

# THE DAVIS SERVICE GROUP PLC

## Interim results announcement for the six months ended 30th June 2009 Continued resilience: Balance sheet strengthened: Dividend maintained

### Financial Highlights

<b>Revenue</b>	Up 3% to £481.5 million (first half 2008: £467.1 million)
<b>Adjusted operating profit*</b>	Unchanged at £52.0 million (£52.2 million)
<b>Adjusted profit before tax*</b>	Unchanged at £40.2 million (£40.1 million)
<b>Adjusted earnings per share*</b>	Up 1% to 17.2p (17.1p)
<b>Free cash flow</b>	Doubled to £25.8 million (£12.1 million)
<b>Interim dividend per share</b>	Maintained at 6.5p (6.5p)

**Profit before taxation** Down 2% to £29.2 million (£29.9 million)

**Basic earnings per share** Down 6% to 12.0p (12.8p)

\* before £2.7m exceptional charges (£2.3m) and £8.3m amortisation of customer contracts and intellectual property rights (£7.9m).

### Operational Highlights

- Nordic region:
  - Revenue up 3% to £164.5m (£159.0m)
  - Adjusted operating profit maintained at £23.1m (£23.1m)
  - Margin improvement in Denmark and Norway; Sweden held back by economy
- Continent region:
  - Revenue up 12% to £123.0m (£110.1m)
  - Adjusted operating profit up 20% to £15.5m (£12.9m)
  - Organic revenue growth in Holland, Poland and workwear in Germany of 2% overall
  - Margin improvement in German healthcare
- UK and Ireland:
  - Revenue down 2% to £194.0m (£198.0m)
  - Adjusted operating profit down 9% to £16.4m (£18.1m)
  - Lower volumes in hotel linen; overall profits ahead in other divisions
- Free cash flow of textile maintenance increased to £40.0m (£14.7m)
- Net debt reduced by £64.5m to £479.6m (31st December 2008: £544.1m)
- Peter Ventress to succeed Roger Dye as CEO on 1st January 2010

### **Christopher Kemball, Chairman of Davis Service Group, commented:**

*“We are pleased to report a solid set of results for the first six months of the year. The group has achieved an excellent cash performance, strengthened the balance sheet and maintained the dividend.”*

*“We expect the trends experienced in the first half to continue for the rest of 2009. We remain focused on customer service, while achieving cost savings and improved efficiency to meet the demands of the current testing environment. We are well on track to deliver on our expectations for the year while generating good cash flow and retaining our strong balance sheet. In the medium term, the group remains well positioned to benefit from renewed growth in our markets.”*

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## Results for the six months ended 30th June 2009

We are pleased to report a solid set of results for the first six months of the year compared with a strong first half in 2008 and against a trading environment that has continued to be challenging. However the combination of the underlying resilience of our businesses, the decisive actions of our management to realign our cost base, and benefits of exchange rates enabled us to report sales and operating profit very similar to last year. The recession has had a notable impact on our hotel linen businesses in the UK and Ireland, Denmark and Sweden and on our workwear and direct sales businesses in Sweden. Excluding these businesses, adjusted operating profits moved ahead by 3% in local currencies, which we consider a good performance given the economic backdrop. As expected, our free cash flow was significantly ahead of last year at £25.8 million (first half 2008: £12.1 million). Our strong cash flow and reduction in capital expenditure, combined with our resilient trading performance and the strengthening of sterling, resulted in net borrowings reducing by £64.5 million from 31st December 2008 to £479.6 million at 30th June 2009.

### Results

Revenue increased to £481.5 million in the period, up 3% (£467.1 million). Adjusted operating profit (before exceptional items and amortisation of customer contracts and intellectual property rights) was £52.0 million, close to the £52.2 million last year. Both revenue and adjusted operating profit were positively impacted by exchange rates, where we have seen stronger European currencies compared to the first half of 2008, although the Euro has progressively weakened against Sterling since the start of 2009. Excluding the benefit to revenue and adjusted operating profit from foreign exchange of £27.0 million and £3.3 million respectively, revenue was down 3% and operating profit down 7%. Our net finance expense was £11.8 million, slightly below the £12.1 million last year. Although variable interest rates have reduced significantly, this has been largely offset by adverse currency translation as we draw most of our debt in continental European currencies. The average interest rate, based on our net borrowings, is expected to be close to 5% for the year. Adjusted profit before tax was £40.2 million, similar to last year, with an overall net favourable impact of exchange rates in the period of £2.3 million. Adjusted earnings per share were 17.2 pence (17.1 pence). Our effective tax rate on adjusted profit before tax was 26.5% and we expect the tax rate for the full year to be similar.

During the period we incurred net exceptional costs of £2.7 million. Charges of £2.8 million were reported for the closure of plants, primarily in Sweden, in response to the economic downturn and in exiting of our flat linen and direct sales operations in Finland, which also resulted in an impairment of goodwill of £1.6 million. There are further costs of £1.0 million expected in the second half of 2009 for these Nordic operations. A profit of £1.7 million was generated from property disposals. Amortisation of acquired customer contracts and intellectual property rights was similar to last year at £8.3 million (£7.9 million). Operating profit after these items was £41.0 million (£42.0 million) and profit before taxation was £29.2 million (£29.9 million). Basic earnings per share were 12.0 pence compared with 12.8 pence in the first half of 2008.

We reduced our net capital expenditure by £9.6 million to £72.8 million (£82.4 million), notwithstanding the investment in decontamination centres of £9.3 million in the UK. Our textile maintenance businesses demonstrated the robustness of the business model by undertaking active management programmes to reduce net capital expenditure by £16.6 million in the period. The investment in textiles of £51.6 million (£56.0 million) represented 83% of the related depreciation.

