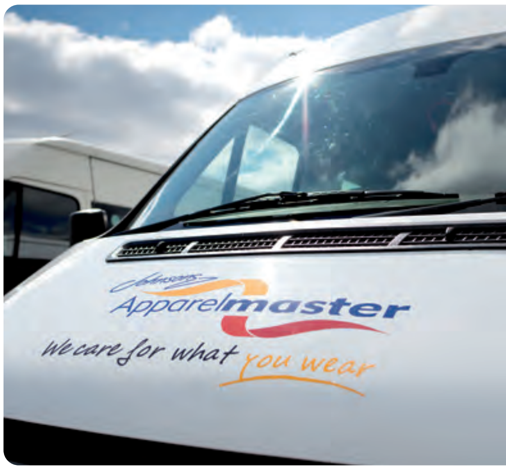
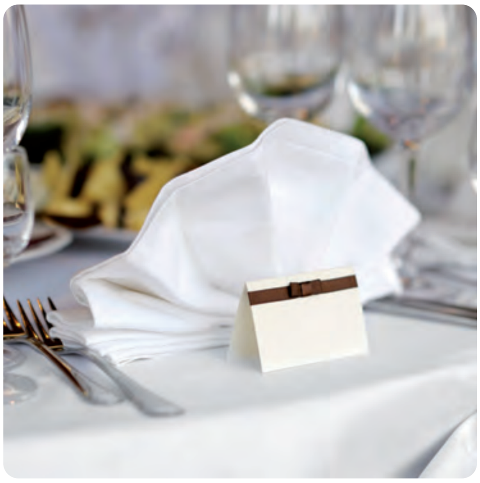
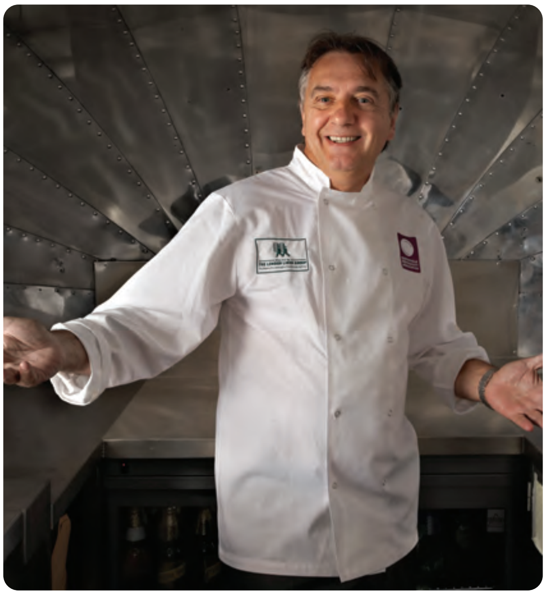
Interim Report and Accounts 2016

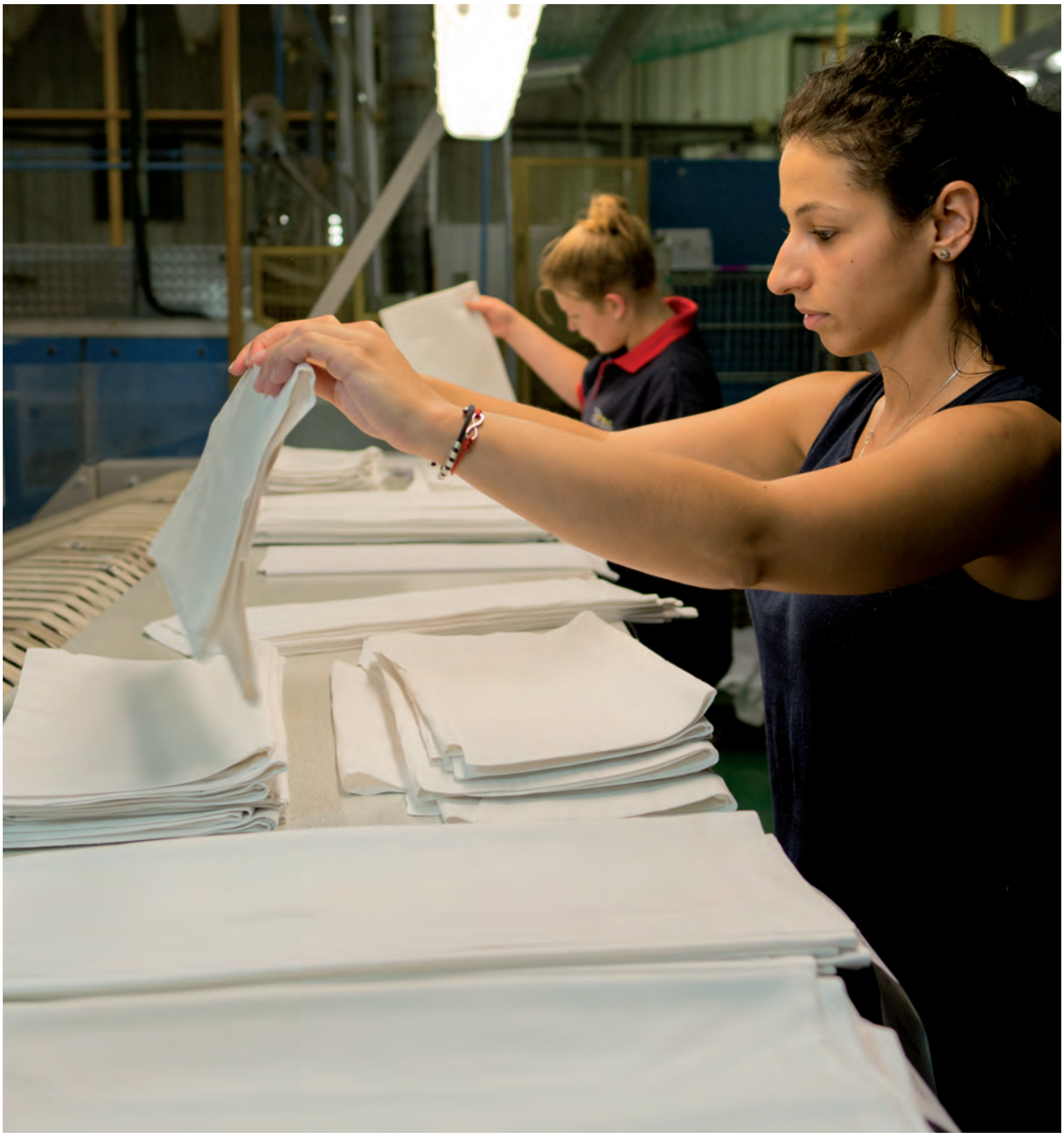






JOHNSON
SERVICE GROUP PLC

THE ESTABLISHED NAME IN TEXTILE RENTAL AND DRYCLEANING



OPERATIONAL AND FINANCIAL REVIEW

Group Results

Total revenue in the six months to June 2016 was £137.6 million (June 2015: £109.2 million). The first half benefitted from the acquisitions completed in recent months but also reflected the impact of the reduced number of Drycleaning branches following the closures in March 2015. Adjusted operating profit increased by 42.5% to £16.1 million (June 2015: £11.3 million).

