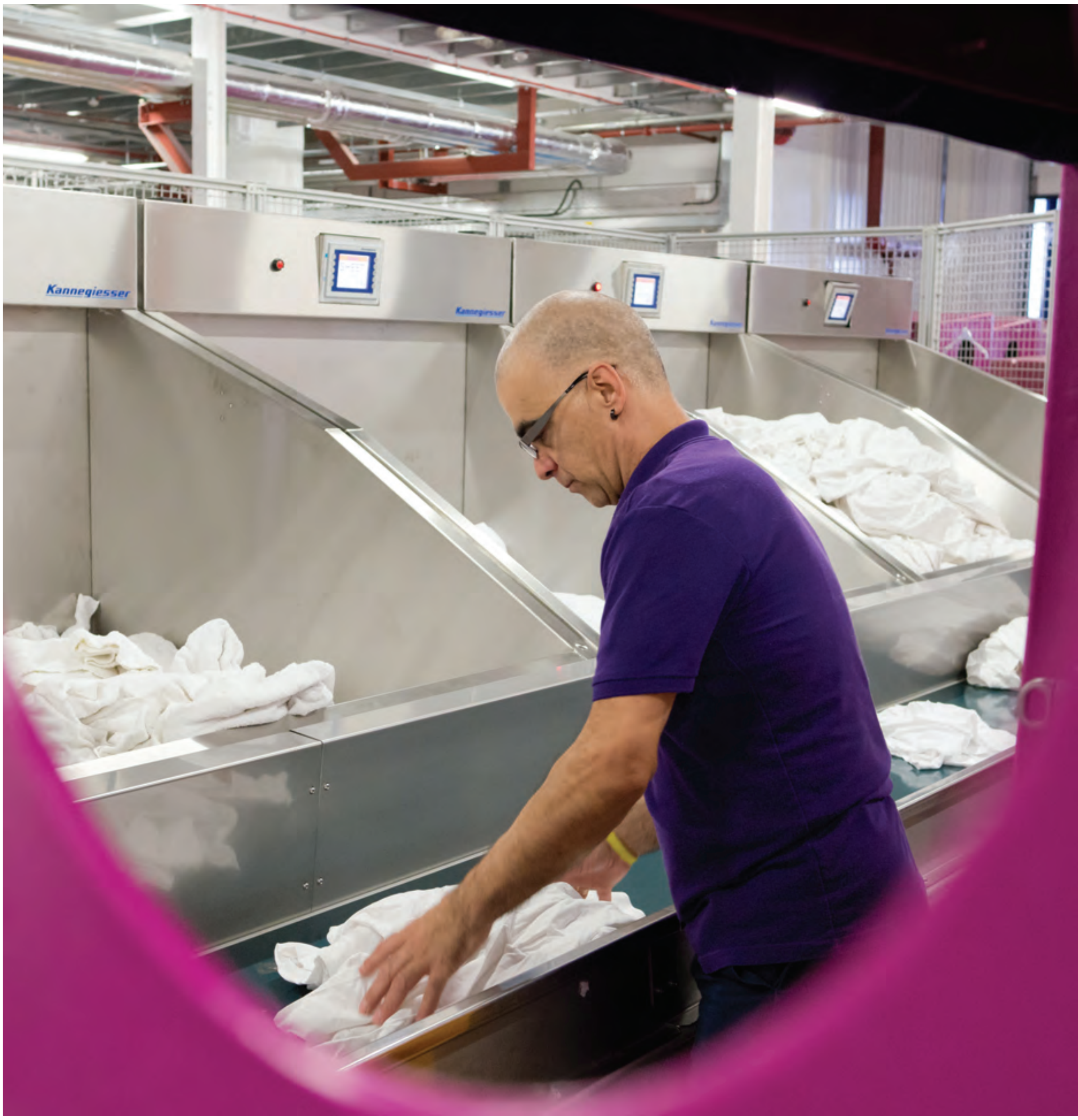
Interim Report and Accounts 2015

JOHNSON
SERVICE GROUP PLC

THE ESTABLISHED NAME IN THE TEXTILE RENTAL AND DRYCLEANING SECTORS



CHAIRMAN'S STATEMENT
PAUL MOODY

I am pleased to report another strong performance by the Group for the first half of 2015, ahead of expectations and significantly ahead of 2014.

As announced on 1 May 2015, we expanded our presence in the restaurant and catering linen market through the acquisition of London Linen which has contributed to the strength of performance in our Textile Rental business and has been immediately earnings enhancing. This acquisition is a continuation of our strategy of buying businesses that have synergies with our existing operations and can be integrated with ease into the wider Group. The reorganisation of the Drycleaning business, announced in January 2015, is being successfully implemented in line with our original cost estimate and timescale.

Net debt at June 2015 was £72.4 million (December 2014: £28.5 million, £73.1 million on a pro-forma basis) after funding the London Linen acquisition for net consideration and related expenses of £65.7 million and including the receipt of £21.1 million of net proceeds from the Equity Placing in May 2015.

As a result of the Group's continued encouraging performance, and in line with our stated intention to adopt a progressive dividend policy, the Board has recommended a 30% increase in the interim dividend to 0.65 pence (June 2014: 0.50 pence) which will be paid on 6 November 2015 to Shareholders on the register at the close of business on 9 October 2015.

Group Results

Total revenue in the six months to June 2015 was £109.2 million (June 2014: £101.6 million). The half benefitted from two months contribution from London Linen but also reflected the impact of the reduced number of Drycleaning branches. Adjusted operating profit increased by 20.2% to £11.3 million (June 2014: £9.4 million).

Adjusted profit before tax amounted to £10.1 million (June 2014: £8.5 million). The underlying tax rate was 20.7% (June 2014: 22.2%).

Exceptional items in the first half of 2015 amounted to £7.6 million (June 2014: £1.4 million) comprising of acquisition costs totalling £0.8 million, the previously announced costs associated with the successful relocation of our Leeds Textile Rental plant of £0.6 million and the costs incurred to date in implementing the Drycleaning reorganisation of £6.2 million.

Net finance costs were £1.2 million (June 2014: £0.9 million) reflecting higher levels of bank borrowings following the London Linen acquisition and including a higher notional interest charge on net pension liabilities of £0.3 million (June 2014: £0.1 million).

After amortisation and impairment of intangible assets (excluding software amortisation) of £1.3 million (June 2014: £0.7 million) the pre-tax profit was £1.2 million (June 2014: £6.4 million).

Adjusted fully diluted earnings per share were 2.6 pence (June 2014: 2.3 pence) while fully diluted earnings per share after amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items were 0.2 pence (June 2014: 1.7 pence).

Pension Deficit

The recorded net deficit after tax for all post retirement benefit obligations has reduced to £12.4 million at June 2015 from £14.8 million at December 2014. The reduction is due, in part, to the increase in Corporate Bond yields, which determines the discount rate applied to liabilities.

As part of our ongoing review of scheme liabilities, and in consideration of new pension legislation, we are currently reviewing the options which may offer eligible scheme members more flexibility in accessing their benefits.

The current agreement with the Trustee of the defined benefit pension scheme requires additional contributions of £1.9 million in the year to December 2015, of which £1.0 million was incurred during the first half.