Free cash flow was £25.8 million (£12.1 million) with our textile maintenance operations increasing £25.3 million to £40.0 million (£14.7 million). We have contributed £2.0 million to the UK pension fund in the period and intend to contribute a further £4.0 million in the second half of the year and £6.0 million next year in advance of completion of the triennial valuation. At 30th June 2009 the accounting deficit for the group was £36.5 million. The impact of exchange rates decreased net borrowings by £71.3 million and, after dividends paid of £22.9 million, net borrowings at 30th June 2009 were £479.6 million (31st December 2008: £544.1 million). The total facilities available to the group are £741 million and are committed to 2012 at the earliest (£590 million) and 2018 at the latest. We have £376 million of fixed rate borrowings with an average rate of 4.4%.

The interim financial information for the six months ended 30th June 2009 have been reviewed by PricewaterhouseCoopers LLP.

### Dividend

Given the performance of the group and our strong cash flow the Board is recommending an interim dividend at the same level as last year of 6.5 pence. The dividend will be paid on 15th October 2009 to shareholders on the register at the close of business on 18th September 2009.

## **Nordic Region**

Revenue in our Nordic region increased 3% to £164.5 million (£159.0 million) while adjusted operating profit was maintained at £23.1 million. At constant currency, revenue was 3% lower. However, cash generation was strong reflecting the high level of investment in this region in recent years. As previously indicated, Sweden is the economy in Scandinavia that has been most severely impacted by the economic downturn because of its more significant manufacturing base. The reduction in revenue in our Swedish textile maintenance and direct sales operations was the primary reason for the shortfall against the comparative period. Elsewhere we saw like for like revenue growth of 2% and achieved a similar margin to last year.

We have benefited from our balanced customer portfolio in Denmark and the strong customer relationships we hold in public services and the pharmaceutical and food industries. The expected impact of lower volumes in the hotels division has been offset by growth in other parts of the business as well as cost reduction activities, which have included the closure of one plant, in addition to concluding the consolidation we undertook last year.

Revenues in Swedish textile maintenance reflected lower volumes in hotels and workwear as expected and we have taken further action in consolidating two garment plants into one and relocating one mat plant for additional capacity in the south of the country. We have continued to grow our higher margin facilities business and, encouraged by the growth potential and current trading, we have also commissioned a new mat plant in Stockholm, which will commence operations later in the year. Our direct sales business, Björnkläder, has improved its performance steadily from a low level at the start of the year. While profits were down, the business has improved its gross margin and generated additional cash by reducing inventory levels significantly in the period.

Norway, which has achieved excellent growth in recent years, again grew its revenue well, albeit at a slower rate, resulting in another period of improved profitability. Our relatively small Baltic mat businesses have enjoyed revenue growth and remained cash generative, although these economies have been particularly hard hit. We continued to make progress in Finland, and with the exit from the flat linen and direct sales businesses, it is now focused on workwear and facilities operations from which we expect higher returns.

The trends we have seen in the first half for our Nordic region are expected to continue for the remainder of 2009 with pressure on hotel linen, which is seasonally more significant in the second half, and lower volumes in Sweden's textile maintenance and direct sales businesses. Elsewhere in the region, markets will remain difficult, but we expect to benefit from the strong market positions we hold and the cost cutting actions we are taking.

## **Continent Region**

Revenue of our Continent region increased 12% to £123.0 million (£110.1 million) with a 20% increase in adjusted operating profit to £15.5 million (£12.9 million). At constant currency, revenue was 1% down. With the improvement in profitability of German healthcare and continued progress in our workwear and facilities businesses, we increased the region's adjusted operating margin to 12.6% from 11.7%.

The restructuring we undertook in German healthcare last year reduced our cost base, and with the further operational improvements targeted, we remain on track to deliver a margin of 4% for the year with a view to improving this further over the medium term. Adjusted operating profit increased by 55% in the first half of 2009 over the comparable period last year. However, the market has remained difficult mainly as a result of over capacity and subsequent pressure on prices. As a result, revenues were down 8% in the period and we continue to monitor the capacity needs of the business. However, we are watching to see how competition will react to the announcement of a minimum wage structure for our industry. Our workwear business in Germany, where we have a large proportion of food and catering customers as well as public services, made further progress and grew revenues in the first half of the year. Austrian healthcare remained stable and performed well.

Our Dutch business delivered a robust performance, increasing revenue and adjusted operating profit. Poland grew revenue strongly, although not at the excellent level of 30% achieved last year. We successfully opened our fifth plant in the country to accommodate the higher volumes. However, the Polish economy slowed markedly in the second quarter and this impacted the margin we were able to achieve from the increased sales. We are making progress in the Czech and Slovak Republics, winning workwear and mat contracts, and have commenced construction of our plant near Brno, Czech Republic, which will serve both markets.

The challenges for workwear in our Continent region will continue to increase with rising levels of unemployment expected and we have seen the pace of new sales growth slow in these markets as the year has progressed. However, we

continue to reduce costs aggressively and we expect to benefit from the diversified customer base we have built up. We expect further operating improvements to be delivered in German healthcare but still remain cautious about the prospects for this market.

## **UK and Ireland**

Our revenue was 2% lower at £194.0 million (£198.0 million) and adjusted operating profit was £16.4 million, down 9% from £18.1 million for the comparable period. This included revenues of £28.5 million (£27.0 million) and adjusted operating profit of £1.7 million (£1.8 million) for Clinical solutions and decontamination, which is reported as a separate segment. The shortfall in operating profit compared with the first half of last year related primarily to the lower volumes in hotel linen, which we have previously indicated.

The decline in volumes on group hotels was almost 10% against a strong comparable period last year but we took action to reduce the cost base early in the cycle to mitigate the impact of the lost volumes as much as possible. While we have seen the benefits of this, profits were down from the strong first half last year. We continue to work with our customers through this difficult period to ensure that the value of continuity and consistency of service is appreciated and pricing to recover inflation is maintained.

