Interim Report and Accounts

2018

JOHNSON
SERVICE GROUP PLC

THE LEADING NAME IN TEXTILE RENTAL

FINANCIAL AND OPERATIONAL REVIEW

FINANCIAL REVIEW

Financial Results

Following very strong sales growth and continued high levels of customer retention across all market sectors, organic growth reached 7.2% in the first half of the year. This, combined with a full six months trading from the acquisitions completed in 2017, increased the Group's continuing revenue by 10.3% to £152.2 million (June 2017: £138.0 million). As a result of strong operational controls corresponding adjusted operating profit increased by 7.0% to £19.9 million (June 2017: £18.6 million).

Adjusted profit before taxation increased to £18.2 million (June 2017: £16.8 million) after net finance costs of £1.7 million (June 2017: £1.8 million). The underlying tax rate was 19.5% (June 2017: 19.4%).

The statutory profit before tax after amortisation of intangible assets (excluding software amortisation) of £4.2 million (June 2017: £3.9 million) increased by 8.5% to £14.0 million (June 2017: £12.9 million).

Continuing adjusted diluted earnings per share increased by 8.1% to 4.0 pence (June 2017: 3.7 pence). Diluted earnings per share from continuing operations, after amortisation of intangible assets (excluding software amortisation), increased by 10.7% to 3.1 pence (June 2017: 2.8 pence).

Dividend

Reflecting the Group's strong performance and prospects, the Board is pleased to increase the interim dividend by 11.1% to 1.0 pence (June 2017: 0.9 pence). This is in line with our progressive dividend policy, whilst also maintaining satisfactory dividend cover.

The interim dividend will be paid on 2 November 2018 to those Shareholders on the register of members at the close of business on 5 October 2018. The ex-dividend date is 4 October 2018.

Finances

Total net debt at 30 June 2018 was £91.2 million (December 2017: £91.3 million), slightly better than management expectations, and reflected the strong trading performance in the first half offset by significant investment in new rental stock which was required to support organic growth. The Group's net debt to adjusted EBITDA leverage ratio was 1.6x at the end of June 2018.

The Group renewed its bank facility in August 2018 and now has a £150.0 million revolving credit facility (RCF) which is considerably in excess of the anticipated level of borrowings, with comfortable cover on all bank covenants for the foreseeable future. The facility now comprises of a £135.0 million RCF, which expires in August 2022, and a £15.0 million short term facility, which expires in August 2019.

Interest cover based on adjusted operating profit was 12.4 times (June 2017: 11.6 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 was replaced by a fixed rate of 0.49% to June 2018 and 0.5525% to June 2019.

Post-Employment Benefits

The recorded net deficit after tax for all post-employment benefit obligations, calculated in accordance with IAS 19R, has reduced to £5.0 million at June 2018 from £9.8 million at December 2017. The reduction is due, in part, to the increase in the discount rate and lower inflation rate assumed on liabilities offset, to a lesser extent, by a lower return on scheme assets. We now have a significant portion of scheme assets invested so as to hedge against movements in liabilities, thereby reducing overall scheme volatility.

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 2018, of which £0.9 million was contributed during the first half. The payments are expected to continue at this level until the results of the next triennial actuarial valuation as at 30 September 2019 are finalised.

Acquisition of South West Laundry

After the period end, on 31 August 2018, we were pleased to add another well established, HORECA business to the Group, through the acquisition of the entire share capital of South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Ltd ('South West Laundry'). The consideration, payable in cash on completion, was £15.5 million on a debt free, cash free basis and subject to an adjustment for normalised working capital.

As reported in the statutory accounts for the year ended 28 February 2018, South West Laundry generated revenue of £5.1 million and profit before taxation of £2.6 million. This included a net exceptional credit item arising from an insurance claim of £1.1 million. The results for South West Laundry are reported on the basis of the accounting policies of the business and will be aligned to the rest of the Group post completion. Reported net assets at February 2018 were £4.1 million.

The company, based in Hayle in Cornwall, predominantly services the hotel and restaurant market. It is located over 175 miles from our nearest HORECA laundry and effectively opens up a new geographical trading area for Johnson Service Group as we have very little existing business in Devon and Cornwall. The laundry was completely refurbished with new equipment following a fire in March 2017 and currently processes some 340,000 pieces of linen per week and employs 100 staff.

We are also very pleased to announce that one of the Directors currently managing the business, Wayne

FINANCIAL AND OPERATIONAL REVIEW CONTINUED

Retallack, will be joining the Stalbridge management team and will continue to run South West Laundry.

OPERATIONAL REVIEW

Our Businesses

The Group had another successful six months, delivering continued strong organic growth and increasing profit. The acquisitions made in the second half of 2017 (Professional Linen Services in Edinburgh and StarCounty Textiles in Wrexham) are performing as expected. We continue to invest in many of our laundry facilities to improve productivity and capacity and, given current strong demands, there is further scope to continue this plan.

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', 'Afonwen' and 'PLS' provide high volume hotel linen services. Our newly acquired South West Laundry brand will complement our existing Stalbridge business.

As mentioned earlier in the year we are undertaking a review to consolidate branding and extend national brand recognition. This is proceeding to plan and we intend to begin implementation in the near future. This will take up to three years to complete and the modest cost will not have a material impact on Group results.

All of our brands experienced significant new business sales which, combined with high levels of customer retention, resulted in a strong first half performance, generating revenues of £152.2 million (June 2017: £138.0 million), an increase of 10.3%. This increase includes an additional six months of trading from the acquisitions completed in 2017. Our strong underlying organic growth of some 7.2%, included the benefit of price increases and adjusts for the one-off benefit in 2017 of approximately £1.1 million of work processed on behalf of a privately owned laundry, whose operations were disrupted by a fire.

Adjusted operating profit from our Textile Rental businesses increased by £1.5 million to £22.2 million (June 2017: £20.7 million), representing an increase of 7.2%, with the operating margin reducing slightly to 14.6% (June 2017: 15.0%). However, excluding the impact of the high margin, one-off work in 2017 referred to above, the operating margin remained unchanged.

Workwear Division

Operating under the Apparelmaster brand, the Group's workwear division provides workwear rental and laundry services to over 37,000 customers in the UK from small local businesses to the largest companies covering food related and other industrial sectors.

Trading for the first six months of 2018 was strong with revenue increasing by 4.6% to £63.2 million (2017: £60.4 million). Growth was driven by strong new sales, with some large customers returning to the services provided by Apparelmaster, continued high levels of retention, positive development within existing customers and a price increase effective as from 1 April 2018. Growth levels reflect our continued investment in sales and marketing activity but also our focused levels of attention to existing customers, which has once again delivered 95% retention of existing revenues.

