Interim Report and Accounts

2017

JOHNSON SERVICE GROUP PLC

THE LEADING NAME IN TEXTILE RENTAL

OPERATIONAL AND FINANCIAL REVIEW

Introduction

Johnson Service Group has delivered another strong performance. This encouraging outcome reflects the progress we have made over the last five years or so to develop the Group, refocusing on its textile rental activities and subsequently expanding its activities in this area. The sale of the Drycleaning business in January completed this transition and leaves us wholly focused on textile rental services, consisting of workwear rental, and linen services to the hotel, restaurant and hospitality sectors.

Our acquisition and integration strategy has been key to the Group's successful growth, as is our ongoing investment programme. Together, they are driving synergy benefits, operational efficiencies and improved customer service within JSG. We will continue to expand our presence organically as well as through further acquisitions in our chosen marketplaces while striving to maintain the high service levels that help put us at the forefront of our industry.

Financial Results

The Group's continuing revenue for the six months to 30 June 2017 increased by 19.3% to £138.0 million (June 2016: £115.7 million). This was driven by strong organic growth of some 4.8% and a full six months of trading from the acquisitions completed in 2016. Adjusted operating profit increased by 20.0% to £18.6 million (June 2016: £15.5 million).

Adjusted profit before taxation increased to £16.8 million (June 2016: £13.6 million) after net finance costs of £1.8 million (June 2016: £1.9 million). The underlying tax rate was 19.4% (June 2016: 20.3%).

There were no exceptional items in the first half of 2017 (June 2016: £0.7 million). The statutory profit before tax after amortisation of intangible assets (excluding software amortisation) of £3.9 million (June 2016: £3.0 million) increased by 30.3% to £12.9 million (June 2016: £9.9 million).

Continuing adjusted fully diluted earnings per share increased by 15.6% to 3.7 pence (June 2016: 3.2 pence). Fully diluted earnings per share from continuing operations after amortisation of intangible assets (excluding software amortisation) and exceptional items increased to 2.8 pence (June 2016: 2.3 pence).

Dividend

Reflecting the Group's strong performance and prospects, the Board is pleased to increase the interim dividend by 12.5% to 0.9 pence (June 2016: 0.8 pence). This is in line with our progressive dividend policy, whilst also maintaining satisfactory dividend cover.

The interim dividend will be paid on 3 November 2017 to those Shareholders on the register of members at the close of business on 6 October 2017. The ex-dividend date is 5 October 2017.

Finances

Total net debt at 30 June 2017 was £90.0 million (December 2016: £98.2 million), slightly better than management expectations, and reflected the strong trading performance in the first half together with the receipt of proceeds from the sale of the Drycleaning business in January 2017. The Group's net debt to adjusted EBITDA leverage ratio was 1.7x at the end of June 2017.

The Group has a £120.0 million revolving credit bank facility which is considerably in excess of the anticipated level of borrowings, with comfortable cover on all bank covenants for the foreseeable future. The facility matures in April 2020.

Interest cover based on adjusted operating profit was 11.6 times (June 2016: 9.7 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 further 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.

Pension Deficit

The recorded net deficit after tax for all post-employment benefit obligations, calculated in accordance with IAS 19R, has reduced to £7.9 million at June 2017 from £14.8 million at December 2016. The reduction is due, in part, to the higher than expected returns 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 2017, of which £0.9 million was contributed during the first half. In addition to this agreed schedule of contributions a further payment of £1.5 million was made to the pension scheme in April 2017.

The triennial actuarial valuation of the defined benefit scheme as at 30 September 2016 has recently been finalised. Calculated under the more prudent technical provisions of the scheme the deficit has increased to £39.3 million. However given the additional contribution of £1.5 million referred to above, the Trustee has agreed that ongoing deficit funding contributions will remain at the current level of £1.9 million per annum.

Acquisition of Professional Laundry Services ("PLS")

After the period end, on 28 July 2017, we were pleased to add another well-established, high volume hotel linen business, through the acquisition of Clayfull Limited, which trades as PLS. The consideration was £6.6 million, on a debt free, cash free basis and subject to an

OPERATIONAL AND FINANCIAL REVIEW CONTINUED

adjustment for normalised working capital. We also purchased a freehold building used by PLS for an additional £1.25 million.

As reported in the management accounts for the year ended August 2016, the business generated revenue of £4.9 million and adjusted EBIT of £0.5 million.

Based in Bonnyrigg, south of Edinburgh, PLS predominantly services the high volume hotel linen market processing some 350,000 pieces of linen per week and employing 130 staff. It operates across much of Scotland and also in the North East of England and so establishes the Group with a presence in high volume hotel linen in these areas.

We see scope for further growth and are planning to invest approximately £0.8 million in a new fully integrated soiled linen sorting and automated bagging system to support expansion.

OPERATIONAL HIGHLIGHTS

Our Textile Rental business trades through a number of very well recognised brands which service the UK's Workwear and Hotel Restaurant and Catering ("HORECA") market sectors. The Group's 'Apparelmaster' brand predominantly provides workwear rental and laundry services to corporates across all industry sectors, 'Stalbridge' and 'London Linen' provide premium linen services to the restaurant, hospitality and corporate events market and 'Bourne' and 'Afonwen' provide high volume hotel linen services. Our newly acquired PLS brand will complement our existing Bourne and Afonwen brands.

The combined businesses performed very strongly throughout the first six months of the year generating revenue of £138.0 million (June 2016: £115.7 million), an increase of 19.3%. This £22.3 million increase includes an additional four months of trading from the acquisitions completed in 2016. We also saw strong underlying organic growth of some 4.8%, which included the benefit of price increases. There was a one-off benefit of approximately £1.0 million for work processed on behalf of a privately owned laundry, whose operations have been disrupted by a fire. This work is expected to continue until October 2017 and has resulted in additional, high margin throughput for both Stalbridge and Afonwen.

Adjusted operating profit from our Textile Rental businesses increased by £3.4 million to £20.7 million (June 2016: £17.3 million), representing an increase of 19.7%, with the operating margin remaining constant at 15.0% (June 2016: 15.0%). This was achieved despite the inclusion of a full six months of trading from the high volume hotel linen acquisitions completed in 2016, which traditionally generate a much lower margin during the first quarter of the year.