Finances

Total net debt at the end of the first half was £72.4 million (December 2014: £28.5 million), slightly better than management expectations and reflecting the strong trading performance in the first half, the financing of the London Linen acquisition and the Equity Placing. Our leverage ratio has reduced to below 2.0x, some six months earlier than previously stated.

The new bank facility, entered into prior to the London Linen acquisition, matures in April 2020 and amounts to £100.0 million with an additional £20.0 million short term facility available to April 2016. The facility is considerably 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 9.4 times (June 2014: 10.4 times), with interest costs on our floating rate borrowings continuing to benefit from the current low levels of LIBOR. Interest rate swaps are in place for £20.0 million of borrowings, whereby LIBOR is replaced by a fixed rate of 1.79% to January 2016. Two new interest rate swaps, each for £15.0 million of borrowings, have been entered into whereby LIBOR is replaced by a fixed rate of 1.4725% for the period January 2016 to January 2019 and 1.665% for the period January 2016 to January 2020.

Dividend

In line with our stated intention to adopt a progressive dividend policy whilst maintaining an adequate level of cover, the Board has proposed an interim dividend of 0.65 pence, representing an increase of 30% over the same period last year (June 2014: 0.50 pence), and

CHAIRMAN'S STATEMENT CONTINUED

reflecting the earnings accretion from the two recent acquisitions, the Board's confidence in the business going forward and a rebalancing of interim and final dividend to be broadly in line with historic ratios.

The interim dividend will be paid on 6 November 2015 to those Shareholders on the register of members at the close of business on 9 October 2015. The ex-dividend date is 8 October 2015.

Employees

I would like to thank our employees throughout the Group for their continuing support and commitment and, in particular, welcome the employees of London Linen to the Group.

Outlook

I am very pleased with the strong performance of the Group in the first half of the year and expect the full year results for 2015 to be slightly ahead of current market expectations. The process of integrating London Linen into the wider Textile Rental business is on-going and proceeding to plan.

The Board's medium term strategy of seeking further acquisitions in Textile Rental and continuing to invest in existing locations to optimise capacity remains unchanged.

Paul Moody
Non Executive Chairman
2 September 2015

CHIEF EXECUTIVE OFFICER'S OPERATING REVIEW

Textile Rental

Our Textile Rental business trades through four very well recognised brands servicing three market sectors within Textile Rental in the UK. These are "Apparelmaster", which predominantly provides workwear rental and laundry services to all sectors of industry, "Stalbridge" and "London Linen", which provide premium linen services to the restaurant, hospitality and corporate events market and "Bourne", which provides high volume hotel linen.

Textile Rental revenue increased by 15.2% to £85.7 million (June 2014: £74.4 million), whilst adjusted operating profit increased by 14.8% to £12.4 million (June 2014: £10.8 million) helped by the addition of the London Linen business in April 2015 and a full six months of trading from Bourne. Overall, the Textile Rental business continues to focus on customer service in order to maintain its high customer retention levels and on targeted investment across the division to improve production efficiency and capacity.

Apparelmaster had a solid first half performance with sales to both new and existing customers being positive, despite the challenges of competitive market conditions. This, along with the renewal of a number of National Accounts, has resulted in increased investment in rental stock.

The business strategy to continually improve customer service and quality levels together with the latest initiative to streamline and simplify customer invoicing is being particularly well received.

As part of the on-going investment in our workwear facilities the new £8.5 million state of the art facility in Leeds is now fully operational, delivering excellent levels of efficiency and quality combined with lower energy consumption. This new facility has significantly increased the garment processing capacity for Apparelmaster in the North of England and will enable delivery efficiencies to be realised in its trading area.

Further capital investment has been completed at the Perth facility where a substantial extension to the building, together with additional washing and finishing equipment, has been added to accommodate future growth.

Stalbridge has returned a strong performance in the first half of 2015 with improved customer retention and new sales driving revenue growth. Lower central overheads and improved productivity have led to an enhanced margin. A product review and tighter controls on linen stock spend and management are improving linen utilisation.

A vigorous marketing campaign was undertaken in the first half of 2015, building on the strong brand in its core marketplace. New sales materials have been developed to enhance and strengthen the sales and marketing process.

There have been investments in new machinery during the first half of 2015, and these are providing improvements in throughput and product quality. New energy saving equipment has been installed in the Glasgow factory, which has also been extended in size due to strong demand for Stalbridge's premium service in Scotland and the North East.

Stalbridge and London Linen are working together to streamline customer relationships and transport links and, as a result, a number of London Linen customers in Scotland are now being serviced from the Stalbridge operation in Glasgow.

In line with the Group's continued focus on providing exceptional customer service, the 'My Stalbridge' customer extranet facility, which allows our customers to access their account details on the internet, is proving to be very popular with prospective and existing customers and further development work is on-going to make this even more interactive and user friendly.

We are delighted with the acquisition of **London Linen**, which complements the services provided by Stalbridge, where trading during the initial two months since acquisition was in line with our expectations. Revenue has increased compared to the same period last year and we remain optimistic about the business opportunities, particularly in the vibrant London restaurant market.

At this early stage we are working very closely with the management teams to improve the production capabilities and efficiencies in the existing facilities and anticipate that a number of capital investment programmes which are currently under review will commence towards the end of this year and into 2016.

Bourne has traded well in the face of recent volatile market conditions and some National contract churn in the high volume UK hotel sector. Whilst this sector has experienced a lower occupancy rate increase than in the previous year, we have added a net 17 hotels to the business so far this year.

In line with the Textile Rental ethos, Bourne has further developed the quality and service provided to its customers and photographic technology has been introduced to automate the consistency of the finished linen.

In conjunction with this investment is the introduction of a web ordering portal for customers combined with a paperless billing facility which has been very well received.

Drycleaning

Our Drycleaning business is represented across the UK through the highly recognised brands of "Johnson Cleaners", and our London based premium brand, "Jeeves of Belgravia".

CHIEF EXECUTIVE OFFICER'S OPERATING REVIEW CONTINUED

Revenue was down to £23.5 million (June 2014: £27.2 million) reflecting the reduced number of branches following the reorganisation programme. There were 210 branches and 128 Waitrose locations trading at the end of June 2015. Adjusted operating profit increased to £0.5 million (June 2014: £0.4 million).

The branch reorganisation is almost complete, with the closure of 99 branches in a 3 month period. The total cost of the programme remains at £6.5 million, in line with our initial estimates. £6.2 million of this was incurred in the first half, of which £3.1 million was expended in cash.

We are very pleased with the progress that we have made to date with our partnership with Waitrose, adding a further 50 locations in the period to June. We anticipate that additional locations will be opened throughout the remainder of the year.

We have continued the development of new routes to reach our customers at their place of work and through our online model which includes the launch of Johnson's Bridal and a localised online service for the cleaning of household goods.