With the benefit of strong revenue growth and despite the higher than expected fuel and energy costs the business continued to focus on efficiency with adjusted operating profit increasing by 5.9% to £10.8 million (2017: £10.2 million) and the margin improving to 17.1% (2017: 16.9%).

Our investment in plant and machinery continued during the period with the installation of three modern, highly efficient garment folding machines in the high care food unit at Hinckley, which has increased folding capacity by 17.5%, and the commencement of further work to increase garment production capacity at the high care food unit in Letchworth by a further 35%.

The business continues to invest in the training and development of its employees with the initiative of its own internal training Academy and now 60 people are benefitting from enrolment on apprenticeship schemes in addition to a nationwide customer service development program. This will help to provide internal succession in some of our technical and skilled areas. Uptake on our Academy for management development remains strong and it is pleasing to see the career progression of previous participants.

HORECA Division

Overall revenue within the HORECA division was very strong at £89.0 million (2017: £77.6 million), an increase of 14.7%. After adjusting for revenue from acquisitions completed in the second half of 2017 and also excluding the £1.1 million of high margin revenue in 2017 from processing work of a competitor in distress, underlying revenue increased by 9.0%.

Corresponding adjusted operating profit increased to £11.4 million (2017: £10.5 million) an increase of 8.6%. The operating margin was 12.8%, the same as the margin for the first half of 2017 when calculated to exclude the impact of the high margin work referred to above.

Within our HORECA division the high volume linen laundries experienced increased volumes as new business sales were very strong and ahead of our expectations, despite pricing pressures across the market sector. Now operating with three consolidated brands, Afonwen, Bourne and PLS, the business is recognised as a national provider of quality services to the high volume linen market and as such a number of customers have awarded us additional hotels from within their existing portfolio.

To ensure the high volume linen business can meet productivity demands in the peak season, we have completed some modest investments at the laundries in Edinburgh, Chester and Birmingham and, together with some further realignment of customers to improve logistical efficiencies, have also re-balanced production output requirements.

The high volume linen laundries won significant additional business across the country but, in particular, in the Midlands and Southern England as the result of the sudden closure of a West Midlands competitor laundry. Our size and scale allows us to have the capability of reacting quickly to market conditions and to secure a number of new contracts with the ability to complete new linen installations very quickly. Given the continuing strong demand for our services we are reviewing opportunities to open an additional facility to complement our existing network.

Following the acquisition of StarCounty Textiles in Wrexham in December 2017 some 170,000 pieces per week of high volume linen work was transferred to Chester for processing with some 50,000 pieces per week of linen from smaller hotels and restaurants moving into Wrexham. The operational changes were well organised and as a result we are pleased to report that overall customer satisfaction and retention levels remain at a very high standard.

The overall outlook for the high volume linen laundries remains positive with a healthy pipeline of new business together with a very busy summer schedule.

Stalbridge has continued to grow with strong new sales in 2018 building on the full year effect of record new sales in 2017. Stalbridge continue to heavily market their “no contract”, flexible and responsive service which attracts customers who are new to the market and where service and quality are the primary drivers. Several group customers have signed up to long term extensions of their existing supply arrangements.

The acquisition of StarCounty has given additional capacity to allow for this growth, and we have invested in machinery, buildings and the working environment to ensure it meets the discerning standards of a Stalbridge branded factory. There has been a significant realignment of customer distribution between the Stalbridge operating locations to streamline deliveries and logistics, which was completed in the first half of 2018.

Improved operating efficiency has been achieved in the Dorset factories with two replacement high speed ironer lines and a new continuous batch washer supported by improved chemical and washing technology being installed.

The ‘MyStalbridge’ portal allows customers to access their account details, billing and stock usage data online, and this is proving popular for those customers who wish to manage their stock levels, linen consumption and costs proactively.

A £3.3 million refurbishment and extension of Caterers Linen laundry (previously a London Linen brand) in Southall will be complete by the final quarter of 2018, and will be operated and fully re-branded as Stalbridge, allowing for further consolidation of the customer base.

The Southall site is shared with two London Linen laundries with whom Stalbridge continue to co-operate very closely in the restaurant and catering marketplaces.

London Linen is now solely focused on restaurant customers, mainly in the London area, although the national restaurant chains are also supplied via our nationwide network of laundries, providing consistency of service levels and key performance criteria. Revenue increased during the first half as a result of gaining new accounts including a significant contract win (for 92 sites) at the start of the year which has now been fully rolled out.

We have experienced some limited pressures exerted in the restaurant market to consolidate the amount of textile product lines laundered as customers attempt to reduce costs without affecting the services they provide to their own customers front of house.

The £4.5 million capital investment programme which was completed half way through 2017 continues to drive further benefits, providing the capacity to facilitate the increased revenue whilst at the same time generating efficiencies, which have resulted in lower production labour costs per unit compared to 2017, helping to offset the impact of NLW increases. Investment has continued in 2018 with the installation of a new high speed ironer line inclusive of an electronic inspection system which has further increased capacity, productivity, quality and consistency.

Three of our nine ironer lines now have electronic inspection systems and these will continue to be installed to existing ironer lines as it improves efficiency and the quality of the final product dispatched to customers. Further project work is being undertaken to determine ways to improve efficiency within the dispatch process to ensure our high levels of customer service are maintained in a cost effective manner.

Overall across our textile businesses we have experienced higher textile stock spend as we have invested in stock to service the increases in new business sales and this has marginally impacted on depreciation. Costs have been well maintained across the businesses despite the disproportionate increases in fuel and energy costs and so far have been mitigated through the combined effect of pricing, productivity improvements and the realignment of distribution areas. Our margin has therefore been maintained during the prolonged period of hot weather at times of record volumes of pieces processed.

TECHNICAL INNOVATION

Work on the in-house development of new operating systems for both the workwear and high volume hotel linen businesses is progressing to plan and budget. This project, which incorporates the use of Microsoft Dynamics, will further improve our operating systems and customer engagement. The first phase of the system is expected to be installed in the first half of 2019.

FINANCIAL AND OPERATIONAL REVIEW CONTINUED

EMPLOYEES

The Group now employs some 5,500 people who have all contributed to the performance of the business and to achieving our market-leading customer service standards. We thank them for their significant contribution to another tremendous first half performance.

