	0.3	1.5	–	0.3	2.1
Other non-cash changes	–	–	–	(0.7)	–	(0.1)	(0.8)
Balance at 31st December 2011	4.8	(1.3)	3.5	(1.5)	(50.5)	(1.2)	(49.7)
Cash flow	(3.1)	(0.3)	(3.4)	(2.0)	(3.5)	0.2	(8.7)
Other non-cash changes	–	–	–	(1.0)	1.9	–	0.9
Balance at 30th June 2012	1.7	(1.6)	0.1	(4.5)	(52.1)	(1.0)	(57.5)

At 30th June 2012 cash and cash equivalents comprises a cash balance of £1.9 million, and an overdraft of £0.2 million (30th June 2011: £5.1 million of cash and no overdraft; 31st December 2011: £5.7 million of cash and an overdraft of £0.9 million). The overdraft is included within Borrowings (Current Liabilities) on the Balance Sheet.

13 Reconciliation of Net Cash Flow to Movement in Net Debt

	Half year to 30th June 2012 £m	Half year to 30th June 2011 £m	Year ended 31st December 2011 £m
(Decrease)/increase in cash in the period	(3.1)	6.5	6.2
Movement in Lifecycle funds	(0.3)	(0.1)	0.5
(Decrease)/increase in cash excluding Lifecycle funds	(3.4)	6.4	6.7
Cash (inflow)/outflow on change in debt and lease financing	(5.3)	2.9	4.7
Change in net debt resulting from cash flows	(8.7)	9.3	11.4
Movement in unamortised issue costs of bank loans	0.9	(0.4)	(1.1)
New finance leases	–	(0.4)	(0.5)
Movement in net debt during the period	(7.8)	8.5	9.8
Opening net debt	(49.7)	(59.5)	(59.5)
Closing net debt	(57.5)	(51.0)	(49.7)

14 Related Party Transactions

Transactions during the year between the Company and its subsidiaries, which are related parties, have been conducted on an arm's length basis and eliminated on consolidation.

Full details of the Group's other related party relationships, transactions and balances are given in the Group's financial statements for the year ended 31st December 2011. There have been no material changes in these relationships in the half year to 30th June 2012 or up to the date of this report.

15 Contingent Liabilities

The Group operates from a number of sites across the UK. Some of the sites have operated as laundry and drycleaning 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 Trustees of the Pension Schemes security over the assets of the Group. Security for the amount drawn under the Bank Facility Agreement ranks pari passu with the £28.0 million security of the Pension Trustees.

At 30th June 2012 there were no other contingent liabilities except for those arising from the ordinary course of the Group's business.

16 Events After the Balance Sheet Date

On the 4th July 2012 the Group announced a review of the Drycleaning business and the following recommendations of this review are being implemented:

- The combination of Drycleaning and Textile Rental into a single Textile Services division. Benefits will include a unified branding strategy, significant cost savings and greater co-operation on sales opportunities.
- The closure of approximately 100 underperforming branches by the year end from the present portfolio of 460 with a corresponding reduction in back office and field teams and a reduced requirement for the warehousing and distribution of consumables.
- A significant acceleration of dilapidation provisions which will increase flexibility on lease renewal.

The estimated charge to the Income Statement for the planned restructuring and property provisions relating to the Drycleaning business amounts to an aggregate £23.9 million, which will be treated as an exceptional item in the second half of 2012.

Of the estimated charge, £3.7 million is non-cash and only £3.4 million is an additional cash requirement relating to the restructuring cost, as the balance is already contractually committed cash spend in the current and future years (including rent, rates, insurance and dilapidations) irrespective of the restructuring plan. Accordingly, the Board does not expect the cash impact of the restructuring to affect the dividend policy or to increase the level of Group borrowings significantly. In addition, the Board is confident that there is adequate headroom with respect to the terms of the bank facility and associated covenant ratios.

The anticipated taxation credit in respect of the exceptional cost above is estimated at £5.6 million. It is not expected that any corporation tax payments in respect of 2012 earnings will be made in the second half of this year or in the first half of 2013.