Chris Sander
Chief Executive Officer
2 September 2015

RESPONSIBILITY STATEMENT

The condensed consolidated interim financial statements comply with the Disclosure and Transparency Rules ("DTR") of the United Kingdom's Financial Conduct 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, 'Interim Financial Reporting' 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 six months and description of principal risks and uncertainties for the remaining six months 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 2014. There have been no changes since 31 December 2014. Details of the Directors are available on the Johnson Service Group PLC website: www.jsg.com

By order of the Board

Yvonne Monaghan
Chief Financial Officer
2 September 2015

CONSOLIDATED INCOME STATEMENT

	Note	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Revenue from continuing operations	2	109.2	101.6	210.4
Operating profit	2	2.4	7.3	13.4
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items		11.3	9.4	21.8
Amortisation and impairment of intangible assets (excluding software amortisation)		(1.3)	(0.7)	(1.6)
Exceptional items	3			
– Restructuring and other costs		(6.8)	(0.8)	(1.3)
– Costs in relation to business acquisition activity		(0.8)	(0.6)	(0.6)
– Pension costs		–	–	(4.9)
Operating profit	2	2.4	7.3	13.4
Finance cost		(0.9)	(0.8)	(1.6)
Notional interest		(0.3)	(0.1)	(0.2)
Total finance cost		(1.2)	(0.9)	(1.8)
Profit before taxation		1.2	6.4	11.6
Taxation charge*	4	(0.5)	(1.6)	(3.0)
Profit for the period from continuing operations		0.7	4.8	8.6
Result for the period from discontinued operations	12	–	–	–
Profit for the period attributable to equity holders		0.7	4.8	8.6
Earnings per share				
Basic earnings per share				
From continuing operations		0.2p	1.7p	2.9p
Fully diluted earnings per share				
From continuing operations		0.2p	1.7p	2.9p
Adjusted basic earnings per share				
From continuing operations		2.6p	2.3p	5.3p
Adjusted fully diluted earnings per share				
From continuing operations		2.6p	2.3p	5.2p

The notes on pages 11 to 25 form an integral part of these condensed consolidated interim financial statements.

* Including £0.3 million credit (June 2014: £0.1 million credit; December 2014: £0.4 million credit) relating to amortisation and impairment of intangible assets (excluding software amortisation), £1.3 million credit (June 2014: £0.2 million credit; December 2014: £1.1 million credit) in relation to exceptional items of which £nil relates to prior year adjustments (June 2014: £nil; December 2014: £0.3 million credit).

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Profit for the period/year		0.7	4.8	8.6
Items that will not be subsequently reclassified to profit or loss				
Re-measurement and experience gains/(losses) on post-employment benefit obligations	8	2.3	(5.7)	(11.5)
Taxation (charge)/credit in respect of re-measurement and experience (gains)/losses		(0.5)	1.1	2.3
Items that may be subsequently reclassified to profit or loss				
Cash flow hedges (net of taxation) – fair value loss		(0.2)	(0.1)	(0.4)
– transfers to operating profit		0.1	–	–
– transfers to finance cost		0.2	0.2	0.3
Other comprehensive income/(loss) for the period/year		1.9	(4.5)	(9.3)
Total comprehensive income/(loss) for the period/year		2.6	0.3	(0.7)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital £m	Share Premium £m	Merger Reserve £m	Capital Redemption Reserve £m	Hedge Reserve £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2014	26.2	14.1	1.6	0.6	(0.3)	28.3	70.5
Profit for the period	–	–	–	–	–	4.8	4.8
Other comprehensive income/(loss) for the period	–	–	–	–	0.1	(4.6)	(4.5)
Total comprehensive income for the period	–	–	–	–	0.1	0.2	0.3
Share options (value of employee services)	–	–	–	–	–	0.3	0.3
Purchase of shares by EBT*	–	–	–	–	–	(0.9)	(0.9)
Current tax on share options	–	–	–	–	–	1.2	1.2
Deferred tax on share options	–	–	–	–	–	(1.0)	(1.0)
Issue of share capital (net of costs)	3.7	0.2	–	–	–	10.2	14.1
Dividend paid	–	–	–	–	–	(2.4)	(2.4)
Transactions with Shareholders recognised directly in Shareholders' equity	3.7	0.2	–	–	–	7.4	11.3
Balance at 30 June 2014	29.9	14.3	1.6	0.6	(0.2)	35.9	82.1
Profit for the period	–	–	–	–	–	3.8	3.8
Other comprehensive loss for the period	–	–	–	–	(0.2)	(4.6)	(4.8)
Total comprehensive loss for the period	–	–	–	–	(0.2)	(0.8)	(1.0)
Share options (value of employee services)	–	–	–	–	–	0.1	0.1
Issue of share capital (net of costs)	0.1	0.2	–	–	–	–	0.3
Dividend paid	–	–	–	–	–	(1.5)	(1.5)
Transactions with Shareholders recognised directly in Shareholders' equity	0.1	0.2	–	–	–	(1.4)	(1.1)
Balance at 31 December 2014	30.0	14.5	1.6	0.6	(0.4)	33.7	80.0
Profit for the period	–	–	–	–	–	0.7	0.7
Other comprehensive income for the period	–	–	–	–	0.1	1.8	1.9
Total comprehensive income for the period	–	–	–	–	0.1	2.5	2.6
Share options (value of employee services)	–	–	–	–	–	0.2	0.2
Deferred tax on share options	–	–	–	–	–	0.1	0.1
Issue of share capital (net of costs)	3.1	0.1	–	–	–	18.0	21.2
Dividend paid	–	–	–	–	–	(3.6)	(3.6)
Transactions with Shareholders recognised directly in Shareholders' equity	3.1	0.1	–	–	–	14.7	17.9
Balance at 30 June 2015	33.1	14.6	1.6	0.6	(0.3)	50.9	100.5

* The Group has an Employee Benefit Trust (EBT) to administer share plans and to acquire shares, using funds contributed by the Group, to meet commitments to employee share schemes. At 30 June 2015, the EBT held 20,739 shares (30 June 2014 and 31 December 2014: 20,739 shares).

CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2015 £m	As at 30 June 2014 £m	As at 31 December 2014 £m
Assets				
Non-current assets				
Goodwill		91.1	56.2	56.2
Intangible assets		36.5	12.5	11.7
Property, plant and equipment		57.0	46.5	51.3
Textile rental items		35.8	29.8	30.5
Trade and other receivables		1.1	1.8	3.3
Deferred income tax assets		3.3	4.4	4.6
		224.8	151.2	157.6
Current assets				
Inventories		2.8	2.0	2.1
Trade and other receivables		39.7	34.9	30.3
Cash and cash equivalents		1.1	0.1	0.2
		43.6	37.0	32.6
Liabilities				
Current liabilities				
Trade and other payables		53.2	44.2	43.7
Current income tax liabilities		1.8	0.8	1.5
Borrowings	13	5.3	3.7	6.9
Derivative financial liabilities		0.2	–	–
Provisions		9.1	4.9	4.6
		69.6	53.6	56.7
Net current liabilities		(26.0)	(16.6)	(24.1)
Non-current liabilities				
Post-employment benefit obligations	8	15.4	9.0	18.5
Deferred income tax liabilities		7.0	2.7	1.8
Other non-current liabilities		0.8	1.4	0.9
Borrowings	13	68.2	28.1	21.8
Derivative financial liabilities		0.1	0.2	0.4
Provisions		6.8	11.1	10.1
		98.3	52.5	53.5
Net assets		100.5	82.1	80.0
Equity				
Capital and reserves attributable to the company's shareholders				
Share capital	10	33.1	29.9	30.0
Share premium		14.6	14.3	14.5
Merger reserve		1.6	1.6	1.6
Capital redemption reserve		0.6	0.6	0.6
Hedge reserve		(0.3)	(0.2)	(0.4)
Retained earnings		50.9	35.9	33.7
Total Shareholders' equity		100.5	82.1	80.0

The notes on pages 11 to 25 form an integral part of these condensed consolidated interim financial statements.