Our Healthcare division reported strong revenue growth delivering excellent financial results. Higher underlying volumes on existing contracts were reported and new outsourced volumes have come on stream from the contracts we have won. We continue to enjoy 100% retention rates in this business.

The workwear business also performed well, generating revenue and adjusted operating profit at a similar level to 2008. The new sales momentum of the last six months delivered incremental revenue to offset the reduction in volumes on existing contracts experienced from customers' down-sizing their operations.

At the end of May we started delivering decontamination services for the Kent and North West London contracts and we are now building volumes from the main contract base and from other sources, including the Primary Care Trust market. The sterile consumables business grew 9%. We have now commenced the follow-up of cross selling opportunities, given our wider product and service offering.

Our operations in Ireland performed well with revenues and profits both maintained at 2008 levels. The attention to costs has always been in place, as elsewhere in the group, and mitigated the impact of very difficult economic conditions.

Our UK and Ireland region will continue to face pressure in hotel linen volumes although the pace of decline is stabilising and we are making good progress with our healthcare customers for both textiles and Clinical solutions and decontamination services. Management is continuing to meet the ongoing challenges in our UK workwear market and in Ireland.

## **Outlook**

We expect the trends experienced in the first half to continue for the rest of 2009. We remain focused on customer service, while achieving cost savings and improved efficiency to meet the demands of the current testing environment. We are well on track to deliver on our expectations for the year while generating good cashflow and retaining our strong balance sheet. In the medium term, the group remains well positioned to benefit from renewed growth in our markets.

## **Appointment of New CEO**

As announced on 31st July, Roger Dye, CEO, will retire on 31st December 2009. He is to be succeeded by Peter Ventress who joins the group from Staples Inc. A comprehensive handover process will take place towards the end of the year with Peter Ventress joining the group on 1st November 2009 and assuming full responsibilities on 1st January 2010.

## **Principal Risks and Uncertainties**

The principal risks and uncertainties facing the group are detailed on pages 23 to 25 of the 2008 Annual Report and Accounts. The Board considers that these risks, together with the risk of further restructuring action as a result of the ongoing monitoring of capacity needs, constitute the principal risks and uncertainties for the remaining six months of the financial year.

While there is currently no significant impact from the swine flu pandemic, our local management teams are prepared to address any emerging employment trends and to support our customers, especially in the healthcare sector.

**CONSOLIDATED INTERIM INCOME STATEMENT**  
**For the six months ended 30th June 2009**

	Notes	<b>Unaudited Six months to 30th June 2009 £m</b>	Unaudited Six months to 30th June 2008 £m	Audited Year to 31st December 2008 £m
<b>Continuing operations</b>				
Revenue	3	<b>481.5</b>	467.1	953.9
Cost of sales		<b>(261.7)</b>	(257.7)	(519.0)
<b>Gross profit</b>		<b>219.8</b>	209.4	434.9
Other operating income		<b>2.5</b>	0.5	0.9
Distribution costs		<b>(92.6)</b>	(89.4)	(180.5)
Administrative expenses		<b>(73.8)</b>	(66.7)	(135.4)
Other operating expenses		<b>(14.9)</b>	(11.8)	(34.2)
<b>Operating profit</b>	3	<b>41.0</b>	42.0	85.7
<b>Analysed as:</b>				
Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights	3	<b>52.0</b>	52.2	116.6
Exceptional items	4	<b>(2.7)</b>	(2.3)	(11.5)
Amortisation of customer contracts and intellectual property rights		<b>(8.3)</b>	(7.9)	(19.4)
<b>Operating profit</b>	3	<b>41.0</b>	42.0	85.7
Finance expense		<b>(12.5)</b>	(13.5)	(28.7)
Finance income		<b>0.7</b>	1.4	3.4
<b>Profit before taxation</b>		<b>29.2</b>	29.9	60.4
Taxation		<b>(8.5)</b>	(7.9)	(18.3)
<b>Profit for the period</b>		<b>20.7</b>	22.0	42.1
Profit attributable to minority interest		<b>0.3</b>	0.2	0.4
Profit attributable to equity shareholders		<b>20.4</b>	21.8	41.7
		<b>20.7</b>	22.0	42.1
Earnings per share expressed in pence per share				
– Basic and diluted	8	<b>12.0</b>	12.8	24.5

**CONSOLIDATED INTERIM STATEMENT OF COMPREHENSIVE INCOME**  
**For the six months ended 30th June 2009**

	<b>Unaudited Six months to 30th June 2009 £m</b>	Unaudited Six months to 30th June 2008 £m	Audited Year to 31st December 2008 £m
Profit for the period	<b>20.7</b>	22.0	42.1
Other comprehensive (loss)/income			
Currency translation difference, net of tax	<b>(25.1)</b>	(0.5)	38.4
Actuarial losses, net of tax	<b>(13.9)</b>	(15.4)	(12.7)
Cash flow hedges, net of tax	<b>(9.6)</b>	7.9	2.7
Other comprehensive (loss)/income for the period, net of tax	<b>(48.6)</b>	(8.0)	28.4
Total comprehensive (loss)/income for the period	<b>(27.9)</b>	14.0	70.5
Total comprehensive (loss)/income attributable to:			
Equity shareholders	<b>(27.8)</b>	13.7	69.2
Minority interest	<b>(0.1)</b>	0.3	1.3