BOARD CHANGES

As announced on 5 December 2017, Peter Egan joined the Board as Chief Operating Officer on 1 April 2018, ahead of assuming the role of CEO on the retirement of Chris Sander, the current CEO, at the end of 2018. In May 2018, Paul Moody announced his intention to resign from the Board and subsequently left the Group on 3 August 2018. Bill Shannon, formerly the Senior Independent Non-Executive Director, was appointed as Non-Executive Chairman from that date. As announced on 24 August 2018, Chris Girling joined the Board as an Independent Non-Executive Director and Audit Committee Chairman with effect from 29 August 2018.

OUTLOOK

Our investment to date in additional production capacity has enabled us to meet the demands produced by recent strong organic growth. We will continue to invest in the business to support the Board's confidence in the ongoing growth of the Group.

Our strategic vision to continue to grow our business through organic growth supplemented by well planned acquisitions is on track with the latest being South West Laundry in August 2018 in the far South West of England. Whilst we have extended our services over a large part of the UK there are still some geographical regions of the country in which we are not represented as the distances are beyond economic travel from our existing facilities. We therefore believe there are still further opportunities for us to extend our geographical reach through further acquisition when the opportunities arise. We have recently increased our available bank facilities to support this growth.

Our strong sales growth, high levels of customer retention and productivity benefits from recent investments give us confidence in the second half performance and, as a result, 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 Guidance 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 2017. Since that date, Peter Egan joined the Board on 1 April 2018 as Chief Operating Officer, ahead of assuming the role of Chief Executive Officer at the end of 2018, and Chris Girling joined the Board on 29 August 2018 as an Independent Non-Executive Director and Audit Committee Chairman. Paul Moody stepped down as Non-Executive Chairman on 3 August 2018 and was replaced by Bill Shannon, formerly the Senior Independent Non-Executive Director, from that date. 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 2018

Yvonne Monaghan
Chief Financial Officer
4 September 2018

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 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Revenue from continuing operations	2	152.2	138.0	290.9
Operating profit	2	15.7	14.7	34.8
Operating profit before amortisation of intangible assets (excluding software amortisation) and exceptional items		19.9	18.6	43.3
Amortisation of intangible assets (excluding software amortisation)		(4.2)	(3.9)	(8.0)
Exceptional items	3			
– Costs in relation to business acquisition activity		–	–	(0.5)
Operating profit	2	15.7	14.7	34.8
Finance cost		(1.6)	(1.6)	(3.2)
Notional pension interest		(0.1)	(0.2)	(0.4)
Total finance cost		(1.7)	(1.8)	(3.6)
Profit before taxation		14.0	12.9	31.2
Taxation charge*	4	(2.8)	(2.5)	(5.8)
Profit for the period from continuing operations		11.2	10.4	25.4
Result/profit for the period from discontinued operations		–	–	0.3
Profit for the period attributable to equity holders		11.2	10.4	25.7
Earnings per share	7			
Basic earnings per share				
From continuing operations		3.1p	2.8p	6.9p
From discontinued operations		–	–	0.1p
From total operations		3.1p	2.8p	7.0p
Diluted earnings per share				
From continuing operations		3.1p	2.8p	6.9p
From discontinued operations		–	–	0.1p
From total operations		3.1p	2.8p	7.0p
Adjusted basic earnings per share				
From continuing operations		4.0p	3.7p	8.7p
From discontinued operations		–	–	–
From total operations		4.0p	3.7p	8.7p
Adjusted diluted earnings per share				
From continuing operations		4.0p	3.7p	8.7p
From discontinued operations		–	–	–
From total operations		4.0p	3.7p	8.7p

The notes on pages 9 to 22 form an integral part of these condensed consolidated interim financial statements.

* Including £0.8 million credit (June 2017: £0.7 million credit; December 2017: £1.7 million credit) relating to amortisation of intangible assets (excluding software amortisation) and £nil (June 2017: £nil; December 2017: £0.1 million credit) relating to exceptional items.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Note	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Profit for the period		11.2	10.4	25.7
Items that will not be subsequently reclassified to profit or loss				
– Re-measurement and experience gains on post-employment benefit obligations	8	5.0	6.2	3.2
– Taxation in respect of re-measurement and experience gains		(0.9)	(1.2)	(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 gain/(loss)		0.3	(0.2)	0.2
– transfers to administrative expenses		(0.2)	–	–
– transfers to finance cost		0.2	0.2	0.4
Other comprehensive income for the period		4.4	5.0	3.1
Total comprehensive income for the period		15.6	15.4	28.8

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 2017	36.5	15.0	1.6	0.6	(0.7)	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	1.6	0.6	(0.7)	103.7	157.0
Profit for the period	–	–	–	–	–	15.3	15.3
Other comprehensive income/(loss) for the period	–	–	–	–	0.6	(2.5)	(1.9)
Total comprehensive income for the period	–	–	–	–	0.6	12.8	13.4
Share options (value of employee services)	–	–	–	–	–	0.4	0.4
Purchase of shares by EBT*	–	–	–	–	–	0.1	0.1
Dividend paid	–	–	–	–	–	(3.3)	(3.3)
Transactions with Shareholders recognised directly in Shareholders' equity	–	–	–	–	–	(2.8)	(2.8)
Balance at 31 December 2017	36.6	15.2	1.6	0.6	(0.1)	113.7	167.6
Change in accounting standard (note 19)	–	–	–	–	–	1.0	1.0
Restated balance at 1 January 2018	36.6	15.2	1.6	0.6	(0.1)	114.7	168.6
Profit for the period	–	–	–	–	–	11.2	11.2
Other comprehensive income for the period	–	–	–	–	0.3	4.1	4.4
Total comprehensive income for the period	–	–	–	–	0.3	15.3	15.6
Share options (value of employee services)	–	–	–	–	–	0.4	0.4
Dividend paid	–	–	–	–	–	(7.0)	(7.0)
Transactions with Shareholders recognised directly in Shareholders' equity	–	–	–	–	–	(6.6)	(6.6)
Balance at 30 June 2018	36.6	15.2	1.6	0.6	0.2	123.4	177.6