Adjusted profit before tax increased to £14.1 million (June 2015: £10.1 million). The underlying tax rate was 20.3% (June 2015: 20.7%).

Net exceptional items in the first half of 2016 amounted to £0.7 million (June 2015: £7.6 million) in relation to a gain on the disposal of a vacated Textile Rental plant in Leeds (£0.5 million), offset by costs incurred in respect of liability management exercises in relation to reducing the defined benefit pension liabilities (£0.3 million) and for business acquisition activity and subsequent restructuring (£0.9 million) with a further £0.5 million of restructuring costs expected to be incurred in the second half.

Net finance costs were £2.0 million (June 2015: £1.2 million) reflecting higher levels of bank borrowings following the recent acquisitions.

After amortisation and impairment of intangible assets (excluding software amortisation) of £3.0 million (June 2015: £1.3 million) the pre-tax profit was £10.4 million (June 2015: £1.2 million).

Adjusted fully diluted earnings per share increased 26.9% to 3.3 pence (June 2015: 2.6 pence) while fully diluted earnings per share after amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items increased to 2.4 pence (June 2015: 0.2 pence).

Dividend

In continuation of our stated intention to adopt a progressive dividend policy, whilst maintaining an adequate level of cover, the Board has proposed an interim dividend of 0.80 pence (June 2015: 0.65 pence), representing an increase of 23.1%, reflecting the earnings accretion from the 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 4 November 2016 to those Shareholders on the register of members at the close of business on 7 October 2016. The ex-dividend date is 6 October 2016.

Pension Deficit

The recorded net deficit after tax for all post-employment benefit obligations has reduced to £11.1 million at June 2016 from £13.0 million at December 2015. The reduction is due, in part, to the higher than expected return on scheme assets offset by the net impact of lower Corporate Bond yields and lower inflation on the valuation of scheme liabilities.

The current agreement with the Trustee of the defined benefit pension scheme requires deficit recovery payments of £1.9 million in the year to December 2016, of which £0.9 million was contributed during the first half.

Finances

Total net debt at the end of the first half was £108.9 million (December 2015: £71.2 million), slightly better than management expectations and reflecting the strong trading performance in the first half, the financing of the Zip, Chester and Afonwen acquisitions and the equity placing. Our net debt to Adjusted EBITDA leverage ratio was 2.21x at the end of June and we remain on track to return to our stated target of a ratio of not more than 2.00x by the first quarter of 2017.

The amended bank facility, agreed prior to the recent acquisitions, matures in April 2020 and comprises of a £120.0 million revolving credit facility with an additional £30.0 million short term facility available to April 2017. 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 8.1 times (June 2015: 9.4 times), with interest costs on our floating rate borrowings continuing to benefit from the current low levels of LIBOR. Two hedging arrangements, each for £15.0 million of borrowings, are in place 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. Two new hedging arrangements, each for £10.0 million, were entered into at the end of June 2016 whereby LIBOR is replaced by a fixed rate of 0.49% to June 2018 and 0.5525% to June 2019.

OPERATIONAL HIGHLIGHTS

Textile Rental

Our Textile Rental business trades through five 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 and Afonwen, which provide high volume hotel linen.

Textile Rental revenue increased by 35.0% to £115.7 million (June 2015: £85.7 million), whilst adjusted operating profit increased by 39.5% to £17.3 million (June 2015: £12.4 million) helped by the businesses acquired during both 2015 and 2016. The associated margin increased from 14.5% to 15.0%. As it has over many years, the Textile Rental business continues to focus on customer service, in order to maintain its high customer retention levels, and on targeted investment

OPERATIONAL AND FINANCIAL REVIEW CONTINUED

across the division to improve production efficiency and capacity.

In workwear rental, the **Apparelmaster** business has again seen a period of growth in the first half of the year, both in terms of new business wins and growth within existing customers. The continued focus on customer service along with numerous operational initiatives has helped maintain a high level of customer retention. A combination of the above and effective cost control has contributed to a growth in margin.

The business continues to invest in highly efficient and best in class capital equipment to increase productivity whilst at the same time reducing energy consumption. As part of our ongoing strategy further investments are being made at our Basingstoke and Letchworth sites to improve productivity and capacity, whilst the recent investment in our new site in Leeds continues to deliver improved margin growth.

The Lancaster plant, which suffered flood damage in late 2015, is being modernised with new equipment and is expected to be fully operational by September 2016. In spite of the significant water damage to processing equipment, customers experienced negligible disruption of delivery and service, the credit for which goes to all employees involved in helping us through a challenging time.

In restaurant and catering, **Stalbridge** has performed well in the first half of 2016. A new sales management reporting system and database combined with a vigorous, targeted marketing campaign has delivered new sales ahead of expectations. This, together with good customer retention, has contributed to encouraging organic growth.

Ashbon Laundry in Grantham, acquired at the end of 2015, has been transformed and completely rebranded as a Stalbridge processing plant. A substantial redistribution of customers has been implemented resulting in the closure of a distribution depot in Nuneaton with little disruption to service and the related benefit of reduced operating costs. Stalbridge and London Linen are continuing to work together to streamline their respective product lines, customer relationships and transport distribution links with customers, being serviced from the most appropriate processing location. To date, work has been successfully transferred in Scotland, the North East and, more recently, the South West of England.

London Linen, which joined the Group in April 2015, has continued to trade well and as a result of working with Stalbridge, is better able to focus on servicing the London market.

Revenue has continued to increase, with strong sales to existing customers reflecting the focus of the business on delivering excellent service.

Further investment in the restaurant and catering businesses continues with new, modern and highly efficient equipment being installed across the estate to further reduce energy consumption and to continue to improve quality and productivity.

As previously indicated, we have commenced work on the £4.5 million capital project to increase and improve production capacity at the Southall site in West London. The project will be completed in the second half of 2017.

In high volume hotel linen, the first six months of this year have marked a major milestone in our further development in this part of the market under the **Bourne** and **Afonwen** brands with the continued successful implementation of the Board's strategy of buying well invested, high quality businesses which increase our presence and geographical coverage in the marketplace.

In January, we successfully completed the acquisition of Zip Textiles in Birmingham, which provides an important strategic fit with strong opportunities to deliver long term increased logistical efficiencies in the Midlands region.