17 Accounting Policies

Except as described below, the condensed consolidated interim financial statements have been prepared applying the accounting policies, presentation and methods of computation applied by the Group in the preparation of the published consolidated financial statements for the year ended 31st December 2011.

(a) Taxation

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings before exceptional items. Taxation on exceptional items is accrued as the exceptional items are recognised. Prior year adjustments in respect of taxation are recognised when it becomes probable that such adjustment is needed.

(b) Seasonality of operations

Seasonality or cyclicality could affect the Drycleaning business and Stalbridge Linen Services, although the Directors do not consider this seasonality or cyclicality to be significant in the context of the consolidated interim financial statements.

(c) Standards and amendments to standards effective in 2011

New and amended standards and interpretations need to be adopted in the first interim financial statements issued after their effective date (or date of early adoption).

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1st January 2012, but have no material impact on the Group:

- Amendment to IAS 12, 'Income taxes' (subject to EU endorsement)
- Amendment to IFRS 1, 'First time adoption' (subject to EU endorsement)
- Amendment to IFRS 7, 'Financial instruments: Disclosures'

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1st January 2012, and have not been early adopted:

- Amendment to IAS 1, 'Financial statement presentation'
- Amendment to IAS 19, 'Employee benefits'
- IFRS 9, 'Financial instruments'
- IFRS 10, 'Consolidated financial statements'
- IFRS 11, 'Joint arrangements'
- IFRS 12, 'Disclosure of interests in other entities'
- IFRS 13, 'Fair value measurement'

Other than in respect of the changes to IAS 19, 'Employee benefits', the details of which are disclosed within note 8, the expected impact of the proposed changes is still being assessed in detail by management.

Notes to the Condensed Consolidated Interim Financial Statements

17 Accounting Policies continued

(d) Critical accounting estimates and assumptions

The preparation of the condensed consolidated interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

(e) Forward looking statements

Certain statements in this interim report are forward-looking. The terms 'expect', 'should be', 'will be' 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 expressed or implied by these forward-looking statements.

18 Principal Risks and Uncertainties

The Group set out in its 2011 Annual Report and Financial Statements the principal risks and uncertainties that could impact its performance; these remain unchanged since the Annual Report was published. The Group operates a structured risk management process, which identifies and evaluates risks and uncertainties and reviews mitigation activity.

The past six months have seen little change in financial market conditions and therefore no overall improvement in the risk environment. The Group has no exposure to sub-prime lending or collateralised debt obligations. The Group has sufficient headroom to enable it to conform to covenants on its existing borrowings and has sufficient working capital and undrawn financing facilities to service its operating activities.

The main area of potential risk and uncertainty on a short-term forward-looking basis over the remainder of the financial year centres on the sales and profit impact from economic conditions and consumer demand, together with the impact of product cost pressures and an associated level of customer price inflation. Other potential risks and uncertainties around sales and/or profits include competitor activity, energy prices, product supply and other operational processes, product safety, business interruption, infrastructure development, reliance on key personnel and the regulatory environment.

Further details of the Principal Risks and Uncertainties facing the Group were detailed on pages 18 & 19 of the 2011 Annual Report.

19 Published Financial Statements

As previously announced, there is no longer a requirement to send out half-yearly reports to all Shareholders or to advertise the content in a national newspaper.

In order to reduce costs, the Company has taken advantage of this reporting regime and 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.johnsonplc.com

Directors and Advisors

Directors

John Andrew Talbot FCA
Executive Chairman
Chairman of Nomination Committee

Yvonne May Monaghan BSc (Hons), FCA
Finance Director

Kevin Paul Elliott CIPS
Managing Director of the Facilities Management Division
Director responsible for Health, Safety and the Environment

Christopher Sander
Managing Director of the Textile Services Division

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

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

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

Company Secretary

Yvonne May Monaghan BSc (Hons), FCA

Group Financial Controller

Timothy James Morris BA (Hons), ACA

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The Royal Bank of Scotland plc
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Independent Auditors
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Chartered Accountants and Statutory Auditors
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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.johnsonplc.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.