* 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 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Non-current assets				
Goodwill		120.4	115.6	120.3
Intangible assets		39.6	44.0	43.5
Property, plant and equipment		91.2	82.2	89.3
Textile rental items		54.3	45.0	50.0
Trade and other receivables		0.7	0.3	0.3
Derivative financial assets		0.2	–	–
Deferred income tax assets		1.5	2.2	2.9
		307.9	289.3	306.3
Current assets				
Inventories		2.9	2.4	2.9
Trade and other receivables		55.0	46.5	47.2
Derivative financial assets		0.2	–	0.1
Cash and cash equivalents		6.0	6.5	5.3
		64.1	55.4	55.5
Current liabilities				
Trade and other payables		71.9	61.3	65.3
Current income tax liabilities		4.1	3.9	3.8
Borrowings		13.2	19.5	14.5
Derivative financial liabilities		–	0.3	–
Provisions		1.7	2.2	2.2
		90.9	87.2	85.8
Non-current liabilities				
Post-employment benefit obligations	8	6.1	9.7	12.0
Deferred income tax liabilities		8.2	8.1	9.5
Trade and other payables		3.0	2.6	3.1
Borrowings		84.0	77.0	82.1
Derivative financial liabilities		0.2	0.5	0.2
Provisions		2.0	2.6	1.5
		103.5	100.5	108.4
NET ASSETS		177.6	157.0	167.6
Capital and reserves attributable to the company's shareholders				
Share capital	10	36.6	36.6	36.6
Share premium		15.2	15.2	15.2
Merger reserve		1.6	1.6	1.6
Capital redemption reserve		0.6	0.6	0.6
Hedge reserve		0.2	(0.7)	(0.1)
Retained earnings		123.4	103.7	113.7
Total equity		177.6	157.0	167.6

The notes on pages 9 to 22 form an integral part of these condensed consolidated interim financial statements. The condensed consolidated interim financial statements on pages 5 to 22 were approved by the Board of Directors on 4 September 2018 and signed on its behalf by:

Yvonne Monaghan
Chief Financial Officer

CONSOLIDATED STATEMENT OF CASH FLOWS

	Note	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Cash flows from operating activities				
Profit for the period		11.2	10.4	25.7
Adjustments for:				
Taxation charge – continuing operations	4	2.8	2.5	5.8
– discontinued operations		–	–	(0.3)
Total finance cost – continuing operations		1.7	1.8	3.6
Depreciation of tangible fixed assets		26.4	23.3	48.8
Amortisation of intangible fixed assets		4.3	4.0	8.2
Profit on sale of tangible fixed assets		–	–	(0.1)
Increase in inventories		–	(0.2)	(0.7)
Increase in trade and other receivables		(7.0)	(2.3)	(2.1)
Increase in trade and other payables		3.2	1.6	1.9
Costs in relation to business acquisition activity		–	–	0.5
Deficit recovery payments in respect of post-employment benefit obligations		(0.9)	(2.4)	(3.4)
Share-based payments		0.4	0.3	0.8
Post-employment benefit obligations		(0.1)	(0.1)	(0.1)
Decrease in provisions		–	–	(1.0)
Cash generated from operations		42.0	38.9	87.6
Interest paid		(1.4)	(1.5)	(2.8)
Taxation paid		(3.6)	(3.9)	(6.9)
Net cash generated from operating activities		37.0	33.5	77.9
Cash flows from investing activities				
Acquisition of business (net of cash and cash equivalents acquired)	11	–	–	(9.2)
Proceeds from sale of business (net of cash disposed)	12	–	6.0	7.1
Purchase of property, plant and equipment		(6.9)	(7.0)	(16.5)
Proceeds from sale of property, plant and equipment		–	0.1	0.2
Purchase of intangible assets		(0.3)	–	–
Purchase of textile rental items		(23.8)	(19.4)	(43.1)
Proceeds received in respect of special charges		1.2	1.2	2.1
Net cash used in investing activities		(29.8)	(19.1)	(59.4)
Cash flows from financing activities				
Proceeds from borrowings		31.0	54.0	82.0
Repayments of borrowings		(29.0)	(62.0)	(88.2)
Capital element of finance leases		(2.3)	(2.5)	(5.3)
Purchase of own shares by EBT		–	(0.1)	–
Net proceeds from issue of Ordinary shares		–	0.3	0.3
Dividend paid		(7.0)	(6.2)	(9.5)
Net cash used in financing activities		(7.3)	(16.5)	(20.7)
Net decrease in cash and cash equivalents		(0.1)	(2.1)	(2.2)
Cash and cash equivalents at beginning of period		(3.7)	(1.5)	(1.5)
Cash and cash equivalents at end of period	14	(3.8)	(3.6)	(3.7)
Cash and cash equivalents comprise:				
Cash		6.0	6.5	5.3
Overdraft		(9.8)	(10.1)	(9.0)
Cash and cash equivalents at end of the period		(3.8)	(3.6)	(3.7)

The notes on pages 9 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 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 2018.

1 Basis of preparation

These condensed consolidated interim financial statements of the Group are for the half year ended 30 June 2018. 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 2017 consolidated financial statements, which have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union.

Financial information for the year ended 31 December 2017 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 2, financial information for the half year ended 30 June 2017 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, as at 30 June 2018, ran to April 2020 but which now, following the refinancing of that facility on 9 August 2018, runs to at least 9 August 2022. 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 2018. These segments are the same as those included within the 2017 Annual Report and Accounts. The segmental analysis for the half year ended 30 June 2017 has been restated to reflect the changes made within the 2017 Annual Report and Accounts with the introduction of two new reporting segments, Workwear and Hotels, Restaurant and Catering (HORECA).

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 the reporting in the Annual Report and Accounts.

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 purpose of segmental reporting. Other than as described above, 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, derivative financial 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, post-employment benefit obligations and derivative financial liabilities, all of which are managed on a central basis. These balances are part of the reconciliation to total assets and liabilities.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

2 Segment analysis continued

The reporting segment results for the half year ended 30 June 2018, together with comparative figures, are as follows:

Half year to 30 June 2018	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Revenue				
Continuing	63.2	89.0	–	152.2
Total Revenue				152.2
Result				
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation)	10.8	11.4	(2.3)	19.9
Amortisation of intangible assets (excluding software amortisation)	(0.2)	(4.0)	–	(4.2)
Operating profit/(loss)	10.6	7.4	(2.3)	15.7
Total finance cost				(1.7)
Profit before taxation				14.0
Taxation				(2.8)
Profit for the period attributable to equity holders				11.2

		Discontinued Operations £m	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Balance sheet information						
Segment assets		–	121.1	241.9	1.1	364.1
Unallocated assets:	Derivative financial assets					0.4
	Deferred income tax assets					1.5
	Cash and cash equivalents					6.0
Total assets						372.0
Segment liabilities		(3.6)	(29.5)	(49.0)	(4.2)	(86.3)
Unallocated liabilities:	Bank borrowings					(89.5)
	Current income tax liabilities					(4.1)
	Deferred income tax liabilities					(8.2)
	Derivative financial liabilities					(0.2)
	Post-employment benefit obligations					(6.1)
Total liabilities						(194.4)
Other information						
Non-current asset additions						
– Property, plant and equipment		–	2.2	6.2	–	8.4
– Textile rental items		–	10.6	14.9	–	25.5
– Software		–	0.4	–	–	0.4
Depreciation and amortisation expense						
– Property, plant and equipment		–	2.3	4.2	–	6.5
– Textile rental items		–	8.0	11.9	–	19.9
– Software		–	–	0.1	–	0.1
– Customer contracts		–	0.2	4.0	–	4.2