Apparelmaster, the UK's largest workwear brand, performed very strongly throughout the first six months of 2017 winning over 1,200 new customers (June 2016: 1,100) with average sales value to those customers increasing by some 6%. We re-signed a number of large national accounts and customer retention levels were maintained at over 95%, a similar level to last year.

The business faced higher operating costs in the period owing to the combined impact of the implementation of the National Living Wage ("NLW"), rising fuel costs and contributions towards the Government's Apprenticeship Levy. However, the additional revenue combined with strong cost control mitigated their impact.

We continue to actively manage Apparelmaster's increasing volumes by transferring customers between processing facilities in order to ensure optimal operational efficiencies. At the same time we progressed with its capital investment programme which will deliver further production efficiencies as well as increased capacity. The major refurbishments we are undertaking at the Letchworth and Brighton facilities are nearing completion and we have increased capacity at our Basingstoke facility. We will be starting a partial refit of the Uttoxeter site in the second half of the year.

In order to ensure that we continue to meet the ever increasing needs of our customers, we have adopted new tablet technology for all of our customer-facing staff. In particular a new online catalogue and automated sales quotation system have been put in place to provide our account managers with a more holistic view of each customer's account and further new IT driven developments are planned.

Our internal training and development facility (The Johnsons Academy) continues to improve the skill set of our workforce and foster the development of staff for future managerial positions. External training providers have been supporting the Academy in providing best practice service training techniques to ensure Apparelmaster maintains its reputation for service excellence in the industry.

Stalbridge enjoyed a very strong start to 2017, with both revenue and margin increasing substantially. This was helped by high customer retention rates and a 50% increase in new sales year-on-year.

Contract caterers and facilities management companies remain a core market for Stalbridge and the business renewed a number of long term agreements. These included a supply agreement with the Ministry of Defence where a large scale reorganisation of its 'soft service' supply across the country has already benefitted revenue growth at Stalbridge, with further opportunities expected to come through. A large number of Stalbridge's customer base are smaller operations within the premium hotel, restaurant and catering sub-sectors who are more discerning about quality and service. Stalbridge's flexible "no contract" terms play well in this marketplace and a particular area of growth has been through the emergence of independent and pub groups that are food and accommodation lead.

We continue to increase operating efficiencies at Stalbridge through ongoing investment in modern plant and equipment and realigning customers' work on a geographical basis. The Grantham site, acquired in November 2015, benefited from the installation of a new continuous batch washer, hydraulic press and high speed ironer line, while a new high speed sheet and duvet ironer line at our Glasgow facility, and the additional railing systems for the storage of extra new work and enhanced drying capacity for toweling products at our Sturminster site, have improved the operational performance of these plants.

Given the high levels of sales growth and the speed at which capacity has been reached at Grantham, we are now considering adding further processing capacity in the North West of England and also opportunities to service the London market more efficiently.

London Linen also increased revenue during the first six months of the year despite some early pricing pressures on major contracts when restauranteurs and catering companies were all facing significant cost pressures themselves due to NLW and property rates increases.

Operationally, the main focus of London Linen in the period was the completion of the £4.5 million capital investment programme at the Southall plant. The investment has delivered a new mezzanine floor containing highly automated conveyor systems, new ergonomically efficient sorting tables and an automated bag-loading system which transports soiled linen directly to two new continuous batch washers. Our capital investment programme was completed on schedule and has helped to reduce operating costs as well as increasing production capacity.

London Linen also commenced a programme to fully co-ordinate the sales and service functions of its London Linen and London Workwear brands. We believe that this initiative will enhance customer service and streamline product offerings to customers.

We are also pleased to report that we have secured a 17,000 square foot site in an adjoining building to London Linen's existing plant, which we plan to put into operational use at a cost of some £2.0 million. We should be able to achieve further benefits when this new unit is fully operational, currently planned for the first half of 2018.

Stalbridge and London Linen continue to work closely together in order to ensure that the respective businesses are utilising plant capacity efficiently and providing customers with optimal service levels and product.

Our high volume hotel linen offering operates under the **Afonwen** and **Bourne** brands, with **PLS** a newly added brand. Trading over the first six months has been very strong in terms of new sales and interest from potential new customers although, as we re-tendered, market pricing has been very challenging for large contracts, with competitors pricing to win volume. As a result, average prices are generally slightly down compared to the previous year. However, the benefits derived from operational savings and synergies have offset the pricing effect and we have maintained margins.

The management team continued to focus on improving transportation efficiencies, successfully transferring work for a number of customers to the most local laundry site. This not only generates cost savings but also improves our service delivery and reliability. At the same time, we have taken care to balance the output levels of each factory unit to optimise efficiency during the very busy summer months.

Over the period, we reorganised the sales and customer service activity at Afonwen and Bourne into a new national structure which is more streamlined and logistically more effective. This has been well received by our major national and regional hotel customer groups. The business has continued to retain a number of key national accounts and has also further expanded and developed its customer base, particularly across the corporate four star and budget hotel sectors.

The £3.5 million refit of the Chester site was successfully completed on time and to budget and has created a more modern and efficient plant. We have achieved a 30% improvement in pieces produced per operator whilst at the same time improving the quality and service in line with our expectations.

We are focusing strongly on operational performance, and in particular the use of scanning technology to ensure consistency of product and quality assurance. We have installed scanners across our Birmingham and Chester sites in the first half of this year which has led to improvements in customer perception and retention. We also want to ensure that all of our high volume linen operations are fully integrated, deploying best working practices across all sites. The integration journey is still ongoing and the next large project is a strategic review of linen purchasing across the Afonwen, Bourne and PLS brands so that we can standardise and improve the product specification for our customers and reduce purchasing costs by consolidating volumes.

TECHNICAL INNOVATION

We have started work on the in-house development of new operating systems for both the workwear and high volume hotel linen businesses. This project, which will incorporate the use of Microsoft Dynamics, is expected to take two years until full implementation and will further improve our operating systems and customer engagement.

OPERATIONAL AND FINANCIAL REVIEW CONTINUED

EMPLOYEES

Our teams have worked with skill, enthusiasm and dedication and have helped to ensure that our customers receive market-leading service standards. We thank them for their significant contribution to another tremendous first half performance.

SUCCESSION

In a separate statement issued today, we also announce that after 33 years with the Group, Chris Sander, Chief Executive Officer, has informed the Board of his intention to retire in the first half of 2018. Chris is retiring at a time when the Group is in excellent shape and very well placed for continued growth.