The condensed consolidated interim financial statements on pages 6 to 25 were approved by the Board of Directors on 2 September 2015 and signed on its behalf by:

Yvonne Monaghan
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Cash flows from operating activities				
Profit for the period		0.7	4.8	8.6
Adjustments for:				
Income tax charge/(credit) – continuing operations	4	0.5	1.6	3.0
– discontinued operations	12	–	–	(0.7)
Finance income and expense – continuing operations		1.2	0.9	1.8
Depreciation and impairment of tangible fixed assets		15.3	13.5	28.3
Amortisation and impairment of intangible fixed assets		1.3	0.7	1.6
Decrease in inventories		0.3	0.2	0.2
(Increase)/decrease in trade and other receivables		(3.1)	(1.9)	0.6
Increase in trade and other payables		5.1	2.9	1.6
Pre-tax loss on disposal of business	12	–	–	0.4
Costs in relation to business acquisition activity charged to Income Statement		0.8	0.6	0.6
Deficit recovery payments in respect of post-employment benefit obligations		(1.0)	(1.0)	(2.0)
Share-based payments		0.2	0.3	0.4
Post-employment benefit obligations		(0.1)	(0.1)	4.6
Increase/(decrease) in provisions		0.7	(1.9)	(3.1)
Cash generated from operations		21.9	20.6	45.9
Interest paid		(1.2)	(1.4)	(2.0)
Taxation paid		(0.9)	(0.2)	(0.1)
Net cash generated from operating activities		19.8	19.0	43.8
Cash flows from investing activities				
Acquisition of business (net of cash acquired)	11	(65.7)	(22.3)	(22.4)
Proceeds from sale of business (net of cash disposed)	12	0.2	–	0.1
Purchase of property, plant and equipment		(3.8)	(4.7)	(11.6)
Proceeds from sale of property, plant and equipment		0.1	–	0.1
Purchase of intangible assets		–	–	(0.1)
Purchase of textile rental items		(12.8)	(11.4)	(24.9)
Proceeds received in respect of special charges		1.0	0.9	1.9
Net cash used in investing activities		(81.0)	(37.5)	(56.9)
Cash flows from financing activities				
Proceeds from borrowings		73.5	54.0	66.0
Repayments of borrowings		(27.0)	(52.0)	(70.0)
Capital element of finance leases		(0.5)	(0.4)	(0.8)
Purchase of own shares by EBT		–	(0.9)	(0.9)
Net proceeds from issue of Ordinary shares		21.2	14.1	14.4
Dividend paid		(3.6)	(2.4)	(3.9)
Net cash generated from financing activities		63.6	12.4	4.8
Net increase/(decrease) in cash and cash equivalents		2.4	(6.1)	(8.3)
Cash and cash equivalents at beginning of period		(4.9)	3.4	3.4
Cash and cash equivalents at end of period	14	(2.5)	(2.7)	(4.9)

The notes on pages 11 to 25 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 textile related services to both businesses and consumers. The Group has two distinct operating segments:

Textile Rental

Provision and laundering of workwear, roller towels, corporate apparel, dust mats, premium linen for the hotel, catering and hospitality markets, linen for the high volume hotel market and the direct sale of associated products.

Drycleaning

Provision of retail and commercial drycleaning and other associated support services.

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

The condensed consolidated interim financial statements were approved for issue by the Board on 2 September 2015.

1 Basis of preparation

These condensed consolidated interim financial statements of the Group are for the six months ended 30 June 2015. They have been prepared in accordance with the Disclosure and Transparency Rules of the Financial Conduct Authority and with IAS 34, 'Interim Financial Reporting', as adopted by the European Union.

The condensed consolidated interim financial statements have not been reviewed nor 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 2014 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 31 December 2014 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 30 June 2014 included herein is derived from the condensed consolidated interim financial statements for that period.

Going Concern and Future Prospects

The Directors confirm that, based upon the information and knowledge of which they can be reasonably expected to be aware, they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due for a period of not less than 36 months from the date of this report, and that it is, therefore, appropriate to adopt the going concern principle in preparing these condensed consolidated interim financial statements.

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

- the Group has a committed bank facility, with significant headroom both in terms of covenant compliance and availability, through to April 2020;
- interest rate risk is mitigated through hedging arrangements which, currently and until 8 January 2016, replace LIBOR with a fixed rate of 1.7900% over £20.0 million of borrowings. Thereafter, additional arrangements are in place such that LIBOR is replaced with a fixed rate of 1.4725% over £15.0 million of borrowings until 8 January 2019 and LIBOR is replaced with a fixed rate of 1.6650% over a further £15.0 million of borrowings until 8 January 2020;
- the Textile Rental business, which forms the largest part of the Group, has a diversified customer base of some 45,000 customers, the majority of which have a formal contract in place, with varying expiry dates of up to five years, and hence providing a secure future income stream;
- given the diverse and unrelated nature of the Group's customer base, there is limited concentration of credit risk;
- the Group has prepared a three year financial budget, which has been reviewed, challenged and approved by the Board, that projects positive earnings under all reasonably possible scenarios;
- the Group continuously strives to seek out and invest in plant and equipment that will help drive operational efficiencies;
- the majority of the Group's key processing sites are owned on either a freehold or long leasehold basis thereby providing security of tenure;
- the wide geographic spread of processing sites mitigates the effect of a loss of any single processing facility and, furthermore, appropriate insurance cover is in place such that the increased cost of working following a loss of processing capacity may, in some circumstances, be recovered; and
- the Group continuously reviews the adequacy and strength of its management teams to ensure that appropriate experience and training is given and develops succession planning as part of the development programmes for all employees.

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

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

2 Segment analysis

Segment information is presented in respect of the Group's operating segments, which are based on the Group's management and internal reporting structure as at 30 June 2015. Details of the Group's segments were provided on page 59 of the 2014 Annual Report. Following its acquisition on 30 April 2015, London Linen Supply Limited is included within the Textile Rental segment.

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 operating profit, both including and excluding the effects of exceptional items from the operating segments, such as restructuring costs and impairments when the impairment is the result of an isolated, exceptional event. Interest income and expenditure are not included in the results 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 Johnson Group Properties PLC is credited back, where appropriate, to the paying company for the purposes of segmental reporting. There have been no changes in measurement methods used compared with the prior year.

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

Inter-segment pricing is determined on an arm's length basis. Exceptional items have been included within the appropriate operating segment as shown on pages 13 to 15.