In April, we took an important further strategic step forward through the acquisition of Afonwen as well as the smaller acquisition of Chester Textiles, which together have significantly strengthened our presence in the North West and South East of England and in Wales.

We have already started to integrate the businesses successfully into the wider Johnson Group and, at the end of June, Zip Textiles was rebranded as Bourne and Chester Textiles was rebranded as Afonwen, consolidating the acquisitions into two well-established brands in the marketplace. Afonwen and Bourne are working well together in representing our interests in this key market of high volume hotel linen and the acquisitions have been well received by our customers.

Overall volumes and customer retention across the high volume hotel linen business have been in line with expectations and we expect to see improved logistical benefits and synergies over the coming months.

Drycleaning

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

Revenue was down to £21.9 million (June 2015: £23.5 million) reflecting the change in the portfolio mix following the reorganisation programme completed in early 2015. There were 203 branches and 154 Waitrose locations trading at the end of June 2016. Adjusted operating profit increased to £0.6 million (June 2015: £0.5 million).

Following the restructure of the business last year, the performance in the first half has been solid, with a modest increase in profit and related margin.

The partnership with Waitrose continues to expand and we are pleased with the growth as we enter the second year of trading in many locations. We do anticipate that a small number of additional locations will be opened in the latter part of the year.

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 2015. There have been no changes from those listed other than Michael Del Mar who retired from the Board on 5 May 2016. Details of the Directors are available on the Johnson Service Group PLC website: www.jsg.com

By order of the Board

Chris Sander
Chief Executive Officer
6 September 2016

Yvonne Monaghan
Chief Financial Officer
6 September 2016

Forward Looking Statements

Certain statements in these condensed consolidated interim financial statements constitute forward-looking statements. Any statement in this document that is not a statement of historical fact including, without limitation, those regarding the Company's future expectations, operations, financial performance, financial condition and business is a forward-looking statement. Such forward-looking statements are subject to risks and uncertainties that may cause actual results to differ materially. These risks and uncertainties include, among other factors, changing economic, financial, business or other market conditions. These and other factors could adversely affect the outcome and financial effects of the plans and events described in these condensed consolidated interim financial statements. As a result you are cautioned not to place reliance on such forward-looking statements. Nothing in this document should be construed as a profit forecast.

CONSOLIDATED INCOME STATEMENT

	Note	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Revenue	2	137.6	109.2	234.4
Operating profit	2	12.4	2.4	15.4
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items		16.1	11.3	27.9
Amortisation and impairment of intangible assets (excluding software amortisation)		(3.0)	(1.3)	(3.5)
Exceptional items	3			
– Restructuring and other costs		–	(6.8)	(7.5)
– Costs in relation to business acquisition activity		(0.9)	(0.8)	(1.5)
– Pension costs		(0.3)	–	–
– Profit on disposal of freehold property		0.5	–	–
Operating profit	2	12.4	2.4	15.4
Finance cost		(1.7)	(0.9)	(2.2)
Finance income		–	–	0.1
Notional interest		(0.3)	(0.3)	(0.6)
Total finance cost		(2.0)	(1.2)	(2.7)
Profit before taxation		10.4	1.2	12.7
Taxation charge*	4	(2.3)	(0.5)	(2.4)
Profit for the period attributable to equity holders		8.1	0.7	10.3
Earnings per share**	7			
Basic earnings per share				
From total operations		2.4p	0.2p	3.2p
Fully diluted earnings per share				
From total operations		2.4p	0.2p	3.2p
Adjusted basic earnings per share				
From total operations		3.3p	2.6p	6.3p
Adjusted fully diluted earnings per share				
From total operations		3.3p	2.6p	6.3p

The notes on pages 8 to 22 form an integral part of these condensed consolidated interim financial statements.

* Including £0.6 million credit (June 2015: £0.3 million credit; December 2015: £0.8 million credit) relating to amortisation and impairment of intangible assets (excluding software amortisation) and £nil (June 2015: £1.3 million credit; December 2015: £1.7 million credit) in relation to exceptional items of which £nil (June 2015: £nil; December 2015: £0.2 million credit) relates to the prior year.

** Earnings per share from continuing operations are the same as for total operations.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Profit for the period		8.1	0.7	10.3
Items that will not be subsequently reclassified to profit or loss				
Re-measurement gains on post-employment benefit obligations	8	1.5	2.3	1.2
Taxation charge in respect of re-measurement gains		(0.3)	(0.5)	(0.2)
Change in deferred tax due to change in tax rate		–	–	(0.2)
Items that may be subsequently reclassified to profit or loss				
Cash flow hedges (net of taxation) – fair value loss		(0.7)	(0.2)	(1.0)
– transfers to operating profit		0.2	0.1	0.3
– transfers to finance cost		0.1	0.2	0.3
Other comprehensive income for the period		0.8	1.9	0.4
Total comprehensive income for the period		8.9	2.6	10.7

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 2015	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
Profit for the period	–	–	–	–	–	9.6	9.6
Other comprehensive loss for the period	–	–	–	–	(0.5)	(1.0)	(1.5)
Total comprehensive (loss)/income for the period	–	–	–	–	(0.5)	8.6	8.1
Share options (value of employee services)	–	–	–	–	–	0.3	0.3
Issue of share capital (net of costs)	–	(0.1)	–	–	–	0.1	-
Dividend paid	–	–	–	–	–	(2.1)	(2.1)
Transactions with Shareholders recognised directly in Shareholders' equity	–	(0.1)	–	–	–	(1.7)	(1.8)
Balance at 31 December 2015	33.1	14.5	1.6	0.6	(0.8)	57.8	106.8
Profit for the period	–	–	–	–	–	8.1	8.1
Other comprehensive (loss)/income for the period	–	–	–	–	(0.4)	1.2	0.8
Total comprehensive (loss)/income for the period	–	–	–	–	(0.4)	9.3	8.9
Share options (value of employee services)	–	–	–	–	–	0.4	0.4
Issue of share capital (net of costs)	3.3	0.1	–	–	–	25.4	28.8
Dividend paid	–	–	–	–	–	(4.8)	(4.8)
Transactions with Shareholders recognised directly in Shareholders' equity	3.3	0.1	–	–	–	21.0	24.4
Balance at 30 June 2016	36.4	14.6	1.6	0.6	(1.2)	88.1	140.1

CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2016 £m	As at 30 June 2015 £m (Restated*)	As at 31 December 2015 £m (Restated*)
Assets				
Non-current assets				
Goodwill		124.4	91.1	93.5
Intangible assets		52.1	36.5	36.6
Property, plant and equipment		82.9	57.0	58.2
Textile rental items		43.5	35.8	36.5
Trade and other receivables		0.4	1.1	0.4
Deferred income tax assets		3.1	3.3	3.4
		306.4	224.8	228.6
Current assets				
Inventories		2.7	2.8	2.7
Trade and other receivables		48.5	39.7	40.5
Cash and cash equivalents		5.4	4.5	4.6
		56.6	47.0	47.8
Liabilities				
Current liabilities				
Trade and other payables		66.1	53.2	52.6
Current income tax liabilities		4.0	1.8	2.9
Borrowings		17.9	8.7	11.8
Derivative financial liabilities		–	0.2	0.3
Provisions		4.6	9.1	6.2
		92.6	73.0	73.8
Net current liabilities		(36.0)	(26.0)	(26.0)
Non-current liabilities				
Post-employment benefit obligations	8	13.7	15.4	16.0
Deferred income tax liabilities		10.1	7.0	6.7
Other non-current liabilities		3.2	0.8	2.2
Borrowings		96.4	68.2	64.0
Derivative financial liabilities		1.4	0.1	0.6
Provisions		5.5	6.8	6.3
		130.3	98.3	95.8
Net assets		140.1	100.5	106.8
Equity				
Capital and reserves attributable to the company's shareholders				
Share capital	10	36.4	33.1	33.1
Share premium		14.6	14.6	14.5
Merger reserve		1.6	1.6	1.6
Capital redemption reserve		0.6	0.6	0.6
Hedge reserve		(1.2)	(0.3)	(0.8)
Retained earnings		88.1	50.9	57.8
Total Shareholders' equity		140.1	100.5	106.8

* Comparatives have been restated as a result of guidance issued in March 2016 by the IFRS Interpretations Committee regarding when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32: 'Financial instruments: Presentation'. Further details are provided in note 19.

The notes on pages 8 to 22 form an integral part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements on pages 4 to 22 were approved by the Board of Directors on 6 September 2016 and signed on its behalf by:

Yvonne Monaghan
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Cash flows from operating activities				
Profit for the period		8.1	0.7	10.3
Adjustments for:				
Income tax charge	4	2.3	0.5	2.4
Finance income and expense		2.0	1.2	2.7
Depreciation and impairment of property, plant and equipment		19.9	15.3	33.0
Amortisation and impairment of intangible assets		3.1	1.3	3.6
Net profit on sale of property, plant and equipment		(0.3)	–	–
Decrease in inventories		0.3	0.3	0.1
Increase in trade and other receivables		(0.8)	(3.1)	(0.8)
Increase in trade and other payables		3.0	5.1	2.5
Costs in relation to business acquisition activity		0.9	0.8	1.5
Deficit recovery payments in respect of post-employment benefit obligations		(0.9)	(1.0)	(1.9)
Share-based payments		0.4	0.2	0.5
Post-employment benefit obligations		(0.1)	(0.1)	(0.1)
(Decrease) / increase in provisions		(2.4)	0.7	(2.3)
Cash generated from operations		35.5	21.9	51.5
Interest paid		(1.6)	(1.2)	(2.2)
Taxation paid		(1.9)	(0.9)	(2.3)
Net cash generated from operating activities		32.0	19.8	47.0
Cash flows from investing activities				
Acquisition of business (net of cash and cash equivalents acquired)	11	(57.2)	(65.7)	(70.4)
Proceeds from sale of business (net of cash disposed)	12	–	0.2	0.9
Purchase of property, plant and equipment		(5.1)	(3.8)	(4.4)
Proceeds from sale of property, plant and equipment		0.6	0.1	0.1
Purchase of intangible assets		(0.1)	–	–
Purchase of textile rental items		(16.9)	(12.8)	(27.5)
Proceeds received in respect of special charges		1.5	1.0	2.2
Net cash used in investing activities		(77.2)	(81.0)	(99.1)
Cash flows from financing activities				
Proceeds from borrowings		68.0	73.5	93.0
Repayments of borrowings		(43.3)	(27.0)	(54.3)
Capital element of finance leases		(2.6)	(0.5)	(1.6)
Net proceeds from issue of Ordinary shares		28.8	21.2	21.2
Dividend paid		(4.8)	(3.6)	(5.7)
Net cash generated from financing activities		46.1	63.6	52.6
Net increase in cash and cash equivalents		0.9	2.4	0.5
Cash and cash equivalents at beginning of period		(4.4)	(4.9)	(4.9)
Cash and cash equivalents at end of period	14	(3.5)	(2.5)	(4.4)

The notes on pages 8 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 textile related services to both businesses and consumers. The Group has two distinct reporting segments:

Textile Rental

Provision and laundering of workwear, roller towels, corporate apparel and dust mats; premium linen to the restaurant, hospitality and corporate event markets; and linen to the high volume hotel market.

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 6 September 2016.

1 Basis of Preparation

These condensed consolidated interim financial statements of the Group are for the six months ended 30 June 2016. 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 2015 consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Other than as set out in note 19, financial information for the year ended 31 December 2015 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.

Other than as described within note 19, financial information for the half year ended 30 June 2015 included herein is derived from the condensed consolidated interim financial statements for that period.

Going Concern

The Group currently meets its day-to-day working capital requirements through committed bank facilities which run to April 2020. Following the recent UK referendum, current economic conditions continue to create uncertainty, particularly over the level of demand for the Group's services. The Group's latest forecasts and projections, taking account of reasonably possible changes in trading performance, show that there is not a substantial doubt that the Group should be able to operate within the level of its current facilities for a period of at least 12 months from the date of these condensed consolidated interim financial statements.

As a consequence, and having reassessed the principal risks and uncertainties, the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the condensed consolidated interim financial information.

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 2016.

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. The Board determines the operating segments based on these reports and on the internal reporting structure. For reporting purposes, in accordance with IFRS 8, the Board aggregates operating segments with similar economic characteristics and conditions into reporting segments, which form the basis of reporting in the Interim and Annual Reports. Details of the Group's segments were provided on page 60 of the 2015 Annual Report. Following the acquisitions on 31 January 2016, 26 April 2016 and 28 April 2016, Zip Textiles (Services) Limited, Chester Laundry Limited and Portgrade Limited (together with its trading subsidiary Afonwen Laundry Limited) respectively are included within the Textile Rental segment.

The Board assesses the performance of the reporting segments based on a measure of operating profit, both including and excluding the effects of non-recurring items from the reporting segments, such as restructuring costs and impairments when the impairment is the result of an isolated, non-recurring or non-operating event. Interest income and expenditure are not included in the result for each reporting 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 segment reporting. There have been no changes in measurement methods used compared to the prior year.

2 Segment analysis continued

Other information provided to the Board is measured in a manner consistent with that in the financial statements. Segment assets exclude deferred income tax assets, current income tax assets and cash and cash equivalents, all of which are managed on a central basis. Segment 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 reporting segment as shown on pages 9 to 11.