OUTLOOK

The Board is continuing to invest in increasing the production capacity of the business in order to take advantage of market opportunities as they arise.

The acquisitions we have made over recent years, and the latest purchase of PLS, based in Scotland, have expanded our services over a wider geographical area and our integration strategy is enabling us to realise material distribution and synergy efficiencies. We have further to go in achieving national coverage and we will continue to consider new expansion opportunities. The addition of PLS, together with continuing strong performance across all our existing brands gives us confidence in the second half performance. We expect results for the full year to be slightly ahead of current market expectations.

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 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
4 September 2017

Yvonne Monaghan
Chief Financial Officer
4 September 2017

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 2017 £m	Half year to 30 June 2016 £m (Restated*)	Year ended 31 December 2016 £m
Revenue from continuing operations	2	138.0	115.7	256.7
Operating profit	2	14.7	11.8	29.8
Operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items		18.6	15.5	37.7
Amortisation of intangible assets (excluding software amortisation)		(3.9)	(3.0)	(6.9)
Exceptional items	3			
– Costs in relation to business acquisition activity		–	(0.9)	(1.2)
– Pension costs		–	(0.3)	(0.3)
– Profit on disposal of freehold property		–	0.5	0.5
Operating profit	2	14.7	11.8	29.8
Finance cost		(1.6)	(1.6)	(3.3)
Notional pension interest		(0.2)	(0.3)	(0.6)
Total finance cost		(1.8)	(1.9)	(3.9)
Profit before taxation		12.9	9.9	25.9
Taxation charge**	4	(2.5)	(2.2)	(5.0)
Profit for the period from continuing operations		10.4	7.7	20.9
Result for the period from discontinued operations		–	0.4	(0.3)
Profit for the period attributable to equity holders		10.4	8.1	20.6
Earnings per share	7			
Basic earnings per share				
From continuing operations		2.8p	2.3p	6.0p
From discontinued operations		–	0.1p	(0.1p)
From total operations		2.8p	2.4p	5.9p
Fully diluted earnings per share				
From continuing operations		2.8p	2.3p	5.9p
From discontinued operations		–	0.1p	(0.1p)
From total operations		2.8p	2.4p	5.8p
Adjusted basic earnings per share				
From continuing operations		3.7p	3.2p	7.7p
From discontinued operations		–	0.1p	0.4p
From total operations		3.7p	3.3p	8.1p
Adjusted fully diluted earnings per share				
From continuing operations		3.7p	3.2p	7.6p
From discontinued operations		–	0.1p	0.4p
From total operations		3.7p	3.3p	8.0p

The notes on pages 9 to 23 form an integral part of these condensed consolidated interim financial statements.

* The June 2016 Consolidated Income Statement has been restated to reflect the presentation of Drycleaning as a Discontinued Operation. See page 10 for further information.

** Including £0.7 million credit (June 2016: £0.6 million credit; December 2016 £1.5 million credit) relating to amortisation of intangible assets (excluding software amortisation) and £nil (June 2016: £nil; December 2016 £0.2 million credit) relating to exceptional items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m	Year ended 31 December 2016 £m
Profit for the period		10.4	8.1	20.6
Items that will not be subsequently reclassified to profit or loss				
– Re-measurement and experience gains/(losses) on post-employment benefit obligations	8	6.2	1.5	(3.5)
– Taxation in respect of re-measurement and experience (gains)/losses		(1.2)	(0.3)	0.6
– Change in deferred tax due to change in tax rate		–	–	(0.1)
Items that may be subsequently reclassified to profit or loss				
– Cash flow hedges (net of taxation) – fair value loss		(0.2)	(0.7)	(0.4)
– transfers to operating profit		–	0.2	0.2
– transfers to finance cost		0.2	0.1	0.3
Other comprehensive income/(loss) for the period		5.0	0.8	(2.9)
Total comprehensive income for the period		15.4	8.9	17.7

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share Capital £m	Share Premium £m	Hedge Reserve £m	Other Reserves* £m	Retained Earnings £m	Total Equity £m
Balance at 1 January 2016	33.1	14.5	(0.8)	2.2	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	(1.2)	2.2	88.1	140.1
Profit for the period	–	–	–	–	12.5	12.5
Other comprehensive income/(loss) for the period	–	–	0.5	–	(4.2)	(3.7)
Total comprehensive income for the period	–	–	0.5	–	8.3	8.8
Share options (value of employee services)	–	–	–	–	0.4	0.4
Current tax on share options	–	–	–	–	0.2	0.2
Issue of share capital (net of costs)	0.1	0.4	–	–	–	0.5
Dividend paid	–	–	–	–	(2.9)	(2.9)
Transactions with Shareholders recognised directly in Shareholders' equity	0.1	0.4	–	–	(2.3)	(1.8)
Balance at 31 December 2016	36.5	15.0	(0.7)	2.2	94.1	147.1
Profit for the period	–	–	–	–	10.4	10.4
Other comprehensive income for the period	–	–	–	–	5.0	5.0
Total comprehensive income for the period	–	–	–	–	15.4	15.4
Share options (value of employee services)	–	–	–	–	0.3	0.3
Current tax on share options	–	–	–	–	0.2	0.2
Issue of share capital (net of costs)	0.1	0.2	–	–	–	0.3
Purchase of shares by EBT**	–	–	–	–	(0.1)	(0.1)
Dividend paid	–	–	–	–	(6.2)	(6.2)
Transactions with Shareholders recognised directly in Shareholders' equity	0.1	0.2	–	–	(5.8)	(5.5)
Balance at 30 June 2017	36.6	15.2	(0.7)	2.2	103.7	157.0

* Other Reserves comprise a £1.6 million Merger Reserve and a £0.6 million Capital Redemption Reserve.

** The Group has an Employee Benefit Trust (EBT), to administer share plans and to acquire shares, using funds controlled by the Group, to meet commitments to employee share schemes.