2 Segment analysis continued

Half year to 30 June 2017 (restated)	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Revenue				
Continuing	60.4	77.6	–	138.0
Total Revenue				138.0
Result				
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation)	10.2	10.5	(2.1)	18.6
Amortisation of intangible assets (excluding software amortisation)	(0.2)	(3.7)	–	(3.9)
Operating profit/(loss)	10.0	6.8	(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	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Balance sheet information						
Segment assets		1.0	117.1	216.6	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)	(30.5)	(42.4)	(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		–	1.4	5.1	–	6.5
– Textile rental items		–	8.9	10.7	–	19.6
Depreciation and amortisation expense						
– Property, plant and equipment		–	2.3	3.6	–	5.9
– Textile rental items		–	7.8	9.6	–	17.4
– Software		–	–	0.1	–	0.1
– Customer contracts		–	0.2	3.7	–	3.9

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

2 Segment analysis continued

Year ended 31 December 2017	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Revenue				
Continuing	122.4	168.5	–	290.9
Total Revenue				290.9
Result				
Operating profit/(loss) before amortisation of intangible assets (excluding software amortisation) and exceptional items	21.1	26.8	(4.6)	43.3
Amortisation of intangible assets (excluding software amortisation)	(0.5)	(7.5)	–	(8.0)
Exceptional items:				
– Costs in relation to business acquisition activity	–	(0.5)	–	(0.5)
Operating profit/(loss)	20.6	18.8	(4.6)	34.8
Finance cost				(3.6)
Profit before taxation				31.2
Taxation				(5.8)
Profit for the period from continuing operations				25.4
Profit for the period from discontinued operations				0.3
Profit for the period attributable to equity holders				25.7

		Discontinued Operations £m	Workwear £m	HORECA £m	All Other Segments £m	Total £m
Balance sheet information						
Segment assets		–	116.8	235.5	1.2	353.5
Unallocated assets:	Deferred income tax assets					2.9
	Derivative financial assets					0.1
	Cash and cash equivalents					5.3
Total assets						361.8
Segment liabilities		(3.7)	(29.4)	(45.1)	(3.9)	(82.1)
Unallocated liabilities:	Deferred income tax liabilities					(9.5)
	Bank borrowings					(86.6)
	Current income tax liabilities					(3.8)
	Derivative financial liabilities					(0.2)
	Post-employment benefit obligations					(12.0)
Total liabilities						(194.2)
Other information						
Non-current asset additions						
– Property, plant and equipment		–	4.7	10.6	–	15.3
– Textile rental items		–	17.8	25.9	–	43.7
Depreciation and amortisation expense						
– Property, plant and equipment		–	4.6	7.9	–	12.5
– Textile rental items		–	15.8	20.5	–	36.3
– Software		–	–	0.2	–	0.2
– Customer contracts		–	0.5	7.5	–	8.0

3 Exceptional items

	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Continuing operations			
Costs in relation to business acquisition activity	–	–	(0.5)
Total exceptional items	–	–	(0.5)

Current year exceptional items
There are no exceptional items in the half year to 30 June 2018.

Prior year exceptional items
Costs in relation to business acquisition activity
During the prior year, professional fees of £0.3 million were paid relating to the acquisitions of Clayfull Limited, which trades as PLS, and StarCounty Textile Services Limited. In addition, costs of £0.2 million were incurred as part of the integration of recent acquisitions.

4 Taxation

	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Continuing operations			
Current tax			
UK corporation tax charge for the period	3.8	3.6	7.8
Adjustment in relation to previous periods	–	–	(0.9)
Current tax charge for the period	3.8	3.6	6.9
Deferred tax			
Origination and reversal of temporary differences	(1.0)	(1.1)	(1.4)
Changes in statutory tax rate	–	–	(0.3)
Adjustment in relation to previous years	–	–	0.6
Deferred tax credit for the period	(1.0)	(1.1)	(1.1)
Total charge for taxation included in the income statement	2.8	2.5	5.8

Taxation in relation to amortisation of intangible assets (excluding software amortisation) has reduced the charge for taxation on continuing operations in the half year to 30 June 2018 by £0.8 million (June 2017: £0.7 million reduction in the charge; December 2017: £1.7 million reduction in the charge). Taxation in relation to exceptional items in the half year to 30 June 2018 relating to continuing operations is £nil (June 2017: £nil; December 2017: £0.1 million reduction in the charge).

During the half year to 30 June 2018, a £1.0 million charge relating to deferred taxation (June 2017: £1.2 million charge; December 2017: £0.8 million charge) has been recognised in other comprehensive income.

During the half year to 30 June 2018, there has been no impact relating to current taxation (June 2017: £0.2 million credit; December 2017: £0.2 million credit) recognised directly in Shareholders' equity.

Reconciliation of effective tax rate
Taxation on non-exceptional items for the half year to 30 June 2018 is calculated based on the estimated average annual effective tax rate (excluding prior year items) of 19.5% (June 2017: 19.4%; December 2017: 19.8%). This compares to the weighted average tax rate expected to be enacted or substantively enacted at the balance sheet date of 19.00% (June 2017: 19.25%; December 2017: 19.25%). 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.

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 18.0% being used to measure all deferred tax balances as at 30 June 2018 (June 2017: 18.5%; December 2017: 18.0%).

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

5 Adjusted profit before and after taxation

	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Continuing operations			
Profit before taxation	14.0	12.9	31.2
Amortisation of intangible assets (excluding software amortisation)	4.2	3.9	8.0
Costs in relation to business acquisition activity	–	–	0.5
Adjusted profit before taxation	18.2	16.8	39.7
Taxation on adjusted profit	(3.6)	(3.2)	(7.6)
Adjusted profit after taxation	14.6	13.6	32.1

6 Dividends

	Half year to 30 June 2018	Half year to 30 June 2017	Year ended 31 December 2017
Dividend per share (pence)			
2018 Interim dividend proposed	1.0	–	–
2017 Interim dividend proposed and paid	–	0.9	0.9
2017 Final dividend proposed and paid	–	–	1.9
	1.0	0.9	2.8

	Half year to 30 June 2018	Half year to 30 June 2017	Year ended 31 December 2017
Shareholders' funds committed (£m)			
2018 Interim dividend proposed	3.7	–	–
2017 Interim dividend proposed and paid	–	3.3	3.3
2017 Final dividend proposed and paid	–	–	7.0

On 11 May 2018 a final dividend of 1.9 pence per share in respect of 2017 was paid to Shareholders, utilising £7.0 million of Shareholders' funds.