2 Segment analysis continued

The operating segment results for the half year ended 30 June 2015, together with comparative figures, are as follows:

Half year to 30 June 2015	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Revenue				
Total revenue	85.7	23.5	–	109.2
Result				
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	12.4	0.5	(1.6)	11.3
Amortisation and impairment of intangible assets	(1.3)	–	–	(1.3)
Exceptional items:				
– Restructuring and other costs	(0.6)	(6.2)	–	(6.8)
– Costs in relation to business acquisition activity	(0.8)	–	–	(0.8)
Operating profit/(loss)	9.7	(5.7)	(1.6)	2.4
Total finance cost				(1.2)
Profit before taxation				1.2
Taxation				(0.5)
Profit for the period				0.7

	Discontinued Operations £m	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Other information					
Fixed asset additions					
– Property, plant and equipment	–	3.5	0.2	–	3.7
– Textile rental items	–	13.9	–	–	13.9
Depreciation and amortisation expense					
– Property, plant and equipment	–	3.0	1.1	0.1	4.2
– Textile rental items	–	11.1	–	–	11.1
– Customer contracts	–	1.3	–	–	1.3
Balance sheet information					
Segment assets	0.8	228.8	20.1	14.3	264.0
Unallocated assets: Deferred income tax assets					3.3
Cash and cash equivalents					1.1
Total assets					268.4
Segment liabilities	(1.8)	(45.4)	(19.7)	(6.4)	(73.3)
Unallocated liabilities: Bank borrowings					(70.1)
Current income tax liabilities					(1.8)
Deferred income tax liabilities					(7.0)
Derivative financial liabilities					(0.3)
Post-employment benefit obligations					(15.4)
Total liabilities					(167.9)
Return on capital employed (rolling 12 months)		43.2%	52.0%		

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

2 Segment analysis continued

Half year to 30 June 2014

	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Revenue				
Total revenue	74.4	27.2	–	101.6
Result				
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	10.8	0.4	(1.8)	9.4
Amortisation and impairment of intangible assets	(0.7)	–	–	(0.7)
Exceptional items:				
– Restructuring and other costs	(0.8)	–	–	(0.8)
– Costs in relation to business acquisition activity	(0.6)	–	–	(0.6)
Operating profit/(loss)	8.7	0.4	(1.8)	7.3
Finance cost				(0.9)
Profit before taxation				6.4
Taxation				(1.6)
Profit for the period				4.8

	Discontinued Operations £m	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Other information					
Fixed asset additions					
– Property, plant and equipment	–	5.1	0.6	–	5.7
– Textile rental items	–	12.5	–	–	12.5
Depreciation and amortisation expense					
– Property, plant and equipment	–	3.0	1.0	0.1	4.1
– Textile rental items	–	9.4	–	–	9.4
– Customer contracts	–	0.7	–	–	0.7
Balance sheet information					
Segment assets	1.1	145.4	22.3	14.9	183.7
Unallocated assets: Deferred income tax assets					4.4
Cash and cash equivalents					0.1
Total assets					188.2
Segment liabilities	(2.4)	(37.7)	(18.4)	(5.7)	(64.2)
Unallocated liabilities: Bank borrowings					(29.2)
Current income tax liabilities					(0.8)
Deferred income tax liabilities					(2.7)
Derivative financial liabilities					(0.2)
Post–employment benefit obligations					(9.0)
Total liabilities					(106.1)
Return on capital employed (rolling 12 months)		40.6%	18.2%		

2 Segment analysis continued

Year ended 31 December 2014

	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Revenue				
Total revenue	155.0	55.4	–	210.4
Result				
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	23.8	1.6	(3.6)	21.8
Amortisation and impairment of intangible assets	(1.6)	–	–	(1.6)
Exceptional items:				
– Restructuring and other costs	(1.3)	–	–	(1.3)
– Costs in relation to business acquisition activity	(0.6)	–	–	(0.6)
– Pension costs	–	–	(4.9)	(4.9)
Operating profit/(loss)	20.3	1.6	(8.5)	13.4
Finance cost				(1.8)
Profit before taxation				11.6
Taxation				(3.0)
Profit for the period – from continuing operations				8.6
Result for the period – from discontinued operations (note 12)				–
Profit for the period				8.6

	Discontinued Operations £m	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Other information					
Fixed asset additions					
– Property, plant and equipment	–	13.7	1.0	–	14.7
– Textile rental items	–	24.9	–	–	24.9
– Intangible software	–	–	0.1	–	0.1
Depreciation and amortisation expense					
– Property, plant and equipment	–	6.0	2.0	0.2	8.2
– Textile rental items	–	20.1	–	–	20.1
– Customer contracts	–	1.6	–	–	1.6
Balance sheet information					
Segment assets	1.1	148.5	20.9	14.9	185.4
Unallocated assets: Deferred income tax assets					4.6
Cash and cash equivalents					0.2
Total assets					190.2
Segment liabilities	(4.1)	(37.2)	(17.7)	(3.4)	(62.4)
Unallocated liabilities: Bank borrowings					(25.6)
Current income tax liabilities					(1.5)
Deferred income tax liabilities					(1.8)
Derivative financial liabilities					(0.4)
Post-employment benefit obligations					(18.5)
Total liabilities					(110.2)
Return on capital employed (rolling 12 months)		42.0%	33.7%		

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

3 Exceptional items

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Restructuring and other costs – Textile Rental	(0.6)	(0.8)	(1.3)
– Drycleaning	(6.2)	–	–
	(6.8)	(0.8)	(1.3)
Costs in relation to business acquisition activity	(0.8)	(0.6)	(0.6)
Pension costs	–	–	(4.9)
Total exceptional items	(7.6)	(1.4)	(6.8)

Current year exceptional items

Restructuring costs – Textile Rental

A new processing facility has been constructed to replace an existing site in Leeds. The total cost of this relocation, excluding the capital investment, is expected to be £2.3 million, of which, £1.3 million was charged to exceptional items in 2014, £0.8 million being in the six months to June 2014. A further £0.6 million has been charged in the six months to June 2015 and the balance, in relation to the decommissioning of the old site, is expected to be incurred in the second half of 2015.

Restructuring costs – Drycleaning

As previously announced on 6 January 2015, the Drycleaning business continues to operate in a difficult high street environment. In parallel with the strategy to develop alternative, more convenient collection and delivery locations, the lease profile of our existing estate was reviewed and 109 branches were identified, the majority of which had leases expiring within the next two years, where renewal will not be financially viable. Of these branches, 99 closed during the first half of 2015.

The estimated charge to the Group's Income Statement for the restructuring of the Drycleaning business and associated property provisions is, in aggregate, approximately £6.5 million net, of which £6.2 million was recognised in the first half of 2015. The remaining £0.3 million is expected to be recognised in the second half of 2015.

Costs in relation to business acquisition activity

During the period to 30 June 2015, professional fees of £0.5 million and stamp duty of £0.3 million were paid relating to the acquisition of London Linen Supply Limited. Further information relating to the acquisition is provided in note 11.

Prior year exceptional items

Restructuring costs – Textile Rental

As noted above, £1.3 million was charged in 2014 (£0.8 million being in the six months to June 2014) in relation to the relocation of a processing facility in Leeds.

