CHARTERED INSTITUTE FOR
SECURITIES & INVESTMENT

Winter 2009
Diploma Exam

INVESTMENT ANALYSIS

Information pack

CHARTERED INSTITUTE FOR SECURITIES & INVESTMENT

Extract from Financial Times London Share Service

Friday 13 November 2009

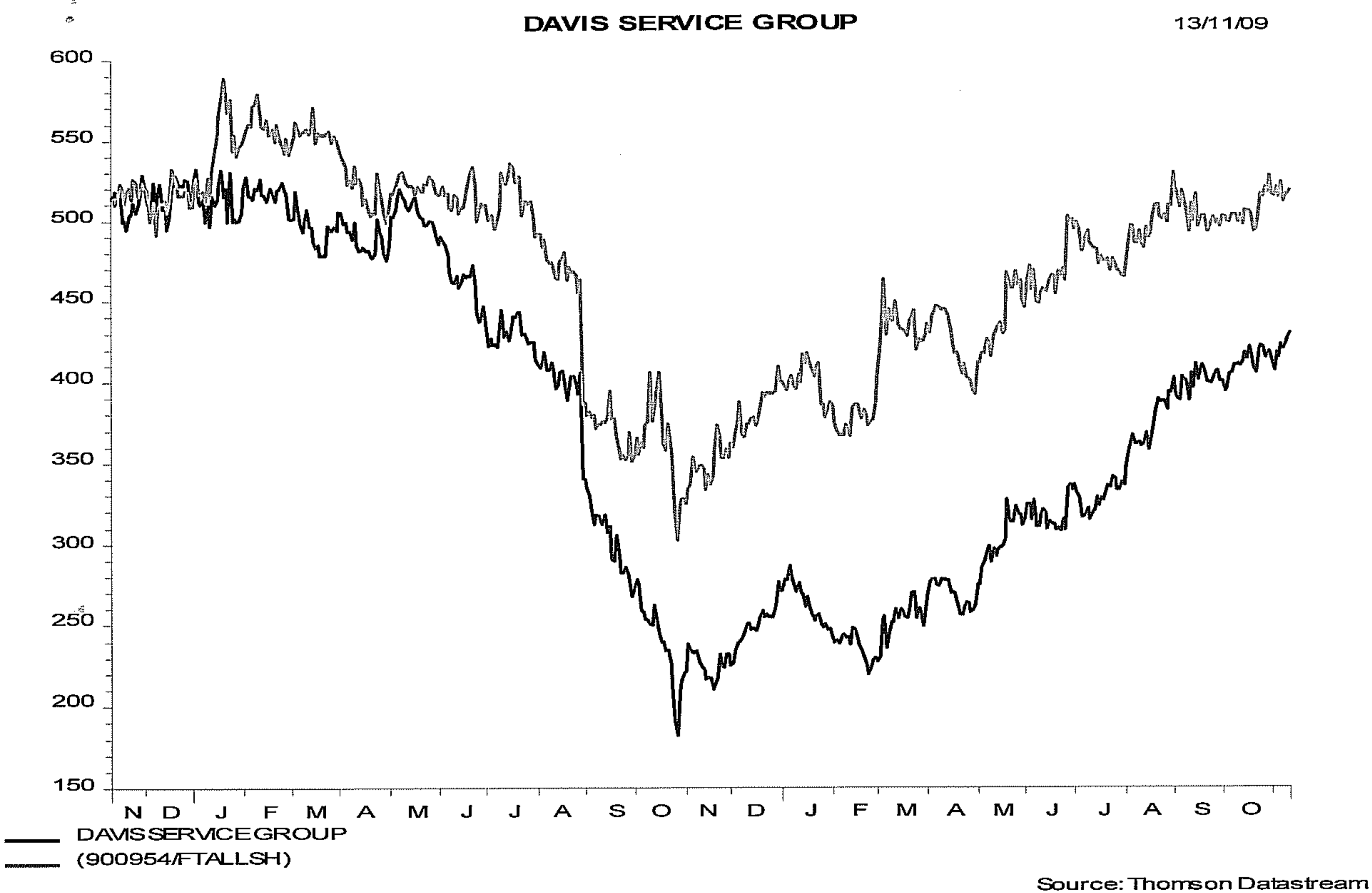
Davis Service Group

Share price	High	Low	Yield %	P/E
429.70	433.20	206	4.7	17.7

Extract from FTSE Actuaries Share Indices

Friday 13 November 2009

Sector	Net cover	Actual Yield %	P/E
Support Services	2.76	2.24	16.19
FTSE 100 Index	1.68	3.42	17.34
FTSE All share	1.64	3.31	18.41


DAVIS SERVICE GROUP
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N D J F M A M J J A S O N D J F M A M J J A S O
DAVIS SERVICE GROUP
(900954/FTALLSH)
Source: Thomson Datastream

A resilient business in challenging times

The Davis Service Group Plc Report and Accounts 2008

What do we mean by a resilient business?

At the Davis Service Group we take a sustainable approach to the way we do things. This approach allows us to continue to build our position as a leading European textile maintenance business both now and into the future.

We have a successful, proven model of service, offering our customers value added solutions at the highest levels of service, helping to retain our existing clients as well as winning new ones.

Read more on pages 8-9

Our experienced and dedicated management team, reflects the value of hard work and commitment; an approach through which we develop our people to maintain a dedicated workforce.

Read more on pages 10-11

We have a considered approach to environmental management, investing resources to reduce our impact and decrease costs both now and going forward.

Read more on pages 12-13

Throughout this report we present case studies to demonstrate our commitment to improvement and business success.

Group key performance indicators

Financial key performance indicators

We assess the progress we are making on our strategy including the development, performance and position of the business using a broad set of financial key performance indicators and these are set out below:

	2008	2007
Growth in revenue*	**16%**	17%
Growth in adjusted† operating profit*	**9%**	12%
Return on sales	**12.2%**	13.0%
Return on invested capital (post tax)	**7.4%**	8.2%
Net debt to EBITDA**	**1.97**	1.45
Free cash flow/adjusted† profit for the year	**71%**	73%
Growth in adjusted† earnings per share	**2%**	8%

* At constant exchange rate revenue up 7% and operating profit down 0.7% in 2008.
† Before £11.5 million exceptional charges (2007: £0.8 million income) and £19.4 million (£12.4 million) amortisation of customer contracts and intellectual property rights.
** Adjusted earnings before interest, tax, depreciation and amortisation.

Non-financial key performance indicators

The following areas are where we use non-financial key performance indicators to assess our progress at a group level.

Organic revenue growth, Operational efficiency, Management retention, Health and safety, Environmental impact

We also use other non-financial key performance indicators at a local country level to assess our performance.

Read more on pages 6-14, 16 and 18

Regional highlights

Nordic

£326.5m

Revenue contribution

Growth year on year		2008	2007
Revenue	↑	**24%**	10%
Adjusted operating profit*	↑	**17%**	7%

* Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights.

We have seen good organic growth in 2008 and margin improvement in our developed markets of Sweden, Denmark and Norway. Our acquisitions in the Baltic countries are progressing well.

BERENDSEN

Read more on pages 14-15

Continent

£226.2m

Revenue contribution

Growth year on year		2008	2007
Revenue	↑	**18%**	17%
Adjusted operating profit*	↓	**0%**	19%

* Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights.

Good organic growth in Holland, Poland and Germany in Workwear. The German Healthcare business has been restructured to allocate further resource to the Workwear division. We have commenced operations in the Czech Republic.

BERENDSEN

Read more on pages 16-17

UK and Ireland*

£401.2m

Revenue contribution

Growth year on year		2008	2007
Revenue	↓	**10%**	22%
Adjusted operating profit†	↓	**5%**	13%

* Includes Clinical Solutions and Decontamination businesses.
† Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights.

Our businesses performed particularly well in the first half of the year growing profits overall for the year. We have reacted quickly to reduce costs in response to the downturn in the global economy. We have made further progress in our clinical solutions business.

Sunlight

Read more on pages 18-19

Chairman and Chief Executive's introduction

Financial highlights

Revenue	↑ Up 16% to £953.9 million (2007: £822.1 million), up 7% at constant currency
Adjusted operating profit*	↑ Up 9% to £116.6 million (2007: £106.6 million) down 0.7% at constant currency
Adjusted profit before tax*	↑ Up 1% to £91.3 million (2007: £90.3 million)
Adjusted earnings per share*	↑ Up 2% to 39.3 pence (2007: 38.4 pence)
Free cash flow	↓ Down 1% to £47.2 million (2007: £47.8 million), up 11% for textile maintenance
Dividend per share	↑ Up 3% to 20.0 pence (2007: 19.4 pence)
Profit before taxation	↓ Down 23% to £60.4 million (2007: £78.7 million)
Basic earnings per share	↓ Down 34% to 24.5 pence (2007: 37.1 pence)

* Before exceptional items and amortisation of customer contracts and intellectual property rights.

Roger Dye, Chief Executive (left), **Christopher Kemball,** Chairman (right)

'We are well positioned to meet the demands of our markets'

Overview of the 12 months ended 31st December 2008

We are pleased to report continued growth in 2008 for The Davis Service Group, despite the general economic downturn that progressively took hold during the second half of the year. Overall, we have delivered on the expectations we set out in our Interim Management Statement in October 2008. We have been preparing our operations for the changing economic conditions and ensuring that we are positioned to take both timely and effective action.

At the half year, we reported that 2008 had started strongly, but we could see evidence of the economic downturn developing, especially in our UK linen operations and German Healthcare. This early recognition allowed us to put in place programmes and contingency plans aimed at mitigating the adverse impacts that we subsequently encountered during the second half. We expect these difficult conditions to continue in 2009.

However, despite these challenging times, the markets we service present us with growth opportunities. We have continued our plant roll-out in Poland; we have developed our businesses in the Baltics and the Czech Republic; we have launched new services in Scandinavia and we have started construction of facilities for our two UK surgical instrument decontamination contracts which we expect will commence service during the second half of 2009.

To handle both a downturn in mature markets and growth opportunities in new markets requires focused and experienced management. At all levels, from the six man Executive Board and country Board members to local plant, sales, service and administration managers, our management team understands the requirements of our broad range of customers and will take appropriate action to address our customers' changing fortunes.

Results

Revenue increased to £953.9 million in the year, up 16% (2007: £822.1 million). Adjusted operating profit (before exceptional items and amortisation of customer contracts and intellectual property rights) was £116.6 million, compared with £106.6 million last year, an increase of 9%. We have seen a significant strengthening of the European currencies with foreign exchange benefits to revenue and adjusted operating profit of £75.8 million and £10.7 million respectively. Excluding the impact of foreign exchange, revenue grew 7% and adjusted operating profit declined by 0.7%. The underlying growth in revenue excluding acquisitions was 2%. Our net finance expense was £25.3 million compared with £16.3 million last year, reflecting the acquisitions we have made, the effect of foreign exchange and the higher variable rates in Continental European currencies which were charged during the majority of 2008. Adjusted profit before tax was £91.3 million (£90.3 million) with an overall net favourable impact of exchange rates in the year of £7.4 million. Adjusted earnings per share were 39.3 pence (38.4 pence), an increase of 2%. Our second half 2008 adjusted earnings per share of 22.2 pence (21.5 pence) showed a 3% growth.

Our tax rate on adjusted profit before tax was 26.4%, down from 27.1% last year as a result of the lower rates in Germany and the UK. Our group rate is expected to remain at around 26.5% in 2009.

In 2008 net exceptional costs totalled £11.5 million. These included restructuring costs (£6.6 million) primarily in Germany where we took action to lower the direct cost base of our Healthcare business. In particular, we announced the closure of two plants, and refocused central functions in Germany so that they are more closely aligned to the growing Workwear business. Given the current economic uncertainty, we put on hold a number of growth initiatives throughout the year, incurring exceptional costs of £2.2 million. A net cost of £2.7 million was incurred in preparing property for disposal.

Amortisation of acquired customer contracts and intellectual property rights increased to £19.4 million (£12.4 million) resulting from the acquisitions we have made both in 2008 and earlier. After these items and exceptional costs, operating profit was £85.7 million (£95.0 million), profit before taxation was £60.4 million (£78.7 million) and basic earnings per share were 24.5 pence compared with 37.1 pence in 2007.

During the year, we invested selectively in the higher growth areas of our business. Our net capital expenditure increased to £175.0 million (£169.3 million), reflecting exchange rate movements and in particular investing in new plants for Workwear and Facilities in the rapidly growing market of Poland and also commencing the construction of facilities for our UK surgical instrument decontamination contracts (£7.2 million spend in 2008). We reduced our textile spend in constant currency terms by £12 million to £115.7 million reflecting the changing economic circumstances as the year progressed. We have also continued to make improvements in the terms for sourcing of our textiles and savings of approximately £10 million were negotiated in 2008. This programme will continue into 2009 as we have identified more segments of our business that can be more economically sourced from the Far East.

Our capital expenditure programme for 2009 has identified a number of expansion opportunities but these will only be approved as the trading conditions justify. Investment in textiles is monitored closely and management are able to react to adjust these investments, which would have an immediately favourable impact on cash flow and on profitability over time.

2008 free cash flow of £47.2 million (£47.8 million) reflected the investments that have been progressively made throughout the year, including the initial investment in decontamination facilities in the UK. Free cash flow of our textile maintenance businesses was £54.6 million (£49.1 million), 11% higher than last year. Net debt at 31 December 2008 was £544.1 million (£367.1 million). The impact of exchange rates increased net borrowings by £131.4 million with continental currencies at their strongest at year end, notably the Euro at €1.03: £1. Since year end, with Sterling strengthening somewhat, the impact of exchange rates has been reduced by almost £45 million. £61.6 million was invested in acquisitions including deferred consideration and financial liabilities assumed, made primarily in the first half of the year. The group had total facilities of £788 million at 31 December 2008, committed to between 2012 and 2018. Fixed borrowings totalled approximately £416 million with an average interest rate of 4.3% per annum in place until 2010 at the earliest.

We ended the year with net retirement benefit obligation liabilities for the group of £23.5 million (£5.7 million). These liabilities are primarily in the UK, Sweden, Ireland and Germany and are regularly reviewed by both the group and the pension fund trustees. The next triennial valuation is scheduled for February 2010.

Overall the group retains a strong balance sheet with net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) of 1.97 times at year end, compared with a covenant level of not more than 3 times.

The Board is recommending a final dividend of 13.5 pence, which together with the interim dividend of 6.5 pence paid in October 2008, gives a total of 20.0 pence, an increase of 3% on last year. The dividend will be paid on 7 May 2009 to shareholders on the register at the close of business on 17 April 2009.

Outlook

The group is well placed to meet the demands of the current testing conditions. We are responding to the economic uncertainties by taking advance action to reduce costs in those parts of the group that are most directly affected. Our balance sheet will remain robust due to the cash generative nature of our business and by close management of the group's capital expenditure. We have secure financing with approximately £190 million of headroom at year-end on our facilities which are committed until at least 2012.

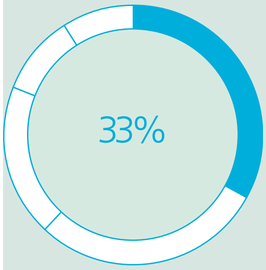
Uncertain market conditions look set to continue but our management team has considerable experience and is committed to addressing the challenge. The Board remains confident in the medium and long term prospects for the group.

Our business

Workwear

Services

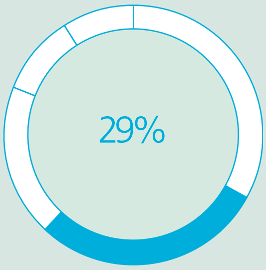
- Managed supply of dedicated garments to the individual worker
- Supply, fitting, selection advice
- Automated dispensing solutions



Healthcare

Services

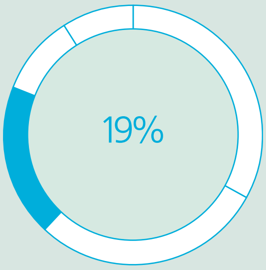
- Managed linen supply to hospital ward
- Sterile textiles supply to operating theatres
- Supply of single use textiles, dressing packs and sterile consumables
- Decontamination of surgical instruments

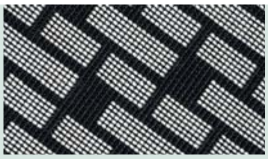


Hotels and restaurants

Services

- Managed linen supply
- Product innovation
- Workwear supply and chefwear
- Restaurant textile services

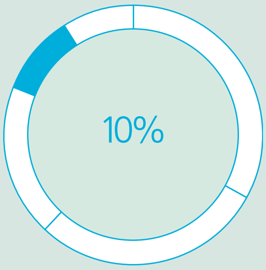




Facilities

Services

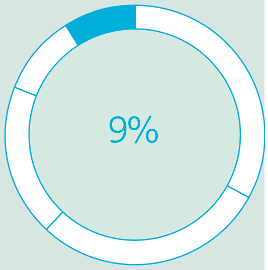
- Dust control mat supply: basic and logo mats
- Washroom cabinet and roller towel supply
- Washroom supply
- Wiper supply



Sales and production

Services

- Product design and fitting
- Production
- Product sourcing
- Retail outlets



Description of our business

Our business is predominantly focused on textile maintenance. We provide service solutions to source, clean and maintain the textiles that our customers need to keep their operations running, but which may be non-core to their activities. We allow them to free up capital and resources while we leverage our buying power, logistics systems and our considerable know-how to provide a more cost effective service than their in-house solution. We acquire and own the textiles and provide these to our customers on service contracts of varying lengths.

Our strategy

We believe that by focusing on our core business we are able to deliver higher levels of growth at better margins than our competitors. We do this by managing our service operations efficiently and by making the resources available to drive our growth strategies using our core areas of expertise. We believe that it is important to build market leading positions as this provides scale for our operations and creates the opportunity to win new business at attractive margins and to deliver the benefits of bolt-on acquisitions.

We are growing the proportion of profits in mainland Europe relative to the UK as we believe mainland Europe offers greater opportunity in our existing activities. Today the majority of our business is in mainland Europe. In order to manage these growth opportunities we have two management regions covering mainland Europe; our Nordic region and our Continent region, which have separate management teams. In growing our European business we look to enter new markets, which provide opportunities for growth. An immediate priority has been to enter the Baltic region and Central Europe where the new accession countries to the EU should see higher levels of economic growth over the long term than their Western European counterparts.

The development of outsourcing in these countries in markets such as textile maintenance has substantial potential in our view. In 2008 we entered these markets by acquisition of mat companies in the case of the Baltics and by preparing for a greenfield operation in the Czech Republic.

We intend retaining our market leading position in the UK and Ireland by ensuring that we maintain our high standards of operational excellence. With our mature core service offerings, we seek to develop related activities in which our existing customers will appreciate our service such as the expansion of our Healthcare franchise into sterile medical consumables (clinical solutions) and decontamination services.

The different service areas of our business offer different opportunities for growth and returns on our investment. As we look to invest in and grow our business we generally give priority to the Workwear and Facilities parts of our business, where these opportunities are of more value to our customers and therefore more profitable to us.

Geographically we will continue to concentrate on Europe.

Our business objectives

Our experienced management teams understand their markets and their service operations. They are commercially focused in order to capture the longer term opportunities for organic growth. Although the majority of markets in which we operate are largely mature and the outsourced service is generally well established, the opportunities for volume growth and winning of new contracts remain.

We also continue to innovate and improve our customer service, moving the focus from product supply to delivering service solutions. Service quality is an essential component of both winning and retaining contracts with significant benefits arising from a stable contract base.

All our teams are focused on delivering pricing that recovers the increases in our cost base and enables us to invest to support the growth our customers are expecting. Our business teams continually drive for efficiency and to be the lowest cost provider in their markets, using our scale, investment and experience. We also maintain health and safety as a priority and continually seek to reduce the impact of our business on the environment. We believe in investing in an experienced management that is capable of managing the detail of our industry.

We believe that attractive returns can be delivered from the right opportunities to invest in bolt-on acquisitions where we can leverage our market leading position and scale to deliver higher levels of operational efficiency to the acquisitions that we have made.

Our enablers

We have experienced management
We have market leading positions
We have new market opportunities
We generate good cashflows and have a sound financial position

Our markets

We discuss below the key drivers in our business segments.

We benefit in our Workwear divisions from the trend to outsourcing of non-core services and we continue to see, even in our more developed markets, a significant proportion of sales to customers who have never previously had a service (first time customer). In our newer markets, for example, Poland, we see much higher levels of first time customers and this is helping drive the higher levels of growth overall. In all our markets we are targeting new sectors for our service, whether this is to local community services whose staff provide care services to people at home, which has been a growing segment in Denmark and Sweden in particular, or in building a clean room in Poland to service the electronics or pharmaceutical industries. As we expand into new countries we will focus on Workwear activities, as this part of our business is higher margin. Employment trends are also important to the growth in this market.

Our Facilities business is also higher margin as we provide a highly valued service to our customers at relatively low invoiced value. Density of customer contracts is important to ensure the distribution costs are absorbed over sufficient revenue. The key markets in which we provide this service (we have more limited operations, for example, in the UK) are relatively under developed and provide good scope for long-term growth. This is a sales led business and a higher proportion of first year revenue is taken in sales cost than in other parts of our business.

Our Healthcare customers benefit by outsourcing the wide range of textiles that it takes to keep a hospital or care facility running. Healthcare customers are seeking to manage the demographics of an ageing population, pressures on country budgets for healthcare and the need to maintain rigorous standards of hygiene for infection control. These are all drivers for outsourcing of non-clinical services such as textile maintenance.

Our Clinical Solutions business in the UK has extended the area of service we provide to Healthcare customers into decontamination of surgical instruments and provision of sterile consumables. Both these services are based around the operating theatre and together with our reusable textile service support the theatre staff in efficient preparation for surgical procedures. They also leverage our expertise in logistics management and processing.

Hotel and restaurant linen services is the most mature part of the business with higher levels of outsourcing than in other segments in the markets in which we operate. Our hotel and restaurant services are limited to four markets, UK, Ireland, Denmark and Sweden.

In 2008 we also provided hotel linen services in Finland but will cease in 2009 following the sale of this business. In these markets we are able to use our scale to generate the economies that are needed to deliver margins that are acceptable to us. However, we continue to seek appropriate pricing for our efforts and generally to increase our margins so that we can reinvest in capacity that we believe will be necessary to meet the long-term growth ambitions of our customers.

Our direct sales businesses complement our textile maintenance businesses and focus on specific niches, being garments and personal protection equipment primarily to smaller businesses in Sweden or linens and soft furnishings to hotel customers in the UK.

We also have specialist manufacturing and procurement operations that service our textile maintenance business and seek to capture the benefits of low cost supply opportunities.

Our contracts

We have a diverse contract base across many business segments, customer industries and geographies. In each of our larger markets we have over 30,000 contracts. No contract accounts for more than 1.5% of group revenue.

Contracts in Workwear are typically for three years whereas in the facilities part of the business they vary from one to three years. In Hotels and Healthcare our customers contract primarily for between three and five years or, in the case of surgical decontamination, up to 15 years. Nearly all contracts provide for annual cost increases. In the case of Healthcare contracts, this is typically based on agreed external indices. Our billing of Workwear services is usually at a fixed monthly amount, whereas in other parts of our rental business we bill for volume supplied or usage.

Our most significant supplier contracts are for textiles and utilities. Our sourcing strategy has developed in this area in recent years with more of our supply direct from manufacturer in low cost country operations. In this way we are able to capture more of the scale benefits of supply across the different countries of the group. As supply is typically in US dollars we buy currency forward in order to hedge any currency exposures.

We also have significant contracts for energy supply into our plants for gas and electricity. It is our policy to seek fixed term and price contracts, where appropriate, to cover supply for the financial year.

We also have facility arrangements with our relationship banks. More information on these arrangements can be found in note 18 of the group financial statements on page 74.

Our business continued

Strategy

Objective	Performance measure

Delivering organic revenue growth

Although most of our markets are mature we believe the opportunities for volume growth and winning new contracts remain in the medium and longer term. We recognise that this will be difficult to sustain in 2009 due to the economic downturn.

Organic revenue growth

2006	2
2007	5
2008	2

Definition: Revenue excluding the impact of foreign exchange and acquisition revenue (%).

Although the trading environment became tougher as 2008 progressed we have still achieved organic growth of 2% in the year following stronger growth in the first half of 2008 of 4%.

Delivering on acquisitions

We believe attractive returns can be delivered from bolt-on investments by leveraging our scale and our operating experience.

Acquisition revenue

2006	43
2007	129
2008	184

Definition: Revenue from acquisitions at actual exchange rates (£m).

Revenues from the acquisitions we have made since 2005 now represent nearly 20% of group revenue. We target returns above our investment hurdle rate for these acquisitions.

Maintaining operational efficiency

Our experienced business teams drive for efficiency and to be the lowest cost provider in their markets.

Direct operating costs to revenue

2006	100
2007	97.7
2008	96.1

Definition Direct operating costs extracted from management accounts divided by revenue (%).

We have decreased by 3.9% the ratio of our direct operating costs to revenue since 2006.

Maintaining a sound financial position

We believe in maintaining a sound financial position and working with our key banking relationships.

Undrawn committed facilities

2006	168
2007	110
2008	190

Definition: Undrawn committed facilities at the year end (£m).

We have increased the headroom on our available facilities by adding a €200 milion facility in August 2008. These facilities are available to us until at least June 2012. Above, we show the headroom on our facilities at the end of each year.