The Directors are proposing an interim dividend in respect of the year ended 31 December 2018 of 1.0 pence per share which will reduce Shareholders' funds by £3.7 million. The dividend will be paid on 2 November 2018 to Shareholders on the register of members at the close of business on 5 October 2018. 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 2018 in respect of this proposed dividend.

7 Earnings per share

	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Profit for the period from continuing operations attributable to Shareholders	11.2	10.4	25.4
Profit for the period from discontinued operations attributable to Shareholders	–	–	0.3
Amortisation of intangible assets from continuing operations (net of taxation)	3.4	3.2	6.3
Exceptional items from continuing operations (net of taxation)	–	–	0.4
Adjusted profit attributable to Shareholders relating to continuing activities	14.6	13.6	32.1
Adjusted profit attributable to Shareholders relating to discontinued activities	–	–	0.3
Adjusted profit attributable to Shareholders	14.6	13.6	32.4

7 Earnings per share continued

	Number of shares	Number of shares	Number of shares
Weighted average number of Ordinary shares	366,483,899	365,853,070	366,167,837
Potentially dilutive options*	3,366,690	2,718,599	2,798,518
Fully diluted number of Ordinary shares	369,850,589	368,571,669	368,966,355

	Pence per share	Pence per share	Pence per share
Basic earnings per share			
From continuing operations	3.1p	2.8p	6.9p
From discontinued operations	–	–	0.1p
From continuing and discontinued operations	3.1p	2.8p	7.0p
Adjustment for amortisation of intangibles assets (continuing operations)	0.9p	0.9p	1.7p
Adjustment for exceptional items (continuing operations)	–	–	0.1p
Adjustment for exceptional items (discontinued operations)	–	–	(0.1p)
Adjusted basic earnings per share (continuing operations)	4.0p	3.7p	8.7p
Adjusted basic earnings per share (discontinued operations)	–	–	–
Adjusted basic earnings per share from continuing and discontinued operations	4.0p	3.7p	8.7p
Diluted earnings per share			
From continuing operations	3.1p	2.8p	6.9p
From discontinued operations	–	–	0.1p
From continuing and discontinued operations	3.1p	2.8p	7.0p
Adjustment for amortisation of intangibles assets (continuing operations)	0.9p	0.9p	1.7p
Adjustment for exceptional items (continuing operations)	–	–	0.1p
Adjustment for exceptional items (discontinued operations)	–	–	(0.1p)
Adjusted diluted earnings per share (continuing operations)	4.0p	3.7p	8.7p
Adjusted diluted earnings per share (discontinued operations)	–	–	–
Adjusted diluted earnings per share from continuing and discontinued operations	4.0p	3.7p	8.7p

* 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 period 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.

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. Options are dilutive under the SAYE scheme, where the exercise price together with the future IFRS2 charge of the option is less than the average market price of the Company's Ordinary shares during the year. Options under the LTIP schemes, as defined by IFRS 2, are contingently issuable shares and are therefore only included within the calculation of diluted EPS if the performance conditions, as set out in the Board Report on Remuneration in the 2017 Annual Report and Accounts, are satisfied.

Potentially dilutive 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. For all periods, potentially dilutive 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.

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 half year to 30 June 2018 deficit recovery payments of £0.9 million were paid by the Group to the defined benefit scheme (June 2017: £0.9 million; December 2017: £1.9 million). A 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 £5.0 million has been recognised in the half year to 30 June 2018. This is principally as a result of asset returns over the period for this scheme having been lower than the assumed interest credit at the year end, resulting in an actuarial loss of £4.4 million, offset, to a greater extent, by the increase in the assumed discount rate from 2.5% per annum to 2.8% per annum combined with a decrease in the CPI and RPI price inflation assumptions by 0.05% per annum resulting in an actuarial gain of £9.4 million.

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

	As at 30 June 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Post-employment benefit obligation	(6.1)	(9.7)	(12.0)
Deferred income tax asset thereon	1.1	1.8	2.2
	(5.0)	(7.9)	(9.8)

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 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Opening post-employment benefit obligation	(12.0)	(18.2)	(18.2)
Notional interest	(0.1)	(0.2)	(0.4)
Employer contributions	0.9	2.4	3.4
Re-measurement gains	5.0	6.2	3.2
Utilisation of healthcare provision	0.1	0.1	–
Closing post-employment benefit obligation	(6.1)	(9.7)	(12.0)

9 Capital expenditure and commitments

Capital expenditure

In the half year to 30 June 2018 the Group acquired property, plant and equipment for a cost of £8.4 million (June 2017: £6.5 million; December 2017: £15.3 million), not including property, plant and equipment acquired through business combinations. Intangible assets with a cost of £0.4 million were acquired during the half year to 30 June 2018 (June 2017: £nil; December 2017: £nil), not including intangible assets acquired through business combinations. In addition, textile rental items with a cost of £25.5 million were acquired during the period (June 2017: £19.6 million; December 2017: £43.7 million), not including textile rental items acquired through business combinations.

Offsetting this, property, plant and equipment with a net book value of £nil was disposed of during the half year to 30 June 2018 (June 2017: £nil; December 2017: £0.1 million). In addition, amounts received in respect of textile rental special charges were £1.2 million (June 2017: £1.2 million; December 2017: £2.1 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 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Software	2.2	–	–
Property, plant and equipment	3.9	2.9	1.4

10 Share Capital

Issued share capital is as follows:

	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Share capital at the start of the period	36.6	36.5	36.5
New shares issued	–	0.1	0.1
Share capital at the end of the period	36.6	36.6	36.6

In the half year to 30 June 2018, 3,443 SAYE scheme options were exercised with a total nominal value of £344 (June 2017: £33,359; December 2017: £36,636). In 2017, LTIP options were exercised with a total nominal value of £102,500. Proceeds in excess of the nominal value were credited to Share Premium.

11 Business combinations

There have been no business combinations in the half year to 30 June 2018. On 31 August 2018, the Group acquired the entire issued share capital of South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Ltd. Further details are provided in note 18.

During 2017, the Group acquired 100% of the share capital of Clayfull Limited, which trades as PLS, and 100% of the share capital of StarCounty Textile Services Limited ('Star'). During the half year to 30 June 2018, the initial fair value of the textile rental items acquired in Star was reduced by £0.1 million, with a corresponding increase in goodwill. Full details of acquisitions in 2017 are provided in the 2017 Annual Report and Accounts.