**CONSOLIDATED INTERIM BALANCE SHEET**  
**As at 30th June 2009**

	Notes	<b>Unaudited Six months to 30th June 2009 £m</b>	Unaudited Six months to 30th June 2008 £m	Audited Year to 31st December 2008 £m
<b>Assets</b>				
Goodwill		438.0	412.9	488.0
Other intangible assets		45.1	51.1	55.6
Property, plant and equipment	9	518.5	504.2	576.6
Assets classified as held for sale		2.4	3.2	3.3
Deferred tax assets		16.5	11.6	16.6
Derivative financial instruments		21.1	8.7	54.5
Trade and other receivables		4.5	3.6	3.6
Pension scheme surplus	14	-	-	6.9
<b>Total non-current assets</b>		<b>1,046.1</b>	995.3	1,205.1
Inventories		39.0	39.6	43.4
Income tax receivable		11.9	11.8	8.5
Derivative financial instruments		0.3	-	1.1
Trade and other receivables		158.0	170.5	171.7
Cash and cash equivalents		71.8	41.7	72.5
<b>Total current assets</b>		<b>281.0</b>	263.6	297.2
<b>Liabilities</b>				
Interest bearing loans and borrowings		(3.2)	(5.3)	(3.9)
Income tax payable		(19.8)	(17.1)	(20.7)
Derivative financial instruments		(0.1)	-	(0.2)
Trade and other payables		(175.4)	(198.3)	(208.0)
Provisions	10	(4.5)	(0.7)	(5.8)
<b>Total current liabilities</b>		<b>(203.0)</b>	(221.4)	(238.6)
<b>Net current assets</b>		<b>78.0</b>	42.2	58.6
Interest bearing loans and borrowings		(548.2)	(486.2)	(612.7)
Derivative financial instruments		(36.4)	(23.1)	(49.2)
Pension scheme deficits	14	(36.5)	(26.5)	(30.4)
Deferred tax liabilities		(54.2)	(51.5)	(72.8)
Provisions	10	(2.5)	-	(2.5)
<b>Total non-current liabilities</b>		<b>(677.8)</b>	(587.3)	(767.6)
<b>Net assets</b>		<b>446.3</b>	450.2	496.1
<b>Equity</b>				
Share capital		51.4	51.4	51.4
Share premium		95.6	95.6	95.6
Other reserves		1.5	16.3	11.1
Capital redemption reserve		150.9	150.9	150.9
Retained earnings		143.6	133.6	183.7
<b>Total shareholders' equity</b>		<b>443.0</b>	447.8	492.7
<b>Minority interest in equity</b>		<b>3.3</b>	2.4	3.4
<b>Total equity</b>		<b>446.3</b>	450.2	496.1

**CONSOLIDATED INTERIM CASH FLOW STATEMENT**  
**For the six months ended 30th June 2009**

	Notes	<b>Unaudited Six months to 30th June 2009 £m</b>	Unaudited Six months to 30th June 2008 £m	Audited Year to 31st December 2008 £m
<b>Cash flows from operating activities</b>				
Cash generated from operations	11	<b>124.7</b>	116.6	262.8
Interest paid		<b>(12.9)</b>	(13.1)	(28.1)
Interest received		<b>0.7</b>	1.4	3.4
Income tax paid		<b>(13.9)</b>	(10.4)	(15.9)
Net cash generated from operating activities		<b>98.6</b>	94.5	222.2
<b>Cash flows from investing activities</b>				
Acquisition of subsidiaries, net of cash acquired		<b>(5.5)</b>	(45.1)	(50.3)
Purchase of property, plant and equipment		<b>(77.7)</b>	(83.4)	(175.5)
Proceeds from the sale of property, plant and equipment	11	<b>6.9</b>	2.2	6.0
Purchase of intangible assets		<b>(2.0)</b>	(1.2)	(5.5)
Special pension contribution payments		<b>(2.0)</b>	-	-
Net cash used in investing activities		<b>(80.3)</b>	(127.5)	(225.3)
<b>Cash flows from financing activities</b>				
Net proceeds from issue of ordinary share capital		-	0.1	0.1
Purchase of treasury shares and own shares by the Employee Benefit Trust		<b>(0.8)</b>	(2.0)	(2.1)
Drawdown of borrowings		<b>20.0</b>	18.2	25.2
Repayment of borrowings		<b>(7.6)</b>	-	-
Repayment of finance leases/hire purchase liabilities		<b>(2.0)</b>	(2.2)	(4.1)
Dividends paid to Company's shareholders	7	<b>(22.9)</b>	(22.7)	(33.8)
Dividends paid to minority interests		-	(0.1)	(0.1)
Net cash used in financing activities		<b>(13.3)</b>	(8.7)	(14.8)
<b>Net increase/(decrease) in cash</b>		<b>5.0</b>	(41.7)	(17.9)
Cash at beginning of period		<b>72.5</b>	82.2	82.2
Exchange (losses)/gains on cash		<b>(5.7)</b>	1.2	8.2
<b>Cash at end of period</b>		<b>71.8</b>	41.7	72.5
<b>Free cash flow</b>		<b>25.8</b>	12.1	47.2
<b>Analysis of free cash flow:</b>				
Net cash generated from operating activities		<b>98.6</b>	94.5	222.2
Purchase of property, plant and equipment		<b>(77.7)</b>	(83.4)	(175.5)
Proceeds from the sale of property, plant and equipment		<b>6.9</b>	2.2	6.0
Purchase of intangible assets		<b>(2.0)</b>	(1.2)	(5.5)
<b>Free cash flow</b>		<b>25.8</b>	12.1	47.2