Maintaining health and safety as a priority

We maintain a high standard of health and safety systems for our employees and others affected by our activities.

Major injury incident rate

2007	0.46
2008	0.37

Definition: (Number of major injuries/total hours worked) x 1,000,000.

In 2007 we began to collect health and safety related incident statistics from our business units. These are now reported by our businesses monthly, regularly reported to the board, and supported by our Incident Reporting procedures.

Maintaining an experienced management team

We recognise that the strength of our management team is one of our principal assets.

Senior management retention rate

2006	93.1
2007	93.1
2008	91.4

Definition: Percentage of senior management positions retained in the year, excluding promotion and retirement, based upon 58 positions.

We continue to maintain a high senior management team retention rate.

Reducing our impact on the environment

We are continually looking at how we can reduce the impact of our activities on the environment.

Key performance indicators on water, electricity, chemicals and oil/gas (WECO) usage are measured and monitored monthly by major facility – we have made good progress in all of our main textile businesses in 2008.

Key achievements	Summary of associated principal risk
→ Market opportunities in Poland delivered 30% revenue growth → Significant new contract wins in UK Healthcare and Clinical Solutions → New operations established in Czech Republic and Baltic States → Good levels of sales to first time customers in most markets (i.e. 30%+ of new sales) → Another year of organic growth in Nordic region Read more on pages 14-17	→ Prolonged economic recession in Northern Europe → Further deterioration in market presence and/or profitability of the German Healthcare business → Reduction in hotel volumes and pressure on pricing in the UK
→ German Workwear margin increased → Pro-forma sales growth in Clinical Solutions of 7% → Acquisitions totalling £61.6 million in 2008, predominantly First Half Read more on pages 16-19	→ Failure to deliver in accordance with the Clinical Solutions business acquisition model
→ We closed or mothballed five plants in the second half of 2008 → We increased our operating margin in the following core textile markets in UK and Ireland, Sweden, Denmark, Norway, Holland, Poland and Germany Workwear Read more on pages 14-15 and 18-19	→ Unforeseen loss of capacity → Inability to recruit and retain sufficiently qualified and experienced senior management
→ Free cash flow generation of £47.2 million in the year, up 11% for our textile maintenance business → €200 million facility added in August 2008 → We are operating well within covenant levels Read more on pages 20-22	→ Insufficient free cash flow and borrowing headroom → One or more of the group's lenders is unable to meet its obligations → Foreign currency exposure and interest rate volatility
→ Endorsed as a participant in the United Nations Global Compact → Maintained our low major injury incident rate Read more on pages 14-15, 18-19 and 26-28	→ Breach of health and safety regulations
→ Long-term incentive plans implemented for all senior management → Introduction of talent management process Read more on pages 10-11	→ Inadequate talent management → Inability to recruit and retain sufficiently qualified and experienced senior management
→ Investments made to reduce WECO usage → Logistic improvements to distribution efficiency Read more on pages 12-13, 16-17 and 26-28	→ Non-compliance with group Corporate Responsibility Policies
	Read more on pages 23-25

Our business continued

A winning formula

We provide service solutions to source, clean and maintain the textiles our customers need to make sure their business keeps running and they meet their obligations to their employees and customers.

→ **Broadening our service to hospitals**
Our Healthcare businesses provide a wide range of textiles for the needs of hospitals and other care facilities from traditional ward linen products through to specialist operating theatre services.

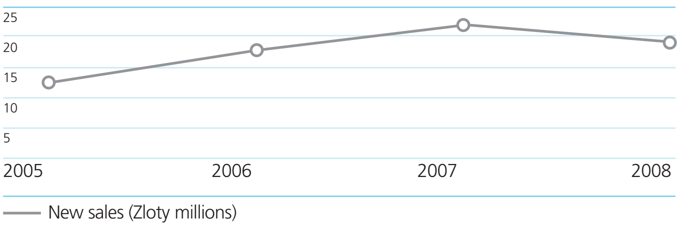
→ **Outsourcing opportunities**
The opportunities for new outsourcing continues, even in developed markets, while in newer markets, such as Poland, the number of customers outsourcing our mats or garments for the first time is above 75% of sales.

A key performance indictor of our business is in the level of new sales we make each year. We have invested in our salesforces in many of our markets in recent years which has driven good levels of growth. As we enter a period of economic slowdown in 2009 we expect to consolidate on these investments and to continue to demonstrate the value of our outsourced services.

Our growth in the Polish market has been strong and our market focus has been supported operationally with the opening of, or substantial expansion to, three plants since 2005. We set out below the progress we have made in new sales in this market since 2005.

There has been some easing of new sales orders in 2008 compared to 2007, but overall we are still showing increased new sales order intake leading to continued organic revenue growth.

New Sales 2005 – 2008 Poland



Read more on pages 16-17

Our business continued

Experienced management

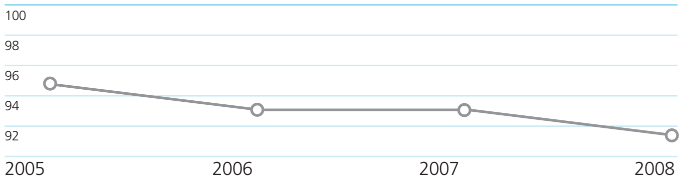
We provide opportunities for the most talented of our staff to advance within the group to more challenging and rewarding positions. As a consequence we pride ourselves on the strength, experience and longevity of our management teams in each of the countries in which we operate.

← **Management promotion**
From 1st February 2009 Niels Peter Hansen, previously Sales and Marketing Director in Denmark, has been promoted to Managing Director of our German Healthcare business.

← **Training**
As part of the ongoing development of our management teams within the group, a number of senior executives have during 2008 attended specialist management courses with leading universities.

Through assessment centres Sunlight has identified a number of particularly talented individuals from differing parts of the business. Their potential for future development means that they have been selected to complete a detailed 12 month programme of internal training and development that includes 20 different modules, ranging from decision making to leadership. They will also undertake an NVQ 3 in management so that they will have a formal qualification. In addition all General Managers will be attending a leadership development programme.

Senior management retention rate %



Percentage of senior management positions retained in the year, excluding promotions and retirements, based upon 58 positions.

Our business continued

Reducing our environmental impact

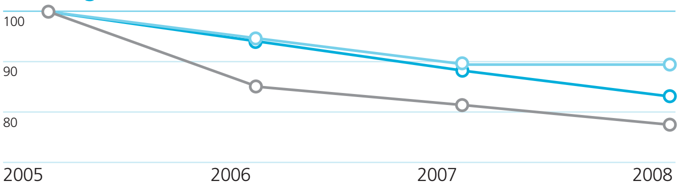
We invest considerably to reduce our use of natural resources. This helps us decrease our environmental impact overall and improve cost efficiency across our business. One of the ways we do this is by working with our suppliers to identify further opportunities to reduce our use of water, energy and chemicals to enhance the sustainability of our business.

→ **Transport initiatives**
We are continually reviewing our distribution arrangements, relocating production to reduce costs, consolidating routes and investing in driver training.

→ **Chemicals**
We work closely with our chemical suppliers to optimise our use of detergents, and to reduce the amount that we dispose of in effluent.

Ecolab are one of our major chemical suppliers and providers of energy saving consultancy services. Following work they have done at our Danish laundries, we recognised opportunities at our Hillerød plant, to reduce energy and water consumption. Washing temperature has been reduced from 75ºC to 55ºC and water recycling has improved. This has led to a 17% reduction in energy consumption and a 30% fall in water use. This technology has now been installed at four other plants in Denmark with further installations planned during quarter 1 2009.

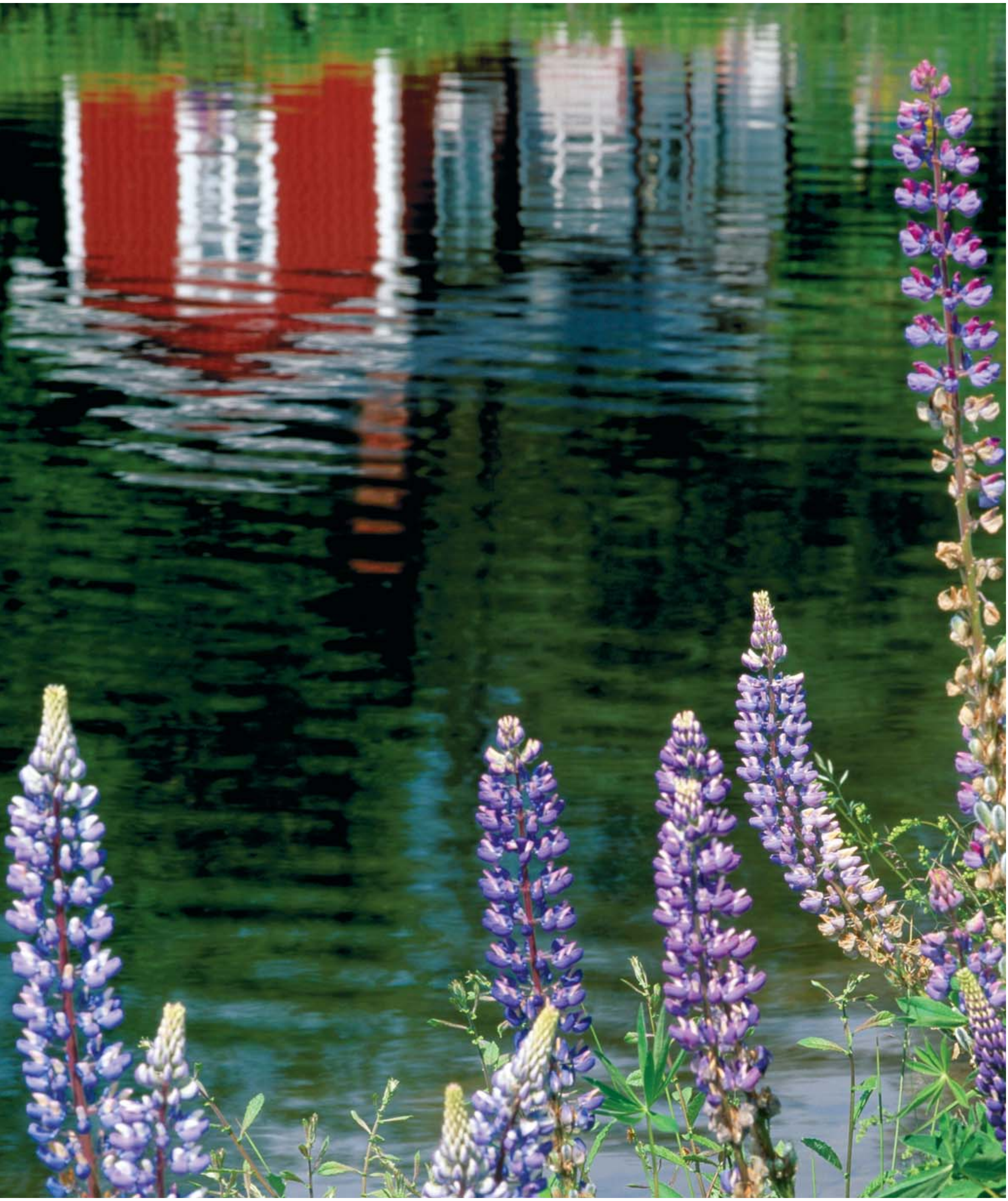
Denmark – decrease in use of water, electricity, oil and gas since 2005



Index
water – litres/kilo washed, electricity – Kwh/kilo washed, oil/gas – Kwh/kilo washed.

Water Electricity Oil/Gas

Read more on pages 26-28



Operations review
Nordic

Key performance indicators		**2008**	2007
Revenue	↑	**24%**	10%
Adjusted operating profit*	↑	**17%**	7%
Adjusted operating margin*	↓	**15.7%**	16.6%
Organic revenue growth	↓	**4%**	7%
Management retention	↑	**95%**	91%

* Growth before exceptional items and amortisation of customer contracts and intellectual property rights.

51
Number of plants we operate

3,500
Number of people we employ

BERENDSEN
Operating brand in the Nordic region

	Workwear	Facilities	Hotels and restaurants	Healthcare	Sales and production
Denmark	○	○	○	○	
Sweden	○	○	○	○	○
Norway	○	○			
Finland	○	○			○
Baltics		○			○

Christian Ellegaard, Regional Managing Director

'Benefiting from strong market positions'

Business objectives	Achievements in 2008	Priorities in 2009
Delivering organic revenue growth	→ Growth of 4% in 2008 for the region → Like for like sales growth of 15% in new Baltic States → Norway growth of 15% → Change in segment mix has improved the margin in Denmark, Sweden and Norway	→ Pricing structures based on customer profitability → Prioritising our sales effort on the most stable market segments → Capturing opportunities in resilient and growing market segments such as community services
Maintaining operational efficiency	→ New garment and mat plant opened in Finland. Exited flat linen operations → Bergen plant in Norway (opened August 2007) now operating at normal capacity → Managing higher revenue volumes without increases in textile investments	→ Promptly responding to changes in local markets and economies → Maintain operational flexibility → Continue successfully implementing CL2000 production line
Maintaining health and safety as a priority	→ Sprinkler system investment in Eskilstuna, Sweden → Significant improvement in health and safety management systems in the Baltic countries	→ Continued investment in fire protection systems → Continued focus on reducing the number of health and safety incidents

Our Nordic region covers the country operations in Denmark, Sweden (including our direct sales business Björnkläder), Norway and Finland. In January 2008, we acquired textile maintenance businesses in the Baltic countries of Estonia, Latvia and Lithuania. We are market leading across the region as a whole, with 51 plants and nearly 3,500 staff.

Revenue in our Nordic region increased 24% to £326.5 million (£263.8 million) with adjusted operating profit up 17% to £51.2 million (£43.8 million). At constant currency revenue grew 9% and adjusted operating profit 3%. Organic revenue growth excluding acquisitions was 4%. In our more developed textile markets of Denmark, Sweden and Norway our operating margin increased by 0.5% in 2008 with an increase of 1.5% in the second half, as the expected benefit of salesforce investments began to be realised. In addition, we increased our margin for the year in each of these markets individually. The decrease of 0.9% in the total margin for the region reflected our investment in Finland and the Baltics countries where we incurred losses in the start up and integration phases, but where profitable growth opportunities exist.

In Denmark, we advanced further with a strong performance, delivering good organic growth in our higher margin Workwear and Facilities markets. Our Workwear business has a strong position in public services, pharmaceutical and food industries and should be relatively defensive in the current economic conditions. In Hotels we continue to work towards a lower cost operation and we completed the construction of a new hotel linen plant, which consolidated the production of two older plants. We were able to realise cash from the sale of the existing sites. This will help us in managing the lower volumes we are seeing in this market at the moment with improved efficiency.

In Sweden, we made further progress making bolt-on acquisitions in the early part of the year to strengthen our overall market position. We developed new market areas, such as local community services whose staff provide care services to people at home and new concepts such as washable shoes. However the local economic climate worsened in the second half of the year in the manufacturing sector of the economy, which is significant for our Swedish Workwear business and where we have a strong market position. We have already seen the impact of reduced employment levels on our Workwear revenues while our Healthcare and Facilities businesses continued to make progress. Hotels have also seen lower volumes, as expected.

Björnkläder is our direct Workwear and protection equipment supplies business with a strong brand and revenues of approximately £50 million. It has a network of 24 retail outlets in Sweden. There was strong growth during the first half of the year which, although it reduced in the second half, helped drive an increased operating profit for the year.

Our Norwegian business had a record year as clear leader in the growing Workwear and Facility market. The Bergen plant which opened in 2007 is operating at good capacity utilisation and saw particularly strong growth of above 20%. Overall we saw organic growth of 15%, which contributed to adjusted operating profit and margin improvements. We made good progress with our mat offering and made an acquisition in washroom services, broadening our service base.

We continued to develop our business in Finland, opening our new Helsinki plant in December, which will be the base of our operations in Finland. As expected, we incurred losses during this start up phase. During the year we entered into agreements to dispose of the final part of our flat linen business in 2009 and the focus of the business will now solely be on the Workwear and Facilities markets.

In January 2008, we entered the Baltic region with our textile service operations. We are pleased with acquisitions of mat companies in Estonia, Latvia and Lithuania where underlying sales growth is around 15%. Now fully integrated into the group, these companies will form the base for a broader product and service offering at the right time in the future.

We invested £46.9 million in new acquisitions, primarily in the first half of the year. These investments have brought new profitable customer contracts, provided useful additional capacity and have further consolidated our leading market positions, particularly in Denmark and Sweden. In addition, the investments allowed us to enter new Baltic territories with profitable growth opportunities. We believe there will be opportunities for further bolt-on acquisitions but we are particularly cautious on timing and pricing in the current environment.

Installation of a mobile unimat
Our Swedish business provided the first unimat system built into a mobile unit. The customer has limited space in its building but wished to take advantage of the automatic distribution of garments.

Integrating acquisitions in the Baltics
Following the acquisition of two companies in Latvia in February 2008, the newly acquired business was able to novate over 4,000 mat contracts in just six months, streamlining the business for more efficiency. Our Latvian mat business is market leader.

The Nordic Ecolabel – 'The Swan'
November 2008 – five of our Danish laundries were awarded the Nordic Ecolabel 'The Swan', awarded to those promoting low energy, water and chemical consumption, including no or limited use of potentially harmful chemicals or textiles.

Operations review continued

Continent

Key performance indicators		2008	2007
Revenue	↑	**18%**	17%
Adjusted operating profit*	↓	**0%**	19%
Adjusted operating margin*	↓	**12.9%**	15.2%
Organic revenue growth	↑	**0%**	(1%)
Major injury rate†	↓	**0.40**	1.00

* Growth before exceptional items and amortisation of customer contracts and intellectual property rights.
† Major injury rate = (Number of major injuries/total hours worked) x 1,000,000.

32
Number of plants we operate

4,000
Number of people we employ

BERENDSEN
Operating brand in the Continent region

	Workwear	Facilities	Healthcare	Sales and production
Germany	○	○	○	○
Austria			○	
Holland	○	○		
Poland	○	○		
Czech Republic	○	○		

Peter Havéus, Regional Managing Director

'Expanding our Workwear and Facilities businesses'

Business objectives	Achievements in 2008	Priorities in 2009
Delivering organic revenue growth	→ Growth of 7% in Holland, Poland and Germany in Workwear → Salesforce investments → Commenced operations in the Czech Republic	→ Deliver on salesforce investments made in 2008 → Develop clean room operations in Poland → Drive salesforce efficiency in Holland → Expand our coverage in Workwear in Germany
Delivering on acquisitions	→ German Workwear margin increased → German management restructured to allocate further resource to Workwear	→ Deliver the benefits of restructuring in Germany → Deliver further plant efficiencies → Evaluate acquisition opportunities that are presented by current economic climate
Reducing our impact on the environment	→ Surveys in Poland and Netherlands to identify where further energy saving initiatives can be implemented → Polish business achieved ISO 14001 certification	→ Continued action to reduce environmental impact → Logistics improvements to distribution efficiency

Our Continent region covers the country operations of Germany, Austria, Holland and Poland with 32 plants and 4,000 staff. In January 2008, we commenced trading through a new company in the Czech Republic. We have strong market positions in Holland, Poland and German Healthcare.

Revenue in our Continent region grew 18% to £226.2 million (£191.8 million) while adjusted operating profit was flat at £29.2 million. At constant currency, revenue grew 1% but adjusted operating profit declined by 14%. The organic revenue growth delivered by our Dutch, Polish and German Workwear businesses was offset by the expected decline in German Healthcare. Excluding German Healthcare, where revenue was 7% lower in local currency, underlying growth was 7%.

Germany remains a key market with revenues of approximately £135 million. The Workwear business, which now represents over 25% of total German revenue, continued to develop with top line growth of 5% and with new sales achieving the target level for the year, including a stronger second half. Adjusted operating profit margins continued to progress. Further resources were redirected to the Workwear business from Healthcare and these added costs are expected to be offset by improvements in the operational efficiency of the Workwear business. This business has a large proportion of catering and food customers, as well as public services, and these customers are expected to be more stable in the current environment. Overall, we are pleased with the progress in this part of the business, which is targeted for longer term growth in a fragmented market.

As expected the Healthcare business in Germany showed a reduction in both revenue and profits. The adjusted operating margin finished the year at 2%, down from 7% in 2007. The market continued to operate with excess capacity and during the second half of the year we reduced further the cost base in operations to align it with the lower volume and difficult pricing environment. As indicated above, we are also allocating more resource to support the growth potential in Workwear and reducing the overhead support cost in Healthcare. The restructuring, announced in December, will result in a reduction in headcount of 410, two plant closures and restructuring costs of £6.3 million. This is largely a cash cost, which will be paid in the first half of 2009. In contrast, our Healthcare business in Austria, which is more stable and has higher margins, grew its revenues.

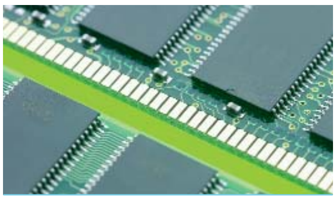
Our business in Holland had a good result with revenue growth of 7%, primarily organic, and improved its adjusted operating margin. Holland is a competitive market for us but we captured new sales opportunities whilst retaining our existing customers by investing in our salesforce and service and by improving their efficiency. In 2008, we also invested in clean room capacity to ensure we captured the maximum opportunity in this niche, higher margin part of the business. We have a very solid business with a low customer churn rate of below 4%.

2008 was an outstanding year for our Polish business with revenue of almost £17 million, up 30%. Our new plants in Warsaw and Poznan are operating well and we have opened clean room facilities in the Poznan site, which is the first such facility in Poland to capture this growing opportunity. We commenced construction of a new plant in Wroclaw, which should be open in April 2009, and we made two bolt-on acquisitions during the year. Our growth is driven by both the high margin Workwear and mat businesses, with mats now accounting for over 20% of the total revenue.

We established a company in the Czech Republic and completed the acquisition of land for a greenfield site for Workwear and Facilities services. We are building a salesforce, which is already delivering sales and a growing order intake, which is being serviced from our plant in the south of Poland. We have also established a Slovakian company and are in the process of recruiting a salesforce.

Acquisitions in the Continent region totalled £6.7 million.

Maintaining service as a priority in Holland
We scrutinise contract losses continually to improve our service standards. Our Dutch business carries forward over 96% of its contracts from 2008 into 2009; an improvement on last year and ahead of industry average.



Clean room operations in Poland
We have opened a clean room at our new plant in Poznan. This is the first dedicated clean room service in Poland and will serve the electronics and pharmaceutical industries that have invested in Poland.

Investing in the working environment in Germany
Restructuring of the finisher line at our German plant in Fürstenwalde, has significantly shortened textile processing time, increased productivity and considerably enhanced working conditions for our staff.

Operations review continued

UK and Ireland*

Key performance indicators		2008	2007
Revenue	↓	**10%**	22%
Adjusted operating profit†	↓	**5%**	13%
Adjusted operating margin†	↓	**10.0%**	10.4%
Operational efficiency**	↑	**3.4%**	0.4%
Major injury rate‡	↑	**0.42**	0.36

* Includes Clinical Solutions and Decontamination businesses.
† Growth before exceptional items and amortisation of customer contracts and intellectual property rights.
** Defined on page 6. Improvement since 2006.
‡ Major injury rate = (Number of major injuries/total hours worked) x 1,000,000.

54
Number of plants we operate

9,800
Number of people we employ

Sunlight
Operating brand in the UK region

	Workwear	Facilities	Hotels and restaurants	Healthcare	Sales and production
UK	○	○	○	○	○
Ireland	○	○	○	○	

Steve Finch, Regional Managing Director

'Using our experience to manage change'

Business objectives	Achievements in 2008	Priorities in 2009
Maintaining operational efficiency	→ Margin improved in core textile maintenance → Two plants closed in response to downturn in UK Hotel volumes → Operational efficiency in the core textile division improved by 3.4% since 2006	→ Promptly manage our cost base to the changes in our markets driven by economy → Manage the volume growth in our Healthcare division with improving customer service
Delivering on acquisitions	→ Integration of Clinical Solutions with existing Sunlight business; strengthening relationships with Healthcare customers → Build for two decontamination contracts underway → Pro-forma sales growth in Clinical Solutions of 7%	→ Start up operations on decontamination contracts → Deliver the pipeline of new contract opportunities in Clinical Solutions
Maintaining health and safety as a priority	→ Continued enhancement of existing training modules → Significant fire prevention investments in Merton and Mountain Ash	→ Continued focus to reduce our accident frequency rate → Sprinkler investment in Coventry → Additional training programmes on fire fighting

Our revenue grew by 10% to £401.2 million (£366.5 million) including £55.4 million (£35.6 million) from Clinical Solutions and Decontamination Services which has been reported as a separate segment. Organic revenue growth was 5% at the half year but ended the year at 2% because of the lower volumes in the hotel linen business. The plants in operation number 54, with 9,800 staff in the region.

Adjusted operating profit was up 5% to £40.2 million (£38.2 million), including £3.8 million (£2.9 million) for Clinical Solutions and Decontamination Services. The core textile maintenance businesses in the UK and Ireland have performed solidly, with revenue up 5% to £345.8 million (£330.9 million) and adjusted operating profit 3% higher at £36.4 million (£35.3 million) resulting in a margin of 10.5%, close to the previous year.