The reporting segment results for the half year ended 30 June 2016, together with comparative figures, are as follows:

Half year to 30 June 2016	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Revenue	115.7	21.9	–	137.6
Result				
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	17.3	0.6	(1.8)	16.1
Amortisation and impairment of intangible assets	(3.0)	–	–	(3.0)
Exceptional items:				
– Costs in relation to business acquisition activity	(0.9)	–	–	(0.9)
– Pension costs	–	–	(0.3)	(0.3)
– Profit on disposal of freehold property	0.5	–	–	0.5
Operating profit/(loss)	13.9	0.6	(2.1)	12.4
Total finance cost				(2.0)
Profit before taxation				10.4
Taxation				(2.3)
Profit for the period				8.1

		Discontinued Operations £m	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Balance sheet information						
Segment assets		–	316.1	18.6	19.8	354.5
Unallocated assets:	Deferred income tax assets					3.1
	Cash and cash equivalents					5.4
Total assets						363.0
Segment liabilities		(2.7)	(75.8)	(13.8)	(4.3)	(96.6)
Unallocated liabilities:	Bank borrowings					(97.1)
	Current income tax liabilities					(4.0)
	Deferred income tax liabilities					(10.1)
	Derivative financial liabilities					(1.4)
	Post-employment benefit obligations					(13.7)
Total liabilities						(222.9)
Other information						
Non-current asset additions						
– Property, plant and equipment		–	4.2	0.4	0.3	4.9
– Textile rental items		–	15.9	–	–	15.9
– Intangible software		–	0.1	–	–	0.1
Depreciation and amortisation expense						
– Property, plant and equipment		–	4.4	0.7	0.1	5.2
– Textile rental items		–	14.7	–	–	14.7
– Intangible software		–	0.1	–	–	0.1
– Customer contracts		–	3.0	–	–	3.0

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

2 Segment analysis continued

Half year to 30 June 2015	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
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 (Restated*)
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					4.5
Total assets						271.8
Segment liabilities		(3.6)	(45.4)	(19.7)	(4.6)	(73.3)
Unallocated liabilities:	Bank borrowings					(73.5)
	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						(171.3)
Other information						
Non-current 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

* Comparatives have been restated as a result of guidance issued in March 2016 by the IFRS Interpretations Committee regarding when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32: 'Financial instruments: Presentation'. Further details are provided in note 19.

2 Segment analysis continued

Year ended 31 December 2015	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m
Revenue	188.2	46.2	–	234.4
Result				
Operating profit before amortisation and impairment of intangible assets (excluding software amortisation) and exceptional items	29.4	2.0	(3.5)	27.9
Amortisation and impairment of intangible assets	(3.5)	–	–	(3.5)
Exceptional items:				
– Restructuring and other costs	(1.0)	(6.5)	–	(7.5)
– Costs in relation to business acquisition activity	(1.5)	–	–	(1.5)
Operating profit/(loss)	23.4	(4.5)	(3.5)	15.4
Finance cost				(2.7)
Profit before taxation				12.7
Taxation				(2.4)
Profit for the period				10.3

		Discontinued Operations £m	Textile Rental £m	Drycleaning £m	All Other Segments £m	Total £m (Restated*)
Balance sheet information						
Segment assets		–	234.6	19.2	14.6	268.4
Unallocated assets:	Deferred income tax assets					3.4
	Cash and cash equivalents					4.6
Total assets						276.4
Segment liabilities		(2.8)	(51.5)	(16.9)	(3.1)	(74.3)
Unallocated liabilities:	Bank borrowings					(68.8)
	Current income tax liabilities					(2.9)
	Deferred income tax liabilities					(6.7)
	Derivative financial liabilities					(0.9)
	Post-employment benefit obligations					(16.0)
Total liabilities						(169.6)
Other information						
Non-current additions						
– Property, plant and equipment		–	7.6	0.7	–	8.3
– Textile rental items		–	28.4	–	–	28.4
Depreciation and amortisation expense						
– Property, plant and equipment		–	6.9	1.8	0.2	8.9
– Textile rental items		–	24.1	–	–	24.1
– Intangible software		–	0.1	–	–	0.1
– Customer contracts		–	3.5	–	–	3.5

* Comparatives have been restated as a result of guidance issued in March 2016 by the IFRS Interpretations Committee regarding when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32: 'Financial instruments: Presentation'. Further details are provided in note 19.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

3 Exceptional items

		Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Restructuring and other costs	– Textile Rental	–	(0.6)	(1.0)
	– Drycleaning	–	(6.2)	(6.5)
		–	(6.8)	(7.5)
Costs in relation to business acquisition activity		(0.9)	(0.8)	(1.5)
Pension costs		(0.3)	–	–
Profit on disposal of freehold property		0.5	–	–
Total exceptional items		(0.7)	(7.6)	(9.0)

Current year exceptional items

Costs in relation to business acquisition activity

During the period to 30 June 2016, professional fees of £0.4 million and stamp duty of £0.3 million were paid relating to the acquisitions of Zip Textiles (Services) Limited, Chester Laundry Limited and Portgrade Limited, the parent company of Afonwen Laundry Limited. In addition, costs of £0.2 million were incurred as part of the ongoing reorganisation and integration of recent acquisitions. Further information relating to the acquisitions is provided in note 11.

Pension costs

During the period to 30 June 2016, professional fees of £0.3 million were incurred in respect of liability management exercises in relation to the defined benefit pension scheme.

Profit on disposal of freehold property

The site of the former Textile Rental plant in Leeds that was closed in 2015 was disposed of during the period for net proceeds of £0.5 million. The carrying value was previously written down to £nil in 2014.

Prior year exceptional items

Restructuring costs – Textile Rental

A new processing facility has been constructed to replace the previous site in Leeds. The total cost of this relocation in 2014 and 2015, excluding the capital investment, was £2.3 million, of which, £1.0 million was charged to exceptional items in 2015, £0.6 million being in the six months to June 2015.

Restructuring costs – Drycleaning

As previously announced on 6 January 2015, the charge to the Group's Income Statement for the restructuring of the Drycleaning business and associated property provisions was, in aggregate, £6.5 million net, of which £6.2 million was recognised in the first half of 2015.

Costs in relation to business acquisition activity

During the prior year, costs relating to business acquisition activity of £1.5 million were recognised of which £0.8 million were recognised in the first half. Professional fees of £0.5 million and stamp duty of £0.3 million were paid relating to the acquisition of London Linen Group Limited in the first half. Further Professional fees of £0.2 million were incurred in the second half relating to the acquisition of Ashbon Services Limited. Costs of £0.4 million in the second half were in relation to reorganisation and integration costs relating to the two business acquisitions in the year. The remainder of the cost relates to fees and expenses incurred during negotiations with undisclosed targets.