**CONSOLIDATED STATEMENT OF CHANGES IN TOTAL EQUITY**
**As at 30th June 2009**

	Attributable to shareholders of the company							
	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Retained earnings £m	Total £m	Minority interest £m	Total equity £m
At 1st January 2008	51.4	95.5	8.4	150.9	151.7	457.9	2.2	460.1
Issue of share capital for share option schemes	-	0.1	-	-	-	0.1	-	0.1
Purchase of own shares by the Employee Benefit Trust	-	-	-	-	(2.0)	(2.0)	-	(2.0)
Dividends	-	-	-	-	(22.7)	(22.7)	(0.1)	(22.8)
Actuarial losses	-	-	-	-	(21.2)	(21.2)	-	(21.2)
Value of employee service for share option schemes and share awards	-	-	-	-	0.8	0.8	-	0.8
Cash flow hedges	-	-	11.0	-	-	11.0	-	11.0
Tax on items taken directly to equity	-	-	(3.1)	-	14.5	11.4	-	11.4
Profit for the period	-	-	-	-	21.8	21.8	0.2	22.0
Currency translation	-	-	-	-	(9.3)	(9.3)	0.1	(9.2)
<b>At 30th June 2008</b>	<b>51.4</b>	<b>95.6</b>	<b>16.3</b>	<b>150.9</b>	<b>133.6</b>	<b>447.8</b>	<b>2.4</b>	<b>450.2</b>
Issue of share capital for share option schemes	-	-	-	-	-	-	-	-
Purchase of own shares by the Employee Benefit Trust	-	-	-	-	(0.1)	(0.1)	-	(0.1)
Dividends	-	-	-	-	(11.1)	(11.1)	-	(11.1)
Actuarial gains	-	-	-	-	3.4	3.4	-	3.4
Value of employee service for share option schemes and share awards	-	-	-	-	1.0	1.0	-	1.0
Cash flow hedges	-	-	(7.3)	-	-	(7.3)	-	(7.3)
Tax on items taken directly to equity	-	-	2.1	-	(10.2)	(8.1)	-	(8.1)
Profit for the period	-	-	-	-	19.9	19.9	0.2	20.1
Currency translation	-	-	-	-	47.2	47.2	0.8	48.0
<b>At 31st December 2008</b>	<b>51.4</b>	<b>95.6</b>	<b>11.1</b>	<b>150.9</b>	<b>183.7</b>	<b>492.7</b>	<b>3.4</b>	<b>496.1</b>
Purchase of own shares by the Employee Benefit Trust	-	-	-	-	(0.8)	(0.8)	-	(0.8)
Dividends	-	-	-	-	(22.9)	(22.9)	-	(22.9)
Actuarial losses	-	-	-	-	(19.4)	(19.4)	-	(19.4)
Value of employee service for share option schemes and share awards	-	-	-	-	1.8	1.8	-	1.8
Cash flow hedges	-	-	(13.3)	-	-	(13.3)	-	(13.3)
Tax on items taken directly to equity	-	-	3.7	-	6.9	10.6	-	10.6
Profit for the period	-	-	-	-	20.4	20.4	0.3	20.7
Currency translation	-	-	-	-	(26.1)	(26.1)	(0.4)	(26.5)
<b>At 30th June 2009 (unaudited)</b>	<b>51.4</b>	<b>95.6</b>	<b>1.5</b>	<b>150.9</b>	<b>143.6</b>	<b>443.0</b>	<b>3.3</b>	<b>446.3</b>

The number of treasury shares held by the company as at 30th June 2009 was 1,025,000 (30th June 2008: 1,025,000).

In addition, the number of own shares held in the Employee Benefit Trust as at 30th June 2009 was 841,873 (30th June 2008: 400,000).

## NOTES TO THE INTERIM RESULTS

### 1 Basis of preparation

This condensed consolidated interim financial information does not comprise statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the year ended 31st December 2008 were approved by the Board of directors on 27th February 2009 and delivered to 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.

This condensed consolidated interim financial information has been reviewed, not audited.

This condensed consolidated interim financial information for the six months ended 30th June 2009 has been prepared in accordance with the Disclosure and Transparency Rules of the Financial Services Authority and with IAS 34, 'Interim financial reporting' as adopted by the European Union. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31st December 2008, which have been prepared in accordance with IFRSs as adopted by the European Union.

### 2 Accounting policies

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31st December 2008, as described in those annual financial statements.

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1st January 2009.

- IAS 1 (revised), 'Presentation of financial statements'. The group has elected to present two statements: an income statement and a statement of comprehensive income. The interim financial information has been prepared under the revised disclosure requirements. There was no impact on the financial position or performance of the group.
- IFRS 8, 'Operating segments'. There has been no change to the reportable segments presented.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1st January 2009, but have no material impact on the group.

- IAS 23 (amendment), 'Borrowing costs'.
- IFRS 2 (amendment), 'Share-based payment – Vesting Conditions and Cancellations'.
- IAS 32 (amendment), 'Financial instruments: Presentation', and IAS 1 (amendment), 'Presentation of financial statements – puttable financial instruments and obligations arising on liquidation'
- IFRIC 13, 'Customer loyalty programmes'.
- IFRIC 15, 'Agreements for the construction of real estate'.
- IFRIC 16, 'Hedges of a net investment in a foreign operation'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1st January 2009 and have not been early adopted. Their expected impact is still being assessed in detail by management:

- IFRS 3 (revised), 'Business combinations'
- IAS 27, 'Consolidated and separate financial statements'
- IAS 28, 'Investments in associates'
- IAS 31, 'Interests in joint ventures'
- IAS 39 (amendment), 'Financial instruments: Recognition and measurement'
- IFRIC 17, 'Distributions of non-cash assets to owners'
- IFRIC 18, 'Transfers of assets from customers'

### 3 Segmental information

The segment results for the six months ended 30th June 2009 are as follows:

	Textile maintenance Nordic £m	Textile maintenance Continent £m	Textile maintenance UK and Ireland £m	Total textile maintenance £m	Clinical solutions and decontamination £m	Unallocated £m	Group £m
<b>Continuing operations</b>							
Total segment revenue	164.9	123.7	165.5	454.1	28.8	-	482.9
Inter-segment revenue	(0.4)	(0.7)	-	(1.1)	(0.3)	-	(1.4)
Revenue from external customers	164.5	123.0	165.5	453.0	28.5	-	481.5
Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights	23.1	15.5	14.7	53.3	1.7	(3.0)	52.0
Exceptional items	(4.5)	(0.1)	1.9	(2.7)	-	-	(2.7)
Amortisation of customer contracts and intellectual property rights	(4.8)	(1.5)	(2.0)	(8.3)	-	-	(8.3)
Segment result	13.8	13.9	14.6	42.3	1.7	(3.0)	41.0
Net finance expense							(11.8)
<b>Profit before taxation</b>							<b>29.2</b>
Taxation							(8.5)
<b>Profit for the period</b>							<b>20.7</b>
Profit attributable to minority interests							0.3
<b>Profit attributable to equity shareholders</b>							<b>20.4</b>
Capital expenditure	22.0	26.7	22.6	71.3	12.0	-	83.3
Depreciation	24.1	24.3	33.4	81.8	1.8	-	83.6
Amortisation	5.7	2.0	2.0	9.7	0.5	-	10.2

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

Analysis of revenue by category:

	£m
Sales of goods	25.3
Revenue of services	456.2
	<u>481.5</u>

### 3 Segmental information continued

The segment results for the six months ended 30th June 2008 were as follows:

	Textile maintenance Nordic £m	Textile maintenance Continent £m	Textile maintenance UK and Ireland £m	Total textile maintenance £m	Clinical solutions and decontamination £m	Unallocated £m	Group £m
<b>Continuing operations</b>							
Total segment revenue	160.4	110.8	171.0	442.2	27.2	-	469.4
Inter-segment revenue	(1.4)	(0.7)	-	(2.1)	(0.2)	-	(2.3)
Revenue from external customers	159.0	110.1	171.0	440.1	27.0	-	467.1
Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights	23.1	12.9	16.3	52.3	1.8	(1.9)	52.2
Exceptional items	(0.5)	(1.3)	(0.5)	(2.3)	-	-	(2.3)
Amortisation of customer contracts and intellectual property rights	(2.6)	(3.0)	(2.3)	(7.9)	-	-	(7.9)
Segment result	20.0	8.6	13.5	42.1	1.8	(1.9)	42.0
Net finance expense							(12.1)
<b>Profit before taxation</b>							29.9
Taxation							(7.9)
<b>Profit for the period</b>							22.0
Profit attributable to minority interests							0.2
<b>Profit attributable to equity shareholders</b>							21.8
Capital expenditure	56.0	21.5	32.5	110.0	1.8	-	111.8
Depreciation	21.0	20.7	33.3	75.0	1.8	-	76.8
Amortisation	3.3	3.4	2.2	8.9	0.5	-	9.4

Analysis of revenue by category:

	£m
Sales of goods	33.6
Revenue of services	433.5
	<u>467.1</u>

The segment assets and liabilities at 30th June 2009 are as follows:

	Textile maintenance Nordic £m	Textile maintenance Continent £m	Textile maintenance UK and Ireland £m	Total textile maintenance £m	Clinical solutions and decontamination £m	Unallocated £m	Group £m
Total assets	<b>523.2</b>	<b>340.5</b>	<b>286.8</b>	<b>1,150.5</b>	<b>93.7</b>	<b>82.9</b>	<b>1,327.1</b>
Total liabilities	<b>119.5</b>	<b>62.8</b>	<b>76.7</b>	<b>259.0</b>	<b>43.7</b>	<b>578.1</b>	<b>880.8</b>

The segment assets and liabilities at 30th June 2008 were as follows:

	Textile maintenance Nordic £m	Textile maintenance Continent £m	Textile maintenance UK and Ireland £m	Total textile maintenance £m	Clinical solutions and decontamination £m	Unallocated £m	Group £m
Total assets	513.1	316.4	312.0	1,141.5	79.6	37.8	1,258.9
Total liabilities	120.8	61.7	93.6	276.1	29.0	503.6	808.7

Unallocated assets include segment assets for corporate entities and derivative financial instruments.

Unallocated liabilities include segment liabilities for corporate entities and derivative financial instruments.

#### 4 Exceptional items

	Six months to 30th June 2009 £m	Six months to 30th June 2008 £m	Year to 31st December 2008 £m
Restructuring costs (including goodwill impairment)	<b>4.4</b>	1.3	6.6
(Profit)/loss on property disposals	<b>(1.7)</b>	1.0	2.7
Growth initiatives written off	-	-	2.2
<b>Total</b>	<b>2.7</b>	2.3	11.5

Restructuring costs have been incurred in relation to plant closures and redundancies in response to the current economic downturn in Sweden and Denmark. In addition, £2.3 million exceptional charges have been incurred in the restructuring of Finnish operations. The charge includes £1.6 million goodwill impairment in relation to the direct sales business and £0.7 million in relation to exiting the flat linen operation. The tax credit on these was £0.6 million (30th June 2008 £0.4 million).

During the period a net profit has been realised on UK property disposals. The tax charge on this was £0.5 million (30th June 2008: credit of £0.3 million).

In 2008 the group incurred costs in relation to a number of growth initiatives and development investments. However, due to the economic uncertainty these projects were terminated or put on hold. There was no tax arising.

#### 5 Seasonality

The hotels and restaurants markets are subject to some seasonal fluctuation. Higher revenues in the second and third quarters of the year are expected due to increased demand during the holiday season. Other than this, there is no significant seasonality or cyclicity affecting the interim result of the operations.

#### 6 Taxation

The income tax expense is based on an effective annual tax rate estimated individually for each tax jurisdiction in which the group operates and applied to the pre-tax profit, excluding exceptional items, of the relevant entity. Tax on exceptional items is calculated separately and specifically on those items and is disclosed in note 4.