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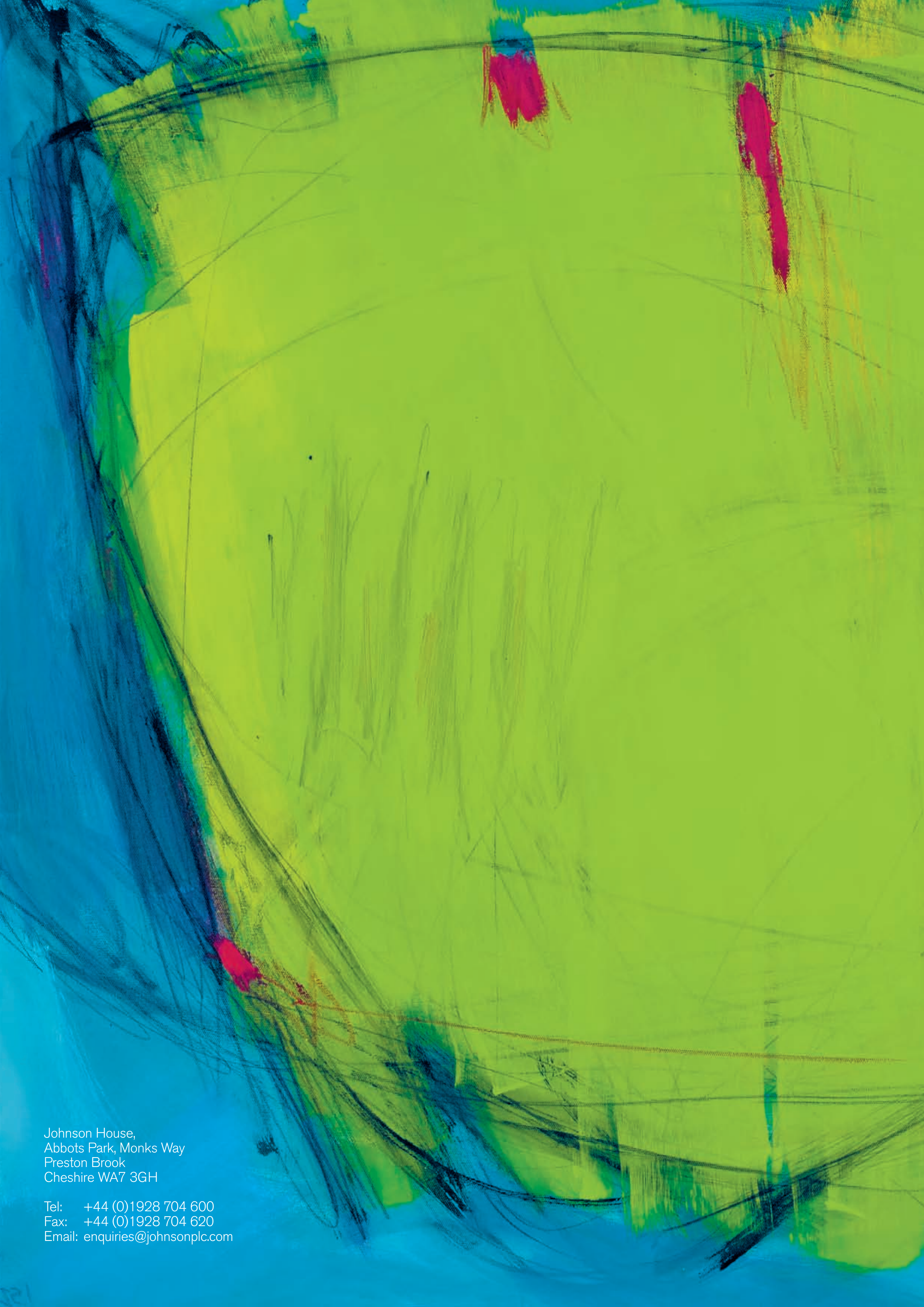
If you have any queries regarding electronic communications, please contact the Company's registrar, Capita Registrars, on 0871 664 0300 (calls cost 10p per minute plus network extras, lines are open 8.30am-5.30pm Mon-Fri).



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