As indicated at the time of the Interim Announcement in August 2008, our Hotel business volumes have reduced and in the second half they were 5% lower year on year as a result of the economic downturn. The London market was particularly affected and has seen a progressive softening in the second half and into 2009. We reacted quickly and closed two plants in response. We are also redirecting capacity towards the growing hospital volumes. We took the opportunity of falling energy prices to fix and secure a majority of our gas supply for 2009 and we will seek in our pricing to recover cost inflation, which has come down from its peak in the summer. Overall the division is reacting well to the challenging economic environment.

Our Healthcare division saw revenue grow at around 10% with profits moving ahead as a result of higher volumes and improved pricing. The main drivers for this good volume growth were new contract wins from further outsourcing by NHS Trusts and the continued emphasis on cleanliness and hygiene at NHS hospitals, which has increased underlying volumes on existing contracts by 4%.

Performance in the Workwear division was stable during the year, growing revenues and benefiting from the additional contracts acquired in 2007. Opportunities for new sales remain with a significant level of new contracts signed in quarter four of 2008. This momentum will be required to offset the potential impact of lower customer volumes.

Our Sunlight business has a direct sales business with revenues of £15 million which complements primarily our hotel contract business. It was significantly impacted by the economy during the second half of the year and we took mitigating actions to reduce costs.

The Clinical Solutions and Decontamination business has continued to make good progress through the year following its integration into the group. The sterile consumables business is generating good contract wins and there is a pipeline of profitable opportunities. On a pro forma basis the business grew 7%. During the year we started the construction of the four new decontamination centres for the North West London and Kent contracts which are expected to begin operation during the second half of 2009. Capital expenditure of £7.2 million has been incurred in 2008 with £11 million expected in the first half of 2009. During 2008 we have seen progress on the NHS tendering of contracts for the National Decontamination Programme stall. The driver for outsourcing of decontamination services (investment to meet regulatory compliance) remains strong and we are committed to the opportunities that this will bring in the longer term. Our priority is to establish our existing contracts where we see the opportunity for profitable growth.

During the year, we paid £7 million of deferred consideration to the previous owners of the business on achieving financial close on the two decontamination contract awards. No further deferred consideration is payable on this acquisition.

Our operations in Ireland grew revenue 6% in constant currency with higher adjusted operating profit margin. The business has benefited in recent years from a well executed textile management programme that has reduced textile investment and depreciation charges significantly. The Irish economy, particularly around Dublin, has been impacted by the economic downturn but we are well placed with good management to meet the challenges that this has brought. A small acquisition was transacted in Ireland for £1.0 million consideration.

Workwear opportunities
We continue to see new customers taking advantage of the benefits of rental over capital purchase of Workwear. The final quarter of 2008 was a record for new sales in our Workwear division.

Managing textiles efficiently
Our Spring Grove business in Ireland has reduced by around 20% its investment in hotel textiles by more efficient circulation and sorting of textiles across purchasing, production, service and maintenance operations.

Ozone replacement
Rocialle in the UK provides hospitals with sterile custom procedure trays, single-use instruments, dressing packs and medical consumables. Their high technology ebeam sterilisation process releases ozone back into the atmosphere.

Financial review

Kevin Quinn, Finance Director

'Sound financial position with financing headroom of £190 million at year end'

This financial review should be read in conjunction with the Chairman and Chief Executive's introduction which sets out the comments on revenue, profits, earnings and dividends. The group's key financial performance indicators are set out on page 1.

Cash flow

We target good and stable free cash flows by converting as much as possible of our profits to cash while funding our capital expenditure programme. We have invested in new plants for our growing and higher margin Workwear and Facilities markets, particularly in Poland and also commenced the construction of facilities for our two surgical instrument decontamination contracts in the UK.

In 2008 free cash flow for our continuing operations was £47.2 million (2007: £47.8 million) which represents 71% of our adjusted profit for the year (73%), a good result in a year where we have invested more for growth and invested £7.2 million in the decontamination centres. Excluding this investment from which we expect to generate revenues in the second half of 2009 free cash flow was £54.6 million or 82% of our adjusted profit for the year.

As we saw evidence of the economic downturn developing we progressively reduced the capital expenditure investments, particularly in textiles, to maintain our balance sheet strength. Although our free cash flow is seasonally stronger in the second half of the year, we increased free cash flow, prior to decontamination investments to £42.5 million (£37.1 million) in the second half of the year compared to £12.1 million (£12.0 million) in the first half.

Cash generated by our operations was £262.8 million compared with £246.4 million last year. This reflected the higher operating profits and the add back of higher amortisation at £22.7 million (£14.6 million) and depreciation charges at £156.9 million up from £143.9 million in 2007. Interest and tax payments combined were £11.3 million higher in 2008, with interest payments impacted by the weakening of sterling particularly in the second half of the year and the funding of investments and higher interest rates. Our prior year cash tax reflected the cash tax benefit of the special pension fund payment we made in January 2007. Overall net cash generated from operating activities was £222.2 million (£217.1 million).

We used £225.3 million in our investing activities with net cash spend on acquisitions of £50.3 million. The total spend on acquisitions was £61.6 million taking into account £2.8 million of financial liabilities assumed and £8.5 million deferred consideration payable in relation to acquisitions. We acquired three leading mat companies in the Baltic countries of Latvia, Lithuania and Estonia for £15.2 million, acquired two Workwear and mat companies in Sweden for £16.1 million and made a number of other small bolt-on acquisitions. Deferred consideration of £7.0 million was paid in relation to the Clinical Solutions and Decontamination acquisition we made in 2007 and which was in respect of the two UK decontamination contracts referred to above. We are pleased with the progress made on all these acquisitions and are targeting good returns on all our investments once they are integrated. In 2007, our cash investment on acquisitions was £103.7 million.

Capital expenditure on tangible and intangible assets was £181.0 million (£177.3 million) and disposal of assets realised £6.0 million (£8.0 million). The increase in capital expenditure reflected the investments in new plants for Workwear and Facilities in the growing markets of Finland and Poland and the building of the two new decontamination centres. We reduced our textile spend in local currency terms by £12 million to £115.7 million reflecting the changing economic circumstances as the year progressed. We have also continued to make improvements in the terms for sourcing of our textiles and savings of approximately £10 million were negotiated in 2008.

Free cash flow conversion of adjusted profit after tax %

2006	99
2007	73
2008	71

Net debt to EBITDA*

Covenant; not more than 3 times	3.0
2006	1.07
2007	1.45
2008	1.97

* As defined by our banking covenant.

Capital expenditure on tangible assets†

	2008 £m	2007 £m	2006 £m
Textile assets and washroom equipment	**115.7**	121.2	100.7
Plant, machinery and vehicles	**45.0**	47.6	35.2
Land and buildings	**18.6**	8.8	10.2
Total	**179.3**	177.6	146.1

† Based on note 10 of the group financial statements and includes finance lease additions.

This programme will continue into 2009 as we have identified more segments of our business that can be more economically sourced from the Far East. In 2007 within our investing activities we made a £12.5 million special pension contribution. Overall, £285.1 million was used in investing activities in 2007.

Cash used from financing activities was £14.8 million. This included an outflow of £2.1 million for the purchase of 441,873 Davis shares during the year by the Employee Benefit Trust which will be used to satisfy the potential settlement of share incentive awards that have been or expect to be granted in the near term. Dividends paid to shareholders amounted to £33.8 million. Overall, financing activities generated £0.7 million in 2007.

Total free cash flow was £47.2 million compared with £47.8 million last year.

Our return on average capital employed of 7.4% (8.2%) reflects the significant impact of exchange on our balance sheet at 31 December 2008, and the investments we have made from which we expect to generate above average returns in the future.

Borrowings

We manage the group on a sound financial footing with a majority of our gross borrowings at fixed interest rates using interest rate swaps to achieve this where necessary. We currently have most of our gross borrowings in Continental European currencies which act as a hedge against the net assets of our operations in Continental Europe.

Net debt at year end was £544.1 million (£367.1 million). The impact of exchange rates increased net borrowings by £131.4 million with continental currencies at their strongest at year end, notably the euro at €1.03: £1 compared with a rate of €1.36: £1 at the end of 2007 and an average rate for 2008 of €1.26: £1. Since year end, with sterling strengthening, this impact has been reduced by almost £45 million.

Despite this significant year end impact our ratio of net debt to earnings before interest, tax, depreciation and amortisation (EBITDA) was a healthy 1.97 times, which is well below our principal covenant level of 3.0 times.

Our borrowings are drawn against our £420 million revolving credit facility, which is committed to June 2012 and US private placement notes totalling $250 million (£177.9 million) which falls due in three tranches maturing between 2014 and 2018. The US dollar amounts were immediately swapped into the European currencies we need for our business. In August 2008, we put in place a further €200 million facility with our existing revolving credit facility banking group.

This facility gives us significant comfort and headroom particularly at a time when foreign currency movements have been so significant. The facility was undrawn at the year end and remains so at the date of this report.

Fixed borrowings totalled approximately £416 million or 70% of gross borrowings with an average rate of 4.3% in place until 2010 at the earliest. A full analysis of the maturity and currency of our debt is provided in note 16.

During the year, we increased our fixed debt by £79 million by entering into swaps from floating to fixed rates for 400 million Danish kroner and 300 million Swedish krona.

Finance expense

Net finance expense for the year was £25.3 million compared with £16.3 million in 2007. The increase resulted from the weakening of sterling with an estimated impact of £3.3 million, a higher average net debt reflecting the investments we have made and the impact of higher interest rates on borrowings which were not fixed.

Taxation

The tax charge of £18.3 million on profit before taxation compares with £15.1 million in 2007 and represents an effective rate of 30.2% (19.2%). The 2007 effective rate was lower reflecting the revaluation decreases in the amount of deferred tax liabilities following the reduction in statutory tax rates in the UK and Germany for 2008. Before exceptional items, the amortisation of customer contracts and intellectual property rights and this deferred tax benefit, the effective tax rate was 27.1% in 2007 but this has decreased to 26.4% in 2008 reflecting the current year impact of these lower statutory rates. We currently expect a similar effective rate of around 26.5% in 2009.

Exceptional items

In 2008 net exceptional costs totalled £11.5 million (income of £0.8 million in 2007). These included restructuring costs (£6.6 million) primarily in Germany where we took action to lower the direct cost base of our Healthcare business. In 2007 restructuring costs of £2.1 million were incurred in relation to the acquisition of Permaclean in German Workwear. Given the current economic uncertainty, the board put on hold a number of growth initiatives throughout the year, incurring exceptional costs of £2.2 million (£nil). Net charges of £2.7 million have been incurred on properties which are held for disposal (a gain of £2.6 million was realised in 2007).

Adjusted tax rates %

% of fixed rate borrowings

Borrowings by maturity

	£m	%
Before 2012	**1.5**	**–**
2012	**425.0**	**70**
2014	**35.9**	**6**
2016	**69.1**	**12**
2018	**74.3**	**12**
Total	**605.8**	**100**

Financial review continued

Pensions

Actuaries to the group's defined benefit pension schemes in the UK, Ireland, Sweden and Germany continued to advise the respective Trustees on the required funding rates. In total the group has charged £11.0 million for the year in respect of all pension arrangements for staff.

The principal UK Plan, which had its triennial valuation in February 2007, had a surplus of £6.9 million at the end of the year. The surplus reduced from £12.9 million in 2007 reflecting a reduction in the value of assets due to stock market conditions but also lower liabilities due to the increase in discount rate because of higher corporate bond yields. This accounting surplus recorded under IFRS does not reflect the assumptions used in the triennial valuation, which in particular uses gilt rates to value liabilities. The group keeps under review the need to consider further funding the UK pension plan to reflect the deficit it would record on this basis.

The overall surplus on funded plans is £2.0 million with deficits of £25.5 million on the plans in Germany and Sweden, which are unfunded in accordance with local practice. The net pension scheme deficit for the group was £23.5 million (£5.7 million).

Treasury policy

The group uses foreign currency borrowings and financial instruments to finance its operations and to manage the interest rate and currency risks arising from those operations and sources of finance.

The group's strategy for financing its operations and managing risk is summarised below.

Financing

The group finances its operations primarily through its banking facilities, private placement notes and cash generated from its operations. In planning the maturity of debt while the group's policy is to seek a balance between continuity of funding and flexibility, the focus through 2008 has been on ensuring sufficient facilities are available to meet the challenges of economic downturn in 2009. To this end, an additional €200 million revolving credit facility was added in August 2008.

In addition the group has overdraft facilities with certain clearing banks. The group's UK current accounts are subject to set-off arrangements covered by cross guarantees and there is also a cash pooling arrangement taking in the cash generated by the Berendsen businesses.

All the group's borrowings are unsecured.

The group evaluates potential sources of funding on a continuous basis with a view to obtaining alternative sources when and where appropriate. The group was in compliance with its banking covenants. The main financial covenants relate to net debt to EBITDA and EBITDA to net interest.

Interest rates

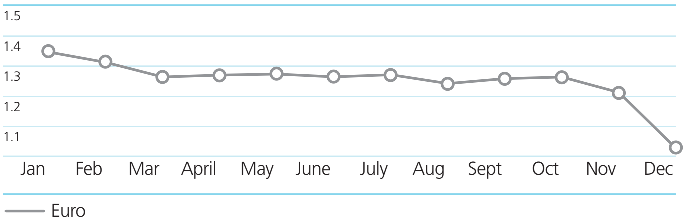
The interest rate exposure of the group arising from its bank borrowings has been managed by the use of instruments as described above. The group's policy is not to use derivatives for trading purposes. Transactions are only undertaken if they relate to underlying exposures and are not speculative.

Currency rates

The majority of operations in the group invoice their revenues and incur their costs in the same functional currency. The group faces some currency exposure in respect of the procurement of textiles and capital equipment. While these risks are typically not material we are increasingly sourcing textiles direct from suppliers to capture potential savings, and where the transaction has a significant exposure in the context of the trading company concerned, a forward foreign exchange contract may be entered into by that company; this would be dependent upon the certainty of the exposure as to timing and the exchange rate at the relevant time. Details of the group's foreign exchange forward contracts can be found in note 17 of the financial statement.

It continues to be the group's policy not to hedge foreign currency exposures on the translation of its overseas profit to sterling. Where appropriate, borrowings are effectively arranged in currencies so as to provide a natural hedge against the investments in overseas net assets.

Sterling: Euro closing exchange rate during 2008



Principal risks and uncertainties

David Lawler, Company Secretary

'Identification, evaluation, management and monitoring'

Economic

Risk description	Potential impact	Mitigation
Prolonged economic recession in Northern Europe	→ Reduction in future profitability and cash flow → Limit to the group's ability to complete its strategy within its chosen markets → Impairment of goodwill	→ Swift actions taken to reduce capacity and overhead where necessary → Increased controls over capital expenditure and working capital → Monthly reports by business units show key changes in trading against latest forecast assumptions → Contingency actions identified

Financial

Risk description	Potential impact	Mitigation
Insufficient free cash flow and borrowings headroom	→ Reduced liquidity and working capital funds, which in extremity may impact on the group's ability to continue as a going concern → Breach of banking covenants	→ Monthly management accounts analyse free cash flow → Free cash flow and net borrowings formally reforecast three times each year and reviewed monthly → Annual budget and next year forecast to identify any short/medium term funding issues → €200 million Revolving Credit Facility (2012) agreed in August 2008 → Finance Director monitors and reports borrowing headroom to the board monthly – at 31st December 2008 this was £190 million
One or more of the group's lenders is unable to meet its obligations	→ Reduction in available funds to manage the business → Reduction in borrowing headroom	→ Eight participants in £420 million multi-currency facility agreement and five in €200 million revolving credit facility – maximum contribution per lender is about £92 million → Regular communication with all current and potential lenders → $250 million of our borrowings are from US Private Placements which is not affected by counter party risk
Interest rate volatility	→ Fluctuating impact on profits before taxation	→ £416 million (70%) of borrowings at fixed rates including interest rate swaps → Interest rate movements continually monitored by the Finance Director and reviewed with the board at least every six months

Principal risks and uncertainties continued

Financial continued

Risk description	Potential impact	Mitigation
→ **Foreign currency exposures**	→ Fluctuations in the group's overseas net asset values and overseas profits, upon translation into sterling. Banking covenants are reported in sterling	→ Borrowings in currencies that provide a hedge against investments in overseas net assets → Majority of Euro, DKK and SEK assets are hedged by borrowings → New €200 million revolving facility
→ **Falling equity values during last six months of 2008 has increased the likelihood that additional funding is required in the main UK defined benefit pension scheme**	→ Adverse impact on liquidity	→ The Davis Service Group Retirement Benefits Scheme closed to new entrants → The company and the Trustees' Investment Sub-Committee regularly discuss funding and investment policies, and legislative changes → Actuarial valuations every three years to review status and investment strategy – next valuation due 1st February 2010 → Regular meetings between Chief Executive and chairman of the trustees

People

Risk description	Potential impact	Mitigation
→ **Inadequate talent management**	→ Lack of internal succession to key management roles within the group in the event of unexpected departure → Short/medium term disruption to the business	→ Succession planning reviewed annually by nomination committee with group Chief Executive → Talent management programme reviewed annually by nomination committee → Succession planning recurring agenda item at Executive Board
→ **Inability to recruit and retain sufficiently qualified and experienced senior management**	→ Shortage of appropriately skilled management → Loss of key personnel → Disruption to the business	→ Remuneration packages for executive and senior management reviewed annually with benchmarking → Ongoing management development programme → Chief Executive regularly reviews current and future management requirements

Operational

Risk description	Potential impact	Mitigation
→ **Breach of health and safety regulations**	→ Damage to our reputation → Loss of licence to operate	→ Local health, safety and fire management systems → Prompt incident reporting procedures to senior management with subsequent monitoring → Monthly reports to Chief Executive detailing any major incidents → Regular board review of major incidents and statistics
→ **Unforeseen loss of capacity**	→ Inability to service customer requirements → Adverse impact on reputation	→ Fire prevention and security procedures → Business continuity plans with identification of alternative production locations → Comprehensive Property Damage and Business Interruption insurance

Operational continued

Risk description	Potential impact	Mitigation
→ **Further deterioration in market presence and/or profitability of the German Healthcare business**	→ Reduced profitability and cash flow	→ Separate stand-alone business with own dedicated management team from 1st January 2009. New Managing Director recently appointed → Approved 2009 Budget and action plan → Steering committee to assist with transformation of the Healthcare business → Ongoing review of volumes, capacity and cost base → Monthly Regional Managing Director reports updating board on progress
→ **Reduction in hotel volumes and pressure on pricing in the UK**	→ Reduced profitability and cash flow	→ Regular reviews with principal hotel groups → Volumes and prices regularly monitored and formally reviewed internally each month → Volume relocated to optimise use of capacity → Where necessary plants mothballed to reduce short-term capacity
→ **Failure to deliver in accordance with the Clinical Solutions business acquisition model**	→ Failure to deliver the identified business benefits → Failure to establish an instrument decontamination business	→ Acquired business integrated into Sunlight's theatre care business → Detailed reviews of cross-selling opportunities, new business wins and customer retention → Monthly project reviews of decontamination business and building of decontamination centres for contract gains
→ **Adverse media publicity including competition issues, non-compliance with Group Corporate Responsibility (CR) Policies or lack of cleanliness of staff and/or facilities**	→ Loss of customer goodwill and/or damage to our reputation → Loss of licence to operate	→ Board approved CR Policies communicated to the business → Cleaning and maintenance programmes → Prompt incident reporting procedures to senior management with subsequent monitoring → Nominated and appointed public relations advisers

Investment in fire protection at Eskilstuna
This large Swedish laundry processes weekly about 580,000 pieces. During 2008 we invested heavily in a sprinkler system (Swedish standard SBF 120:6 compliant) and improved security. This reduces the risk that we cannot service our customers' needs.

Our overseas textile suppliers
In January 2009 we distributed updated guidance to our business as to how they should obtain further assurance that our overseas textile suppliers are adopting appropriate labour standards and other working practices.

Managing currency exposure
The group enters into forward foreign contracts to minimise currency exposure in respect of the procurement of textiles and capital equipment from Far East suppliers.

Corporate responsibility

Roger Dye, Chief Executive

'Forward looking and sustainable approach'

We maintain a forward looking and sustainable approach to managing our business. We invest for the long-term in our staff and in operational initiatives that both reduce the impact of our operations on the environment and reduce our cost base.

We recognise the areas that might have an impact on the long-term value of the group. The way we engage with our employees, customers, partners, investors and community influences greatly how successful we are now and how successful we will be in the future. There are a number of corporate responsibility (CR) related key performance indicators that are regularly monitored across the group. Further references to these key performance indicators are made later in this report.

In January 2009 we were accepted as a participant in the United Nations Global Compact. This will provide us with a recognised and respected policy framework for our work and progress with regard to corporate responsibility. As expected by the Compact we aim to provide our first Communication on Progress within two years of our joining in the 2010 Annual Report.

The importance of CR is recognised by the board and it acknowledges its responsibility in setting and updating the CR policies that are distributed throughout the group. These policies specifically cover ethics, environmental matters, our employees and the community. The board has determined that responsibility for CR policy implementation and compliance monitoring lies ultimately with the Chief Executive. In addition, the board regularly reviews the management of corporate responsibility-related issues.

We maintain a decentralised management structure requiring local management teams to be responsible for the implementation of the group CR policies within their jurisdictions. This also ensures that we take into account local cultures and legislation.

Marketplace and customers

We are a focused European textile maintenance business providing workwear, linen, facilities and direct sales services, allowing companies to focus increasingly on the management of their core business deliverables. Our customer base is wide and diverse. In the main we operate with contracts of at least three years in length, although Healthcare contracts are normally for periods in excess of five years.

Our customers demand the highest standards of products and service; they need us to be timely when we collect and deliver, flexible in the services that we offer, while at the same time adhering to appropriate working and employment standards. We pride ourselves in understanding our customers and their needs. We achieve this through activities ranging from day-to-day contact at customers' premises to established key account management processes.

Our customers depend upon us to adhere to certain standards and they demand that we manage the services that we provide in an environmentally friendly way. These services give our customers the opportunity to reduce the overall impact of their operations on the environment. By focusing on re-usable products, washing in bulk and continually optimising our washing processes, we offer our customers an environmentally friendlier solution to their textile maintenance requirements. In most instances the industrialised process that we provide is more environmentally friendly than if our customers had maintained their laundry requirements in-house.

Our customers expect that we operate in an ethical way. We believe it paramount that our partners and suppliers are treated with respect and that we promote collaborative working relationships. It is important to us that our suppliers and their sub-contractors adhere to the group's requirement for the provision of appropriate labour standards regarding employee age, working conditions and the general treatment of workers. We fully support relevant international standards in this field, especially Convention No. 138 of the International Labour Organisation, which seeks to progressively raise the minimum age for workers. We work with and are in constant dialogue with our largest direct suppliers, carrying out periodic checks to assess compliance with the group's policies. We are continually reviewing our procedures and the potential risks associated with using overseas suppliers.

Working with our employees

It is through the continued efforts of our staff, our principal asset, that we drive our success. They are the individuals who interact with our customers, understand their needs and provide the standards of service that are expected. We need to provide our staff with a safe working environment that respects all people and cultures and provides appropriate development opportunities.

Health and safety management

Many of our employees work in a production environment incorporating potentially significant risk factors. Some are working with industrial laundry machinery and equipment and are involved in the movement and transportation of textiles. It is therefore of the utmost importance to us that we maintain for our employees, as well as for customers and others affected by our activities, a high standard of systems for health and safety.

The Managing Director of each business unit is responsible to the Chief Executive for maintaining health and safety procedures appropriate for the environment of that unit. These responsibilities include providing safe systems of work; for example ensuring rotation of laundry operatives' responsibilities to avoid fatigue, training on machinery operation and manual handling to ensure correct lifting, and training on procedures for using laundry cages and trolleys. Our employees are regularly provided with training appropriate to their roles and responsibilities.

We believe that health and safety concerns everyone working in our operations; procedures and systems are documented in handbooks or manuals. We carry out periodic risk assessments at business units and invest in improvements to our safety systems when and where required. We regularly review our health and safety procedures to ensure they reflect legislative or business sector changes and developments. We have a robust reporting system for use in the unfortunate occurrence of health and safety related incidents. Any such incidents are promptly reported and investigated, and actions agreed to prevent such incidents reoccurring. Group incident statistics are regularly collected and reviewed. If an employee were to become disabled during the course of employment, every effort would be made to ensure that their employment with the group continued and that appropriate retraining is arranged.

Diversity

We currently operate in 15 countries, encompassing a wide range of languages and cultures. We value diversity in our workforce and have a group-wide human resources and employee policy prohibiting discrimination against employees or potential employees on any grounds. It is also our policy not to discriminate against disabled persons, particularly regarding recruitment and selection, training, career development and promotion.

Our employees come from a wide range of social and educational backgrounds, with varying age profiles. We believe that through recognising and valuing the differences in our staff, we are better positioned to attract and retain those that we need. The nature of our operations requires flexible working arrangements and shift patterns, through which we can often accommodate different individuals' lifestyle needs. This can range from fluctuating seasonal volumes in our hotel operations, to a steadier trend in our garment divisions. Given our many years of experience in this industry we are able to readily predict demand fluctuations and so are well positioned to provide opportunities for flexible working arrangements that may better suit individual circumstances.

We are geared towards the diverse nature of our workforce. For example, the group has a 'whistleblowing' system by which staff may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters including breaches of our CR policies. This system operates throughout the group in a number of languages. In the UK for instance, this system is at present available in 14 different languages.

Training

In a challenging marketplace where dedicated staff are difficult to recruit and retain, it is important to our business success that we continue to meet our employees' needs and expectations, since they are key in meeting and exceeding the expectations of our customers.