## 7 Dividends

A final dividend relating to the year ended 31st December 2008 amounting to £22.9 million was paid in May 2009 (2007: £22.7 million).

In addition, an interim dividend in respect of the financial year ending 31st December 2009 of 6.5 pence per ordinary share was proposed by the board of directors on 26th August 2009. It is payable on 15th October 2009 to shareholders who are on the register at 18th September 2009. This interim dividend amounting to £11.0 million is not reflected in these financial statements as it does not represent a liability at 30th June 2009.

## 8 Earnings per ordinary share

Basic earnings per ordinary share are based on the group profit for the period and a weighted average of 169,737,810 (30th June 2008: 170,259,261) ordinary shares in issue during the period and exclude the treasury shares and shares in the Employee Benefit Trust.

Diluted earnings per share are based on the group profit for the period and a weighted average of ordinary shares in issue during the period calculated as follows:

	<b>30th June 2009 Number of shares</b>	30th June 2008 Number of shares	31st December 2008 Number of shares
In issue	<b>169,737,810</b>	170,259,261	170,099,000
Dilutive potential ordinary shares arising from unexercised share options and awards	<b>119,596</b>	413,332	197,867
	<b>169,857,406</b>	170,672,593	170,296,867

An adjusted earnings per ordinary share figure has been presented to eliminate the effects of exceptional items and amortisation of customer contracts and intellectual property rights.

This presentation shows the trend in earnings per ordinary share that is attributable to the underlying trading activities of the total group.

The reconciliation between the basic and adjusted figures for the total group is as follows:

	<b>Six months to 30th June 2009</b>		Six months to 30th June 2008		Year to 31st December 2008	
	<b>£m</b>	<b>Earnings per share pence</b>	£m	Earnings per share pence	£m	Earnings per share pence
Profit attributable to equity shareholders of the company for basic earnings per share calculation	<b>20.4</b>	<b>12.0</b>	21.8	12.8	41.7	24.5
(Profit)/loss on sale of properties (after taxation)	<b>(1.2)</b>	<b>(0.7)</b>	0.7	0.5	2.0	1.2
Restructuring items (after taxation)	<b>3.8</b>	<b>2.3</b>	0.9	0.5	6.1	3.6
Growth initiatives written off (after taxation)	-	-	-	-	1.9	1.1
Amortisation of customer contracts and intellectual property rights (after taxation)	<b>6.2</b>	<b>3.6</b>	5.7	3.3	14.4	8.5
Exceptional tax credit due to change in tax rates			-	-	0.7	0.4
Adjusted earnings	<b>29.2</b>	<b>17.2</b>	29.1	17.1	66.8	39.3
Diluted basic earnings		<b>12.0</b>		12.8		24.5

## 9 Property, plant and equipment

During the six months ended 30th June 2009, the group acquired assets with a cost of £79.1 million (30th June 2008: £85.1 million), not including property, plant and equipment acquired through business combinations.

Assets with a net book value of £4.5 million were disposed of by the group during the six months ended 30th June 2009 (30th June 2008: £1.8 million) resulting in a net gain on disposal of £2.4 million (30th June 2008: £0.4 million).

The group's capital commitments at 30th June 2009 were £1.0 million (30th June 2008: £6.5 million).

## 10 Provisions

	Vacant Properties £m	Restructuring £m	Property disposals £m	Total £m
At 1st January 2009	0.2	5.6	2.5	8.3
Charged in the period	0.1	2.0	-	2.1
Utilised in the period	-	(2.7)	-	(2.7)
Currency translation	-	(0.7)	-	(0.7)
At 30th June 2009	0.3	4.2	2.5	7.0

All provision except for the property disposal provisions are current in nature.

### *Vacant properties*

Vacant property provisions are made in respect of vacant and partly sub-let leasehold properties to the extent that the future rental payments are expected to exceed future rental income. It is further assumed, where reasonable, that the properties will be able to be sub-let beyond the present sub-let lease agreements. In determining the vacant property provision, the cash flows have been discounted on a pre-tax basis using the appropriate government bond rates.

### *Restructuring*

Restructuring provisions comprise largely of employee termination payments. Provisions are not recognised for future operating losses.

### *Property disposals*

The group has outstanding warranties, indemnities and guarantees given previously on a number of properties operated by businesses which have been disposed. The majority of these expire in 2017 with the remaining expiring by 2022.

## 11 Cash generated from operations

Reconciliation of profit for the period to cash generated from operations.

	Six months to 30th June 2009 £m	Six months to 30th June 2008 £m	Year to 31st December 2008 £m
Profit for the period	20.7	22.0	42.1
Adjustments for:			
Taxation	8.5	7.9	18.3
Amortisation of intangible fixed assets	10.2	9.4	22.7
Depreciation of tangible fixed assets	83.6	76.8	156.9
(Profit)/loss on sale of property	(1.9)	0.5	2.7
Profit on sale of plant and equipment	(0.5)	(0.4)	(0.6)
Restructuring costs	4.4	-	6.6
Growth initiatives written off (non-cash element)	-	-	0.3
Finance income	(0.7)	(1.4)	(3.4)
Finance expense	12.5	13.5	28.7
Other non-cash movements	1.8	0.8	(1.0)
Changes in working capital (excluding effect of acquisitions, disposals and exchange differences on consolidation):			
Inventories	1.2	(7.1)	(7.4)
Trade and other receivables	(0.2)	(2.3)	13.0
Trade and other payables	(12.2)	(3.2)	(13.7)
Provisions	(2.7)	0.1	(2.4)
Cash generated from operations	124.7	116.6	262.8