Costs in relation to business acquisition activity

During the prior year, costs relating to business acquisition activity of £0.6 million were recognised. Professional fees of £0.4 million and stamp duty of £0.1 million were paid relating to the acquisition of Bourne Services Group Limited. The remainder of the cost relates to fees and expenses incurred during negotiations with undisclosed targets.

Pension costs

During the prior year, the Group closed it defined benefit pension scheme, the Johnson Group Defined Benefit Scheme (JGDBS) to future accrual. The resulting past service cost of £4.7 million was recognised as an exceptional cost together with £0.2 million of other associated costs.

4 Taxation

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Current tax			
UK corporation tax charge for the period	0.5	1.5	2.9
Adjustment in relation to previous periods	–	–	(0.4)
Current tax charge for the period	0.5	1.5	2.5
Deferred tax			
Origination and reversal of temporary differences	–	0.1	(0.1)
Adjustment in relation to previous periods	–	–	0.6
Deferred tax charge for the period	–	0.1	0.5
Total charge for taxation included in the income statement for continuing operations	0.5	1.6	3.0

Taxation in relation to amortisation and impairment of intangible assets has reduced the charge in the current period by £0.3 million (June 2014: £0.1 million reduction in the charge; December 2014: £0.4 million reduction in the charge). Taxation on exceptional items in the current period has reduced the charge for taxation relating to continuing operations by £1.3 million (June 2014: £0.2 million reduction in the charge; December 2014: £1.1 million reduction in the charge) of which £nil (June 2014: £nil; December 2014: £0.3 million credit) relates to the prior year.

Changes in the UK corporation tax rate

The UK corporation tax rate reduced from 21.0% to 20.0% on 1 April 2015. The impact of this rate reduction was previously reflected in the deferred income tax balances as at 31 December 2014 and therefore this change in rate has not had any further material effect on the deferred income tax provision of the Group.

The change will result in a weighted average standard rate of 20.25% for 2015 (2014: 21.50%).

Changes to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015. These include reductions to the main rate to 19.0% from 1 April 2017 and to 18.0% from 1 April 2020. As these changes had not been substantively enacted at the balance sheet date the effect is not included in these financial statements. The overall effect of these changes, if they had applied to the deferred income tax balance at the balance sheet date, would be to reduce the deferred income tax asset by £0.3 million and reduce the deferred income tax expense for the period by £0.7 million.

Reconciliation of effective tax rate

Taxation on non-exceptional items for the six months to 30 June 2015 is calculated based on the estimated average annual effective tax rate (excluding prior year items) of 20.7%, (six months ended 30 June 2014: 22.2%; year ended 31 December 2014: 22.6%).

This compares to the tax rate expected to be enacted or substantively enacted at the balance sheet date of 20.0% (six months ended 30 June 2014: 21.0%; year ended 31 December 2014: 21.0%).

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 or over provisions in previous years is recognised when the amounts are agreed.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

5 Adjusted profit before and after taxation

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Profit before taxation from continuing operations	1.2	6.4	11.6
Amortisation and impairment of intangible assets (excluding software amortisation)	1.3	0.7	1.6
Restructuring and other costs	6.8	0.8	1.3
Costs in relation to business acquisition activity	0.8	0.6	0.6
Pension costs	–	–	4.9
Adjusted profit before taxation	10.1	8.5	20.0
Taxation on adjusted profit	(2.1)	(1.9)	(4.5)
Adjusted profit after taxation attributable to continuing operations	8.0	6.6	15.5

6 Dividends

	Half year to 30 June 2015	Half year to 30 June 2014	Year ended 31 December 2014
Dividend per share (pence)			
2015 Interim dividend proposed	0.65	–	–
2014 Interim dividend proposed and paid	–	0.50	0.50
2014 Final dividend proposed and paid	–	–	1.20
	0.65	0.50	1.70

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Shareholders' funds utilised (£m)			
2015 Interim dividend proposed	2.1	–	–
2014 Interim dividend proposed and paid	–	1.5	1.5
2014 Final dividend proposed and paid	–	–	3.6

On 15 May 2015, a final dividend of 1.20 pence per Ordinary share in respect of 2014 was paid to Shareholders, utilising £3.6 million of Shareholders' funds.

The Directors are proposing an interim dividend in respect of the year ended 31 December 2015 of 0.65 pence which will reduce Shareholders' funds by £2.1 million. The dividend will be paid on 6 November 2015 to Shareholders on the register of members at the close of business on 9 October 2015. The Trustee of the EBT has waived it's 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.

7 Earnings per share

	Half year to 30 June 2015	Half year to 30 June 2014	Year ended 31 December 2014
Profit for the period from continuing operations attributable to Shareholders	0.7	4.8	8.6
Amortisation and impairment of intangible assets from continuing operations (net of taxation)	1.0	0.6	1.2
Exceptional items from continuing operations (net of taxation)	6.3	1.2	5.7
Exceptional items from discontinued operations (net of taxation)	–	–	(0.2)
Adjusted profit attributable to Shareholders relating to continuing activities	8.0	6.6	15.5
Adjusted loss attributable to Shareholders relating to discontinued activities	–	–	(0.2)
Adjusted profit attributable to Shareholders	8.0	6.6	15.3
	Number of shares	Number of shares	Number of shares
Weighted average number of Ordinary shares	309,231,073	284,388,080	291,829,363
Potentially dilutive options*	2,908,147	7,278,082	5,001,228
Fully diluted number of Ordinary shares	312,139,220	291,666,162	296,830,591
	Pence per share	Pence per share	Pence per share
Basic earnings per share			
From continuing operations	0.2p	1.7p	2.9p
From discontinued operations	–	–	–
From continuing and discontinued operations	0.2p	1.7p	2.9p
Adjustment for amortisation of intangibles assets (continuing operations)	0.3p	0.2p	0.4p
Adjustment for exceptional items (continuing operations)	2.1p	0.4p	2.0p
Adjusted basic earnings per share (continuing operations)	2.6p	2.3p	5.3p
Adjusted basic earnings per share (discontinued operations)	–	–	–
Adjusted basic earnings per share from continuing and discontinued operations	2.6p	2.3p	5.3p
	Pence per share	Pence per share	Pence per share
Diluted earnings per share			
From continuing operations	0.2p	1.7p	2.9p
From discontinued operations	–	–	–
From continuing and discontinued operations	0.2p	1.7p	2.9p
Adjustment for amortisation of intangibles assets (continuing operations)	0.3p	0.2p	0.4p
Adjustment for exceptional items (continuing operations)	2.1p	0.4p	1.9p
Adjusted diluted earnings per share (continuing operations)	2.6p	2.3p	5.2p
Adjusted diluted earnings per share (discontinued operations)	–	–	–
Adjusted diluted earnings per share from continuing and discontinued operations	2.6p	2.3p	5.2p

* Includes outstanding share options granted to employees.

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

Adjusted earnings per share figures exclude the effects of amortisation and impairment of intangible assets (excluding software amortisation), and exceptional items, 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.