The responsibility for staff training and recruitment lies with our business unit line management. We focus on induction training at all levels, individual development plans and, where appropriate, cross-border transfers. We provide a mixture of on-the-job training for our operational, sales and service employees and leadership training for our more senior staff. We are committed across the group to in-house training and promotion of internal candidates. We have established a series of long-term incentive schemes for senior management at our business units. General training and development plans are designed to meet the expectations of and prospects for our dedicated and loyal employees.

Employee dialogue

It is our policy to maintain an ongoing dialogue with our employees in local operations, and to listen to their concerns and needs. Our local management teams actively address with our employees any day-to-day issues, although dialogue is also maintained at country level via staff associations and trade unions where recognised.

United Nations Global Compact
In February 2009 the Chief Executive has written to all business unit Managing Directors outlining the commitments that we are making, and requesting that information on the Global Compact be communicated to their senior management teams.

Collection of health and safety incident statistics
In 2007 we began to collect health and safety related incident statistics from our business units. These incident statistics and details of the most serious incidents that have occurred are regularly reported to the board.

Diversity
In 2008 our plant in Ølsted, Denmark was awarded the 'Integrationsprisen 2008' by the Copenhagen Municipality. This recognised work done to integrate nine different nationalities, including offering our employees Danish language training.

Corporate responsibility continued

Reducing our environmental impact

We know that we operate in a business that needs extensive use of utilities and natural resources. We recognise the environmental impact of our operations and we understand the risks and opportunities associated with these challenges.

We are continually looking at ways in which we can reduce our use of natural resources. To help us with this, we follow the guidelines set out by the European Textile Services Association, an industry body representing the textile rental services sector in Europe. We continue to recognise the following four areas as being of particular importance to us:

– Water use;

– Energy consumption;

– Use and disposal in effluent of cleaning detergents; and

– Transport-related energy consumption.

We use key performance indicators on water, electricity, chemicals and oil/gas usage. Our business units measure, monitor and report these monthly, comparing the latest results against those budgeted.

Water recovery

We use water recovery systems in the majority of our operations, as they can reduce water consumption by between 20% and 25%, helping to preserve natural resources and at the same time controlling costs.

Reducing heat and energy loss

Our strategy to reduce heat and energy loss is to install new more efficient technology in key parts of our operations, where most energy is used, and where there will be a significant environmental benefit. For our laundry operations this typically means boilers and driers. New technology has helped us control the use of energy by recycling hot water, recovering energy from boiler exhaust gas, recovering heat from drier exhaust, monitoring tumbler temperatures to optimise drying time and recovering high pressure steam for use elsewhere in the laundry process. New technologies have typically reduced energy consumption by between 10% and 30% according to the operation concerned.

Reducing the amount and concentration of cleaning detergents used and disposed of in effluent

We work closely with our detergent suppliers to find ways to optimise our usage of detergents and decrease the use of water in rinsing, as well as energy. We have already progressed significantly in this field, for instance by installing water and heat recovery/recycling systems that reduce the volume of detergent solids disposed of in effluent. These initiatives have typically resulted in a reduction in detergent usage of approximately 10%.

Shortening delivery distances

We are mindful of any future national or local legislation in this area and are continually working towards meeting and exceeding requirements. We regularly review our vehicle routes to ensure the most efficient use of our fleet resources and fuel while recognising customers' individual requirements.

In recognising the potential environmental impact of our operations, our business units monitor carefully the occurrence of any environmental spillages or incidents. Any such incidents would be promptly reported to the executive board and company board, as well as the relevant local or national agency.

In 2008 we established a working group, comprising representatives from all of our major business units; their role is to share and identify ways in which our business units can reduce even further their use of water, energy and chemicals. Their work will also continue to promote improvement in the ways we measure and monitor the environmental impacts of our operations.

Dialogue with our local communities

Our operations recruit where they can from their local communities; as a consequence we recognise the importance of maintaining a strong local reputation and have a group-wide policy that requires our businesses to respect all local cultures and religions. By providing employment opportunities to members of our local communities we reflect the diversity of these communities within our workforce.

Many of our plants are in suburban areas, operating from early in the morning till late at night, and in some cases for 24 hours. We therefore carefully monitor the impact our operations might have on local residents, particularly with regard to outdoor lighting, yard and vehicle noise, and pollution. To ensure continuing close relationships, we maintain an ongoing dialogue with our neighbours, local authorities and councils, to discuss any issues that may arise. For example, through strong dialogue with our neighbours, and self-imposed actions we have resolved emerging issues relating to vehicle noise in Birmingham and successfully relocated the site of our Kolding plant in Denmark away from a heavily populated area.

Reduced employee absenteeism
In 2008 our plant in Hard, Austria joined a district scheme to improve the health of industrial employees. This included providing dietary education, and has improved team spirit, reduced employee absenteeism and earned us a local award.

Benefits of re-usable products
Protex in the UK provide sterile and reusable operating theatre textiles, gowns and drapes. Using Protex can save an acute hospital, doing about 20,000 procedures annually, up to 100,000 kg of waste compared to using traditional disposable textiles.

Rocialle, UK – Green Dragon Environmental Standard
We are aware of our environmental responsibilities to our customers and future generations. We are actively engaged in energy conservation and waste recycling to help ensure a bright and sustainable world.

Governance

Governance

Corporate governance statement

Introduction
The group's corporate governance framework is aimed at ensuring an alignment of management's interests with those of shareholders. Within this framework, there is a clear separation of roles and responsibilities. The functions of governance are undertaken by the board of directors who act on behalf of the company's shareholders while the functions of management are delegated to the group's Chief Executive and his management team.

Role played by shareholders
Shareholders play an important role in the group's governance by electing the directors, by monitoring and rewarding their performance and by engaging in constructive dialogue with the board and senior management.

All directors are subject to re-election to the board every three years. Any director appointed by the board during the year will also stand for appointment by shareholders at the next Annual General Meeting. The biographies of each director can be found on page 31. In order to facilitate easier voting by our shareholders, for the 2009 Annual General Meeting we shall enable all shareholders to vote electronically either via Crest or directly with our Registrars and include a 'vote withheld' box on the proxy voting forms.

The Chairman, the Senior Independent Director (who is also Chairman of the audit committee) and the Chairman of the remuneration committee will attend the Annual General Meeting on 28th April 2009 and will be available to meet shareholders.

Outside the Annual General Meeting, the Chairman, Christopher Kemball, is responsible for ensuring that there is ongoing and effective communication with shareholders. If shareholders have any concerns, which contact through the normal channels with the Chief Executive, Finance Director or Chairman has failed to resolve, or for which contact is inappropriate, then Philip Rogerson, the Senior Independent Director, is available to them. To that end, both the Chairman and the Senior Independent Director make themselves available, when requested, for meetings with investors on issues relating to the group's governance and strategy.

Over 85 separate meetings and telephone conference calls were held in 2008 with major shareholders in the UK, US, Canada, Denmark, Germany, Sweden and France, by either or both the Chief Executive and Finance Director. As expected, these meetings focused primarily on the group's trading operations and immediate prospects. Where significant views were expressed, either during or following the meeting via our brokers, these were recorded and circulated to all directors.

In May 2007 an operational review by the executive team (including divisional management) took place in Denmark, including visits to our Holbaek and Ishøj facilities, for an invited group of financial analysts and shareholders. Positive feedback was received and a similar event is to be scheduled. In May 2008 an investor dinner took place in London for an invited group of our major shareholders who had the opportunity to meet the group's senior management team.

Role of the board and its relationship with executive management
The principal role of the board is to set the parameters within which the group seeks to further the interests of its shareholders and to monitor the performance of the executives to whom it delegates the management of the business. Although it does not involve itself with the day-to-day activities of the group's senior management, the board does have a formal schedule of matters that are reserved for its own decision, which was reviewed and approved in August 2008.

Matters reserved for the board
1. The approval of the group's overall strategy, values and governance.
2. Major changes to the group's capital, corporate or management structure.
3. Significant investments, acquisitions, disposals, capital projects and contracts.
4. Fundamental changes to the group's financial reporting, internal controls and risk management.
5. Approval of the company's rolling three-year plan and annual budget.
6. Approval of the company's annual report and accounts, remuneration report and interim announcements.
7. Approval of any interim dividend and recommendation of the final dividend.
8. Approval of all circulars, resolutions and other documentation sent to shareholders.
9. Changes to board structure and membership.
10. Determination of the remuneration policy for directors and other senior executives.
11. The division of responsibilities between the Chairman and the Chief Executive.
12. The terms of reference for all board committees.
13. The group's ethics policy and its policies on corporate responsibility, including health and safety.

The Chairman of the board, Christopher Kemball, is responsible for the leadership of the board and for ensuring a challenging and constructive relationship between the executive and non-executive directors. Between board meetings there is regular interaction between the Chief Executive and the Chairman and, where necessary, with other board members.

Prior to each board meeting an agenda, together with supporting papers, is circulated to directors to ensure they are supplied with all the information required. Included with these papers are detailed monthly accounts, together with reports from the Chief Executive, Finance Director and the Managing Directors of the Nordic, Continent and UK/Ireland Regions. As part of this process, the board also reviewed and approved the group's 2009 budget. After each board meeting, there is a comprehensive follow-up procedure to ensure that major actions are completed as agreed by the board. Briefing packs are also circulated in months where board meetings are not scheduled.

Executive directors

I Roger Dye 57 ‡~

Chief Executive

Roger was appointed Finance Director in August 2000, subsequently becoming Chief Executive in May 2005. He has been an executive director of several public companies since 1987, a non-executive director of Nestor Healthcare plc since 2005 and is Chairman of its audit committee.

Kevin Quinn 48 ~

Finance Director

Kevin was appointed Finance Director in May 2005. He has previously held senior finance positions within Amersham plc. Prior to 1997, Kevin was with PricewaterhouseCoopers, latterly as a partner in its Prague office, having also worked in the USA and France.

Chairman

Christopher R M Kemball 62 ‡†

Chairman

Christopher was appointed to the board in January 1999 and subsequently became non-executive Chairman of the board and the nomination committee in May 2005. He is a Vice Chairman of Hawkpoint Partners Limited and also a non-executive director of Scott Wilson Group plc.

Non-executive directors

John D Burns 64 ‡#

Non-executive director

John was appointed to the board as a non-executive director in 1987. He is Chief Executive of Derwent London plc, a consulting partner of Pilcher Hershman & Partners and a former Chairman of the Westminster Property Owners Association.

Philip G Rogerson 64 *†‡#

Non-executive director

Philip was appointed to the board in June 2004 and became Senior Independent Director and Chairman of the audit committee in May 2005. He is non-executive Chairman of Aggreko plc, Carillion plc, Northgate plc and, until February 1998, was Deputy Chairman of BG plc (formerly British Gas plc) having been a director since 1992.

René H Schuster 47 *†‡#

Non-executive director

René was appointed to the board in March 2007. Until September 2008 he was CEO, UK and Ireland, of Adecco S.A. He was previously a non-executive director of SurfControl plc and was previously in senior management positions with significant international responsibilities with Vodafone plc, the Hewlett Packard Corporation and KPMG.

Per H Utnegaard 49 *†‡#

Non-executive director

Per was appointed a non-executive director of the company in January 2005 and Chairman of the remuneration committee in May 2005. He is currently President & CEO of Swissport International Ltd, previously ran his own consultancy firm in Switzerland, and prior to that was Wholesale Director of Alliance UniChem plc.

David A Lawler 45 ~

Company Secretary

David joined the group in 1995 and was appointed Company Secretary in May 2005. He has previously held senior finance positions with Thorn EMI plc and KPMG, and has worked extensively outside of the UK including Denmark, Germany, Ireland and the USA.

Key

*	Audit committee
†	Remuneration committee
‡	Nomination committee
~	Member of the executive board
#	Identified by the board as an independent director

Corporate governance statement continued

The Chief Executive, Roger Dye, and the Finance Director, Kevin Quinn, ensure that the board is kept fully aware on a timely basis of business issues and prospects throughout the group. Both are directors of Sunlight Service Group, the holding company of our UK trading businesses, and attend bi-monthly UK/Ireland board meetings, as well as having frequent less formal contact with Sunlight board members. They are also directors of Sophus Berendsen A/S, the management company of our Nordic and Continent businesses, and, as well as attending bi-monthly Nordic and Continent board meetings, they regularly attend individual country board meetings, thereby meeting the management teams of each operation. The key issues raised at these meetings are brought to the attention of the board. Also, as with the UK/Ireland region, frequent less formal contact is maintained with Nordic and Continent board members.

During 2008 the board met senior management teams at both Berendsen and Sunlight. This was achieved through site visits to Sweden in May 2008 and Leicester, UK in September 2008. These sessions were comprehensive and gave board members detailed insight into the operations of our businesses, their challenges and opportunities. These meetings and subsequent follow-up are consistent with the free flow of information and communication between the board and the senior management teams within the group. Similar sessions have already been scheduled for 2009.

Composition of the board

During 2008, consistent with the provisions of the 2006 Combined Code, the board comprised two executive and five non-executive directors (including the Chairman). Their biographies on page 31 reflect a suitable breadth of skills, knowledge and experience.

Independence of the board

In December 2008, the nomination committee performed a thorough review of the independence of the non-executive directors. The committee concluded that all the non-executive directors remain independent from management and provide a strong independent element on the board, being free from any business or other relationship which could materially interfere with the exercise of their judgement.

To safeguard their independence, directors are not entitled to vote on any matter in which they have a material personal interest unless the directors unanimously decide otherwise and, where necessary, directors are required to absent themselves from a meeting of the board while such a matter is being discussed. To strengthen the independence of the non-executive directors and to enable them to discuss more freely the performance of the group's executive management, the Chairman meets formally with the non-executive directors at least once each year without the executives being present.

The independence of the directors is further supported by the work of the Company Secretary whose appointment and removal is the responsibility of the board as a whole. The Company Secretary, who is also secretary to the audit, nomination and remuneration committees, ensures that board procedures are complied with and provides advice on corporate governance and regulatory compliance. All directors have unfettered access to the advice and services of the Company Secretary. There is also an agreed procedure by which directors can, where necessary for the discharge of their duties, obtain independent professional advice at the company's expense.

John Burns has served on the board for more than nine years and as a result the board has reviewed the extent to which he remains independent. Following this review the board are of the view that he continues to demonstrate strong independence in character and judgement, and in the manner in which he discharges his responsibilities as a director. Consequently, the board is satisfied that, despite his length of tenure, there is no association with management that could compromise his independence and that therefore he remains independent.

As required by the 2006 Combined Code, the board has determined that any non-executive director who has served for more than nine years will be subject to annual re-election. John Burns will therefore be subject to re-election at the 2009 Annual General Meeting. Following a formal performance evaluation, the board has concluded that his performance as non-executive director continues to be effective. He contributes significantly as a director through his individual skills and his considerable knowledge and experience of the group.

Directors' induction and training

There is a formal induction programme for all new non-executive directors covering matters such as the operations and activities of the group, the group's key financial and non-financial risks, the role of the board and the matters reserved for its own decision, and the responsibilities of the group's board committees.

The Chairman of the board is also responsible for ensuring that all non-executive directors receive ongoing training in order that they can appropriately perform their duties. Training needs were discussed at the non-executive directors' meeting in November 2008 and, where appropriate, during the annual evaluation of each director. Each non-executive director has confirmed that in 2008 they have kept themselves properly briefed and informed on current issues.

Board and committee evaluations

In the last quarter of 2008 the board carried out a comprehensive evaluation of the performance of the board, its committees and each of its individual directors. The process was led by the Chairman and supported by the Company Secretary. As in previous years, the views of all directors were canvassed in respect of the performance of the board as a whole and of its committees. Each director was also asked to assess the strengths and weaknesses of his individual contribution to the board's performance. This year, the board also engaged the services of Lintstock, an independent governance consultancy, to assist in the design and distribution of the questionnaires and to help in the collation and analysis of the results.

Amongst other things, the assessment focused on the board's effectiveness in the following areas:

- Its contribution to the testing and development of group strategy;
- Its understanding of, and contribution to, the group's risk management;
- Its ability to directly observe and assess the performance of the business units' managing directors;
- The quality of the relationships between the board and senior management;
- Its oversight of the risks and opportunities inherent in the management of group subsidiaries; and
- Its maintenance of a close alignment between shareholders' interests and executive remuneration.

This process was then complemented by separate meetings between each director and the Chairman where feedback was discussed. The evaluation of the Chairman himself was undertaken by the Senior Independent Director, through consultation with the other directors and the Chief Executive.

In addition to the exercise described above, the executive directors are evaluated in respect of their executive duties through a separate process whereby the Chairman and the non-executive directors assess the Chief Executive and the Chief Executive assesses the Finance Director and the Executive Board.

The full results of the board evaluation were initially discussed at the non-executive directors' meeting in November 2008 and then presented to the board in December 2008. The directors have concluded that following this comprehensive review, the board and its committees operate effectively and also consider that each director is contributing to the overall effectiveness and success of the group. Nevertheless, in light of the evaluation, the board has identified a number of areas in which it would like to see further improvement. These include furthering its knowledge of markets and key customer requirements, encouraging the business units to work more closely together, particularly in procurement, as well as increased focus on risk management in the current economic climate.

Attendance at board and committee meetings

The board requires all directors to devote sufficient time to discharge their duties effectively and to use their best endeavours to attend meetings. Apart from the Annual General Meeting, and board visits to Sweden and Leicester, the board met ten times during 2008. One of these meetings was the strategy review meeting during October 2008. In addition, as referred to above, the non-executive directors met without the executive directors in November 2008.

The three principal committees of the board are the remuneration committee, the audit committee and the nomination committee. The terms of reference of these committees are set by the board and are available for inspection either on our company website (www.dsgplc.co.uk), or upon request from the Company Secretary. The membership of these committees, details of which are set out on page 31, is in compliance with the provisions of the 2006 Combined Code.

The attendance of all individual directors at board and committee meetings for the year ended 31st December 2008 is detailed below.

Board and committee meetings – members' attendance

	Board*		Audit committee		Remuneration committee		Nomination committee	
	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended	Eligible to attend	Attended
Executive directors								
I R Dye	10	10	–	–	–	–	2	2
K Quinn	10	10	–	–	–	–	–	–
Non-executive directors								
C R M Kemball	10	10	–	–	6	6	2	2
J D Burns	10	10	–	–	–	–	2	2
P G Rogerson	10	10	3	3	6	6	2	2
R H Schuster	10	10	3	2	6	6	2	2
P H Utnegaard	10	10	3	3	6	6	2	2

* Excluding non-executive directors' meeting and site visits.

Role of the executive board

July 2007 saw the establishment of a group level executive board. This board sits at the apex of managerial decision-making within the company. It is chaired by the Chief Executive. The other members are the Finance Director, the three Regional Managing Directors and the Company Secretary. It has met formally four times during 2008, in addition to regular ad hoc communication between members.

The executive board members have collective responsibility for running the group's business. They develop the group's strategy and budget for board approval and monitor the financial, operational and service performance of the whole group. They review the group's risk register, allocate resources across the group within plans agreed by the board, plan and have started to produce major cross-business programmes, development plans for the senior talent base and succession plans for the group.

Corporate governance statement continued

In December 2008, with the assistance of Lintstock, a critical review of the executive board's performance was carried out, the results of which were discussed at the meeting of the full board on 25th February 2009.

Report of the audit committee

Composition The committee met three times during 2008. The committee comprised Philip Rogerson (committee Chairman), René Schuster and Per Utnegaard. All members of the committee are non-executive directors and are considered by the board to be independent.

The Finance Director, the group Internal Audit Manager and representatives from the external auditors attend each meeting at the request of the committee Chairman. At least once each year, the committee meets with the external auditors without executive management present. From time to time, the committee Chairman also meets in private session with the group Internal Audit Manager without any other member of management being present.

The board considers that the committee Chairman has sufficient recent and relevant financial experience to discharge the committee's duties. In particular, Philip Rogerson is a Chartered Accountant and from 1992 to 1998 he was the Finance Director and then the Deputy Chairman of BG plc.

Role and authority The committee's principal function is to enable the board to monitor the integrity of the group's financial reports and its system of internal controls; to monitor the effectiveness of the group's internal audit function; and to manage the relationship with the group's external auditors. The committee's terms of reference were reviewed and approved by the board on 26th August 2008 and are available on the company's website or upon request from the Company Secretary.

Activities in 2008 During the last 12 months the committee:

- monitored the integrity of the company's financial statements and 2008 preliminary and interim announcements, having reviewed the significant financial reporting issues and judgements contained in them;
- kept under review the effectiveness of the group's internal controls and risk management systems;
- monitored and reviewed the effectiveness of the group's internal audit function;
- approved the remuneration and terms of engagement of the group's external auditors, assessed their independence and objectivity and the effectiveness of audit processes;
- required that, with the exception of tax services, the committee pre-approved all non-audit services to be performed by the group's external auditors that exceeded pre-set thresholds. In most instances, the individual threshold for any non-audit services is £50,000. Other external accounting firms may be used for larger, non-audit services, including taxation and consultancy advice and due diligence in relation to significant acquisitions;
- reviewed the 'whistleblowing' arrangements in place for staff to raise concerns in confidence about possible wrongdoing in financial reporting or other matters and, where required, ensuring independent investigation.
- reviewed the revised Financial Reporting Council Guidance to Audit Committees.

The committee Chairman reports on each committee meeting at the following board meeting.

Report of the remuneration committee

Full details of the committee's composition, role, authority and activities are set out in the report on directors' remuneration on pages 36–40, which will be subject to an advisory vote by shareholders at the Annual General Meeting on 28th April 2009.

Report of the nomination committee

Composition The committee met twice during 2008 and comprised Christopher Kemball (committee Chairman), Philip Rogerson, René Schuster, Per Utnegaard, John Burns and Roger Dye. Four of the six members of the committee are regarded by the board as independent.

Role and Authority The committee is responsible for board succession planning and makes recommendations to the board on the appointment and reappointment of all directors. It also keeps under review the succession planning for senior executives. The terms of reference of the nomination committee were updated and approved by the board on 26th August 2008 and are available on the company's website or upon request from the Company Secretary.

In June 2008 the nomination committee devoted a considerable amount of time to succession planning, management career planning and training. This was initiated by the Chief Executive presenting a detailed paper on each senior management position within the group and succession plans for each position. Further work is now being undertaken on career planning and training.

During the year the committee has also:

- evaluated the balance of skills, knowledge and experience on the board;
- assessed thoroughly the extent to which current non-executive directors remain independent and, in particular, the independence of John Burns who has served on the board for more than nine years; and
- considered the membership of the board's committees.

Combined Code compliance statement

Throughout the year ended 31st December 2008 the company has been in compliance with the Code provisions set out in Section 1 of the 2006 Combined Code on Corporate Governance.

Overview of systems of internal control and risk management

The board has responsibility for establishing, maintaining and reviewing the effectiveness of the group's systems of internal control. Internal control systems are designed to manage rather than eliminate the risk of failure to achieve business objectives and can therefore only provide reasonable and not absolute assurance against material misstatement or loss.

These systems of internal control are regularly reviewed by the board. The key elements of the existing systems of internal control, which accord with the revised Turnbull Guidance (2005), and which operated throughout the year and up to the date of approval of the Annual Report and Accounts, are as follows:

Open culture The board considers that the group operates a risk-aware culture with an open style of communication. This facilitates the early identification of problems and issues, so that appropriate action is quickly taken to minimise any impact on the business.

Ongoing process for risk identification, evaluation and management There is an ongoing process for the identification, evaluation and management of the most significant risks faced by the group. This process includes the following:

– a defined organisation structure with appropriate delegation of authority;
– formal authorisation procedures for all investments with clear guidelines on appraisal techniques and success criteria;
– clear responsibilities on the part of line and financial management for the maintenance of good financial controls and the production and review of detailed, accurate and timely financial management information;
– a comprehensive financial review cycle, which includes a rolling three-year planning process, an annual budget approved by the board, review of monthly variances against budget and quarterly forecasting of annual performance;
– provision to management and the board of relevant, accurate and timely information including relevant key performance indicators, based on reliable management information systems which are continually being improved and updated;
– monthly reports to the board from the Chief Executive, Finance Director and other members of the executive board, which includes the managing directors of the Nordic, Continent and UK/Ireland regions;
– regular business unit management board meetings (periodically attended by the Chief Executive or Finance Director), executive board and company board meetings at which existing, new and evolving operational, financial and other risks are discussed, and appropriate actions to manage risks are discussed, agreed and followed up;
– discussion of any significant issues or control weaknesses identified at these meetings and, if considered necessary, their inclusion in reports to the executive board and company board;
– the maintenance of business unit risk registers;
– the maintenance of a Group Risk Register which sets out the most significant risks facing the group and the actions being taken in mitigation, regularly updated and reviewed by the board, and summarised in the Business review on pages 23–25; and
– a structured and approved programme of internal audit visits with the implementation of recommendations made being monitored as part of a continuous programme of improvement.

In April 2008 the board took the opportunity to review responsibilities for the identification of the most significant risks facing the group. Following this review updated instructions were distributed to both the executive board and business unit management.

Following their acquisition in the early part of 2008, management has worked to bring the standards of internal control and risk management in its Baltic subsidiaries up to a standard comparable with those elsewhere in the group.

We are strengthening our management team in Germany and with the ongoing restructuring we will be taking the opportunity during 2009 to refresh the local systems and procedures for the identification, evaluation and management of risks.