CONSOLIDATED BALANCE SHEET

	Note	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 31 December 2016 £m
Non-current assets				
Goodwill		115.6	124.4	115.6
Intangible assets		44.0	52.1	47.9
Property, plant and equipment		82.2	82.9	81.7
Textile rental items		45.0	43.5	44.1
Trade and other receivables		0.3	0.4	0.3
Deferred income tax assets		2.2	3.1	4.2
		289.3	306.4	293.8
Current assets				
Inventories		2.4	2.7	2.2
Trade and other receivables		46.5	48.5	43.3
Cash and cash equivalents		6.5	5.4	2.9
Assets classified as held for sale		–	–	17.2
		55.4	56.6	65.6
Current liabilities				
Trade and other payables		61.3	66.1	60.6
Current income tax liabilities		3.9	4.0	4.3
Borrowings		24.5	17.9	19.9
Derivative financial liabilities		0.3	–	0.3
Provisions		2.2	4.6	1.9
Liabilities directly associated with assets classified as held for resale		–	–	9.4
		92.2	92.6	96.4
Non-current liabilities				
Post-employment benefit obligations	8	9.7	13.7	18.2
Deferred income tax liabilities		8.1	10.1	10.0
Trade and other payables		2.6	3.2	2.3
Borrowings		72.0	96.4	82.0
Derivative financial liabilities		0.5	1.4	0.5
Provisions		2.6	5.5	2.9
		95.5	130.3	115.9
Net assets		157.0	140.1	147.1
Capital and reserves attributable to the company's shareholders				
Share capital	10	36.6	36.4	36.5
Share premium		15.2	14.6	15.0
Hedge reserve		(0.7)	(1.2)	(0.7)
Other reserves		2.2	2.2	2.2
Retained earnings		103.7	88.1	94.1
Total equity		157.0	140.1	147.1

* Other Reserves comprise a £1.6 million Merger Reserve and a £0.6 million Capital Redemption Reserve.

The notes on pages 9 to 23 form an integral part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements on pages 5 to 23 were approved by the Board of Directors on 4 September 2017 and signed on its behalf by:

Yvonne Monaghan
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m (Restated*)	Year ended 31 December 2016 £m
Cash flows from operating activities				
Profit for the period		10.4	8.1	20.6
Adjustments for:				
Taxation charge – continuing operations	4	2.5	2.2	5.0
– discontinued operations		–	0.1	0.6
Total finance cost – continuing operations		1.8	1.9	3.9
– discontinued operations		–	0.1	0.1
Depreciation of tangible fixed assets		23.3	19.9	44.5
Amortisation of intangible fixed assets		4.0	3.1	7.1
Revaluation of assets classified as held for sale		–	–	2.0
Profit on sale of tangible fixed assets		–	(0.3)	–
(Increase)/decrease in inventories		(0.2)	0.3	0.4
(Increase)/decrease in trade and other receivables		(2.3)	(0.8)	0.8
Increase in trade and other payables		1.6	3.0	0.9
Costs in relation to business acquisition activity		–	0.9	1.2
Deficit recovery payments in respect of post-employment benefit obligations		(2.4)	(0.9)	(1.9)
Share-based payments		0.3	0.4	0.8
Post-employment benefit obligations		(0.1)	(0.1)	(0.1)
Decrease in provisions		–	(2.4)	(4.4)
Cash generated from operations		38.9	35.5	81.5
Interest paid		(1.5)	(1.6)	(3.0)
Taxation paid		(3.9)	(1.9)	(5.9)
Net cash generated from operating activities		33.5	32.0	72.6
Cash flows from investing activities				
Acquisition of business (net of cash and cash equivalents acquired)	11	–	(57.2)	(58.0)
Proceeds from sale of business (net of cash disposed)	12	6.0	–	–
Purchase of property, plant and equipment		(7.0)	(5.1)	(15.5)
Proceeds from sale of property, plant and equipment		0.1	0.6	0.6
Purchase of intangible assets		–	(0.1)	–
Purchase of textile rental items		(19.4)	(16.9)	(34.5)
Proceeds received in respect of special charges		1.2	1.5	2.7
Net cash used in investing activities		(19.1)	(77.2)	(104.7)
Cash flows from financing activities				
Proceeds from borrowings		54.0	68.0	88.0
Repayments of borrowings		(62.0)	(43.3)	(69.3)
Capital element of finance leases		(2.5)	(2.6)	(5.3)
Purchase of own shares by EBT		(0.1)	–	–
Net proceeds from issue of Ordinary shares		0.3	28.8	29.3
Dividend paid		(6.2)	(4.8)	(7.7)
Net cash generated from financing activities		(16.5)	46.1	35.0
Net (decrease)/increase in cash and cash equivalents		(2.1)	0.9	2.9
Cash and cash equivalents at beginning of period		(1.5)	(4.4)	(4.4)
Cash and cash equivalents at end of period	14	(3.6)	(3.5)	(1.5)
Cash and cash equivalents comprise:				
Cash		6.5	5.4	2.9
Overdraft		(10.1)	(8.9)	(5.2)
Within assets classified as held for sale		–	–	0.8
Cash and cash equivalents at end of the period		(3.6)	(3.5)	(1.5)

The notes on pages 9 to 23 form an integral part of these condensed consolidated interim financial statements.

* The June 2016 Consolidated Statement of Cash Flows has been restated to reflect the presentation of Drycleaning as a Discontinued Operation. See page 9 for further information.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Johnson Service Group PLC (the 'Company') and its subsidiaries (together 'the Group') provide textile rental and related services across the UK.

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 authorised for issue by the Board on 4 September 2017.

1 Basis of preparation

These condensed consolidated interim financial statements of the Group are for the six months ended 30 June 2017. 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 2016 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 2016 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 2016 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. 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.

Discontinued operations

The Consolidated Income Statement for the period ended 30 June 2016 has been restated, as shown below, to reflect the Drycleaning reporting segment being presented as a Discontinued Operation. The Consolidated Statement of Cash Flows for the same period has also been restated to analyse the income tax charge and finance income and expense between continuing and discontinued operations.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

1 Basis of preparation continued

The presentation of Drycleaning as a Discontinued Operation does not impact the Consolidated Statement of Comprehensive Income, Consolidated Statement of Changes in Shareholders Equity or Consolidated Balance Sheet.