12 Disposals and discontinued operations

There have been no business disposals in the half year to 30 June 2018.

On 4 January 2017 the Group disposed of its Drycleaning business for a consideration of £8.25 million on a debt free, cash free basis. Full details of the disposal are provided in the 2017 Annual Report and Accounts. The total result/profit included in the Consolidated Income Statement relating to discontinued operations is as follows:

	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Taxation credit	–	–	0.3
Retained result/profit from discontinued operations	–	–	0.3

Cash flows relating to discontinued operations are as follows:

	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Proceeds from disposal	–	7.3	8.3
Payment of costs relating to the disposal	–	(0.5)	(0.4)
Cash disposed of	–	(0.8)	(0.8)
Net proceeds from disposal	–	6.0	7.1
Net cash used in operating activities	(0.1)	(0.2)	(0.3)
Net cash flow relating to discontinued operations	(0.1)	5.8	6.8

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

13 Borrowings

As at 30 June 2018, 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 ran to 24 April 2020.

On 9 August 2018, the facility was further amended and restated to now comprise a £135.0 million rolling credit facility (including an overdraft) which runs to 9 August 2022. In addition, a £15.0 million short term facility, expiring on 9 August 2019, has also been agreed.

Under the rolling credit facility, 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%. The margin payable on the short term facility is fixed at 1.25% plus LIBOR.

As at 30 June 2018, £40.0 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; 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 £0.3 million (30 June 2017: £0.5 million; 31 December 2017: £0.4 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 period.

June 2018	At 1 January 2018 £m	Cash Flow £m	Non-cash Changes £m	At 30 June 2018 £m
Debt due within one year	(1.7)	1.0	–	(0.7)
Debt due after more than one year	(75.9)	(3.0)	(0.1)	(79.0)
Finance leases	(10.0)	2.3	–	(7.7)
Total debt and lease financing	(87.6)	0.3	(0.1)	(87.4)
Cash and cash equivalents	(3.7)	(0.1)	–	(3.8)
Net debt	(91.3)	0.2	(0.1)	(91.2)

June 2017	At 1 January 2017 £m	Cash Flow £m	Non-cash Changes £m	At 30 June 2017 £m
Debt due within one year	(9.8)	5.0	0.1	(4.7)
Debt due after more than one year	(72.5)	3.0	(0.3)	(69.8)
Finance leases	(14.4)	2.5	–	(11.9)
Total debt and lease financing	(96.7)	10.5	(0.2)	(86.4)
Cash and cash equivalents	(1.5)	(2.1)	–	(3.6)
Net debt	(98.2)	8.4	(0.2)	(90.0)

December 2017	At 1 January 2017 £m	Cash Flow £m	Non-cash Changes £m	At 31 December 2017 £m
Debt due within one year	(9.8)	9.2	(1.1)	(1.7)
Debt due after more than one year	(72.5)	(3.0)	(0.4)	(75.9)
Finance leases	(14.4)	5.3	(0.9)	(10.0)
Total debt and lease financing	(96.7)	11.5	(2.4)	(87.6)
Cash and cash equivalents	(1.5)	(2.2)	–	(3.7)
Net debt	(98.2)	9.3	(2.4)	(91.3)

14 Analysis of net debt (continued)

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

	As at 30 June 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Cash (Current assets)	6.0	6.5	5.3
Overdraft (Borrowings, Current liabilities)	(9.8)	(10.1)	(9.0)
	(3.8)	(3.6)	(3.7)

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

	As at 30 June 2018 £m	As at 30 June 2017 £m	As at 31 December 2017 £m
Amounts due within one year (Borrowings, Current Liabilities)	(2.7)	(4.7)	(3.8)
Amounts due after more than one year (Borrowings, Non-Current Liabilities)	(5.0)	(7.2)	(6.2)
	(7.7)	(11.9)	(10.0)

15 Reconciliation of net cash flow to movement in net debt

	Half year to 30 June 2018 £m	Half year to 30 June 2017 £m	Year ended 31 December 2017 £m
Decrease in cash in the period	(0.1)	(2.1)	(2.2)
Decrease in debt and lease financing	0.3	10.5	11.5
Change in net debt resulting from cash flows	0.2	8.4	9.3
Debt acquired through business acquisitions	–	–	(2.1)
Movement in unamortised issue costs of bank loans	(0.1)	(0.2)	(0.3)
Movement in net debt during the period	0.1	8.2	6.9
Opening net debt	(91.3)	(98.2)	(98.2)
Closing net debt	(91.2)	(90.0)	(91.3)

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 2017. There have been no material changes in these relationships in the half year to 30 June 2018 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 £155.0 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 31 August 2018, the Group acquired the entire issued share capital of South West Laundry Holdings Limited, together with its trading subsidiary South West Laundry Ltd ('South West Laundry'), for a cash consideration of £15.5 million on a debt-free, cash-free basis and subject to normalised working capital. South West Laundry, based in Hayle in Cornwall, predominantly services the hotel and restaurant market. Whilst expected to be immediately earnings enhancing, the main focus of this acquisition is to complement our existing Stalbridge business by improving operational capacity and extending our geographical reach. As reported in the statutory accounts for the year ended 28 February 2018, South West Laundry generated revenue of £5.1 million and profit before taxation of £2.6 million. This included a net exceptional credit item arising from an insurance claim of £1.1 million. Reported net assets at the same date were £4.1 million.

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 2017.

(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 2018

IFRS 9, 'Financial Instruments'

As at 1 January 2018, the Group has assessed the requirements of IFRS 9.

IFRS 9 introduces an 'expected loss' model for recognising impairment of financial assets held at amortised cost. This is different from IAS 39, which had an incurred loss model where provisions were recognised only when there was objective evidence of impairment. This change of approach requires the Group to consider forward-looking information to calculate expected credit losses regardless of whether there has been an impairment trigger. The impact of this change resulted in a small but immaterial increase to the level of impairment recognised, as such no adjustment has been made to the opening balance of retained earnings as at 1 January 2018.

In accordance with IFRS 9's transition provisions for hedge accounting, the Group has applied the IFRS 9 hedge accounting requirements prospectively from the date of initial application on 1 January 2018. The Group's qualifying cash flow hedging relationships in place as at 1 January 2018 also qualified for hedge accounting in accordance with IFRS 9 and were therefore regarded as continuing hedging relationships. The Group has interest rate swaps in place to minimise the exposure of the Group to interest rate risk arising from its borrowings and forward contracts to minimise price risk associated with diesel costs incurred. No rebalancing of any of the hedging relationships was necessary on 1 January 2018. As the critical terms of the hedging instruments match those of their corresponding hedged items, all hedging relationships continue to be effective under IFRS 9's effectiveness assessment requirements. The Group has also not designated any hedging relationships under IFRS 9 that would not have met the qualifying hedge accounting criteria under IAS 39.