Whistleblowing The group has a system by which staff may, in confidence, raise concerns about possible wrongdoing in financial reporting or other matters. During 2008 the system was operational throughout the group in 15 countries, with the exception of the newly acquired Baltic businesses, where the system was implemented in the final quarter of 2008. Due to the diversity of our workforce the system operates in 25 languages. Procedures are in place to ensure issues raised are addressed in a confidential manner. The Company Secretary is required to report to the audit committee biannually on the integrity of these procedures, the state of ongoing investigations and conclusions reached. During 2008 calls were received from eight individuals and appropriately responded to.

Annual assessment of the effectiveness of systems of internal control The board and audit committee requested, received and reviewed reports from executive and senior management, its advisers, group internal audit and our external auditors, in order to assist the board with their annual assessment of the effectiveness of the group's systems of internal controls.

Through the ongoing processes outlined above, areas for improvement in internal controls are continuously identified and action plans are devised. Progress towards completion of actions is regularly monitored by management and the board. The board considers that none of the areas of improvement identified constitute a significant failing or weakness.

The board considers that the information that it receives is sufficient to enable it to review the effectiveness of the group's internal controls in accordance with the revised Turnbull Guidance (2005).

By order of the board

David Lawler
Company Secretary
26th February 2009

Report on directors' remuneration

Report on directors' remuneration
The report on directors' remuneration contains the disclosures required by Schedule 7A to the Companies Act 1985 and has been prepared in accordance with the Combined Code and to meet the relevant requirements of the listing rules of the Financial Services Authority. The tables and accompanying notes on pages 39–40 have been subject to audit.

Remuneration committee
The remuneration committee ('the committee') comprises three independent non-executive directors and the Chairman of the company. No director plays a part in any discussion about his own remuneration. The committee members during 2008 consisted of: Per Utnegaard (Chairman), Christopher Kemball, Philip Rogerson and René Schuster. The committee's membership remains consistent with Combined Code provisions. The Chief Executive is invited to attend meetings but may not take part in any discussion on matters concerning himself. During the year, New Bridge Street Consultants LLP (renamed Hewitt New Bridge Street ('HNBS') – a trading name of Hewitt Associates Limited – with effect from March 2008) was retained as adviser to the committee. HNBS provided no other services to the company although Hewitt Associates Limited does provide advice to the trustees of the Davis Service Group Retirement Benefit Scheme.

The terms of reference of the committee are regularly reviewed and approved by the board. The committee's role includes determining the company's policy on senior executive remuneration, considering and approving the individual salaries and other terms of the remuneration packages for the executive directors and the Chairman, monitoring remuneration of other senior executives, and setting an overall framework for share schemes throughout the company. The terms of reference are available on the company's website (www.dsgplc.co.uk) or upon request from the Company Secretary.

Remuneration policy
The committee's policy is:

- to provide appropriate levels of remuneration to its senior executives, taking into account their experience, the size and complexity of their jobs, relevant market comparative data and any material special factors which may arise from time to time;
- to provide a competitive mix of base salary and short and long-term incentives with a significant proportion of the package (at least half at a target level of performance) related to the variable pay elements; and
- to ensure that variable pay is determined by relevant and stretching measures of performance that are consistent with the ongoing strategic objectives of the company so as to appropriately align directors' interests with those of shareholders.

The existing remuneration arrangement for senior executives, including the executive directors, has been recently reviewed by the committee to ensure that it is in accordance with the remuneration policy. As part of this review, HNBS provided to the company market data for a group of companies of broadly similar turnover, market capitalisation and international exposure. Two key conclusions arising from this review were that:

i) the value of the existing remuneration package of senior management is below market levels, particularly in relation to variable pay potential.

   The committee is keen to retain what it views as a highly marketable executive team which remains central to the future prospects of the company. Accordingly, the committee seeks to ensure that packages are suitably competitive to retain these executives. The committee intends to achieve this aim by enhancing the variable pay potential of senior executives with the enhanced potential linked to the achievement of challenging performance targets. Specifically the annual bonus potential for executive directors will increase in 2009 from 75% of salary to 100% of salary and, subject to shareholder approval, a new Co-Investment Plan will be introduced to encourage senior executives to invest in company shares.

ii) the existing performance measure for awards under the Davis Service Group Performance Share Plan 2006 ('PSP'), based on relative Total Shareholder Return ('TSR'), is felt by the committee to be providing an insufficient link between management performance, the achievement of key strategic objectives and the extent of awards that actually vest.

   The committee, therefore, intends to use different performance measures for PSP awards granted in 2009, based on a mixture of adjusted Earnings per Share ('EPS') and post-tax Return on Invested Capital ('ROIC') targets. Both of these financial measures are key performance indicators for the group.

Further details on these changes are outlined in the sections below. The committee will continue to keep the appropriateness of this revised remuneration structure under periodic review.

Salaries
Salaries for executive directors were reviewed and the following annual salaries, considered by the committee to be appropriate given market data and the experience and performance of the individuals, were made effective from 1st January 2009: Roger Dye £475,000 (2008: £460,000) and Kevin Quinn £288,000 (2008: £277,000).

Benefits
Roger Dye has a personal pension arrangement to which the company makes payments equivalent to 30% of salary. Kevin Quinn has a personal pension arrangement to which the company makes payments equivalent to 20% of salary. Life assurance cover of four times salary and permanent health insurance of up to 75% of salary are also provided.

Short-term performance bonuses

The maximum annual bonus for 2009 will be 100% of base salary for executive directors (2008: 75% of salary). A quarter of any bonus earned must be invested in company shares (via the Davis Service Group Deferred Bonus Share Plan 2006) for three years and will normally be forfeited if the executive leaves during that period. The whole of the bonus for executive directors in 2009 will be determined by demanding targets relating to EPS, post-tax ROIC and the generation of free cash flow.

Long-term incentives

Performance Share Plan (PSP)

Senior executives, including the executive directors, receive annual awards of performance shares under the PSP. The committee has the ability to grant performance share awards worth up to 100% of base salary each year (with a 200% limit in exceptional circumstances such as in the case of recruitment or where there are acute retention needs). The committee intends to limit individual awards to executive directors in 2009 to no more than 100% of salary.

As outlined above, awards granted under the PSP in 2009 will be subject to a mixture of EPS and post-tax ROIC performance targets with the following vesting schedules:

EPS performance target 2011		Post-tax ROIC performance (average over 2009-2011 Financial Years)	
Less than 43p	0% of award vests	Less than 7%	0% of award vests
43p	12.5% of award vests	7%	12.5% of award vests
47p	50% of award vests	10%	50% of award vests
Straight-line vesting for intermediate performance		Straight-line vesting for intermediate performance	

The committee regards these targets as challenging in the current economic environment and highly stretching at the top end of the target range.

For awards granted in 2010 to senior executives of certain business divisions (excluding executive directors of the company), different (or a combination of) performance measures, such as operating profit of a business division, might be set in relation to the grant of those awards. The committee will ensure that any different performance measures are deemed to be as relevant and challenging as the performance measures and targets outlined above.

To the extent that their awards vest, award holders will be entitled, at that time, to receive a payment in shares of an amount equivalent to the dividends that would have been paid on the shares subject to that award between the time when they were granted and when they vested.

The committee is keen for executive directors and other senior employees to hold shares in the group. In support of this policy, all executives and senior employees who receive a grant of awards under the PSP are required to work towards holding shares with a value equivalent to 100% of their basic annual salary. To achieve this they are not permitted to sell any vested shares under the PSP, Deferred Bonus Share Plan and, if approved by shareholders, the Co-Investment Plan (other than to satisfy tax liabilities) until these guidelines are satisfied.

Co-Investment Plan

Shareholder approval will be sought at the Annual General Meeting on 28th April 2009 for the proposed new Co-Investment Plan. Full details of the proposed Plan are outlined in the Notice of AGM. In summary, the key terms of the Plan are as follows:

- Each year (from March 2010), selected executives would be able to purchase Investment Shares worth up to 35% of their salary. For relevant executives (including executive directors) Investment Shares would include any compulsorily deferred bonus shares that have been granted in respect of the previous year's performance.

  Executives would alternatively be allowed to commit shares (again worth up to a total maximum of 35% of salary) out of their existing shareholdings, unless such shares are unable to be sold by the executive as required by the shareholding guidelines outlined above.
- Individuals would receive an award of Matching Shares at a ratio up to a maximum 2:1 relative to their Invested Shares on the following basis:
  - a basic award of Matching Shares at a ratio of 1:2 to their Invested Shares. Vesting of this basic award would not be subject to performance but would generally require the executive to remain in employment and to retain the related Investment Shares until the third anniversary of award. The committee felt that this relatively modest basic award would be appropriate to encourage executives to invest in company shares and participate in the Plan.
  - a performance-linked award of Matching Shares at a ratio of up to 3:2. Vesting of this performance-linked award would be subject to the same EPS and post-tax ROIC performance conditions that will apply to future PSP awards (as outlined above) and would also generally require the executive to remain in employment and to retain the related Investment Shares until the third anniversary of award.
- To the extent that their Matching Shares vest, award holders will be entitled, at that time, to receive a payment in shares of an amount equivalent to the dividends that would have been paid on the shares subject to that award between the time when they were granted and when they vested.

Report on directors' remuneration continued

Other Share Plans
Less senior executives are eligible to receive conditional share awards subject to relevant, stretching three-year performance targets under an Executive Incentive Plan. The first grant was made on 6th March 2008 with a further grant to be made in April 2009.

All UK employees, including executive directors, are eligible to participate in the company's sharesave plan.

Share Usage

During 2008, 1,155,437 shares, 0.67% of the issued share capital, were granted to employees under the Performance Share Plan 2006, the Deferred Bonus Share Plan 2006, the Davis Service Group Sharesave Plan 2006 and the Davis Service Group Executive Incentive Plan 2008. The award under the Sharesave Plan will be met by the issue of new shares at the date of vesting; the other awards will be met by the re-issue of shares held in treasury or by the purchase of existing shares in the market by the Employee Benefit Trust. At 31st December 2008 the Employee Benefit Trust held 441,873 shares that had been purchased in the market.

The number of shares issued under the share plans is within the relevant dilution guidelines established by the Association of British Insurers of 10% of share capital in a ten year period for all share plans and 5% in a ten year period for executive plans. The company's year end position against these limits is 6.5% for all share plans and 2.7% for executive plans. Awards which are required to be satisfied by market purchased shares are excluded from this calculation.

Directors' service agreements

Both executive directors have service agreements (dated 21st April 2005 and 16th May 2005 for Roger Dye and Kevin Quinn respectively) which are terminable on one year's notice by either party. Upon termination, the director receives salary, target bonus, benefits and pension contribution in respect of the outstanding notice period. Other than following a change of control, this amount is subject to mitigation if the director obtains alternative employment, which there is an obligation to seek.

Under their service agreements, executive directors are allowed (subject to board approval) to hold one non-executive post and retain the fee received from any such post. Roger Dye is a non-executive director of Nestor Healthcare plc and received an annual fee of £35,000 (2007: £35,000) for that role.

Chairman and non-executive directors

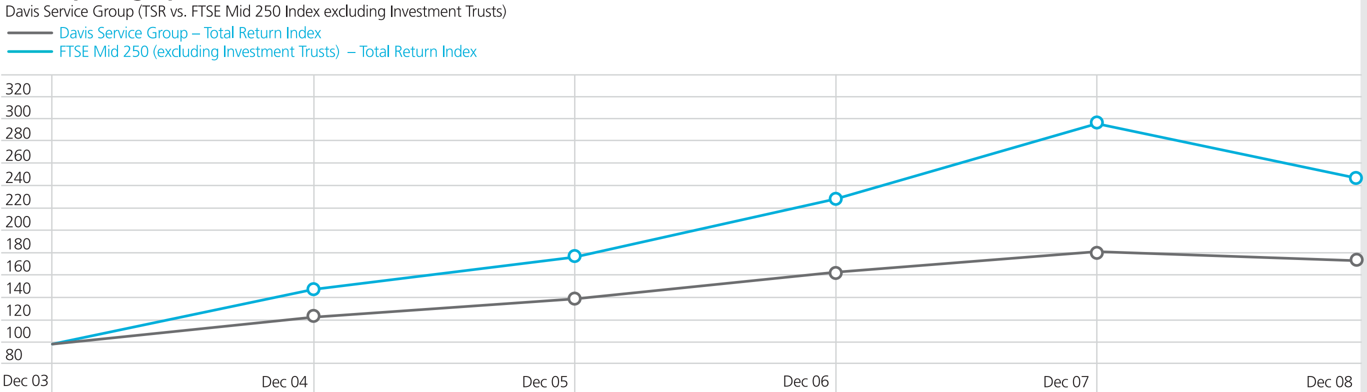
The Chairman's annual fee is set by the committee and is currently £115,000 (2008: £110,000). The non-executive directors receive annual fees at a level approved by the entire board, currently set at £40,000 (2008: £40,000) and an additional £10,000 (2008: £5,000) if they chair a committee. They are able to claim reimbursement of actual expenditure incurred in carrying out their duties. There is no entitlement to participate in the company's pension scheme, bonus scheme or share schemes and no compensation is payable for early termination of their contracts or terms of office.

The Chairman has been appointed for a fixed term of three years to April 2011, terminable at three months' notice by either party. The terms of office of non-executive directors are for periods not exceeding three years which can be terminated by either party giving one month's notice. These terms of office are subject to shareholders' approval when non-executive directors seek re-election at annual general meetings.

Total shareholder return (TSR)

The committee believes that, due to the size of the company, the FTSE Mid 250 Index (excluding Investment Trusts) is the most suitable index against which to compare the historic TSR of the company. The chart below shows the TSR of the company compared with the index over the five-year period to 31st December 2008.

Share price graph – Total shareholder return
Davis Service Group (TSR vs. FTSE Mid 250 Index excluding Investment Trusts)



Directors' remuneration

(a) Aggregate disclosures

	2008 £000s	2007 £000s
Salaries, fees, pension contributions and other benefits	1,461	1,526
Share based payments (see note (b) (iv) below)	235	154

(b) Analysis of directors' remuneration

	Annual emoluments					Other income arising from long-term incentives and exercise of options				
	2008				2007	2008				2007
	Salary/fees £000s	Bonus (note iii) £000s	Benefits £000s	Total £000s	Total £000s	Option gains £000s	LTIP £000s	Deferred bonus plan £000s	Total £000s	Total £000s
Current executive directors										
I R Dye (note i)	460	129	168	757	799	–	–	–	757	816
K Quinn (note ii)	277	75	72	424	454	–	–	–	424	454
Non-executive directors										
C R M Kemball	110	–	–	110	100	–	–	–	110	100
J D Burns	40	–	–	40	38	–	–	–	40	38
P G Rogerson	45	–	–	45	43	–	–	–	45	43
R H Schuster	40	–	–	40	32	–	–	–	40	32
P H Utnegaard	45	–	–	45	43	–	–	–	45	43
	1,017	204	240	1,461	1,509	–	–	–	1,461	1,526

Notes
(i) Included within benefits Roger Dye received pension contributions to his personal pension scheme of £138,000 (2007: £130,500) and a cash benefit of £3,150 (2007: £2,600) in respect of fuel allowance.
(ii) Included within benefits Kevin Quinn received pension contributions to his personal pension scheme of £55,400 (2007: £53,000) and a cash benefit of £12,000 (2007: £12,000) in respect of car allowance.
(iii) As a result of the company's financial performance for the financial year, the following bonuses were earned by the executive directors (out of a maximum 60% of salary potential): 18% of salary for Roger Dye and 18% of salary for Kevin Quinn. These payments reflected successful achievement of year end free cash flow targets; no bonuses were payable in respect of EPS performance. In addition, the executive directors also earned the following bonuses (out of a maximum 15% of salary potential), Roger Dye 10% of salary and Kevin Quinn 9% of salary, as a result of the successful achievement of pre-set financial and development targets during the year. 25% of the total 2008 bonus will be deferred for two years into shares.
(iv) The share based payment expense included in the financial statements for the year ended 31st December 2008 for Roger Dye and Kevin Quinn was £147,719 (2007 : £97,565) and £87,391 (2007: £56,277) respectively.

Directors' interests

(a) Total interests
The interests of the current directors and their families in the issued shares of the company and rights under the share option and sharesave schemes on the dates set out below were as follows:

	Number at 31st December 2008					Number at 31st December 2007				
	30 pence Ordinary shares	Share awards	Deferred shares (note i)	Share options	Sharesave scheme	30 pence Ordinary shares	Share awards	Deferred awards	Share options	Sharesave scheme
I R Dye (note ii)	102,999	197,574	18,260	100,000	2,157	92,999	106,815	8,177	100,000	2,157
K Quinn (note iii)	15,000	117,277	10,650	50,000	2,386	10,000	62,624	4,770	50,000	2,386
J D Burns	80,061	–	–	–	–	80,061	–	–	–	–
C R M Kemball	25,000	–	–	–	–	25,000	–	–	–	–
P G Rogerson	–	–	–	–	–	–	–	–	–	–
R H Schuster	–	–	–	–	–	–	–	–	–	–
P H Utnegaard	–	–	–	–	–	–	–	–	–	–

Notes
(i) These share awards were granted in respect of performance in the 2006 and 2007 financial years and will vest after two years subject normally to continued employment.
(ii) Roger Dye acquired 10,000 shares on 21st November 2008 at a price of 217.5 pence per share.
(iii) Kevin Quinn acquired 5,000 shares on 21st November 2008 at a price of 217.5 pence per share.
(iv) No changes have occurred in the above between 1st January 2009 and 26th February 2009.

Report on directors' remuneration continued

(b) Long-Term Incentive Awards at 31st December 2008

	1st January 2008 Number	During the year Granted Number	Vested Number	Lapsed Number	31st December 2008 Number	Market price at date of grant Pence	Performance conditions of exercise	Date of award	Vesting date
Performance Share plan (note ii)									
I R Dye	43,302	–	–	–	**43,302**	473.4	Note (ii)	2/05/06	1/05/09
	63,513	–	–	–	**63,513**	513.7	Note (ii)	5/03/07	4/03/10
	–	**90,759**	–	–	**90,759**	506.8	Note (ii)	6/03/08	5/03/11
	106,815	**90,759**	–	–	**197,574**				
K Quinn	23,932				**23,932**	473.4	Note (ii)	2/05/06	1/05/09
	38,692				**38,692**	513.7	Note (ii)	5/03/07	4/03/10
	–	**54,653**	–	–	**54,653**	506.8	Note (ii)	6/03/08	5/03/11
	62,624	**54,653**	–	–	**117,277**				
Deferred Bonus Plan (note iii)									
I R Dye	8,177	–	–	–	**8,177**	513.7	Note (iii)	5/03/07	4/03/09
	–	**10,083**	–	–	**10,083**	506.8	Note (iii)	6/03/08	5/03/10
K Quinn	4,770	–	–	–	**4,770**	513.7	Note (iii)	5/03/07	4/03/09
	–	**5,880**	–	–	**5,880**	506.8	Note (iii)	6/03/08	5/03/10

Notes
(i) The closing mid-market price of the ordinary shares at 31st December 2008 was 271.75 pence and during the year ranged from 182.75 pence to 532.5 pence.
(ii) All historic awards granted under the PSP are subject to satisfaction of a performance condition whereby the company's TSR is compared with the TSR of the constituents of the FTSE 250 Index (excluding Investment Trusts) over a three-year period. Awards will vest fully for upper quartile performance reducing on a sliding scale to 25% vesting for median performance. No awards will vest for below median performance. Additionally, to ensure that the underlying financial performance of the company is also sound, awards will only vest if the growth in the company's EPS matches or exceeds the growth in the Retail Prices Index over the corresponding three-year period.
(iii) These share awards were granted in respect of performance and will vest after two years subject normally to continued employment.

(c) Share options at 31st December 2008

	1st January 2008 Number	During the year Granted Number	Vested Number	Lapsed Number	31st December 2008 Number	Exercise price Pence	Market price at date of grant Pence	Exercise period
Share option schemes (note ii)								
I R Dye	100,000	–	–	–	**100,000**	445.75		2/06/08–1/06/15
K Quinn	50,000	–	–	–	**50,000**	445.75		2/06/08–1/06/15
Sharesave scheme								
I R Dye	2,157	–	–	–	**2,157**	445.00		1/12/10–31/05/11
K Quinn	2,386	–	–	–	**2,386**	396.00		1/12/09–31/05/10

(d) Deemed gain on exercise of share options

	2008 £000's	2007 £000's
I R Dye	–	17

Notes
(i) The closing mid-market price of the ordinary shares at 31st December 2008 was 271.75 pence and during the year ranged from 182.75 pence to 532.5 pence.
(ii) All options under this scheme are exercisable subject to the group's EPS growth, over any three-year period during the life of the option, exceeding the growth in the UK Retail Prices Index by at least 3% per annum. No further options will be granted under this scheme.

On behalf of the board

Per Utnegaard
Chairman of the remuneration committee
26th February 2009

Directors' report

The Directors' report of the company for the year ended 31st December 2008 is set out on pages 41–45 inclusive and includes the sections of the Annual Report referred to in these pages. The Directors' report has been drawn up and presented in accordance with, and in reliance upon, applicable English company law and the liabilities of the directors in connection with that report shall be subject to the limitations and restrictions provided by such law.

The directors present their annual report and audited financial statements for the year ended 31st December 2008.

This Annual Report contains forward looking statements. These forward looking statements are not guarantees of future performance. Rather they are based on current views and assumptions and involve known and unknown risks, uncertainties and other factors that may cause actual results to differ from any future results or developments expressed or implied from the forward looking statements. Each forward looking statement speaks only as of the date of the particular statement.

Principal activity
The principal activity of the group is the laundering and maintenance of textiles. Further information on the services provided are outlined on pages 4–5 of this report.

Business review
The UK Companies Act 2006 requires The Davis Service Group to set out in this report a fair review of the business of the group during the financial year ended 31st December 2008 including a description of the principal risks and uncertainties facing the group and an analysis of the position of the group's business at the end of the financial year, known as an 'Enhanced Business Review'.

The information that fulfils the current Business Review requirements can be found on the following pages of this Annual Report which are incorporated into this report by reference:

- the development and performance of the group's business during the year, see pages 2, 3 and 14–22;
- the position of the group's business at the end of the year, see pages 2, 3 and 51;
- main trends and factors likely to affect the future development, performance and position of the group, see pages 3–5 and 14–19;
- key performance indicators, see pages 1 and 6–7;
- a description of the principal risks and uncertainties facing the group, see pages 23–25;
- environmental matters and policy, including the impact of the group's business on the environment, see pages 12 and 28;
- employee matters and policy, see pages 11, 26 and 27;
- social and community issues and policy, see pages 26 and 28; and
- information about persons with whom the company has contractual or other arrangements which are essential to the business of the company, see pages 5 and 43.

Results and dividends
The financial statements set out the results of the group for the year ended 31st December 2008 which are shown on page 49. The directors recommend a final dividend of 13.5 pence per ordinary share which, together with the interim dividend of 6.5 pence per ordinary share paid in October 2008, makes a total dividend for the year of 20 pence (2007: 19.4 pence) per ordinary share. Subject to the approval by shareholders of the recommended final dividend, the dividend award to shareholders for 2008 will total £34.0 million. If approved, the company will pay the final dividend on 7th May 2009 to shareholders on the register at 17th April 2009.

Changes in composition of the group
The group acquired a number of textile maintenance businesses during the year. The total consideration including net financial liabilities assumed and deferred consideration payable for the acquisitions is £61.6 million.

Details of the fair value of net assets acquired and consideration paid are set out in note 30 to the financial statements.

Directors
The current directors of the company including their biographical details are set out on page 31. Each served throughout the year ended 31st December 2008.

John Burns and Kevin Quinn retire at the 2009 Annual General Meeting and, being eligible, offer themselves for re-election. The unexpired term of John Burns' service contract is 2 years, 2 months at 28th April 2009. Further details of notice periods are on page 38.

Details of the number of board and committee meetings held during the year and attendance by individual directors are included in the corporate governance statement on page 33.

Details on the directors' remuneration and service contracts and their interests in the shares of the company are included in the report on directors' remuneration which is set out on pages 36–40.

Directors' indemnity
Article 133 of the company's Articles of Association (the 'Articles') provides, among other things, that insofar as permitted by law, every director of the company or any associated company may be indemnified by the company against any liability.

Directors' report continued

On 30th June 2006 and 30th April 2007, the company executed deed polls for each of the then and all future executive and non-executive directors of the company and its wholly-owned subsidiaries respectively. The indemnities granted under these deed polls constitute qualifying third party indemnity provisions (as defined by Section 234 of the Companies Act 2006) and remain in force. The board believes that it is in the best interests of the group to provide these indemnities to its directors in order to ensure that it attracts and retains high calibre directors through competitive terms of employment in line with the market.

In addition, the company has arranged appropriate insurance cover in respect of legal action against its directors and officers.

Share capital and control
Pursuant to Section 992 of the Companies Act 2006, which implements the EU Takeovers Directive, the company is required to disclose certain additional information. Such disclosures, to the extent not covered elsewhere in the Director's report, include the information set out in the paragraphs below.

Rights and obligations attaching to shares
Subject to applicable statutes (in this section the 'Companies Acts'), any resolution passed by the company under the Companies Acts and other shareholders' rights, shares may be issued with such rights and restrictions as the company may by ordinary resolution decide, or (if there is no such resolution or so far as it does not make specific provision) as the board may decide. Subject to the Articles, the Companies Acts and other shareholders' rights, unissued shares are at the disposal of the board.