Half year to 30 June 2016	As Previously Reported £m	Adjustment £m	As Restated £m
Revenue	137.6	(21.9)	115.7
Operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items	16.1	(0.6)	15.5
Amortisation 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 freehold property disposal	0.5	–	0.5
Operating profit	12.4	(0.6)	11.8
Total finance cost	(2.0)	0.1	(1.9)
Profit before taxation	10.4	(0.5)	9.9
Taxation	(2.3)	0.1	(2.2)
Profit for the year from continuing operations	8.1	(0.4)	7.7
Profit for the year from discontinued operations	–	0.4	0.4
Profit for the period attributable to equity holders	8.1	–	8.1

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 2017. These segments are the same as those included within the 2016 Annual Report. The chief operating decision-maker has been identified as the Board of Directors (the 'Board'). The Board reviews the Group's internal reporting in order to assess performance and allocate resources. 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.

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.

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.

2 Segment analysis continued

The reporting segment results for the half year ended 30 June 2017, together with comparative figures, are as follows:

Half year to 30 June 2017	Textile Rental £m	All Other Segments £m	Total £m
Revenue			
Continuing	138.0	–	138.0
Discontinued			–
Total Revenue			138.0
Result			
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation)	20.7	(2.1)	18.6
Amortisation of intangible assets (excluding software amortisation)	(3.9)	–	(3.9)
Operating profit/(loss)	16.8	(2.1)	14.7
Total finance cost			(1.8)
Profit before taxation			12.9
Taxation			(2.5)
Profit for the period attributable to equity holders			10.4

		Discontinued Operations £m	Textile Rental £m	All Other Segments £m	Total £m
Balance sheet information					
Segment assets		1.0	333.7	1.3	336.0
Unallocated assets:	Deferred income tax assets				2.2
	Cash and cash equivalents				6.5
Total assets					344.7
Segment liabilities		(4.1)	(72.9)	(3.6)	(80.6)
Unallocated liabilities:	Bank borrowings				(84.6)
	Current income tax liabilities				(3.9)
	Deferred income tax liabilities				(8.1)
	Derivative financial liabilities				(0.8)
	Post-employment benefit obligations				(9.7)
Total liabilities					(187.7)
Other information					
Non-current asset additions					
– Property, plant and equipment		–	6.5	–	6.5
– Textile rental items		–	19.6	–	19.6
Depreciation and amortisation expense					
– Property, plant and equipment		–	5.8	0.1	5.9
– Textile rental items		–	17.4	–	17.4
– Intangible software		–	0.1	–	0.1
– Customer contracts		–	3.9	–	3.9

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

2 Segment analysis continued

Half year to 30 June 2016 (restated)	Textile Rental £m	All Other Segments £m	Total £m
Revenue			
Continuing	115.7	–	115.7
Discontinued			21.9
Total Revenue			137.6
Result			
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation) and exceptional items	17.3	(1.8)	15.5
Amortisation of intangible assets (excluding software amortisation)	(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 freehold property disposal	0.5	–	0.5
Operating profit/(loss)	13.9	(2.1)	11.8
Total finance cost			(1.9)
Profit before taxation			9.9
Taxation			(2.2)
Profit for the period from continuing operations			7.7
Profit for the period from discontinued operations			0.4
Profit for the period attributable to equity holders			8.1

		Discontinued Operations £m	Textile Rental £m	All Other Segments £m	Total £m
Balance sheet information					
Segment assets		18.6	333.1	2.8	354.5
Unallocated assets:	Deferred income tax assets				3.1
	Cash and cash equivalents				5.4
Total assets					363.0
Segment liabilities		(16.5)	(75.8)	(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 additions					
– Property, plant and equipment		0.4	4.2	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		0.7	4.4	0.1	5.2
– Textile rental items		–	14.7	–	14.7
– Intangible software		–	0.1	–	0.1
– Customer contracts		–	3.0	–	3.0

2 Segment analysis continued

Year ended 31 December 2016	Textile Rental £m	All Other Segments £m	Total £m
Revenue			
Continuing	256.7	–	256.7
Discontinued			44.3
Total Revenue			301.0
Result			
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation) and exceptional items	41.7	(4.0)	37.7
Amortisation of intangible assets (excluding software amortisation)	(6.9)	–	(6.9)
Exceptional items:			
– Costs in relation to business acquisition activity	(1.2)	–	(1.2)
– Pension costs	–	(0.3)	(0.3)
– Profit on disposal of freehold property	0.5	–	0.5
Operating profit/(loss)	34.1	(4.3)	29.8
Finance cost			(3.9)
Profit before taxation			25.9
Taxation			(5.0)
Profit for the period from continuing operations			20.9
Result for the period from discontinued operations			(0.3)
Profit for the period attributable to equity holders			20.6

		Discontinued Operations £m	Textile Rental £m	All Other Segments £m	Total £m
Balance sheet information					
Segment assets		17.2	334.0	1.1	352.3
Unallocated assets:	Deferred income tax assets				4.2
	Cash and cash equivalents				2.9
Total assets					359.4
Segment liabilities		(13.7)	(74.6)	(3.2)	(91.5)
Unallocated liabilities:	Bank borrowings				(87.5)
	Current income tax liabilities				(4.3)
	Deferred income tax liabilities				(10.0)
	Derivative financial liabilities				(0.8)
	Post-employment benefit obligations				(18.2)
Total liabilities					(212.3)
Other information					
Non-current additions					
– Property, plant and equipment		0.7	14.9	–	15.6
– Textile rental items		–	35.4	–	35.4
Depreciation and amortisation expense					
– Property, plant and equipment		1.4	10.4	0.3	12.1
– Textile rental items		–	32.4	–	32.4
– Intangible software		–	0.2	–	0.2
– Customer contracts		–	6.9	–	6.9

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

3 Exceptional items

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m	Year ended 31 December 2016 £m
Continuing operations			
Costs in relation to business acquisition activity	–	(0.9)	(1.2)
Pension costs	–	(0.3)	(0.3)
Profit on disposal of freehold property	–	0.5	0.5
Total exceptional items	–	(0.7)	(1.0)

Current year exceptional items

There are no exceptional items in the period to 30 June 2017.

Prior year exceptional items

Costs in relation to business acquisition activity

During the period to 31 December 2016, professional fees of £0.6 million, of which £0.4m related to the period to 30 June 2016, and Stamp Duty of £0.3 million, all of which related to the period to 30 June 2016, 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 £0.3 million, of which £0.2 million related to the period to 30 June 2016, were incurred as part of the ongoing restructuring and integration of recent acquisitions.

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

A former Textile Rental site 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.