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

	<b>Six months to 30th June 2009 £m</b>	Six months to 30th June 2008 £m	Year to 31st December 2008 £m
Net book amount	<b>4.5</b>	1.8	5.4
Profit on sale of property, plant and equipment	<b>2.4</b>	0.4	0.6
Proceeds from sale of property, plant and equipment	<b>6.9</b>	2.2	6.0

## 12 Reconciliation of net cash flow to movement in net debt

	<b>Six months to 30th June 2009 £m</b>	Six months to 30th June 2008 £m	Year to 31st December 2008 £m
Increase/(decrease) in cash	<b>5.0</b>	(41.7)	(17.9)
Cash outflow from movement in debt and lease financing	<b>(10.3)</b>	(16.0)	(21.1)
Changes in net debt resulting from cash flows	<b>(5.3)</b>	(57.7)	(39.0)
New finance leases	<b>(1.5)</b>	(1.2)	(3.8)
Bank loans and lease obligations acquired with subsidiaries	<b>-</b>	(2.6)	(2.8)
Currency translation	<b>71.3</b>	(21.2)	(131.4)
Movement in net debt in period	<b>64.5</b>	(82.7)	(177.0)
Net debt at beginning of period	<b>(544.1)</b>	(367.1)	(367.1)
<b>Net debt at end of period</b>	<b>(479.6)</b>	(449.8)	(544.1)

## 13 Acquisitions

During the six months ended 30th June 2009, the group acquired 100% shareholding in a number of textile maintenance businesses in Sweden, Poland and Holland.

Details of the carrying values and provisional fair values of the assets and liabilities are set out below:

	Carrying values pre acquisition £m	<b>Total Provisional fair values £m</b>
Intangible fixed assets	0.5	<b>1.7</b>
Property, plant and equipment	0.2	<b>0.2</b>
Net assets acquired	0.7	<b>1.9</b>
Consideration satisfied by:		
– Cash		<b>1.7</b>
– Deferred consideration		<b>0.2</b>
		<b>1.9</b>

The fair value amounts contain some provisional amounts which will be finalised in the 2009 accounts.

Shown below are the revenues and profit for the year after tax as if the above acquisitions had been made at the beginning of the period. The information may not be indicative of the results of operations that would have occurred had the purchase been made at the beginning of the period presented or the future results of the combined operations.

	<b>£m</b>
Revenue	<b>0.6</b>
Profit after tax	<b>0.1</b>

From the date of acquisition to 30th June 2009, the above acquisitions contributed £0.6 million to revenue and £0.1 million to profit after tax for the period.

During the period the group paid deferred consideration on previous acquisitions. A reconciliation on the total net cash paid for acquisitions is provided below:

	<b>£m</b>
Cash consideration	<b>1.7</b>
Deferred consideration paid on previous acquisitions	<b>3.8</b>
	<b>5.5</b>

#### 14 Pension schemes

The amounts recognised in the balance sheet are determined as follows:

	<b>As at 30th June 2009 £m</b>	As at 31st December 2008 £m
Present value of obligations	<b>(215.1)</b>	(203.4)
Fair value of plan assets	<b>178.6</b>	179.9
Net liability recognised in balance sheet	<b>(36.5)</b>	(23.5)
Analysed as:		
– Pension scheme surplus	-	6.9
– Pension scheme deficit and unfunded schemes	<b>(36.5)</b>	(30.4)
	<b>(36.5)</b>	(23.5)

Analysis of the movement in the net balance sheet liability:

	<b>Six months to 30th June 2009 £m</b>
At 1st January 2009	<b>(23.5)</b>
Current service cost	<b>(1.1)</b>
Interest cost	<b>(5.8)</b>
Expected return on plan assets	<b>5.9</b>
Actuarial loss recognised in other comprehensive income	<b>(19.4)</b>
Contributions paid	<b>3.8</b>
Currency translation	<b>3.6</b>
At 30th June 2009	<b>(36.5)</b>

#### 15 Related parties

The nature of related parties as disclosed in the consolidated financial statements for the group as at and for the year ended 31st December 2008 has not changed. Further, there have been no significant related party transactions in the six month period ended 30th June 2009.

#### 16 Contingent liabilities

The group operates from 137 laundries across Europe. Some of the sites have operated as laundry sites for many years, and historic environmental liabilities may exist, although the group has indemnities from third parties in respect of a number of sites. Such liabilities are not expected to give rise to any significant loss.

## **17 Website policy**

The directors are responsible for the maintenance and integrity of the company's website. Information published on the internet is accessible in many countries with different legal requirements. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

### **Statement of directors' responsibilities**

The directors confirm that this condensed set of consolidated interim financial information have been prepared in accordance with IAS 34 as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7 and 4.2.8.

By order of the Board

**I Roger Dye**

27th August 2009

Chief Executive

**Kevin Quinn**

27th August 2009

Finance Director

## **Independent review report to The Davis Service Group plc**

### **Introduction**

We have been engaged by the company to review the condensed consolidated interim financial information in the interim financial report for the six months ended 30th June 2009, which comprises the consolidated interim income statement, consolidated interim statement of comprehensive income, consolidated interim balance sheet, consolidated interim cash flow statement, consolidated statement of changes in total equity and related notes. We have read the other information contained in the interim financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed consolidated interim financial information.

### **Directors' responsibilities**

The interim financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the interim financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the European Union. The condensed consolidated interim financial information included in this interim financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

### **Our responsibility**

Our responsibility is to express to the company a conclusion on the condensed consolidated set of interim financial statements in the interim financial report based on our review. This report, including the conclusion, has been prepared for and only for the company for the purpose of the Disclosure and Transparency Rules of the Financial Services Authority and for no other purpose. We do not, in producing this report, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### **Scope of review**

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated interim financial information in the interim financial report for the six months ended 30th June 2009 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Services Authority.

### **PricewaterhouseCoopers LLP**

Chartered Accountants

London

27th August 2009