Voting
Every member and every duly appointed proxy present at a general meeting or class meeting has, upon a show of hands, one vote and every member present in person or by proxy has, upon a poll, one vote for every share held by him. In the case of joint holders of a share the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders and, for this purpose, seniority shall be determined by the order in which the names stand in the register in respect of the joint holding.

Restrictions on voting
No member shall be entitled to vote at any general meeting or class meeting in respect of any share held by him if any call or other sum then payable by him in respect of that share remains unpaid or if a member has been served with a restriction notice (as defined in the Articles) after failure to provide the company with information concerning interests in those shares required to be provided under the Companies Acts.

The company is not aware of any agreements between holders of securities that may result in restrictions on voting rights.

Dividends and other distributions
The company may by ordinary resolution from time to time declare dividends not exceeding the amount recommended by the board. Subject to the Companies Acts, the board may pay interim dividends, and also any fixed rate dividend, whenever the financial position of the company, in the opinion of the board, justifies its payment. If the directors act in good faith, they will not be liable for any loss that any shareholders may suffer because a lawful dividend has been paid on other shares which rank equally with or behind their shares.

The board may withhold payment of all or any part of any dividends or other moneys payable in respect of the company's shares from a person with at least a 0.25% interest (as defined in the Articles) if such a person has been served with a restriction notice (as defined in the Articles) after failure to provide the company with information concerning interests in those shares required to be provided under the Companies Acts.

Variation of rights
Subject to the Companies Acts, rights attached to any class of shares may be varied with the written consent of the holders of not less than three-fourths in nominal value of the issued shares of that class (calculated excluding any shares held as treasury shares), or with the sanction of a special resolution passed at a separate general meeting of the holders of those shares. At every such separate general meeting (except an adjourned meeting) the quorum shall be two persons holding or representing by proxy not less than one-third in nominal value of the issued shares of the class (calculated excluding any shares held as treasury shares).

The rights conferred upon the holders of any shares shall not, unless otherwise expressly provided in the rights attaching to those shares, be deemed to be varied by the creation or issue of further shares ranking pari passu with them.

Restrictions on transfer of securities in the company
There are no restrictions on the transfer of securities in the company, except:

- that certain restrictions may from time to time be imposed by laws and regulations (for example, insider trading laws); and
- pursuant to the Listing Rules of the Financial Services Authority whereby certain employees of the company require the approval of the company to deal in the company's ordinary shares.

The company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities.

Amendment of Articles of Association
Unless expressly specified to the contrary in the Articles, the Articles may be amended by a special resolution of the company's shareholders.

Appointment and replacement of directors
The directors shall be not less than two and there shall be no maximum number of directors. The company may by ordinary resolution vary the minimum and/or maximum number of directors. Under the Articles, a director shall not be required to hold any shares in the company. Directors may be appointed by the company by ordinary resolution or by the board. A director appointed by the board holds office only until the next following Annual General Meeting of the company and is then eligible for reappointment. The board or any committee authorised by the board may from time to time appoint one or more directors to hold any employment or executive office for such period and on such terms as they may determine and may also revoke or terminate any such appointment.

At every Annual General Meeting of the company any director who has been appointed by the board since the last Annual General Meeting, or who held office at the time of the two preceding Annual General Meetings and who did not retire at either of them, or who has held office with the company, other than employment or executive office, for a continuous period of nine years or more at the date of the meeting, shall retire from office and may offer himself for reappointment by the members. The company may by special resolution remove any director before the expiration of his period of office. The office of a director shall be vacated if: (i) he resigns or offers to resign and the board resolve to accept such offer; (ii) his resignation is requested by all of the other directors and all of the other directors are not less than three in number; (iii) he is or has been suffering from mental ill health and the board resolves that his office be vacated; (iv) he is absent without the permission of the board from meetings of the board (whether or not an alternate director appointed by him attends) for six consecutive months and the board resolves that his office is vacated; (v) he becomes bankrupt or compounds with his creditors generally; (vi) he is prohibited by a law from being a director; (vii) he ceases to be a director by virtue of the Companies Acts; or (viii) he is removed from office pursuant to the company's Articles.

Powers of the directors
Subject to the company's memorandum of association, the Articles, the Companies Acts and any directions given by the company by special resolution, the business of the company will be managed by the board who may exercise all the powers of the company, whether relating to the management of the business of the company or not. In particular, the board may exercise all the powers of the company to borrow money, to mortgage or charge any of its undertaking, property, assets (present and future) and uncalled capital and to issue debentures and other securities and to give security for any debt, liability or obligation of the company or of any third party.

Securities carrying special rights
No person holds securities in the company carrying special rights with regard to control of the company.

Rights under the employee share scheme
As at 31st December 2008, Appleby Trust (Jersey) Limited, as trustee of the Davis Service Group Employee Benefit Trust, held 441,873 shares on trust for the benefit of the executive directors and employees of the group. A dividend waiver is in place in respect of Appleby's shareholding and Appleby currently abstains from voting the shares but it may, upon the recommendation of the company, accept or reject any offer relating to the shares in any way it sees fit, without incurring any liability and without being required to give reasons for its decision. In exercising its trustee powers Appleby may take all or any of the following matters into account:

– the long-term interests of beneficiaries;
– the interests of beneficiaries other than financial interests;
– the interests of beneficiaries in their capacity as employees or former employees or their dependants;
– the interests of persons (whether or not identified) who may become beneficiaries in the future; and
– considerations of a local, moral, ethical, environmental or social nature.

Significant agreements
There are a number of agreements that take effect, alter or terminate upon a change of control of the company, such as commercial contracts, bank loan agreements, property lease arrangements, directors' service agreements and employees' share plans. None of these are deemed to be significant in terms of their potential impact on the business of the group as a whole except for The Davis Service Group's £420 million Revolving Facility Agreement dated 26th June 2005, the €200 million Revolving Facility Agreement dated 25th August 2008 and the $250 million US Private Placement Note Purchase Agreement dated 25th May 2006. These agreements contain change of control provisions which, if triggered, could limit future utilisations, require the repayment of existing utilisations or lead to a renegotiation of terms.

In addition, there exist agreements between the company and its directors and certain senior employees which provide for compensation for loss of office or employment due to a takeover bid. Copies of executive directors' service contracts are available to shareholders for inspection at the company's registered office and at the Annual General Meeting. Further details on directors' service contracts are included in the report on directors' remuneration which is set out on pages 36–40.

Directors' report continued

Substantial shareholdings

As at 26th February 2009 the company had been notified, pursuant to the Financial Services Authority's Disclosure & Transparency Rules, of the following notifiable voting rights in its issued share capital:

	Direct/indirect	No. of shares (m)	%
Silchester International Investors Limited	Direct	32.5	19.1
Prudential plc	Direct	24.5	14.4
Sanderson Asset Management Limited	Direct	8.4	5.0
Newton Investment Management Limited	Indirect	8.4	5.0
Taube Hodson Stonex Partners Limited	Indirect	7.4	4.4
Legal & General Assurance (Pensions Management) Limited	Direct	6.7	4.0
Barclays PLC	Not advised	5.1	3.0

Share capital

As at 26th February 2009, the company's authorised share capital consisted of £219,645,253 divided into 732,150,842 ordinary shares of 30 pence each (and one deferred share of 15 pence) of which there were 170,385,208 ordinary shares in issue (excluding shares held in treasury).

During the 12 months to 31st December 2008, 51,352 ordinary shares of 30 pence each in the company were issued in satisfaction of the exercise of employee share options under the terms of The Davis 1998 Share Option Plan, The Davis Service Group Savings Related Share Option Scheme and The Davis Service Group Sharesave Plan 2006 for a total consideration of £150,670.

As at 31st December 2008, the authority granted to the company for the purchase of up to 17,137,000 ordinary shares in the company remained in force and unused.

Details of the movements in the year are set out in note 21 to the financial statements.

Annual General Meeting

The notice of the Annual General Meeting to be held at 11.00 am on Tuesday 28th April 2009 is being sent separately to shareholders with this report. The venue for the meeting is the Royal Aeronautical Society, 4 Hamilton Place, London W1J 7BQ.

Authority to allot shares

Resolutions will be proposed to authorise the directors to allot shares up to approximately two-thirds of the company's issued ordinary share capital (in accordance with guidelines issued by the ABI on 31st December 2008) of which approximately 5% may be issued for cash on a non pre-emptive basis. This additional one-third authority, above the usual one-third authority, may only be used for rights issues. In any three year period, no more than 7.5% of the issued share capital will be issued for cash on a non pre-emptive basis. The two resolutions (numbers 9 and 10) are set out in full in the notice of Annual General Meeting. No issue will be made which would effectively alter the control of the company without the prior approval of shareholders in general meeting. The directors have no present intention of exercising this authority.

Purchase of own shares

In certain circumstances it may be advantageous for the company to purchase its own shares. A special resolution (number 11) will be proposed at the April 2009 Annual General Meeting to seek authority from shareholders to do so, such authority to expire on the date of the next following annual general meeting or a date 18 months from the date of the resolution, whichever is the earlier.

The resolution specifies the maximum number of shares which may be acquired (being 10% of the company's issued share capital) and the maximum and minimum prices at which they may be purchased. The shareholders' authority granted at the 2008 Annual General Meeting remains valid until the next annual general meeting.

If the company were to purchase any of its own shares, it may consider holding them as treasury shares as an alternative to cancelling them, subject to the authority allowed by resolution number 11, provided that the total number of treasury shares does not at any one time exceed 10% of the company's issued share capital. Companies are permitted to hold shares purchased on the market in treasury with a view to possible re-issue at a future date, as an alternative to cancelling them. This would allow the company to re-issue the shares held in treasury quickly and cost-effectively and would provide the company with additional flexibility in the management of its capital base. The share price on 31st December 2008 was 271.75 pence; the company currently holds 1,025,000 ordinary shares in treasury.

The board are committed to managing the company's capital effectively and the directors keep under review the option of buying back the company's shares. Other investment opportunities, appropriate gearing levels and the overall position of the company will be taken into account before deciding upon this course of action. The directors will only purchase the company's shares on the market if they believe it is in the best interests of shareholders generally.

Political and charitable donations

Financial contributions to a range of charities and good causes during the year amounted to £56,372 (2007: £44,272), principally to local charities serving the communities in which the group operates. There were no political donations during the year (2007: nil).

Creditor payment policy

Whilst the group does not follow any published code or standard on payment practice, it continues to be the group's policy to agree the terms of payment with each of its suppliers at the commencement of the trading relationship and to abide by those terms provided that the supplier has performed in accordance with the relevant terms and conditions. Trade creditor days of the company for the year ended 31st December 2008 were 10 days (2007: 10 days) and for the group's major trading companies were 44 days (2007: 50 days).

Auditors and disclosure of information to auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution that they may be reappointed will be proposed at the Annual General Meeting.

As far as each director is aware, there is no relevant audit information of which the company's auditors are unaware. Each director has taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the company's auditors are aware of that information.

Going concern

The group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Business Review on pages 1–28. The financial position of the group, its cash flows, liquidity position and borrowing facilities are described in the Financial Review on pages 48–104. In addition note 18 to the financial statements includes the group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit risk and liquidity risk.

The group has considerable financial resources together with long-term contracts with a number of customers and suppliers across different geographic areas and industries. As a consequence, the directors believe that the group is well placed to manage its business risks successfully despite the current uncertain economic outlook.

After reviewing the above and making enquiries, the directors have a reasonable expectation that the company and the group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and accounts.

Directors' conflicts of interest

There are procedures in place to deal with directors' conflicts of interest arising under Section 175 Companies Act 2006 and such procedures have operated effectively from 1st October 2008.

Directors' responsibilities

The directors' responsibilities for the financial statements contained within this annual report and the directors' confirmations required under DTR 4.1.12 are set out on page 46.

By order of the board

David Lawler
Company Secretary
26th February 2009

Directors' responsibilities for the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice). The group and parent company financial statements are required by law to give a true and fair view of the state of affairs of the company and the group and of the profit or loss of the company and group for that period.

The financial statements on pages 48–104 have been prepared on a going concern basis, suitable accounting policies have been used and applied consistently, reasonable and prudent judgements and estimates have been made and applicable accounting standards have been followed.

The directors are responsible for ensuring that the group and company keeps accounting records which disclose with reasonable accuracy the financial position of the company and which enable them to ensure that the financial statements comply with the Companies Act 1985 and Article 4 of the IAS Regulation and the parent company financial statements comply with the Companies Act 1985.

The directors have a general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and company and to prevent and detect fraud and other irregularities.

This statement, which should be read in conjunction with the Auditors' Report, is made with a view to distinguishing for members the respective responsibilities of the directors and the auditors in relation to the financial statements.

A copy of the financial statements/annual report is on the company's website at www.dsgplc.co.uk. The directors are responsible for the maintenance and integrity of the company's website, and the work carried out by the auditors does not involve consideration of these matters. Accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were placed on the 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.

In accordance with DTR 4.1.12, each of the directors confirms that, to the best of their knowledge:

i) the financial statements of the group, prepared in accordance with International Financial Reporting Standards as adopted by the EU, and the financial statements of the company, prepared in accordance with United Kingdom Generally Accepted Accounting Practice, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and

ii) the management report, which is incorporated into the Directors' Report, includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties they face.

The directors and their functions are listed on page 31.

By order of the board

David Lawler
Company Secretary
26th February 2009

Financial statements

Financial statements

Independent auditors' report
To the members of The Davis Service Group Plc

We have audited the group financial statements of The Davis Service Group Plc for the year ended 31st December 2008 which comprise the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of recognised income and expense, the accounting policies to the consolidated financial statements and the related notes 1 to 36. These group financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of The Davis Service Group Plc for the year ended 31st December 2008 and on the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the statement of directors' responsibilities to the financial statements.

Our responsibility is to audit the group financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the group financial statements give a true and fair view and whether the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the group financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman and Chief Executive's introduction, business review, operations review and financial review that is cross referred from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the group's corporate governance procedures or its risk and control procedures.

We read other information contained in the Annual Report and consider whether it is consistent with the audited group financial statements. The other information comprises only the sections 'Statements', 'Governance' (excluding the unaudited part of the Directors' Remuneration Report and the Directors' Report) and 'Investors'. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the group financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the group financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the group financial statements, and of whether the accounting policies are appropriate to the group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the group financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the group financial statements.

Opinion

In our opinion:

- the group financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31st December 2008 and of its profit and cash flows for the year then ended;
- the group financial statements have been properly prepared in accordance with the Companies Act 1985 and Article 4 of the IAS Regulation; and
- the information given in the Directors' Report is consistent with the group financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

26th February 2009

Consolidated income statement
For the year ended 31st December 2008

	Notes	**Year to 31st December 2008 £m**	Year to 31st December 2007 £m
Continuing operations			
Revenue	1	**953.9**	822.1
Cost of sales		**(519.0)**	(455.4)
Gross profit		**434.9**	366.7
Other operating income		**0.9**	3.9
Distribution costs		**(180.5)**	(153.4)
Administrative expenses		**(135.4)**	(105.5)
Other operating expenses		**(34.2)**	(16.7)
Operating profit	1	**85.7**	95.0
Analysed as:			
Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights	1	**116.6**	106.6
Exceptional items	4	**(11.5)**	0.8
Amortisation of customer contracts and intellectual property rights	9	**(19.4)**	(12.4)
Operating profit	1	**85.7**	95.0
Finance expense	2	**(28.7)**	(21.7)
Finance income	2	**3.4**	5.4
Profit before taxation		**60.4**	78.7
Taxation	5	**(18.3)**	(15.1)
Profit for the year		**42.1**	63.6
Analysed as:			
Profit attributable to minority interest		**0.4**	0.4
Profit attributable to equity shareholders		**41.7**	63.2
Earnings per share expressed in pence per share			
– Basic	7	**24.5**	37.1
– Diluted	7	**24.5**	37.0

Consolidated statement of recognised income and expense
For the year ended 31st December 2008

	Notes	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Profit for the year		42.1	63.6
Exchange adjustments offset in reserves	25	38.8	13.3
Actuarial (losses)/gains recognised in the pension scheme	32	(17.8)	23.1
Gain on cash flow hedges	25	3.7	3.3
Tax on items taken directly to equity		3.7	(11.3)
Net gains not recognised in income statement		28.4	28.4
Total recognised income for the year		70.5	92.0
Attributable to:			
Minority interest		0.4	0.4
Equity shareholders		70.1	91.6

Consolidated balance sheet
As at 31st December 2008

	Notes	As at 31st December 2008 £m	As at 31st December 2007 £m
Assets			
Goodwill	8	**488.0**	383.7
Other intangible assets	9	**55.6**	40.1
Property, plant and equipment	10	**576.6**	469.4
Assets classified as held for sale		**3.3**	2.2
Deferred tax assets	20	**16.6**	9.0
Derivative financial instruments	17	**54.5**	3.5
Trade and other receivables	13	**3.6**	–
Pension scheme surplus	32	**6.9**	12.9
Total non-current assets		**1,205.1**	920.8
Inventories	12	**43.4**	30.6
Income tax receivable		**8.5**	10.5
Derivative financial instruments	17	**1.1**	0.4
Trade and other receivables	13	**171.7**	161.7
Cash and cash equivalents	14	**72.5**	82.2
Total current assets		**297.2**	285.4
Liabilities			
Interest bearing loans and borrowings	16	**(3.9)**	(3.9)
Derivative financial instruments	17	**(0.2)**	(0.6)
Income tax payable		**(20.7)**	(16.2)
Trade and other payables	15	**(208.0)**	(188.7)
Provisions	19	**(5.8)**	(0.6)
Total current liabilities		**(238.6)**	(210.0)
Net current assets		**58.6**	75.4
Interest bearing loans and borrowings	16	**(612.7)**	(445.4)
Derivative financial instruments	17	**(49.2)**	(15.4)
Pension scheme deficits	32	**(30.4)**	(18.6)
Deferred tax liabilities	20	**(72.8)**	(56.7)
Provisions	19	**(2.5)**	–
Total non-current liabilities		**(767.6)**	(536.1)
Net assets		**496.1**	460.1
Equity			
Share capital	21	**51.4**	51.4
Share premium	22	**95.6**	95.5
Other reserves	24	**11.1**	8.4
Capital redemption reserve	25	**150.9**	150.9
Retained earnings	23	**183.7**	151.7
Total shareholders' equity		**492.7**	457.9
Minority interest in equity	26	**3.4**	2.2
Total equity	25	**496.1**	460.1

The financial statements on pages 49 to 95 were approved by the board and signed on its behalf.

I Roger Dye
Director

Kevin Quinn
Director

26th February 2009

Consolidated cash flow statement
For the year ended 31st December 2008

	Notes	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Cash flows from operating activities			
Cash generated from operations	28	262.8	246.4
Interest paid		(28.1)	(21.0)
Interest received		3.4	5.4
Income tax paid		(15.9)	(13.7)
Net cash generated from operating activities		222.2	217.1
Cash flows from investing activities			
Acquisition of subsidiaries, net of cash acquired	30	(50.3)	(103.7)
Purchases of property, plant and equipment		(175.5)	(172.1)
Proceeds from the sale of property, plant and equipment	28	6.0	8.0
Purchases of intangible assets	9	(5.5)	(5.2)
Special pension contribution payments		–	(12.5)
Receipt of loan notes		–	0.4
Net cash used in investing activities		(225.3)	(285.1)
Cash flows from financing activities			
Net proceeds from issue of ordinary share capital		0.1	2.1
Purchase of treasury shares and own shares by the Employee Benefit Trust		(2.1)	(1.1)
Drawdown of borrowings		25.2	34.6
Repayment of finance leases/hire purchase liabilities		(4.1)	(3.4)
Dividends paid to company's shareholders	6	(33.8)	(31.4)
Dividends paid to minority interest	26	(0.1)	(0.1)
Net cash (used in)/generated from financing activities		(14.8)	0.7
Net decrease in cash		(17.9)	(67.3)
Cash at beginning of year		82.2	149.7
Exchange gains/(losses) on cash		8.2	(0.2)
Cash at end of year		72.5	82.2
Free cash flow		47.2	47.8
Analysis of free cash flow			
Net cash generated from operating activities		222.2	217.1
Purchases of property, plant and equipment		(175.5)	(172.1)
Proceeds from the sale of property, plant and equipment		6.0	8.0
Purchases of intangible assets		(5.5)	(5.2)
Free cash flow from continuing operations		47.2	47.8

Accounting policies to the consolidated financial statements

Basis of preparation

The group financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union, IFRIC interpretations and the Companies Act 1985 applicable to companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention, as modified by the assets held for sale and financial assets and liabilities (including derivative instruments) at fair value through the income statement.

These financial statements have been prepared in accordance with the accounting policies, set out below, which have been consistently applied to all the years presented, except for those where IFRS 1 'First-time Adoption of International Financial Reporting Standards', permitted companies adopting IFRS for the first time to take exemptions.

The interpretation IFRIC 11, 'IFRS 2 – group and treasury share transactions', is effective for accounting periods beginning on or after 1st January 2008 but has no impact on the group.

The impact of IFRIC 14, 'IAS 19 – the limit on a defined benefit asset, minimum funding requirement and their interaction', has also been assessed and determined to have no material impact on the group in the current year.

The following Standards and Interpretations which have not been applied to these financial statements have been published but are not effective until accounting periods beginning on 1st July 2008 or later (and in some cases have not yet been adopted by the EU). Their expected impact is still being assessed in detail by management:

- Amendment to IAS 39, 'Financial instruments: Recognition and measurement', and IFRS 7, 'Financial instruments: Disclosures', on the 'Reclassification of financial assets'.
- IFRS 8, 'Operating segments'.
- Amendment to IFRS 2, 'Share-based payments' on 'Vesting conditions and cancellations'.
- IAS 1 (revised), 'Presentation of financial statements'.
- IAS 23 (revised), 'Borrowing costs'.
- IFRS 1 (revised) 'First-time adoption'.
- Amendment to IAS 39, 'Financial Instruments: Recognition and measurement' on 'Eligible hedged items'.
- Annual improvements to IFRSs.
- Amendment to IFRS 1 'First time adoption of IFRS' and IAS 27 'Consolidated and separate financial statements' on the ' Cost of an investment in a subsidiary, jointly controlled entity or associate'.
- Amendment to IAS 32, 'Financial instruments: Presentation', and IAS 1, 'Presentation of financial statements on Puttable financial instruments and obligations arising on liquidation'.
- IFRS 3 (revised), 'Business combinations'.
- IAS 27 (revised), 'Consolidated and separate financial statements'.
- IFRIC 12, 'Service concession arrangements'.
- 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'.
- IFRIC 17, 'Distribution of non-cash assets to owners'.

Consolidation

The group financial statements consolidate the financial statements of the company and all its subsidiaries. Subsidiaries are all entities over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. Subsidiaries are fully consolidated from the date on which control is transferred to the group and are de-consolidated from the date on which control ceases.

All intra-group transactions are eliminated as part of the consolidation process.

Business combinations

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method ('acquisition accounting'). The cost of a business acquisition is the aggregate of fair values, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued by the acquirer and any costs directly attributable to the business combination. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. An intangible asset, such as customer contracts, brands, patents or royalties, is recognised if it meets the definition of an intangible asset in IAS 38 'Intangible assets', and its fair value can be measured reliably. The excess of the cost of acquisition over the fair value of the group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the group's share of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Non-current assets held for sale

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of carrying amount and fair values less costs to sell.

Non-current assets (and disposal groups) are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Accounting policies to the consolidated financial statements continued

Segment reporting

A business segment is a group of assets and operations engaged in providing services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

Based on the risks and returns, the directors consider that the primary reporting format is by business segment and that the secondary reporting format is by geographical analysis by origin and destination.

During the year, the directors reassessed the number of reportable segments presented and created a new segment for 'Clinical solutions and decontamination'.

Foreign currency translation

(a) Functional and presentation currency
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in sterling, which is the company's functional and presentation currency.

(b) Group companies
The results of group entities that have a functional currency different from the presentation currency (sterling) are translated into sterling at the average exchange rate and the balance sheets are translated at year-end exchange rates. Exchange differences arising on retranslation are taken directly to shareholders' equity.

In addition, exchange differences arising from the translation of borrowings and other currency instruments designated as hedges of such investments are also taken to shareholders' equity.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Pre-contract/bid costs

Pre-contract costs are expensed as incurred until the group is appointed preferred bidder. Preferred bidder status provides sufficient confidence that the conclusion of the contract is probable, the outcome can be reliably measured and is expected to generate sufficient net cash inflows to enable recovery. Pre-contract costs incurred subsequent to appointment as preferred bidder are capitalised onto the balance sheet as prepayments. The prepayment is expensed to the income statement over the period of the contract.

Costs, which have been expensed, are not subsequently reinstated when a contract award is achieved.

Property, plant and equipment

Land and buildings comprise mainly factories and offices. All property, plant and equipment is shown at cost less subsequent depreciation, except for land, which is shown at cost. Cost includes expenditure that is directly attributable to the acquisition of the items.

Textile assets such as garments and linen and washroom equipment which are owned by the group entities where substantially all the risks and rewards of ownership of such equipment is retained by group entities are capitalised as fixed assets and depreciated over their estimated useful lives.

Depreciation of assets is calculated using the straight line method to allocate the cost of each asset to its residual value over its estimated useful life, as follows:

(a) Land and buildings
Depreciated at a rate of 2% per annum on an estimate of the buildings value of freehold properties and leasehold properties with 50 or more years unexpired at the balance sheet date. This rate has been determined having regard to the group's practice to maintain these assets in a continual state of sound repair and to extend and make improvements from time to time. Freehold land is not depreciated. Short leasehold land and buildings are depreciated by equal instalments over the period of the lease.