Potential Ordinary shares are dilutive at the point, from a continuing operations level, when their conversion to Ordinary shares would decrease earnings per share or increase loss per share from continuing operations. For the six months ended 30 June 2015, six months ended 30 June 2014 and year ended 31 December 2014, potential Ordinary shares have been treated as dilutive, as their inclusion in the earnings per share calculation decreases earnings per share.

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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

8 Retirement benefit obligations

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

In the six months to 30 June 2015 deficit recovery payments of £1.0 million in aggregate were paid by the Group to the defined benefit scheme (June 2014: £1.0 million; December 2014: £2.0 million).

Following discussions with the Group's appointed actuary a re-measurement gain of £2.3 million has been recognised in the period to 30 June 2015. This is principally as a result of a loss on the return on assets of £3.0 million offset by a £5.3 million financial assumptions gain on the scheme liabilities.

The Johnson Group Defined Benefit Scheme (JGDBS) was closed to future accrual as at 31 December 2014. This resulted in a past service cost of £4.7 million being recognised as an exceptional item together with £0.2 million of associated costs in the year to 31 December 2014.

The gross post-employment benefit obligation and associated deferred income tax asset thereon, together with the net obligation, is shown below:

	As at 30 June 2015 £m	As at 30 June 2014 £m	As at 31 December 2014 £m
Gross post-employment benefit obligation	(15.4)	(9.0)	(18.5)
Deferred income tax asset thereon	3.0	1.8	3.7
Net post-employment benefit obligation	(12.4)	(7.2)	(14.8)

The reconciliation of the opening gross post-employment benefit obligation to the closing gross post-employment benefit obligation is shown below:

	As at 30 June 2015 £m	As at 30 June 2014 £m	As at 31 December 2014 £m
Opening post-employment benefit obligation	18.5	4.3	4.3
Current service cost	–	0.2	0.3
Past service cost	–	–	4.7
Notional interest	0.3	0.1	0.2
Employer contributions	(1.0)	(1.2)	(2.5)
Re-measurement (gains)/losses	(2.3)	5.7	11.5
Utilisation of healthcare provision	(0.1)	(0.1)	–
Closing post-employment benefit obligation	15.4	9.0	18.5

9 Capital expenditure and commitments

Capital expenditure

In the half year ended 30 June 2015 the Group acquired property, plant and equipment and intangible assets for a cost of £3.7 million (half year ended 30 June 2014: £5.7 million; year ended 31 December 2014: £14.8 million), not including property, plant and equipment and intangible assets acquired through business combinations. In addition, textile rental items with a cost of £13.9 million were acquired during the period (half year ended 30 June 2014: £12.5 million; year ended 31 December 2014: £24.9 million), not including textile rental items acquired through business combinations.

Offsetting this, property, plant and equipment with a net book value of £0.1 million was disposed of during the period (half year ended 30 June 2014: £nil; year ended 31 December 2014: £0.1 million). In addition, amounts received in respect of textile rental special charges were £1.0 million (half year ended 30 June 2014: £0.9 million; year ended 31 December 2014: £1.9 million).

Capital commitments

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

	As at 30 June 2015 £m	As at 30 June 2014 £m	As at 31 December 2014 £m
Property, plant and equipment	0.8	5.5	1.5

10 Share capital

The Company's authorised share capital is 383,025,739 Ordinary shares of 10p each. This has been unchanged throughout the current and prior periods.

Issued share capital has increased as follows:

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Share capital at the start of the period	30.0	26.2	26.2
New shares issued	3.1	3.7	3.8
Share capital at the end of the period	33.1	29.9	30.0

As at 30 June 2015 the Company has issued share capital of 330,510,982 Ordinary Shares of 10p each.

During the period, the Company placed 30.0 million Ordinary shares (the 'Placing') with existing and new institutional investors raising net proceeds of £21.1 million of which £3.0 million was credited to share capital. Additional proceeds of £0.1 million were received in relation to the exercise of employee share options. The Placing was undertaken using a cash box structure. As a result, the Company was able to take relief under section 612 of the Companies Act 2006 from crediting share premium and instead transfer the net proceeds in excess of the nominal value to retained earnings.

The Placing shares represented approximately 10.0 per cent of the Company's existing share capital. The Placing price of 73 pence per share was equal to the closing mid-market price per Ordinary Share on 30 April 2015, being the latest practicable date prior to the announcement of the Placing.

The Placing shares in all periods were issued as fully paid and rank pari passu in all respects with the existing Ordinary shares, including the right to receive all dividends and other distributions declared, made or paid in respect of shares after the date of issue of the Placing shares, other than in respect of the final dividend of 1.20 pence per share for the year ended 31 December 2014.

11 Business combinations

On 30 April 2015 the Group acquired 100% of the share capital of London Linen Supply Limited ('London Linen') for a net consideration of £64.9 million (being £69.3 million consideration less cash acquired of £4.4 million) plus associated fees.

Since acquisition, London Linen has generated a profit of £0.7 million on revenue of £5.6 million. Had the business been acquired at the start of the period it is estimated that profit of £2.0 million would have been generated on revenue of £15.7 million.

The provisional 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 – Goodwill	–	34.9	–	34.9
Intangible assets – Customer lists and contracts	–	25.5	–	25.5
Intangible assets – Software	0.6	–	–	0.6
Property, plant and equipment	6.6	–	(0.3)	6.3
Rental stock items in circulation	2.9	–	0.6	3.5
Stock	1.0	–	–	1.0
Debtors	4.4	–	–	4.4
Cash	4.4	–	–	4.4
Trade and other creditors	(4.6)	–	–	(4.6)
Current income tax liability	(0.7)	–	–	(0.7)
Deferred income tax liability	(0.9)	(5.1)	–	(6.0)
	13.7	55.3	0.3	69.3

As the acquisition has had a relatively short period of ownership the amounts above are provisional and subject to adjustment.

Goodwill represents the expected benefits to the wider Group arising from the acquisition plus the deferred income tax arising from the recognition of the customer lists and contracts.

On 3 March 2014 the Group acquired 100% of the share capital of Bourne Services Group Limited along with its subsidiary company Bourne Textile Services Limited. The consideration paid and net assets acquired remain as disclosed in the 2014 Annual Report.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

11 Business combinations continued

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

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Consideration paid	69.3	26.7	26.7
Cash acquired	(4.4)	(4.9)	(4.9)
Fees paid in relation to business acquisition activity	0.8	0.5	0.6
	65.7	22.3	22.4

12 Disposals and discontinued operations

Disposals

There have been no business disposals in the six months to 30 June 2015, or in the year ended 31 December 2014.

On 7 August 2013, the Group disposed of its Facilities Management division. During the 6 months to 30 June 2015 the Group received £0.3 million of contingent consideration in relation to the Facilities Management division disposal.

Discontinued operations

Discontinued operations in the prior year include the following items:

- Additional provisions of £0.3 million relating to future lease commitments on properties, along with the related taxation credit.
- A revision of the best estimate of the contingent consideration receivable on the Facilities Management disposal, which resulted in a loss of £0.4 million
- A tax credit relating to the disposal of the disposal of the Facilities Management division.