IFRS 15, 'Revenue from contracts with customers'

The Group has adopted this new standard from 1 January 2018, applying the modified retrospective approach, which results in the cumulative effect of initially applying this standard being an adjustment to the opening balance of retained earnings as at 1 January 2018.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. Due to the nature of the Group's business activities and service contracts, the change in standard does not impact the amount and/or timing of revenue recognition from servicing our customers. The Group's contracts are repeat service based contracts where value is transferred to the customer over time as the services are delivered. Therefore revenue is recognised on per item basis for delivery of laundered textiles or in accordance with the terms of the contract for hotels, restaurants and events. Our customers concurrently receive and consume the benefits of this service by the Group.

19 Accounting policies continued

The changes impacting the Group relate to where IFRS 15 states that an asset should be recognised for costs that relate directly to a contract, are incremental to securing the contract and if management expects to recover those costs. The asset should then be amortised as the services to which the asset relates are transferred to the customer. The Group has identified an element of employee sales commissions as specifically relating directly to a contract and therefore meeting this requirement. Such costs were an estimated £1.3 million in the year to 31 December 2017. Applying this change to commissions paid historically by the Group resulted in £1.1 million of costs incurred to fulfil a contract being capitalised and included in Trade and Other Receivables on the Balance Sheet at 1 January 2018. These costs will be amortised over the average contract life. A deferred tax liability of £0.2 million was also recognised, resulting in a net adjustment to retained earnings of £0.9 million.

The new standard also addresses consideration paid to customers. A reduction in revenue is to be recognised either when the Group recognises revenue for the services provided or when the Group pays or promises to pay the consideration. Where costs have been identified as meeting this definition, the reduction in revenue is deemed to be whichever is the later of the above. Where revenue was reduced due to such payments under previous accounting policies, under IFRS 15 the reduction in revenue is to be deferred through recognition of an asset and amortisation of this asset over the average contract life. This has resulted in a £0.1 million credit to opening retained earnings at 1 January 2018 and a corresponding increase in Trade and Other Receivables on the Balance Sheet.

The impact of the adoption of IFRS 15 on the Group's opening Balance Sheet is as follows:

	As at 31 December 2017 £m	IFRS 15 adjustment £m	As at 1 January 2018 £m
Non-current assets			
Trade and other receivables	0.3	0.5	0.8
Current assets			
Trade and other receivables	47.2	0.7	47.9
Non-current liabilities			
Deferred income tax liabilities	9.5	0.2	9.7
Net assets	167.6	1.0	168.6
Capital and reserves attributable to the Company's Shareholders			
Retained earnings	113.7	1.0	114.7
Total equity	167.6	1.0	168.6

The impact of the adoption of IFRS 15 on the Group's retained earnings as at 1 January 2018 is as follows:

	£m
As at 31 December 2017	113.7
Recognition of asset for costs to fulfil a contract – Employee sales commissions	1.1
Recognition of asset for costs to fulfil a contract – Consideration paid to customers	0.1
Increase in deferred tax liabilities	(0.2)
Adjustment to retained earnings from adoption of IFRS 15	1.0
As at 1 January 2018	114.7

(d) Standards and amendments to standards effective after 2018

IFRS 16, 'Leases'

This standard is mandatory for financial years commencing on or after 1 January 2019. It will result in almost all leases being recognised on the Balance Sheet as, from a lessee perspective, the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change.

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 can no longer be recognised as operating leases and will need to be brought onto the Group's Balance Sheet from the date of adoption of the new standard. The Group will elect to apply the following practical expedients:

- In determining whether existing contracts meet the definition of a lease, the Group will not reassess those contracts previously identified as leases and will not apply the standard to those contracts not previously identified as leases.
- Leases of less than 12 months and leases with less than 12 months remaining as at the date of adoption of the new standard will not be within the scope of IFRS 16.
- Leases for which the asset is of low value, for example IT equipment, will not be within the scope of IFRS 16.

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS CONTINUED

19 Accounting policies continued

The Group will elect to apply this standard retrospectively with the cumulative effect of initially applying this standard as an adjustment to the opening balance of retained earnings as at 1 January 2019. As a consequence of this, there is likely to be a material impact on the Balance Sheet with a lease liability and a corresponding right of use asset to be recognised on the Balance Sheet. There is anticipated to be a limited, if any, impact on the net assets of the Group on the date of adoption. Based on the current definition of adjusted operating profit, there is likely to be an increase in the Group's adjusted operating profit as operating lease costs are replaced by a lower depreciation charge. There will also be an additional interest charge, however, there will be no material effect on the overall Income Statement. The Group continues to perform work to quantify the impact of the new standard. The changes will not impact on the cash flow of 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 2017 Annual Report and Accounts the principal risks and uncertainties that could impact its performance. These remain unchanged since the Annual Report and Accounts was published and are summarised below:

Financial Risks
Economy
Cost Inflation
Interest Rate Fluctuations
Liquidity Risk
Taxation

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

Regulatory Risk
Health and Safety
Compliance and Fraud

These risks and uncertainties do not comprise all of the risks that the Group may face and are not listed in any order of priority. Additional risks and uncertainties not presently known to the Board, or deemed to be less material may also have an adverse effect on the Group. These include risks resulting from the UK's decision to leave the EU which could adversely affect the economic and political environment as well as affecting financial risks such as liquidity and credit. The Board views the potential impact of Brexit as an integral part of its principal risks rather than a stand-alone risk. However, there is still significant uncertainty about the withdrawal process, its timeframe, and the outcome of negotiations about future arrangements between the UK and the EU, and the period for which existing EU laws for member states will continue to apply to the UK. Therefore, although the risks related to Brexit have been discussed by the Board, it remains too early to properly understand the impact on the business whilst negotiations continue to take place. The Board will continue to assess the risk to the business as the Brexit process evolves.

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 18 to 21 of the 2017 Annual Report and Accounts.

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

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Non-Executive Chairman
Member of Audit Committee
Member of Remuneration Committee
Chairman of Nomination Committee

Christopher Sander
Chief Executive Officer

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

Peter Egan
Chief Operating Officer
Director responsible for Health, Safety and the Environment

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

Christopher Francis Girling
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Member of Remuneration Committee
Member of Nomination Committee

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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, Link 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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