Major renovations are depreciated over the remaining useful life of the related asset or to the scheduled date of the next major renovation, whichever is sooner.

(b) Plant and machinery
Depreciated at rates of 10% to 50% per annum, depending on the class of the asset.

(c) Textile assets and washroom equipment
Depreciated at rates of 20% to 33%, depending on class of asset, and augmented where necessary by amounts to cover wastage, obsolescence and loss.

When properties, plant or equipment are sold, the difference between the sales proceeds and net book value is included in the income statement.

Residual values and useful lives of assets are reviewed annually and amended where necessary. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing value in use, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units) and cash flow forecasts are made on the assumptions consistent with the most up-to-date budgets and plans that have been formally approved by the directors. These cash flows are discounted using the weighted average cost of capital for the group, adjusted for the particular risks of the cash generating unit being reviewed for impairment.

Intangible assets

(a) Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill net of amortisation prior to 1st January 2005 in respect of business combinations made since 1st January 1998 is included within intangible assets. Goodwill in respect of business combinations made on or before 31st December 1997 remains eliminated against reserves.

Goodwill is tested annually for impairment by cash-generating units. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold except for goodwill eliminated against reserves.

(b) Computer software/Intellectual property rights
Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (not exceeding three years).

Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that it is estimated will generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the costs of software development employees.

Computer software development costs recognised as assets are amortised over their estimated useful lives (not exceeding five years).

(c) Customer contracts
Intangible assets arising either from legal or contractual rights which have been purchased are required to be separately identified from goodwill and are stated at historical cost, or in the case of intangible assets acquired as part of a business combination, at fair value. The fair value attributable to the customer contracts is determined by discounting the expected future cash flows to be generated from that asset at the risk adjusted weighted average cost of capital for the group. This amount is amortised over the period in which the company is expected to benefit from the contracts acquired, over periods ranging from two to five years.

Financial assets
The group classifies its non-derivative financial assets as loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. These are classified as non-current assets. Loans and receivables are classified as 'trade and other receivables' in the balance sheet.

Derivative financial instruments and hedging activities
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value at each balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The group designates certain derivatives as either (i) hedges of the fair value of recognised assets or liabilities (fair value hedge); or (ii) hedges of a particular risk associated with a recognised asset or liability, or a highly probable forecast transaction (cash flow hedge); or (iii) hedges of net investments in foreign operations (net investment hedge).

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items and its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting changes in fair values of hedged items.

The fair value of various derivative instruments used for hedging purposes are disclosed in note 17. Movements on the hedging reserve in shareholders' equity are shown in note 25. The group holds no trading derivatives.

(a) Fair value hedge
Changes in the fair value of the derivatives that are fully designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

The group has one fair value hedge in respect of a cross currency fixed to floating interest rate swap. If the hedge no longer meets the criteria for hedge accounting, the exchange component of the derivative will continue to be taken to the income statement 'other gains and losses' along with the exchange on the related borrowings. The interest component of the derivative item will be amortised to the income statement over the period to maturity.

(b) Net investment hedge
Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised directly against reserves. The gain or loss relating to any ineffective portion is recognised immediately in the income statement.

Gains and losses accumulated in equity are included in the income statement when the foreign operation is partially disposed of or sold.

(c) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated to qualify as cash flow hedges are recognised in equity. The group's cash flow hedges which are in respect of cross-currency interest rate swaps, interest rate swaps and forward foreign exchange contracts result in recognition in either the currency translation component of equity or in the hedging reserve.

When a hedging instrument expires or is sold, or when the hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss in equity at that time remains in equity and is recognised when the forecast transaction ultimately occurs. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity will be transferred to the income statement.

(d) Derivatives that do not qualify for hedge accounting
Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

Accounting policies to the consolidated financial statements continued

(e) Energy contracts
The group occasionally takes out energy contracts in relation to the supply of gas and electricity. Such contracts are not recognised as derivative financial instruments as they are held with the purpose of the receipt or delivery of a non-financial item in accordance with the entity's expected purchase, sale or usage requirements.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first in, first out (FIFO) method. The cost of finished goods and work in progress comprises of raw materials, direct labour, other direct costs and related production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Full provision is made for obsolete, defective and slow moving stock.

Trade receivables
Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the change in provision is recognised in the income statement.

Cash and cash equivalents
Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less.

Share capital
Ordinary shares are classified as equity and are recorded at par value of proceeds received, net of direct issue costs. Where shares are issued above par value, the proceeds in excess of par value are recorded in the share premium account.

Where any group company purchases the company's equity share capital, the consideration paid, including any directly attributable incremental costs, is deducted from equity attributable to the company's shareholders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental costs, is included in equity attributable to the company's shareholders.

Borrowings
Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost. Any difference between the amount initially recognised (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method. Commitment fees for undrawn committed borrowing facilities are expensed during the period to which they relate.

Borrowings are classified as non-current liabilities where the group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Current and deferred income tax
The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the group's subsidiaries operate and generate taxable income.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Employee benefits

(a) Pension obligations
The group operates various pension schemes. The schemes are funded through payments to insurance companies or a trustee administered fund, determined by periodic actuarial calculations. The group has both defined benefit and defined contribution plans. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity. The group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

The net liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability.

Current and past service costs, to the extent they have vested, are recognised in operating costs in the Income Statement together with interest costs on plan liabilities and the expected return on plan assets.

Cumulative actuarial gains and losses arising from experience adjustments and change in actuarial assumptions are credited or charged to the statement of recognised income and expense net of deferred tax.

For defined contribution plans, the group pays contributions to publicly or privately administered pension insurance or trustee administered plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

(b) Share based payment plans
The group's management awards employees share options, from time to time, both on a discretionary and non-discretionary basis which are subject to vesting conditions. The economic cost of awarding the share options to its employees is recognised as an employee benefit expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to the Black-Scholes option pricing model, for those schemes which have no market-based vesting conditions and the Monte-Carlo Model for the awards under the Performance Share Plan. The charge is recognised in the Income Statement over the vesting period of the award.

The proceeds received are credited to share capital (nominal value) and share premium when the options are exercised.

(c) Termination benefits
Termination benefits are payable when an employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is shown to be committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy.

(d) Holiday pay
Paid holidays are regarded as an employee benefit and as such are charged to the Income Statement as the benefits are earned. An accrual is made at the balance sheet date to reflect the fair value of holidays earned but not yet taken.

Provisions
Provisions for vacant properties, restructuring costs and legal claims are recognised when the group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

Revenue recognition
Group revenue comprises the fair value for the rendering of services, net of value added tax and other similar sales based taxes, rebates and discounts and after eliminating sales within the group. Revenue is recognised as follows:

(a) Service income
Income received or receivable in respect of service income is credited to revenue as and when services are rendered in respect of linen and washroom services. Revenue is recognised on a per item basis for delivery of laundered textiles to hotels and hospitals. Revenue for supply and laundering of Workwear is recognised on a regular, periodic basis in accordance with the terms of the contract.

(b) Sale of goods revenue
For non-contract based business, revenue represents the value of goods delivered.

Leases
Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding lease obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the asset's useful life and the lease term.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight line basis over the period of the lease.

Dividend distribution
Final dividend distribution to the company's shareholders is recognised as a liability in the group's financial statements in the period in which the dividends are approved by the company's shareholders. Interim dividends are recognised when paid.

Income statement presentation

(a) Exceptional items
Items that are either material in size or non operating in nature are presented as exceptional items in the income statement. The directors are of the opinion that the separate recording of exceptional items provides helpful information about the group's underlying business performance. Examples of events, which may give rise to the classification of items as exceptional include, inter alia, restructuring of businesses, gains and losses on disposal of properties, impairment of goodwill and non-recurring income.

(b) Amortisation of customer contracts and intellectual property rights
These are presented separately in the income statement as they arise from acquisitions.

Key assumptions and sources of estimation uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income, expenses and related disclosures. The estimates and underlying assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. This forms the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Changes in accounting estimates may be necessary if there are changes in the circumstances on which the estimate was based, or as a result of new information or more experience. Such changes are recognised in the period in which the estimate is revised.

The key assumptions about the future and key sources of estimation uncertainty that have a risk of causing a material adjustment to the carrying value of assets and liabilities within the next 12 months are described below.

(a) Property, plant and equipment and intangible assets, including goodwill
The group has property, plant and equipment with a carrying value of £576.6 million (note 10), goodwill with a carrying value of £488.0 million (note 8) and intangible assets with a carrying value of £55.6 million (note 9). These assets are reviewed annually for impairment as described above (intangible assets and property, plant and equipment sections). To assess if any impairment exists, estimates are made of the future cash flows expected to result from the use of the asset and its eventual disposal. Actual outcomes could vary from such estimates of discounted future cash flows. Factors such as changes in the planned use of buildings, machinery or equipment, or closure of facilities, the presence or absence of competition, or lower than anticipated sales could result in shortened useful lives or impairment.

(b) Pensions and other post-employment benefits
The group operates a number of defined benefit schemes within the UK and the Continent (note 32). As at 31 December 2008 the present value of the group's defined benefit obligation for funded plans was a surplus of £2.0 million and a deficit of £25.5 million for unfunded plans.

The calculations of the recognised assets and liabilities from such plans are based upon statistical and actuarial calculations. In particular the present value of the defined benefit obligation is impacted by assumptions on discount rates used to arrive at the present value of future pension liabilities, and assumptions on future increases in salaries and benefits. Furthermore, the group's independent actuaries use statistically based assumptions covering areas such as future withdrawals of participants from the plan and estimates on life expectancy. The actuarial assumptions used may differ materially from actual results due to changes in market and economic conditions, higher or lower withdrawal rates or longer or shorter life spans of participants and other changes in the factors being assessed. These differences could impact the assets or liabilities recognised in the balance sheet in future periods. The last triennial valuation of the main UK pension scheme took place in February 2007.

(c) Income taxes
At 31st December 2008, the net liability for current income taxes is £12.2 million and the net liability for deferred income taxes is £56.2 million as disclosed in note 20. Estimates may be required in determining the level of current and deferred income tax assets and liabilities, which management believes are reasonable and adequately recognises any income tax related uncertainties.

Various factors may have favourable or unfavourable effects on the income tax assets and liabilities. These include changes in tax laws, tax rates, interpretations of existing tax laws, future levels of spending and in overall levels of future earnings.

(d) Share-based payments
The economic cost of awarding shares and share options to employees is reflected by recording a charge in the income statement equivalent to the fair value of the benefit awarded over the vesting period. The fair values of the awards are determined by use of the Black-Scholes and Monte-Carlo models.

(e) Provisions
Provisions for vacant properties, restructuring costs and legal claims are recognised when the group has a present legal or constructive obligation as a result of past events and it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated.

Notes to the consolidated financial statements

1 Segment information

(a) Primary reporting format – business segments

Following a review of the reportable segments, the directors consider that the group now has two business segments: textile maintenance and clinical solutions and decontamination. The clinical solutions and decontamination business segment includes the Sunlight theatre textile business. The prior year results have been restated accordingly.

Based on the risks and returns the directors consider that the primary reporting format is by business segment and that the secondary reporting format is by geographical analysis by origin and destination. We provide additional disclosure for our secondary segment below.

The segment results for the year ended 31st December 2008 are as follows:

Continuing operations	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
Revenue	326.5	226.2	345.8	898.5	55.4	–	953.9
Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights	51.2	29.2	36.4	116.8	3.8	(4.0)	116.6
Exceptional items	(1.6)	(6.8)	(2.1)	(10.5)	–	(1.0)	(11.5)
Amortisation of customer contracts and intellectual property rights	(7.6)	(7.1)	(4.7)	(19.4)	–	–	(19.4)
Segment result	42.0	15.3	29.6	86.9	3.8	(5.0)	85.7
Net finance expense							(25.3)
Profit before taxation							60.4
Taxation							(18.3)
Profit for the year							42.1
Profit attributable to minority interests							0.4
Profit attributable to equity shareholders							41.7
Capital expenditure	97.5	45.0	69.4	211.9	9.0	–	220.9
Depreciation (note 10)	44.0	42.3	67.0	153.3	3.5	0.1	156.9
Amortisation (note 9)	9.6	7.3	4.8	21.7	1.0	–	22.7

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

Notes to the consolidated financial statements continued

1 Segment information continued

The segment results for the year ended 31st December 2007 are as follows:

Continuing operations	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
Revenue	263.8	191.8	330.9	786.5	35.6	–	822.1
Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights	43.8	29.2	35.3	108.3	2.9	(4.6)	106.6
Exceptional items	–	(2.1)	2.6	0.5	–	0.3	0.8
Amortisation of customer contracts and intellectual property rights	(3.6)	(5.1)	(3.7)	(12.4)	–	–	(12.4)
Segment result	40.2	22.0	34.2	96.4	2.9	(4.3)	95.0
Net finance expense							(16.3)
Profit before taxation							78.7
Taxation							(15.1)
Profit for the year							63.6
Profit attributable to minority interests							0.4
Profit attributable to equity shareholders							63.2
Capital expenditure	56.2	69.2	99.3	224.7	2.9	–	227.6
Depreciation (note 10)	37.3	38.8	64.7	140.8	3.0	0.1	143.9
Amortisation (note 9)	4.6	5.7	3.8	14.1	0.5	–	14.6

The segment assets and liabilities at 31st December 2008 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**
Operating assets	**617.9**	**394.6**	**308.3**	**1,320.8**	**84.8**	**5.8**	**1,411.4**
Deferred tax assets	**4.5**	**6.0**	**5.0**	**15.5**	**–**	**1.1**	**16.6**
Income tax assets	**0.2**	**0.2**	**0.6**	**1.0**	**–**	**7.5**	**8.5**
Non-current assets held for sale	**0.7**	**1.4**	**1.2**	**3.3**	**–**	**–**	**3.3**
Derivative financial instruments	**0.4**	**–**	**0.7**	**1.1**	**–**	**54.5**	**55.6**
Pension scheme surplus	**–**	**–**	**–**	**–**	**–**	**6.9**	**6.9**
Total assets	**623.7**	**402.2**	**315.8**	**1,341.7**	**84.8**	**75.8**	**1,502.3**
Operating liabilities	**77.1**	**51.7**	**42.9**	**171.7**	**34.9**	**9.7**	**216.3**
Bank loans and finance leases	**4.1**	**3.3**	**7.1**	**14.5**	**–**	**602.1**	**616.6**
Derivative financial instruments	**–**	**–**	**–**	**–**	**–**	**49.4**	**49.4**
Deferred tax liabilities	**31.1**	**20.3**	**16.8**	**68.2**	**–**	**4.6**	**72.8**
Income tax liabilities	**8.4**	**3.5**	**3.0**	**14.9**	**0.4**	**5.4**	**20.7**
Pension scheme deficit	**21.6**	**3.9**	**4.9**	**30.4**	**–**	**–**	**30.4**
Total liabilities	**142.3**	**82.7**	**74.7**	**299.7**	**35.3**	**671.2**	**1,006.2**

1 Segment information continued
The segment assets and liabilities at 31st December 2007 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
Operating assets	448.0	293.0	317.1	1,058.1	74.4	35.2	1,167.7
Deferred tax assets	2.9	2.5	3.6	9.0	–	–	9.0
Income tax assets	–	0.1	1.2	1.3	0.2	9.0	10.5
Non-current assets held for sale	–	1.0	1.2	2.2	–	–	2.2
Derivative financial Instruments	–	–	–	–	–	3.9	3.9
Pension scheme surplus	–	–	–	–	–	12.9	12.9
Total assets	450.9	296.6	323.1	1,070.6	74.6	61.0	1,206.2
Liabilities	57.2	34.3	61.5	153.0	30.2	6.1	189.3
Bank loans and finance leases	3.3	3.4	7.4	14.1	0.1	435.1	449.3
Derivative financial Instruments	–	–	–	–	–	16.0	16.0
Deferred tax liabilities	23.0	12.8	19.2	55.0	–	1.7	56.7
Income tax liabilities	3.9	2.2	0.3	6.4	–	9.8	16.2
Pension scheme deficit	14.2	3.2	1.2	18.6	–	–	18.6
Total liabilities	101.6	55.9	89.6	247.1	30.3	468.7	746.1

Segment assets consist primarily of property, plant and equipment, goodwill, other intangible assets, inventories, receivables and cash. Assets such as investments, pension scheme surplus, deferred tax assets, income tax assets and assets classified as held for sale are separately identified.

Segment liabilities comprise operating liabilities and separately identified pension scheme deficits, deferred tax liabilities, income tax liabilities and corporate borrowings.

Unallocated assets include segment assets as above for corporate entities.

Unallocated liabilities include segment liabilities as above for corporate entities.

(b) Secondary reporting format – geographical segments
The group's operations are based in three main geographical areas. The UK is the home country of the parent. The main operations are in the following principal territories:

- Nordic
- Continent
- UK and Ireland

The relevant information is given as part of the primary segment disclosure.

The group's revenue from the provision of services is 93% (2007: 93%).

Notes to the consolidated financial statements continued

2 Net finance costs

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Interest payable on bank borrowings	(26.7)	(20.0)
Interest payable on finance leases	(0.7)	(0.6)
Interest payable on other borrowings	(1.0)	(0.8)
Amortisation of issue costs of bank loans (note i)	(0.3)	(0.3)
Fair value gains on interest rate swaps (fair value hedge)	4.3	0.9
Fair value adjustment of bank borrowings attributable to interest rate risk	(4.3)	(0.9)
Finance expense	(28.7)	(21.7)
Finance income	3.4	5.4
Net finance costs	**(25.3)**	(16.3)

(i) This relates to loan issue costs arising on the Revolving Credit Facility and the US Private Placement which have been capitalised and will be amortised over the shortest period of the loan being five years and eight years respectively. During the year the group put in place a further €200 million Revolving Credit Facility. The loan issue costs arising have been capitalised and will be amortised by June 2012.

3 Expenses by nature

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
The following items have been included in arriving at operating profit:		
Staff costs (note 31)	388.0	328.4
Depreciation of property, plant and equipment (note 10):		
– Owned assets	152.6	139.9
– Under finance leases	4.3	4.0
Amortisation of intangible assets (included within other operating expenses) (note 9):		
– Customer contracts	19.2	12.0
– Intellectual property rights	0.2	0.4
– Computer software	3.3	2.2
Profit on disposal of fixed assets	(0.6)	(0.9)
Cost of inventory recognised as an expense in ‘cost of sales’	38.9	25.9
Cost of inventory written off	0.4	–
Other operating lease rentals payable:		
– Plant and machinery	6.1	5.5
– Property	5.1	7.0
Loss/(profit) on property disposals (note 4)	2.7	(2.6)
Restructuring costs (note 4)	6.6	2.1
Growth initiatives written off (note 4)	2.2	–
Income from receipt of loan notes (note 4)	–	(0.3)
Services provided by the group’s auditors and its associates		
Fees payable to the company’s auditor for the audit of the parent company and consolidated financial statements	0.2	0.2
Fess payable to the company’s auditor and its associates for other services:		
– the audit of the company’s subsidiaries pursuant to legislation	0.7	0.5
– services relating to taxation	0.1	0.1
– services relating to corporate finance transactions	0.1	0.1
Total services	1.1	0.9

4 Exceptional items

Included within other operating expenses are the following items which the group considers to be exceptional:

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Restructuring costs	**6.6**	2.1
Loss/(profit) on property disposals	**2.7**	(2.6)
Growth initiatives written off	**2.2**	–
Income from receipt of loan notes	**–**	(0.3)
Total	**11.5**	(0.8)

The restructuring costs relate primarily to Germany where the Healthcare business has undergone a significant reorganisation to lower the direct cost base. Central functions have been refocused to more closely align to the Workwear business. The cost comprises largely of employee termination payments. The tax credit on this is £0.5 million (2007: £0.8 million).

During the year net charges have been incurred for property disposals. This includes the closure of properties which are expected to be sold and realise an overall net profit in the future. The tax credit on this is £0.7 million (2007: charge of £0.3 million).

During the year the group incurred costs in relation to a number of growth initiatives and development investments. However, due to the current economic uncertainty these projects have been terminated or put on hold. The tax credit on this is £0.3 million.

In 2007, the group received a net settlement of loan notes amounting to £0.3 million, in relation to a previous disposal which had previously been fully provided for. There was no tax charge.

5 Taxation

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Analysis of tax charge for the year		
Current tax:		
Tax on profits for the current year	**20.5**	17.7
Adjustments in respect of previous years	**(0.1)**	(0.3)
	20.4	17.4
Deferred tax:		
Origination and reversal of temporary differences	**(1.2)**	2.9
Changes in statutory tax rates	**(0.9)**	(4.9)
Credit due to previously unrecognised temporary differences	**–**	(0.3)
Adjustment due to review of deferred tax assets	**0.4**	–
Adjustments in respect of previous years	**(0.4)**	–
	(2.1)	(2.3)
Total tax charge on continuing operations	**18.3**	15.1

The amount of overseas tax included in the total tax charge is £16.6 million (2007: £12.1 million).

Notes to the consolidated financial statements continued

5 Taxation continued

The tax charge for the year is different from the standard rate of corporation tax in the UK of 28.5% (2007: 30%). The difference is explained below:

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Profit before taxation from continuing operations	**60.4**	78.7
Multiplied by the rate of corporation tax in the UK of 28.5% (2007: 30%)	**17.2**	23.6
Effects of:		
Items not deductible for tax purposes	**1.0**	0.6
Non taxable income	**(0.2)**	(0.7)
Overseas tax rate differences	**(1.7)**	(2.6)
Changes in statutory tax rates	**(0.9)**	(4.9)
Impact of changes in UK tax regulations	**1.6**	–
Unrecognised tax losses	**1.3**	(0.3)
Other	**0.5**	(0.9)
Adjustment in respect of prior years	**(0.5)**	0.3
Total tax charge	**18.3**	15.1

Tax (credited)/charged to equity

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Deferred tax (credit)/charge on pension fund actuarial (losses)/gains	**(3.8)**	7.2
Deferred tax charge relating to share-based payments	**0.5**	0.3
Deferred tax charge on hedging reserve	**1.0**	0.9
Deferred tax (credit)/charge on exchange reserve	**(0.9)**	3.2
Other deferred tax charges	**(0.1)**	–
	(3.3)	11.6

6 Dividends

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Equity dividends paid during the year		
Final dividend for the year ended 31st December 2007 of 13.3 pence per share (2006: 12.4 pence)	**22.7**	21.1
Interim dividend for the year end 31st December 2008 of 6.5 pence per share (2007: 6.1 pence)	**11.1**	10.3
	33.8	31.4
Proposed final equity dividend for approval at the AGM		
Proposed final dividend for the year ended 31st December 2008 of 13.5 pence per share (2007: 13.3 pence)	**22.9**	22.7

The directors recommend a final dividend for the financial year ended 31st December 2008 of 13.5 pence per ordinary share to be paid on 7th May 2009 to shareholders who are on the register at 17th April 2009. This dividend is not reflected in these financial statements as it does not represent a liability at 31st December 2008.

7 Earnings per share

Basic earnings per ordinary share are based on the group profit for the year and a weighted average of 170,099,000 (2007: 170,101,043) ordinary shares in issue during the year.

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

	31st December 2008 Number of shares	31st December 2007 Number of shares
In issue	**170,099,000**	170,101,043
Dilutive potential ordinary shares arising from unexercised share options	**197,867**	671,998
	170,296,867	170,773,041

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 group is as follows:

	Year to 31st December 2008		Year to 31st December 2007	
	£m	**Earnings per share pence**	£m	Earnings per share pence
Profit attributable to equity shareholders of the company for basic earnings per share calculation	**41.7**	**24.5**	63.2	37.1
Loss/(profit) on property disposals (after taxation)	**2.0**	**1.2**	(2.3)	(1.3)
Exceptional income (after taxation)	**–**	**–**	(0.3)	(0.2)
Restructuring costs (after taxation)	**6.1**	**3.6**	1.3	0.8
Growth initiatives written off (after taxation)	**1.9**	**1.1**	–	–
Amortisation of customer contracts and intellectual property rights (after taxation)	**14.4**	**8.5**	8.4	4.9
Exceptional net tax effect due to changes in statutory tax rates and tax laws	**0.7**	**0.4**	(4.9)	(2.9)
Adjusted earnings	**66.8**	**39.3**	65.4	38.4
Diluted basic earnings		**24.5**		37.0

Notes to the consolidated financial statements continued

8 Goodwill

	2008 £m	2007 £m
Cost		
At 1st January	409.5	325.6
Acquisitions (note 30)	23.6	72.2
Currency translation	92.2	11.7
At 31st December	**525.3**	409.5
Aggregate impairment		
At 1st January	25.8	28.6
Currency translation	11.5	(2.8)
At 31st December	**37.3**	25.8
Net book amount at 31st December	**488.0**	383.7

During the year, goodwill was tested for impairment in accordance with IAS 36 'Impairment of assets'. Following the impairment test, it was determined that no impairment was required (2007: nil).

The recoverable amount for cash generating units has been measured based on a value-in-use calculation. A weighted average pre-tax discount rate of 11.0% (2007: 11.0%) was used in the value-in-use calculation.