4 Taxation

	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Current tax			
UK corporation tax charge for the period	3.2	0.5	3.3
Adjustment in relation to previous periods	–	–	(0.4)
Current tax charge for the period	3.2	0.5	2.9
Deferred tax			
Origination and reversal of temporary differences	(0.9)	–	(0.2)
Changes in statutory tax rate	–	–	(0.3)
Deferred tax charge for the period	(0.9)	–	(0.5)
Total charge for taxation included in the income statement	2.3	0.5	2.4

Taxation in relation to amortisation and impairment of intangible assets has reduced the charge in the current period by £0.6 million (June 2015: £0.3 million reduction in the charge; December 2015: £0.8 million reduction in the charge). Taxation on exceptional items in the current period relating to continuing operations is £nil (June 2015: £1.3 million reduction in the charge; December 2015: £1.7 million reduction in the charge) of which £nil (June 2015: £nil; December 2015: £0.2 million credit) relates to the prior year.

Reconciliation of effective tax rate

Taxation on non-exceptional items for the six months to 30 June 2016 is calculated based on the estimated average annual effective tax rate (excluding prior year items) of 20.3% (six months ended 30 June 2015: 20.7%; year ended 31 December 2015: 21.3%). This compares to the weighted average tax rate expected to be enacted or substantively enacted at the balance sheet date of 20.0% (six months ended 30 June 2015: 20.25%; year ended 31 December 2015: 20.25%). 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.

Changes in the UK corporation tax rate

Reductions to the UK corporation tax rates were announced in the Chancellor's Budget on 8 July 2015, by 1% to 19% in April 2017 and by a further 1% to 18% in April 2020. These changes were substantively enacted as part of Finance Bill 2015 on 26 October 2015.

Deferred income taxes at the balance sheet date are measured at the tax rate expected to be applicable at the date the deferred income tax assets and liabilities are realised. Management has performed an assessment, for all material deferred income tax assets and liabilities, to determine the period over which the deferred income tax assets and liabilities are forecast to be realised, which has resulted in an average deferred income tax rate of 19% being used to measure all deferred tax balances as at 30 June 2016 (30 June 2015: 20%; 31 December 2015: 19%).

On 16 March 2016, a further reduction was announced replacing the 18% tax rate effective from April 2020 with a 17% tax rate. This further change had not been substantively enacted at the balance sheet date and hence is not reflected in these financial statements. If applied to the deferred tax balances at the balance sheet date, management estimate the impact of this further reduction in the main UK rate of tax would be to reduce the net UK deferred tax liability by £0.4 million.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

5 Adjusted profit before and after taxation

	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Profit before taxation	10.4	1.2	12.7
Amortisation and impairment of intangible assets (excluding software amortisation)	3.0	1.3	3.5
Restructuring and other costs	–	6.8	7.5
Costs in relation to business acquisition	0.9	0.8	1.5
Pension costs	0.3	–	–
Profit on disposal of freehold property	(0.5)	–	–
Adjusted profit before taxation	14.1	10.1	25.2
Taxation on adjusted profit	(2.9)	(2.1)	(4.9)
Adjusted profit after taxation	11.2	8.0	20.3

6 Dividends

	Half year to 30 June 2016	Half year to 30 June 2015	Year ended 31 December 2015
Dividend per share (pence)			
2016 Interim dividend proposed	0.80	–	–
2015 Interim dividend proposed and paid	–	0.65	0.65
2015 Final dividend proposed and paid	–	–	1.45
	0.80	0.65	2.10

	Half year to 30 June 2016	Half year to 30 June 2015	Year ended 31 December 2015
Shareholders' funds utilised (£m)			
2016 Interim dividend proposed	2.9	–	–
2015 Interim dividend proposed and paid	–	2.1	2.1
2015 Final dividend proposed and paid	–	–	4.8

On 13 May 2016 a final dividend of 1.45 pence per Ordinary share in respect of 2015 was paid to Shareholders, utilising £4.8 million of Shareholders' funds.

The Directors are proposing an interim dividend in respect of the year ended 31 December 2016 of 0.80 pence which will reduce Shareholders' funds by £2.9 million. The dividend will be paid on 4 November 2016 to Shareholders on the register of members at the close of business on 7 October 2016. The Trustee of the EBT has waived its 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 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Profit for the period attributable to Shareholders	8.1	0.7	10.3
Amortisation and impairment of intangible assets (net of taxation)	2.4	1.0	2.7
Exceptional items (net of taxation)	0.7	6.3	7.3
Adjusted profit attributable to Shareholders	11.2	8.0	20.3

	Number of shares	Number of shares	Number of shares
Weighted average number of Ordinary shares	340,940,931	309,231,073	319,966,663
Potentially dilutive options*	3,985,690	2,908,147	3,239,840
Fully diluted number of Ordinary shares	344,926,621	312,139,220	323,206,503

Basic earnings per share	Pence per share	Pence per share	Pence per share
Basic earnings per share	2.4p	0.2p	3.2p
Adjustment for amortisation of intangibles assets	0.7p	0.3p	0.8p
Adjustment for exceptional items	0.2p	2.1p	2.3p
Adjusted basic earnings per share	3.3p	2.6p	6.3p
Diluted earnings per share			
Diluted earnings per share	2.4p	0.2p	3.2p
Adjustment for amortisation of intangibles assets	0.7p	0.3p	0.8p
Adjustment for exceptional items	0.2p	2.1p	2.3p
Adjusted diluted earnings per share	3.3p	2.6p	6.3p

* 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 2016, six months ended 30 June 2015 and year ended 31 December 2015, 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 Post-employment 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 2016 deficit recovery payments of £0.9 million were paid by the Group to the defined benefit scheme (June 2015: £1.0 million; December 2015: £1.9 million).

As disclosed in note 3, professional fees of £0.3 million were incurred during the period to 30 June 2016 in respect of liability management exercises.

Following discussions with the Group's appointed actuary a re-measurement gain of £1.5 million has been recognised in the period to 30 June 2016. This is principally as a result of asset returns over the period being £22.5 million higher than previously assumed offset, to a lesser extent, by a £21.0 million loss due to changes in financial assumptions.