4 Taxation

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m	Year ended 31 December 2016 £m
Continuing operations			
Current tax			
UK corporation tax charge for the period	3.6	3.1	7.3
Adjustment in relation to previous periods	–	–	(0.1)
Current tax charge for the period	3.6	3.1	7.2
Deferred tax			
Origination and reversal of temporary differences	(1.1)	(0.9)	(1.8)
Changes in statutory tax rate	–	–	(0.3)
Adjustment in relation to previous years	–	–	(0.1)
Deferred tax credit for the period	(1.1)	(0.9)	(2.2)
Total charge for taxation included in the income statement	2.5	2.2	5.0

Taxation in relation to amortisation of intangible assets (excluding software amortisation) has reduced the charge for taxation on continuing operations in the current period by £0.7 million (June 2016: £0.6 million reduction in the charge; December 2016: £1.5 million reduction in the charge). Taxation in relation to exceptional items in the current period relating to continuing operations is £nil (June 2016: £nil; December 2016: £0.2 million reduction in the charge).

During the period, a £0.2 million credit relating to current taxation (June 2016: £nil credit; December 2016: £0.2 million credit) has been recognised directly in Shareholders' equity.

Reconciliation of effective tax rate

Taxation on non-exceptional items for the six months to 30 June 2017 is calculated based on the estimated average annual effective tax rate (excluding prior year items) of 19.4% (June 2016: 20.3%; December 2016: 20.7%). This compares to the weighted average tax rate expected to be enacted or substantively enacted at the balance sheet date of 19.25% (June 2016: 20.00%; December 2016: 20.00%). Taxation on exceptional items is calculated based on the actual tax charge or credit for each specific item.

4 Taxation continued

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 to UK corporation tax rate

Changes to the UK corporation tax rates were announced on 8 July 2015. These changes, which proposed to reduce the main rate to 19% from 1 April 2017 and to 18% from 1 April 2020, were substantively enacted as part of Finance Bill 2015 on 26 October 2015. A further change to reduce the rate from 1 April 2020 from 18% to 17% was announced on 16 March 2016. This change was substantively enacted as part of Finance Bill 2016 on 15 September 2016.

Deferred income taxes at the balance sheet date have been 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 18.5% being used to measure all deferred tax balances as at 30 June 2017 (June 2016: 19.0%; December 2016 18.5%).

5 Adjusted profit before and after taxation

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m (Restated)	Year ended 31 December 2016 £m
Continuing operations			
Profit before taxation	12.9	9.9	25.9
Amortisation of intangible assets (excluding software amortisation)	3.9	3.0	6.9
Costs in relation to business acquisition activity	–	0.9	1.2
Pension costs	–	0.3	0.3
Profit on freehold property disposal	–	(0.5)	(0.5)
Adjusted profit before taxation	16.8	13.6	33.8
Taxation on adjusted profit	(3.2)	(2.8)	(6.7)
Adjusted profit after taxation	13.6	10.8	27.1

6 Dividends

	Half year to 30 June 2017	Half year to 30 June 2016	Year ended 31 December 2016
Dividend per share (pence)			
2017 Interim dividend proposed	0.9	–	–
2016 Interim dividend proposed and paid	–	0.8	0.8
2016 Final dividend proposed and paid	–	–	1.7
	0.9	0.8	2.5

	Half year to 30 June 2017	Half year to 30 June 2016	Year ended 31 December 2016
Shareholders' funds committed (£m)			
2017 Interim dividend proposed	3.3	–	–
2016 Interim dividend proposed and paid	–	2.9	2.9
2016 Final dividend proposed and paid	–	–	6.2

On 9 May 2017 a final dividend of 1.7 pence per share in respect of 2016 was paid to Shareholders, utilising £6.2 million of Shareholders' funds.

The Directors are proposing an interim dividend in respect of the year ended 31 December 2017 of 0.9 pence which will reduce Shareholders' funds by £3.3 million. The dividend will be paid on 3 November 2017 to Shareholders on the register of members at the close of business on 6 October 2017. The trustee of the EBT has waived the entitlement to receive dividends on the Ordinary shares held by the trust.

In accordance with IAS 10 there is no payable recognised at 30 June 2017 in respect of this proposed dividend.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

7 Earnings per share

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m (Restated)	Year ended 31 December 2016 £m
Profit for the period from continuing operations attributable to Shareholders	10.4	7.7	20.9
Profit/(loss) for the period from discontinued operations attributable to shareholders	–	0.4	(0.3)
Amortisation of intangible assets from continuing operations (net of taxation)	3.2	2.4	5.4
Impairment of assets classified as held for sale	–	–	2.0
Exceptional items from continuing operations (net of taxation)	–	0.7	0.8
Exceptional items from discontinued operations (net of taxation)	–	–	(0.3)
Adjusted profit attributable to Shareholders relating to continuing activities	13.6	10.8	27.1
Adjusted loss attributable to Shareholders relating to discontinued activities	–	0.4	1.4
Adjusted profit attributable to Shareholders	13.6	11.2	28.5

	Number of shares	Number of shares	Number of shares
Weighted average number of Ordinary shares	365.9m	340.9m	352.5m
Potentially dilutive options*	2.7m	4.0m	4.4m
Fully diluted number of Ordinary shares	368.6m	344.9m	356.9m

	Pence per share	Pence per share	Pence per share
Basic earnings per share			
From continuing operations	2.8p	2.3p	6.0p
From discontinued operations	–	0.1p	(0.1p)
From continuing and discontinued operations	2.8p	2.4p	5.9p
Adjustment for amortisation of intangibles assets (continuing operations)	0.9p	0.7p	1.5p
Impairment of assets classified as held for sale (discontinued operations)	–	–	0.6p
Adjustment for exceptional items (continuing operations)	–	0.2p	0.2p
Adjustment for exceptional items (discontinued operations)	–	–	(0.1p)
Adjusted basic earnings per share (continuing operations)	3.7p	3.2p	7.7p
Adjusted basic earnings per share (discontinued operations)	–	0.1p	0.4p
Adjusted basic earnings per share from continuing and discontinued operations	3.7p	3.3p	8.1p
Diluted earnings per share			
From continuing operations	2.8p	2.3p	5.9p
From discontinued operations	–	0.1p	(0.1p)
From continuing and discontinued operations	2.8p	2.4p	5.8p
Adjustment for amortisation of intangibles assets (continuing operations)	0.9p	0.7p	1.5p
Impairment of assets classified as held for sale (discontinued operations)	–	–	0.6p
Adjustment for exceptional items (continuing operations)	–	0.2p	0.2p
Adjustment for exceptional items (discontinued operations)	–	–	(0.1p)
Adjusted diluted earnings per share (continuing operations)	3.7p	3.2p	7.6p
Adjusted diluted earnings per share (discontinued operations)	–	0.1p	0.4p
Adjusted diluted earnings per share from continuing and discontinued operations	3.7p	3.3p	8.0p

* Includes outstanding share options granted to employees.