The total result relating to discontinued operations is as follows:

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Operating loss before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	–	–	(0.3)
Loss before interest and taxation from discontinued operations	–	–	(0.3)
Taxation	–	–	0.1
Loss for the period	–	–	(0.2)
Pre-tax loss on disposal	–	–	(0.4)
Taxation	–	–	0.6
Profit on disposal	–	–	0.2
Result from discontinued operations	–	–	–

Cash flows relating to discontinued operations are as follows:

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Proceeds from disposal	0.3	0.1	0.1
Payment of costs relating to the disposal	(0.1)	(0.1)	–
Proceeds from sale of business	0.2	–	0.1
Net cash (used in)/generated from operating activities	(0.4)	0.2	(0.8)
Net cash flow relating to discontinued operations	(0.2)	0.2	(0.7)

13 Borrowings

As at 30 June 2015 the Group had a banking facility under which bank loans were secured and drawn down under a committed facility dated 24 April 2015 comprising a £100.0 million rolling credit facility (including an overdraft) which runs to April 2020 and a £20.0 million short term facility expiring on 23 April 2016.

Individual tranches are drawn down, in sterling, for periods of up to six months at LIBOR rates of interest prevailing at the time of drawdown, plus the applicable margin. The margin varies between 1.25% and 2.25%. As at 30 June 2015, £20.0 million of the bank facility was subject to hedging arrangements which had the effect of replacing LIBOR with a fixed rate of 1.79%.

Bank loans are stated net of unamortised issue costs of £0.9 million (30 June 2014: £0.6 million; 31 December 2014: £0.5 million).

14 Analysis of net debt

	Cash and cash equivalents £m	Debt due within one year £m	Debt due after more than one year £m	Finance leases £m	Total net debt £m
Balance at 31 December 2013	3.4	–	(25.0)	(2.9)	(24.5)
Cash flow	(6.1)	–	(2.0)	0.4	(7.7)
Other non-cash changes	–	–	0.6	(0.1)	0.5
Balance at 30 June 2014	(2.7)	–	(26.4)	(2.6)	(31.7)
Cash flow	(2.2)	(1.0)	7.0	0.4	4.2
Other non-cash changes	–	0.2	(0.3)	(0.9)	(1.0)
Balance at 31 December 2014	(4.9)	(0.8)	(19.7)	(3.1)	(28.5)
Cash flow	2.4	–	(46.5)	0.5	(43.6)
Other non-cash changes	–	0.1	0.4	(0.8)	(0.3)
Balance at 30 June 2015	(2.5)	(0.7)	(65.8)	(3.4)	(72.4)

The cash and cash equivalents figures are comprised of the following balance sheet amounts:

	As at 30 June 2015 £m	As at 30 June 2014 £m	As at 31 December 2014 £m
Cash and cash equivalents (Current assets)	1.1	0.1	0.2
Overdraft (Borrowings, Current liabilities)	(3.6)	(2.8)	(5.1)
	(2.5)	(2.7)	(4.9)

15 Reconciliation of net cash flow to movement in net debt

	Half year to 30 June 2015 £m	Half year to 30 June 2014 £m	Year ended 31 December 2014 £m
Inflow/(outflow) in cash in the period	2.4	(6.1)	(8.3)
Cash (outflow)/inflow on change in debt and lease financing	(46.0)	(1.6)	4.8
Outflow in net debt resulting from cash flows	(43.6)	(7.7)	(3.5)
Movement in unamortised issue costs of bank loans	0.5	0.6	0.5
New finance leases	(0.8)	(0.1)	(1.0)
Outflow in net debt during the period	(43.9)	(7.2)	(4.0)
Opening net debt	(28.5)	(24.5)	(24.5)
Closing net debt	(72.4)	(31.7)	(28.5)

16 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 31 December 2014. There have been no material changes in these relationships in the half year to 30 June 2015 or up to the date of this Report.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

17 Contingent liabilities

The Group operates from a number of sites across the UK. Some of the sites have operated as laundry sites for many years and historic environmental liabilities may exist. Such liabilities are not expected to give rise to any significant loss.

The Group has granted its Bankers and Trustee of the Pension Schemes security over the assets of the Group. The priority of security is as follows: for the first £56.0 million the Bankers and Trustee rank pari passu; for the next £99.0 million in excess of the £56.0 million the Bankers have priority and for anything over £155.0 million the Bankers and Trustee rank pari passu.

During the period of ownership of the Facilities Management division (disposed of in August 2013) the Company had given guarantees over the performance of contracts entered into by the division. As part of the disposal of this division, the purchaser has agreed to pursue the release or transfer of obligations under the Parent Company guarantees and this is in process. The Sales and Purchase agreement contains an indemnity from the purchaser to cover any loss in the event a claim is made prior to release. In the period until release the purchaser is to make a payment of £0.2 million per annum, reduced pro rata as guarantees are released. Such liabilities are not expected to give rise to a significant loss.

As a condition of the sale of the Facilities Management division in August 2013, the Company has put in place indemnities, to the purchaser, in relation to any future amounts payable in respect of contingent consideration related to the Nickleby acquisition completed in February 2012. As set out in the 2012 Annual report and Accounts the maximum amount payable under the terms of the indemnity could be up to £5.0 million. The Directors believe that the risk of settlement at, or near, the maximum level to be remote.

18 Events after the reporting period

There were no events after the balance sheet date that would require disclosure in accordance with IAS10, 'Events after the balance sheet date'.

19 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 31 December 2014.

(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 all of the businesses to varying extents, however, the Directors do not consider such seasonality or cyclicality to be significant in the context of the condensed consolidated interim financial statements.

(c) Standards and amendments to standards effective in 2015
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). There are no new or amended standards and interpretations that are effective for the financial year ending 31 December 2015 that are expected to have a material impact on the Group.

(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', 'anticipate', '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.

20 Principal risks and uncertainties

The Group operates a structured risk management process, which identifies and evaluates risks and uncertainties and reviews mitigation activity. The Group set out in its 2014 Annual Report the principal risks and uncertainties that could impact its performance. These remain unchanged since the Annual Report was published and are summarised below:

Financial Risks	Operational Risks	Regulatory Risk
Economy	Failure of Strategy	Health and Safety
Cost Inflation	Customers	Compliance and Fraud
Interest Rate Fluctuations	Competition	
Liquidity Risk	Retention and Motivation	
Pension Scheme Deficit	Loss of a Processing Facility	
	Information systems and Technology	

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 16 to 19 of the 2014 Annual Report.

21 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.jsg.com

DIRECTORS AND ADVISORS

Directors

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

Christopher Sander
Chief Executive Officer
Director responsible for Health, Safety and the Environment

Yvonne May Monaghan BSc (Hons), FCA
Chief Financial Officer

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

William Mervyn Frew Carey Shannon CA
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Member of Nomination Committee
Chairman of Audit Committee

Company Secretary & Group Financial Controller

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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.jsg.com.

This will link you to the service offered by the Company's Registrar. If you decide not to register an email address with the Registrar, you will continue to receive all communications in hard copy form.

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This interim report is printed using vegetable inks on paper from an ISO 14001 certified manufacturer, and is made with ECF pulp sourced from carefully managed and renewed forests.

www.jsg.com

If you have any queries regarding electronic communications, please contact the Company's registrar, Capita Asset Services, 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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