The gross post-employment benefit obligations and associated deferred income tax assets thereon, together with the net obligations, are shown below:

	As at 30 June 2016 £m	As at 30 June 2015 £m	As at 31 December 2015 £m
Gross post-employment benefit obligations	(13.7)	(15.4)	(16.0)
Deferred income tax assets thereon	2.6	3.0	3.0
Net post-employment benefit obligations	(11.1)	(12.4)	(13.0)

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

	As at 30 June 2016 £m	As at 30 June 2015 £m	As at 31 December 2015 £m
Opening post-employment benefit obligations	16.0	18.5	18.5
Notional interest	0.3	0.3	0.6
Employer contributions	(0.9)	(1.0)	(1.9)
Re-measurement gains	(1.5)	(2.3)	(1.2)
Utilisation of healthcare provision	(0.2)	(0.1)	–
Closing post-employment benefit obligations	13.7	15.4	16.0

9 Capital expenditure and commitments

Capital expenditure

In the half year ended 30 June 2016 the Group acquired property, plant and equipment and intangible assets for a cost of £5.0 million (half year ended 30 June 2015: £3.7 million; year ended 31 December 2015: £8.3 million), not including property, plant and equipment and intangible assets acquired through business combinations. In addition, textile rental items with a cost of £15.9 million were acquired during the period (half year ended 30 June 2015: £13.9 million; year ended 31 December 2015: £28.4 million), not including textile rental items acquired through business combinations.

Offsetting this, property, plant and equipment with a net book value of £0.3 million was disposed of during the period (half year ended 30 June 2015: £0.1 million; year ended 31 December 2015: £0.1 million). In addition, amounts received in respect of textile rental special charges were £1.5 million (half year ended 30 June 2015: £1.0 million; year ended 31 December 2015: £2.2 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 2016 £m	As at 30 June 2015 £m	As at 31 December 2015 £m
Property, plant and equipment	6.0	0.8	0.5

10 Share capital

Issued share capital has increased as follows:

	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Share capital at the start of the period	33.1	30.0	30.0
New shares issued	3.3	3.1	3.1
Share capital at the end of the period	36.4	33.1	33.1

As at 30 June 2016 the Company has issued share capital of 363,676,945 Ordinary Shares of 10p each.

During the period, the Company placed 33.1 million Ordinary shares (the '2016 Placing') with existing and new institutional investors raising net proceeds of £28.7 million of which £3.3 million was credited to share capital. The 2016 Placing shares represented approximately 9.99 per cent of the Company's existing share capital. The 2016 Placing price of 90 pence per share was equal to 97.6% of the closing mid-market price per Ordinary Share on 28 April 2016, being the latest practicable date prior to the announcement of the 2016 Placing. The 2016 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.

In addition, £0.1 million was received during the period following the issue of 61,739 shares in relation to the exercise of employee share options. Proceeds in excess of the nominal value were credited to share premium.

In the period to 30 June 2015, the Company placed 30.0 million Ordinary shares (the '2015 Placing') with existing and new institutional investors raising net proceeds of £21.1 million of which £3.0 million was credited to share capital.

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 2016 Placing, the final dividend of 1.45 pence per share for the year ended 31 December 2015 and, in respect of the 2015 Placing, the final dividend of 1.20 pence per share for the year ended 31 December 2014.

11 Business combinations

On 29 January 2016 the Group acquired 100% of the share capital of Zip Textiles (Services) Limited ('Zip') for a net consideration of £13.0 million (being £14.0 million consideration less cash acquired of £1.0 million) plus associated fees. Since acquisition, Zip has generated a profit of £0.2 million on revenue of £2.9 million. Had the business been acquired at the start of the period it is estimated that a profit of £0.2 million would have been generated on revenue of £3.4 million.

On 26 April 2016 the Group acquired 100% of the share capital of Chester Laundry Limited ('Chester') for a net consideration of £1.0 million (being £0.8 million consideration plus overdraft acquired of £0.2 million) plus associated fees. Since acquisition, Chester has generated a profit of £nil on revenue of £1.1 million. Had the business been acquired at the start of the period it is estimated that a profit of £nil would have been generated on revenue of £3.2 million.

On 28 April 2016 the Group acquired 100% of the share capital of Portgrade Limited, together with its trading subsidiary Afonwen Laundry Limited ('Afonwen') for a net consideration of £41.9 million (being £37.4 million consideration plus overdraft acquired of £4.5 million) plus associated fees. Since acquisition, Afonwen has generated a profit of £0.7 million on revenue of £8.3 million. Had the business been acquired at the start of the period it is estimated that a profit of £0.2 million would have been generated on revenue of £20.6 million.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

11 Business combinations continued

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

	Zip £m	Chester £m	Afonwen £m	Fair value adjustments to previous acquisitions £m	Total £m
Intangible assets – Goodwill	8.7	0.4	21.4	0.4	30.9
Intangible assets – Customer lists and contracts	3.1	–	15.4	–	18.5
Property, plant and equipment	6.6	3.2	15.9	(0.4)	25.3
Textile rental items	0.4	0.4	6.5	–	7.3
Inventories	–	–	0.3	–	0.3
Trade and other receivables	0.9	1.4	5.1	–	7.4
Current income tax asset	–	0.1	0.1	–	0.2
Cash and cash equivalents/(overdraft)	1.0	(0.2)	(4.5)	–	(3.7)
Trade and other payables	(1.9)	(2.4)	(8.6)	–	(12.9)
Borrowings	(3.6)	(2.3)	(10.6)	–	(16.5)
Deferred income tax (liability)/asset	(1.2)	0.2	(3.6)	–	(4.6)
	14.0	0.8	37.4	–	52.2

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

As the acquisitions have had a relatively short period of ownership the amounts above in respect of Zip, Chester and Afonwen are provisional and subject to adjustment. The adjustments to previous acquisitions reflect an additional write down of plant and equipment at London Linen and Ashbon of £0.3 million and £0.1 million respectively, both of which were acquired in 2015.

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

	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Consideration paid for acquisitions in the period	52.2	69.3	73.7
Deferred consideration paid during the period	0.2	–	–
Overdraft / (cash and cash equivalents) acquired	3.7	(4.4)	(4.4)
Costs in relation to business acquisition activity	1.1	0.8	1.1
	57.2	65.7	70.4

In the period to 30 June 2016, costs in relation to business acquisition activity comprise £0.7 million in respect of acquisitions made during the period and a further £0.4 million in respect of acquisitions made in prior periods, of which, £0.2 million was charged to exceptional items in 2015.

12 Disposals and discontinued operations

There were no business disposals in the current or prior periods.

Cash flows relating to previously discontinued operations are as follows:

	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Proceeds from disposal	–	0.3	1.0
Payment of costs relating to the disposal	–	(0.1)	(0.1)
Proceeds from sale of business	–	0.2	0.9
Net cash used in operating activities	(0.1)	(0.4)	(1.2)
Net cash flow relating to discontinued operations	(0.1)	(0.2)	(0.3)

On 7 August 2013, the Group disposed of its Facilities Management division. Proceeds from sale of business in the prior periods represents deferred and contingent consideration received, net of associated fees.