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

Adjusted earnings per share figures are given to exclude the effects of amortisation of intangible assets (excluding software amortisation) and exceptional items, all net of taxation, and are considered to show the underlying performance of the Group.

7 Earnings per share continued

For diluted earnings per share, the weighted average number of Ordinary shares in issue is adjusted to assume conversion of all potentially dilutive Ordinary shares. The Company has potentially 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 all periods, potential Ordinary shares have been treated as dilutive, as their inclusion in the diluted earnings per share calculation decreases earnings per share from continuing operations.

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

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 2017 deficit recovery payments of £0.9 million were paid by the Group to the defined benefit scheme (June 2016: £0.9 million; December 2016: £1.9 million). In addition, a further, one off, deficit recovery payment of £1.5 million was made in April 2017.

Following discussions with the Group's appointed actuary a re-measurement gain of £6.2 million has been recognised in the period to 30 June 2017. This is principally as a result of asset returns over the period being £4.4 million higher than previously assumed, and experience gain on liabilities of £2.2 million offset by an increase in liabilities due to changes in financial assumptions of £0.4 million.

The post-employment benefit obligation and associated deferred income tax asset thereon is shown below:

	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 31 December 2016 £m
Post-employment benefit obligation	(9.7)	(13.7)	(18.2)
Deferred income tax asset thereon	1.8	2.6	3.4
	(7.9)	(11.1)	(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 2017 £m	As at 30 June 2016 £m	As at 31 December 2016 £m
Opening post-employment benefit obligation	(18.2)	(16.0)	(16.0)
Notional interest	(0.2)	(0.3)	(0.6)
Employer contributions	2.4	0.9	1.9
Re-measurement gains/(losses)	6.2	1.5	(3.5)
Utilisation of healthcare provision	0.1	0.2	–
Closing post-employment benefit obligation	(9.7)	(13.7)	(18.2)

9 Capital expenditure and commitments

Capital expenditure

In the half year ended 30 June 2017 the Group acquired property, plant and equipment and intangible assets for a cost of £6.5 million (June 2016: £4.9 million; December 2016: £15.6 million), not including property, plant and equipment and intangible assets acquired through business combinations. In addition, textile rental items with a cost of £19.6 million were acquired during the period (June 2016: £15.9 million; December 2016: £35.4 million), not including textile rental items acquired through business combinations.

Offsetting this, property, plant and equipment with a net book value of £nil million was disposed of during the period (June 2016: £0.3 million; December 2016: £0.6 million). In addition, amounts received in respect of textile rental special charges were £1.2 million (June 2016: £1.5 million; December 2016: £2.7 million).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

9 Capital expenditure and commitments continued

Capital commitments

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

	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 31 December 2016 £m
Property, plant and equipment	2.9	6.0	3.2

10 Share capital

Issued share capital has increased as follows:

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m	Year ended 31 December 2016 £m
Share capital at the start of the period	36.5	33.1	33.1
New shares issued	0.1	3.3	3.4
Share capital at the end of the period	36.6	36.4	36.5

As at 30 June 2017 the Company has issued share capital of 366,466,609 Ordinary Shares of 10p each.

In the period to June 2017 1,025,000 Approved LTIP options were exercised with a total nominal value of £102,500 (June 2016: £nil; December 2016: £nil) and 333,590 SAYE scheme options were exercised with a total nominal value of £33,359 (June 2016: £4,538; December 2016: £147,645). Proceeds in excess of the nominal value were credited to Share Premium.

In the period to 30 June 2016, 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.

11 Business combinations

There have been no business combinations in the period to 30 June 2017, nor have there been any adjustments to the fair value of assets and liabilities acquired on previous acquisitions. Full details of acquisitions in 2016 are provided in the 2016 Annual Report.

12 Disposals and discontinued operations

On 4 January 2017 the Group disposed of its Drycleaning business for a consideration of £8.3 million on a debt free, cash free basis and subject to adjustments for normalised working capital. The initial proceeds for the disposal, net of transaction costs of £0.5 million, were £6.8 million, with a further £1.0 million of contingent consideration potentially receivable within 12 months of completion, dependent on the satisfaction of certain conditions. The Drycleaning business is included in the December 2016 Balance Sheet as "assets classified as held for sale" and "liabilities directly associated with assets held for resale". The anticipated loss on disposal of £2.0 million was reflected as an impairment of goodwill as at December 2016 and included within Discontinued Operations.

	Assets/(Liabilities) Transferred to Held for Sale £m	Impairment £m	Carrying value under IFRS5 as at 31 December 2016 & 4 January 2017 £m
Intangible assets – Goodwill	9.1	(2.0)	7.1
Intangible assets – Software	0.1	–	0.1
Property, plant and equipment	4.4	–	4.4
Deferred income tax asset	0.8	–	0.8
Inventories	0.4	–	0.4
Trade and other receivables	3.6	–	3.6
Cash	0.8	–	0.8
Trade and other payables	(6.0)	–	(6.0)
Provisions	(3.4)	–	(3.4)
	9.8	(2.0)	7.8
Included within Assets classified as held for sale			17.2
Included within Liabilities directly associated with assets classified as held for sale			(9.4)
Net assets disposed of			7.8
Proceeds receivable			(8.3)
Related costs			0.5
Profit on disposal			–

Discontinued operations include the following items:

- Trade relating to the drycleaning business
- Drycleaning goodwill impairment
- In relation to the prior period a £0.4 million property provision release relating to operations discontinued in previous years
- Taxation on the above items

The total result relating to discontinued operations is as follows:

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m	Year ended 31 December 2016 £m
Revenue	–	21.9	44.3
Operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items	–	0.6	2.0
Finance cost	–	(0.1)	(0.1)
Exceptional items	–	–	0.4
Taxation charge	–	(0.1)	(0.6)
Profit for the period	–	0.4	1.7
Impairment of assets classified as held for sale	–	–	(2.0)
Retained result from discontinued operations	–	0.4	(0.3)

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

12 Disposals and discontinued operations continued

Cash flows relating to discontinued operations are as follows:

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m	Year ended 31 December 2016 £m
Proceeds from disposal	7.3	–	–
Payment of costs relating to the disposal	(0.5)	–	–
Cash disposed of	(0.8)	–	–
Net proceeds from disposal	6.0	–	–
Net cash used in operating activities	(0.2)	(1.6)	(0.2)
Net cash used in financing activities	–	(0.4)	(0.9)
Net cash flow relating to discontinued operations	5.8	(2.0)	(1.1)

13 Borrowings

As at 30 June 2017, 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.