Net cash used in operating activities represents the utilisation of previously recognised provisions for onerous lease commitments and dilapidation obligations on certain non-trading properties.

13 Borrowings

As at 30 June 2016, borrowings were secured and drawn down under a committed facility dated 21 February 2014, as amended and restated on 24 April 2015 and as further amended and restated on 22 April 2016, comprising a £120.0 million rolling credit facility (including an overdraft) which runs to 24 April 2020 and a £30.0 million short term facility expiring on 21 April 2017.

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 2016, £50.0 million of borrowings were subject to hedging arrangements which have the effect of replacing LIBOR with fixed rates as follows:

- for £15.0 million of borrowings, LIBOR is replaced with 1.4725% from 8 January 2016 to 8 January 2019;
- for £15.0 million of borrowings, LIBOR is replaced with 1.665% from 8 January 2016 to 8 January 2020;
- for £10.0 million of borrowings, LIBOR is replaced with 0.49% from 30 June 2016 to 30 June 2018; and
- for £10.0 million of borrowings, LIBOR is replaced with 0.5525% from 30 June 2016 to 30 June 2019.

14 Analysis of net debt

Net debt is calculated as total borrowings net of unamortised bank facility fees, less cash and cash equivalents. Non-cash changes represent the effects of the recognition and subsequent amortisation of fees relating to bank facilities, changing maturity profiles, debt acquired as part of an acquisition and new finance leases entered into during the year.

	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 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)
Cash flow	(1.9)	0.3	7.5	1.1	7.0
Other non-cash changes	–	(0.9)	(0.2)	(4.7)	(5.8)
Balance at 31 December 2015	(4.4)	(1.3)	(58.5)	(7.0)	(71.2)
Cash flow	0.9	0.3	(25.0)	2.6	(21.2)
Other non-cash changes	–	(3.7)	–	(12.8)	(16.5)
Balance at 30 June 2016	(3.5)	(4.7)	(83.5)	(17.2)	(108.9)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

14 Analysis of net debt continued

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

	As at 30 June 2016 £m	As at 30 June 2015 £m (Restated*)	As at 31 December 2015 £m (Restated*)
Cash (Current Assets)	5.4	4.5	4.6
Overdraft (Borrowings, Current Liabilities)	(8.9)	(7.0)	(9.0)
	(3.5)	(2.5)	(4.4)

* Comparatives have been restated as a result of guidance issued in March 2016 by the IFRS Interpretations Committee regarding when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32: 'Financial instruments: Presentation'. Further details are provided in note 19.

Finance lease obligations are comprised of the following balance sheet amounts:

	As at 30 June 2016 £m	As at 30 June 2015 £m	As at 31 December 2015 £m
Amounts due within one year (Borrowings, Current Liabilities)	(4.3)	(1.0)	(1.5)
Amounts due after more than one year (Borrowings, Non-Current Liabilities)	(12.9)	(2.4)	(5.5)
	(17.2)	(3.4)	(7.0)

15 Reconciliation of net cash flow to movement in net debt

	Half year to 30 June 2016 £m	Half year to 30 June 2015 £m	Year ended 31 December 2015 £m
Cash inflow during the period	0.9	2.4	0.5
Cash outflow on change in debt and lease financing	(22.1)	(46.0)	(37.1)
Outflow in net debt resulting from cash flows	(21.2)	(43.6)	(36.6)
Debt acquired through business acquisitions	(16.5)	–	(0.9)
Movement in unamortised issue costs of bank loans	–	0.5	0.3
New finance leases	–	(0.8)	(5.5)
Outflow in net debt during the period	(37.7)	(43.9)	(42.7)
Opening net debt	(71.2)	(28.5)	(28.5)
Closing net debt	(108.9)	(72.4)	(71.2)

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 related party relationships, transactions and balances are given in the Group's financial statements for the year ended 31 December 2015. There have been no material changes in the nature of these relationships in the half year to 30 June 2016 or up to the date of this Report.

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 Scheme (the Trustee) security over the assets of the Group. The priority of security is as follows: first ranking security for £28.0 million to the Trustee ranking pari passu with up to £156.0 million of bank facilities; and second ranking security for the balance of any remaining liabilities to the Trustee ranking pari passu with any remaining bank liabilities.

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 Sale 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.

17 Contingent liabilities continued
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, estimates and assumptions
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 2015.

(a) Prior period restatement - cash pooling
In March 2016, the IFRS Interpretations Committee (IFRS IC) issued an agenda decision regarding the treatment of offsetting and cash-pooling arrangements in accordance with IAS 32: 'Financial instruments: Presentation'. This provided additional guidance on when bank overdrafts in cash-pooling arrangements would meet the requirements for offsetting in accordance with IAS 32.

As a consequence of the above, the Group has reviewed its cash-pooling arrangements and has revised its presentation of bank overdrafts. As a result the Group has presented an additional £5.4 million within borrowings in the current period and increased its cash balances by an equal and opposite amount. Comparatives at 30 June 2015 and 31 December 2015 have been similarly restated by £3.4 million and £4.5 million respectively.

(b) 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.

(c) 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.

(d) Standards and amendments to standards effective in 2016
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 2016 that are expected to have a material impact on the Group.

(e) 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.

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 2015 Annual Report the principal risks and uncertainties that could impact its performance. Other than as set out below, these remain unchanged since the Annual Report was published and are summarised below:

Financial Risks
Economy
Cost Inflation
Interest Rate Fluctuations
Liquidity Risk
Pension Scheme Deficit

Operational Risks
Failure of Strategy
Customers
Competition
Retention and Motivation
Loss of a Processing Facility
Information Systems and Technology

Regulatory Risk
Health and Safety
Compliance and Fraud

The recent vote for the UK to leave the EU has added further uncertainty and volatility to financial market conditions and therefore no overall improvement in the risk environment. The Group does not export its services and has a wide spread of customers across many sectors. 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.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

20 Principal risks and uncertainties continued

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, in part due to the current sterling exchange rates, 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 2015 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

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

Nicholas Mark Gregg
Non-Executive Director
Chairman of Remuneration Committee
Member of Nomination Committee
Member of Audit Committee

Company Secretary & Group Financial Controller

Timothy James Morris BA (Hons), FCA

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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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Manchester M2 3PW

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.

Those Shareholders who are CREST members and who wish to appoint a proxy or proxies utilising the proxy voting service please refer to Note 2 of the Notice of Annual General Meeting.

If you have any queries regarding electronic communications, please contact the Company's registrar, Capita Asset Services, on 0871 664 0300 (calls cost 12p per minute plus network extras, lines are open 9.00am-5.30pm Mon-Fri).

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