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 2017, £50.0 million of borrowings were subject to hedging arrangements which had 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.

Borrowings are stated net of unamortised issue costs of £0.5 million (30 June 2016: £0.8 million; 31 December 2016: £0.7 million).

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 the bank facility, 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 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)
Cash flow	2.0	(5.0)	11.0	2.7	10.7
Other non-cash changes	–	(0.1)	–	0.1	–
Balance at 31 December 2016	(1.5)	(9.8)	(72.5)	(14.4)	(98.2)
Cash flow	(2.1)	–	8.0	2.5	8.4
Other non-cash changes	–	0.1	(0.3)	–	(0.2)
Balance at 30 June 2017	(3.6)	(9.7)	(64.8)	(11.9)	(90.0)

14 Analysis of net debt continued

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

	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 31 December 2016 £m
Cash (Current assets)	6.5	5.4	2.9
Overdraft (Borrowings, Current liabilities)	(10.1)	(8.9)	(5.2)
Cash within assets classified as held for sale	–	–	0.8
	(3.6)	(3.5)	(1.5)

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

	As at 30 June 2017 £m	As at 30 June 2016 £m	As at 31 December 2016 £m
Amounts due within one year (Borrowings, Current Liabilities)	(4.7)	(4.3)	(4.9)
Amounts due after more than one year (Borrowings, Non-Current Liabilities)	(7.2)	(12.9)	(9.5)
	(11.9)	(17.2)	(14.4)

15 Reconciliation of net cash flow to movement in net debt

	Half year to 30 June 2017 £m	Half year to 30 June 2016 £m	Year ended 31 December 2016 £m
(Decrease)/increase in cash in the period	(2.1)	0.9	2.9
Decrease/(increase) in debt and lease financing	10.5	(22.1)	(13.4)
Change in net debt resulting from cash flows	8.4	(21.2)	(10.5)
Debt acquired through business acquisitions	–	(16.5)	(16.5)
Movement in unamortised issue costs of bank loans	(0.2)	–	–
Movement in net debt during the period	8.2	(37.7)	(27.0)
Opening net debt	(98.2)	(71.2)	(71.2)
Closing net debt	(90.0)	(108.9)	(98.2)

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 other related party relationships, transactions and balances are given in the Group's financial statements for the year ended 31 December 2016. There have been no material changes in these relationships in the half year to 30 June 2017 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 liabilities; 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 the Company had given guarantees over the performance of contracts entered into by the division. As part of the disposal of the 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 to the Company of £0.2 million per annum, reduced pro rata as guarantees are released. Such liabilities are not expected to give rise to any significant loss.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

17 Contingent liabilities continued

As a condition of the sale of the Facilities Management division in August 2013, the Group 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 the risk of settlement at, or near, the maximum level to be remote.

18 Events after the reporting period

On 28 July 2017, the Group acquired the entire issued share capital of Clayfull Limited, a company registered in Scotland and trading under the name Professional Linen Services ("PLS"), for a cash consideration of £6.6 million on a debt-free, cash-free basis and subject to normalised working capital. At the same time, the Group also purchased the freehold site from which PLS operates for a cash consideration of £1.25 million. PLS, which serves the high volume hotel and leisure sectors throughout much of Scotland and the North East of England, operates from a modern and well equipped facility based in Bonnyrigg (south of Edinburgh). Whilst expected to be immediately earnings enhancing, the main focus of this acquisition is to complement our existing Bourne and Afonwen businesses by improving operational capacity and extending the Company's reach of existing hotel customers. PLS reported revenue of £4.9 million for the year to 31 August 2016.

There have been no other events that 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 2016.

(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 2017

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 2017 that are expected to have a material impact on the Group.

(d) Standards and amendments to standards effective after 2017

IFRS 15, 'Revenue from contracts with customers'

This standard deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction contracts' and related interpretations. The standard, which was endorsed by the EU in September 2016, is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. At this time, the Board does not expect there to be any significant impact of the standard on revenue recognition within the Group.

IFRS 16, 'Leases'

The Board is still in the process of reviewing the impact of IFRS 16 on the Group's accounting policies. The Group currently leases both properties and vehicles under a series of operating lease contracts which will be impacted by the new standard. These types of leases may need to be brought onto the Group's Balance Sheet from the date of adoption of the new standard. As a consequence of this, there is likely to be an impact on the make-up of the Group's Income Statement where operating lease costs are likely to be replaced by a depreciation charge and related interest charge. The changes will not impact on the cash flow of the Group. From a lessor perspective, the Board is continuing to perform a detailed review to assess whether the changes will have a significant impact on the Group's financial statements.

(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 2016 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	
	Loss of a Processing Facility	
	Information Systems and Technology	

These risks and uncertainties do not comprise all of the risks and uncertainties that the Group may face and are not listed in any order of priority. Additional risks and uncertainties not presently known to the Board may also have an adverse effect on the Group. These include risks resulting from the UK's EU referendum which could adversely affect the economic and political environment as well as affecting financial risks such as liquidity and credit. Although the risks related to the EU referendum have been discussed by the Board, it is too early to fully assess or quantify any potential impact on the business.

The Group has no exposure to sub-prime lending or collateralised debt obligations. 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.

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 customer 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 2016 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 Audit Committee
Member of Remuneration Committee
Chairman of Nomination 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
Senior Independent Non-Executive Director
Chairman of Audit Committee
Member of Remuneration Committee
Member of Nomination Committee

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

Company Secretary & Group Financial Controller

Timothy James Morris BA (Hons), FCA

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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.

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.

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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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