The allocation of goodwill to cash generating units (CGU) by geographical segments is as follows:

	As at 31st December 2008 £m	As at 31st December 2007 £m
UK and Ireland	74.7	74.0
Nordic	253.7	193.1
Continent	159.6	116.6
Total	**488.0**	383.7

In testing goodwill for impairment, the recoverable amount of each CGU's goodwill is calculated, based on an estimate of their discounted future cash flows. Future cash flows are based on board approved budgets and strategic plans for a period of the next three years. Forecasts for the following years are conservatively extrapolated based on the growth rate and profitability outlined in the approved plans.

The following key assumptions in the value-in-use calculations were uniformly applied to each CGU:

- Budgeted revenue and salary growth was based on the group's approved budgets and strategic plans between 2009 and 2011.
- Budgeted margin between 2009 and 2011 was based on the average achieved margin in the 12 month period before the budget period uplifted for expected efficiency improvements which management believes are reasonably achievable.
- Prior to 2011, growth rates in excess of 10% are assumed in the developing countries where the group operates. This reflects the rate of growth historically in such countries and the significant potential for growth in the textile maintenance market.
- Growth rates reflected within the cash flows after 2011 have been increased in line with historic GDP growth for the appropriate country in determining the appropriate terminal value multiple.

	UK and Ireland	Nordic	Continent
Revenue growth after 2011	2.3%	2.3%	Up to 2.3%
Salary growth after 2011	2.3%	2.3%	Up to 2.3%

Management are of the opinion that it does not currently foresee a change in the key assumptions it has employed when determining the value-in-use calculations would result in any impairment.

The German Healthcare division has undergone significant restructuring in the second half of 2008 and from 2009 will be managed as a separate business with its own management board. An impairment review in accordance with the approach and assumptions outlined above has been carried out on the division and no impairment was recognised as the recoverable amount of goodwill and net assets exceeded its carrying value by 8%. The key assumptions used for the value-in-use calculation are as follows:

- A small revenue decline from 2008 level is assumed in 2009 and 2010 and to remain flat thereafter.
- As a result of the restructuring programmes implemented in 2008 and further efficiency improvement initiatives, operating margins have been assumed to grow from 2% in 2008 to double digit in the medium term in line with those previously achieved.

If the above assumptions are not achieved then impairment may become necessary.

9 Other intangible assets

	Computer software £m	Intellectual property rights £m	Customer contracts £m	Total £m
Cost				
At 1st January 2008	**22.0**	**1.4**	**49.0**	**72.4**
Acquisitions (note 30)	**–**	**–**	**25.6**	**25.6**
Additions	**5.5**	**–**	**–**	**5.5**
Disposals	**(0.2)**	**–**	**–**	**(0.2)**
Currency translation	**3.7**	**–**	**12.9**	**16.6**
At 31st December 2008	**31.0**	**1.4**	**87.5**	**119.9**
Aggregate amortisation				
At 1st January 2008	**10.2**	**1.2**	**20.9**	**32.3**
Charge for the year	**3.3**	**0.2**	**19.2**	**22.7**
Disposals	**(0.2)**	**–**	**–**	**(0.2)**
Currency translation	**2.8**	**–**	**6.7**	**9.5**
At 31st December 2008	**16.1**	**1.4**	**46.8**	**64.3**
Net book amount at 31st December 2008	**14.9**	**–**	**40.7**	**55.6**
Net book amount at 31st December 2007	**11.8**	**0.2**	**28.1**	**40.1**

	Computer software £m	Intellectual property rights £m	Customer contracts £m	Total £m
Cost				
At 1st January 2007	16.4	1.4	27.7	45.5
Acquisitions	–	–	19.3	19.3
Additions	4.8	–	0.4	5.2
Currency translation	0.8	–	1.6	2.4
At 31st December 2007	22.0	1.4	49.0	72.4
Aggregate amortisation				
At 1st January 2007	7.4	0.8	7.8	16.0
Charge for the year	2.2	0.4	12.0	14.6
Currency translation	0.6	–	1.1	1.7
At 31st December 2007	10.2	1.2	20.9	32.3
Net book amount at 31st December 2007	11.8	0.2	28.1	40.1
Net book amount at 31st December 2006	9.0	0.6	19.9	29.5

All amortisation charges have been charged through other operating expenses. The following useful lives have been determined for the intangible assets acquired during the year:

Computer software – three to five years.

Intellectual property rights – three to five years.

Customer contracts – two to five years.

Notes to the consolidated financial statements continued

10 Property, plant and equipment

	Land and buildings £m	Plant and machinery £m	Textile assets and washroom equipment £m	Total £m
Cost				
At 1st January 2008	177.1	416.3	530.2	1,123.6
Additions at cost	18.6	45.0	115.7	179.3
Acquisitions (note 30)	2.5	5.3	2.7	10.5
Disposals	(2.9)	(15.2)	(74.6)	(92.7)
Assets classified as held for sale	(0.6)	–	–	(0.6)
Currency translation	42.8	67.6	94.4	204.8
At 31st December 2008	237.5	519.0	668.4	1,424.9
Accumulated depreciation				
At 1st January 2008	57.8	258.5	337.9	654.2
Charge for the year	5.9	35.5	115.5	156.9
Disposals	(0.5)	(13.2)	(73.6)	(87.3)
Currency translation	16.0	45.5	63.0	124.5
At 31st December 2008	79.2	326.3	442.8	848.3
Net book amount at 31st December 2008	158.3	192.7	225.6	576.6
Net book amount at 31st December 2007	119.3	157.8	192.3	469.4

	Land and buildings £m	Plant and machinery £m	Textile assets and washroom equipment £m	Total £m
Cost				
At 1st January 2007	148.3	360.1	425.2	933.6
Additions at cost	8.8	47.6	121.2	177.6
Acquisitions	11.3	7.7	6.5	25.5
Disposals	(1.2)	(17.7)	(48.7)	(67.6)
Currency translation	9.9	18.6	26.0	54.5
At 31st December 2007	177.1	416.3	530.2	1,123.6
Accumulated depreciation				
At 1st January 2007	49.3	230.8	261.2	541.3
Charge for the year	5.1	32.2	106.6	143.9
Disposals	(0.6)	(16.5)	(47.7)	(64.8)
Currency translation	4.0	12.0	17.8	33.8
At 31st December 2007	57.8	258.5	337.9	654.2
Net book amount at 31st December 2007	119.3	157.8	192.3	469.4
Net book amount at 31st December 2006	99.0	129.3	164.0	392.3

Plant and machinery net book value includes assets held under finance leases of £10.5 million (2007: £10.1 million). Additions in the year include £3.8 million relating to finance leases (2007: £5.4 million).

11 Investments

	2008 £m	2007 £m
Cost or valuation		
At 1st January	–	8.0
Disposal (note i)	–	(8.0)
Currency translation	–	–
At 31st December	–	–
Amounts provided		
At 1st January	–	8.0
Disposal (note i)	–	(8.0)
Currency translation	–	–
At 31st December	–	–
Net book amount at 31st December	–	–

(i) In 2007 the group sold the outstanding US vendor loan notes for a net profit of £0.3 million. The loan notes had previously been fully provided for.

A list of principal subsidiary undertakings is given in note 27 on page 87.

12 Inventories

	As at 31st December 2008 £m	As at 31st December 2007 £m
Raw materials	**4.0**	3.5
Work in progress	**12.3**	9.3
Finished goods	**27.1**	17.8
	43.4	30.6

The cost of inventories recognised as an expense in 'cost of sales' during the year amounted to £38.9 million (2007: £25.9 million). During the year £0.4 million of inventory was written off (2007: nil).

13 Trade and other receivables

	As at 31st December 2008 £m	As at 31st December 2007 £m
Amounts falling due after one year:		
Prepayments and accrued income	**3.6**	–
	3.6	–
Amounts falling due within one year:		
Trade receivables	**141.6**	150.5
Less: Provision for impairment of receivables	**(6.1)**	(4.6)
	135.5	145.9
Other receivables	**9.5**	8.3
Prepayments and accrued income	**26.7**	7.5
	171.7	161.7

Trade receivables are non interest bearing and generally have a 30 day term. Due to their short maturities, the fair value of trade and other receivables approximate to their book value. All other receivables are recorded at amortised cost.

Other receivables include £8.5 million (2007: £6.6 million) of loans and receivables and £1.0 million (2007: £1.7 million) of non-financial assets.

Prepayments and accrued income falling due after one year relates to pre-contract costs incurred in the Clinical Solutions and Decontamination business. These will be expensed over the period of the contracts.

Notes to the consolidated financial statements continued

13 Trade and other receivables continued

The carrying amounts of trade and other receivables for financial assets are denominated in the following currencies, which in most instances are the functional currencies of the respective subsidiaries. We do not have any significant exposure to currency risk on these amounts.

	As at 31st December 2008 £m	As at 31st December 2007 £m
Sterling	35.0	65.5
Euro	51.4	40.5
Swedish krona	26.0	25.2
Danish krone	22.8	15.3
Other	8.8	6.0
	144.0	152.5

Provision for impairment of receivables

	As at 31st December 2008 £m	As at 31st December 2007 £m
At 1st January	4.6	3.1
Exchange adjustments	0.7	0.2
Charge for the year	1.8	2.4
Uncollectible amounts written off, net of recoveries	(1.0)	(1.1)
At 31st December	6.1	4.6

As at 31st December 2008, trade receivables of £51.8 million (2007: £57.3 million) were past due but not impaired. The ageing analysis of these trade receivables is as follows:

	As at 31st December 2008 £m	As at 31st December 2007 £m
Up to one month	36.1	42.2
One to three months	10.7	9.7
Over three months	5.0	5.4
	51.8	57.3

14 Cash and cash equivalents

	As at 31st December 2008 £m	As at 31st December 2007 £m
Cash at bank and in hand	72.5	69.4
Short-term bank deposits	–	12.8
	72.5	82.2

Cash at bank and in hand earns interest at floating rates based on bank deposit rates.

15 Trade and other payables

	As at 31st December 2008 £m	As at 31st December 2007 £m
Trade payables	**62.0**	62.7
Other tax and social security payable	**27.2**	25.0
Other creditors	**21.2**	26.9
Accruals and deferred income	**97.6**	74.1
	208.0	188.7

16 Financial liabilities – borrowings

Current	As at 31st December 2008 £m	As at 31st December 2007 £m
Bank loans:		
Unsecured	**0.5**	0.4
	0.5	0.4
Finance lease obligations	**3.4**	3.5
	3.9	3.9

Non-current	As at 31st December 2008 £m	As at 31st December 2007 £m
Bank loans:		
Unsecured	**605.3**	438.3
	605.3	438.3
Finance lease obligations	**7.4**	7.1
	612.7	445.4

Bank loans are denominated in a number of currencies and bear interest based on LIBOR or foreign equivalents appropriate to the currency in which the borrowing is incurred together with a margin as appropriate.

The effective interest rates (EIR) for the group's bank borrowings (including interest rate swaps) by currency at the balance sheet date were as follows:

	As at 31st December 2008		As at 31st December 2007	
	£m	EIR %	£m	EIR %
Borrowings under the revolving credit facility				
Euro	**248.5**	**4.05**	156.6	3.79
Danish krone	**53.8**	**4.57**	69.3	5.19
Swedish krona	**123.1**	**5.08**	84.2	4.79
	425.4	**4.41**	310.1	4.37
Borrowings under the US private placement				
Euro	**73.1**	**4.36**	55.3	4.36
Danish krone	**61.8**	**5.39**	43.7	4.79
Swedish krona	**62.7**	**4.32**	55.1	4.32
Currency translation	**(19.7)**	**–**	(28.0)	–
	177.9	**4.67**	126.1	4.47
Unamortised loan costs	**(1.2)**	**–**	(1.1)	–
Other bank borrowings				
Euro	**3.2**	**5.26**	3.2	5.06
	605.3	**4.50**	438.3	4.41

Notes to the consolidated financial statements continued

16 Financial liabilities – borrowings continued

On 22nd August 2008, the group entered into a €200 million revolving credit facility with five of its existing relationship banks. The facility will expire on 23rd June 2012 in line with the existing £420 million revolving credit facility.

In 2006 the group issued private placement notes of US$250 million which were immediately swapped into a basket of Danish krone, Swedish krona and euros (see note 17). These are stated above at the year end exchange rates.

As underlying currencies have been swapped from US dollars via derivative contracts the group has a gain on financial instruments (see note 17) which is offset by the currency translation loss on the underlying borrowing noted above. The borrowing under the US private placement of £177.9 million reflects the US$250 million translated at the year end sterling to dollar rate and the impact of derivatives.

Fair value of financial assets and liabilities

	As at 31st December 2008		As at 31st December 2007	
	Book value £m	**Fair value £m**	Book value £m	Fair value £m
Long-term borrowings (note 16)	**(612.7)**	**(633.6)**	(445.4)	(449.0)
Fair value of other financial assets and liabilities				
Short-term borrowings (note 16)	**(3.9)**	**(3.9)**	(3.9)	(3.9)
Trade and other payables (note 15)	**(208.0)**	**(208.0)**	(188.7)	(188.7)
Trade and other receivables (note 13)	**144.0**	**144.0**	152.5	152.5
Short-term deposits (note 14)	**–**	**–**	12.8	12.8
Cash at bank and in hand (note 14)	**72.5**	**72.5**	69.4	69.4

The fair value of the group's fixed rate loans are calculated by discounting expected future cash flows using the appropriate yield curve. The book values of floating rate borrowings approximate their fair value.

Maturity of financial liabilities

	As at 31st December 2008			As at 31st December 2007		
	Borrowings £m	**Finance leases £m**	**Total £m**	Borrowings £m	Finance leases £m	Total £m
Within one year	**0.5**	**3.4**	**3.9**	0.4	3.5	3.9
In more than one year but not more than two years	**0.1**	**3.5**	**3.6**	0.4	2.8	3.2
Over two years but not more than five years	**425.9**	**3.9**	**429.8**	311.4	4.3	315.7
Over five years	**179.3**	**–**	**179.3**	126.5	–	126.5
	605.8	**10.8**	**616.6**	438.7	10.6	449.3

Borrowing facilities

The group has the following undrawn committed borrowing facilities available at 31st December and on which it incurs commitment fees at market rates:

	As at 31st December 2008 £m	As at 31st December 2007 £m
Expiring in more than two years	**189.3**	109.9
	189.3	109.9

The minimum lease payments under finance leases fall due as follows:

	As at 31st December 2008 £m	As at 31st December 2007 £m
Not later than one year	**3.7**	3.9
Later than one year but not more than five	**8.7**	7.7
	12.4	11.6
Future finance charges on finance leases	**(1.6)**	(1.0)
Present value of finance lease liabilities	**10.8**	10.6

17 Derivative financial instruments

The derivatives we have used qualify for one or more hedge type designations under IAS 39. The fair value and the notional amounts by designated hedge type are as follows:

	As at 31st December 2008			As at 31st December 2007		
	Assets Fair value £m	Liabilities Fair value £m	Notional £m	Assets Fair value £m	Liabilities Fair value £m	Notional £m
Fair value hedges						
Cross-currency interest rate swaps	11.0	–	39.8	–	(2.8)	26.0
	11.0	–		–	(2.8)	
Cash flow hedges						
Interest rate swaps	–	(6.1)	278.6	3.9	–	151.1
Cross-currency interest rate swaps	43.5	–	138.1	–	(7.5)	100.1
Forward foreign exchange contracts	1.1	–	6.2	–	–	–
	44.6	(6.1)		3.9	(7.5)	
Net investment hedges						
Cross-currency interest rate swaps	–	(43.3)	177.9	–	(5.7)	126.1
	–	(43.3)		–	(5.7)	
Total	55.6	(49.4)		3.9	(16.0)	

The ineffective portion arising from fair value hedges was profit of £14,072 (2007: profit of £39,446).

The maturity of all derivative financial instruments is as follows:

	As at 31st December 2008		As at 31st December 2007	
	Asset £m	Liability £m	Asset £m	Liability £m
In one year or less	1.1	(0.2)	0.4	(0.6)
Current	1.1	(0.2)	0.4	(0.6)
In more than one year, but not more than two years	–	(1.4)	–	–
In more than two years, but not more than three years	–	–	3.0	–
In more than three years, but not more than four years	–	(2.0)	–	–
In more than four years, but not more than five years	–	(3.4)	0.5	–
In more than five years	54.5	(42.4)	–	(15.4)
Non-current	54.5	(49.2)	3.5	(15.4)

Background

On 3rd January 2006, the group swapped notional principal of €150 million from floating to fixed rates to reduce the interest rate exposure arising on its revolving credit facility. The four swaps entered into for this purpose have been designated as cash flow hedges.

On 19th January 2007, the group swapped a further notional principal of €55 million from floating to fixed rates and the two swaps entered into have been designated as cash flow hedges.

On 23rd January 2008, a notional principal amount of DKK 400 million was swapped from floating to fixed rates. This swap has been designated as a cash flow hedge.

On 16th September 2008, a further notional principal amount of SEK 300 million was swapped from floating to fixed rates. The swap entered into has been designated as a cash flow hedge.

On 25th May 2006 the group undertook a private placement in the US for $250 million at fixed rates for periods between 8–12 years and the amount was immediately converted into Danish krone, Swedish krona and euros. The conversion into Danish krone, Swedish krona and euros was achieved in two stages. In the first stage six swaps were taken out to convert US dollars to sterling. Five of these hedges have been designated as cash flow hedges and one as a fair value hedge. In the second stage six further swaps were taken out to convert sterling to the required currencies. These have been designated as hedges of net investment in foreign subsidiaries. The fixed interest rate cross currency contracts entered into have options exercisable by either party to terminate after five years and ten years if relevant. The value of the swap at the time would then be cash settled. These swaps all have a maturity of greater than 12 months.

Notes to the consolidated financial statements continued

17 Derivative financial instruments continued

During the year in accordance with group policy, the group entered into several forward foreign exchange contracts for the purchase of US dollars in the future at fixed rates. These forward contracts reduce the foreign exchange exposure on the procurement of textiles and capital equipment from Far East suppliers. These derivatives are designated cash flow hedges. The contracts all have a maturity of less than one year.

Cash flow hedges
The interest rate swaps have resulted in the recognition of a derivative liability of £6.1 million. At 31st December 2008 the fixed interest rates vary from 3.11% to 4.54%, the floating euro rate being EURIBOR, the floating Danish krone rate being CIBOR and the floating Swedish krona rate being STIBOR. The blended rate for the group on this amount is 4.1%.

Of the $250 million private placement $200 million was swapped into fixed rates via sterling swaps. The fixed rate on the US private placement which has been swapped varies from 5.56% to 5.66%. The derivative asset recognised on these five instruments is £43.5 million. The exchange component of this derivative movement has been accounted for as a component part of currency translation (£38.0 million profit). The remaining £13.0 million profit has been taken to the hedging reserve.

The forward foreign exchange contracts have resulted in the recognition of a derivative asset of £1.1 million.

Net investment hedges
The second stage of the US private placement swaps results in sterling being exchanged into Danish krone, Swedish krona and euros. At 31st December the fixed rate borrowings vary between rates of 4.26% and 4.63% on the fixed European swaps. The floating Danish krone swap varies is on CIBOR.

These swaps are accounted for as hedges of the group's assets in the relevant countries. The derivative liability arising of £43.3 million has been accounted for as a component part of currency translation (£37.5 million loss).

The group's borrowing under its revolving credit facility, designated as a hedge of its European operations. The carrying value of the borrowings as at 31st December 2008 was £605.3 million (2007: £438.3 million). The foreign exchange loss of £47.5 million on translation is in reserves as a component part of currency translation. The swaps used in relation to this hedge have a maturity of between two and five years with no contractual re-pricing.

Fair value hedges
$50 million of the US Private placement was swapped into a floating Danish krone 309.1 million, via a sterling swap. The sterling swap is dealt with as a fair value hedge. The ineffective portion of the fair value hedge resulted in a profit of £14,072 (2007: £39,446).

The fair value hedge has resulted in the recognition of a £11.0 million derivative asset.

18 Financial risk management

18.1 Financial risk factors

The group's activities expose it to a variety of financial risks: market risk (including currency risk; fair value interest rate risk; cash flow interest rate risk and price risk); credit risk and liquidity risk. The group's overall risk management programmes focus on the unpredictability of financial markets and seek to minimise potential adverse effects on the group's financial performance. The group uses derivative financial instruments to hedge certain risk exposures.

Risk management is carried out by the group finance team under the supervision of the Finance Director under policies approved by the board of directors. The Finance Director identifies, evaluates and hedges financial risks in close co-operation with the group's operating units. The board approves written principles for foreign exchange risk, interest rate risk and credit risk, and the use of derivative financial instruments and non-derivative financial instruments, and receives regular reports on such matters.

a) Market risk

i) Foreign exchange risk
The group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the euro, Swedish krona and Danish krone. Foreign exchange risk arises from future commercial transactions, recognised assets and liabilities and net investments in foreign operations.

The majority of operations in the group bill their revenues and incur their costs in the same functional currency. The group faces some currency exposure in respect of the procurement of textiles and capital equipment from Far East suppliers.

The group policy is to enter forward contracts to purchase US dollars based upon the expected purchases. These derivatives are classified as cash flow hedges.

18.1 Financial risk factors continued
The group's policy is not to hedge foreign currency exposures on the translation of its overseas profit to sterling. Where appropriate, borrowings are effectively arranged in currencies so as to provide a natural hedge against the investment in overseas net assets.

During 2008 and 2007, derivative financial instruments were used to manage foreign currency risk as follows:

							As at 31st December 2008
	Sterling £m	Euro £m	US dollar £m	Danish krone £m	Swedish krona £m	Other £m	Total £m
Cash and cash equivalents	**29.9**	**20.5**	**–**	**32.5**	**19.2**	**4.3**	**106.4**
Bank overdrafts	**–**	**(21.5)**	**–**	**(11.8)**	**(0.1)**	**(0.5)**	**(33.9)**
Net cash and cash equivalents (note 14)	**29.9**	**(1.0)**	**–**	**20.7**	**19.1**	**3.8**	**72.5**
Borrowings, excluding finance lease liabilities	**1.2**	**(252.2)**	**(177.9)**	**(53.8)**	**(123.1)**	**–**	**(605.8)**
Finance lease liabilities	**(7.0)**	**–**	**–**	**(0.1)**	**(3.0)**	**(0.7)**	**(10.8)**
Pre-derivative position	**24.1**	**(253.2)**	**(177.9)**	**(33.2)**	**(107.0)**	**3.1**	**(544.1)**
Derivative effect	**0.6**	**(63.9)**	**177.9**	**(54.3)**	**(54.1)**	**–**	**6.2**
Net debt position	**24.7**	**(317.1)**	**–**	**(87.5)**	**(161.1)**	**3.1**	**(537.9)**

							As at 31st December 2007
	Sterling £m	Euro £m	US dollar £m	Danish krone £m	Swedish krona £m	Other £m	Total £m
Cash and cash equivalents	46.7	20.8	–	26.9	12.3	3.1	109.8
Bank overdrafts	(0.4)	(9.9)	–	(17.1)	(0.2)	–	(27.6)
Net cash and cash equivalents (note 14)	46.3	10.9	–	9.8	12.1	3.1	82.2
Borrowings, excluding finance lease liabilities	1.1	(160.2)	(126.1)	(69.3)	(84.2)	–	(438.7)
Finance lease liabilities	(7.5)	–	–	(0.1)	(2.7)	(0.3)	(10.6)
Pre-derivative position	39.9	(149.3)	(126.1)	(59.6)	(74.8)	2.8	(367.1)
Derivative effect	–	(46.7)	126.1	(41.9)	(49.6)	–	(12.1)
Net debt position	39.9	(196.0)	–	(101.5)	(124.4)	2.8	(379.2)

The exposure to euro, Swedish krona and Danish krone largely relate to our net investment hedge activities as described and shown in note 17.

ii) Price risk
The group is not exposed to any equity securities or commodities price risk.

iii) Cash flow and fair value interest rate risk
The group's interest bearing assets include cash and cash equivalents which earn interest at floating rates. The group's income and operating cash flows are substantially independent of changes in market interest rates.

The group's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk. Group policy is to maintain a majority of its borrowings at fixed rate using interest rate swaps to achieve this when necessary. During 2008 and 2007, the group's borrowings at variable rate were denominated in euro, Swedish krona and Danish krone. As at 31st December 2008, the group has the following swaps to convert floating rate debt to fixed rate debt: €205 million, DKK 400 million and SEK 300 million.

Notes to the consolidated financial statements continued

18.1 Financial risk factors continued

The following table sets out the carrying amount, by contractual repricing date (or maturity where there is no repricing), of fixed rate borrowings that are exposed to interest rate risk before taking into account interest rate swaps:

	As at 31st December 2008 £m	As at 31st December 2007 £m
Fixed interest rate borrowings		
In one year or less	**3.9**	3.9
In more than one year, but not more than two years	**3.6**	3.2
In more than two years but not more than five years	**4.4**	5.6
In more than five years	**179.3**	126.5
	191.2	139.2
Floating interest rate borrowings	**425.4**	310.1
Total borrowings	**616.6**	449.3

During 2008 and 2007, net debt was managed using derivative instruments to hedge interest rate risk as follows:

	As at 31st December 2008			As at 31st December 2007		
	Fixed-rate £m	**Floating-rate £m**	**Total £m**	Fixed-rate £m	Floating-rate £m	Total £m
Cash and cash equivalents	**–**	**72.5**	**72.5**	–	82.2	82.2
Borrowings	**(191.2)**	**(425.4)**	**(616.6)**	(139.2)	(310.1)	(449.3)
Pre-derivative position	**(191.2)**	**(352.9)**	**(544.1)**	(139.2)	(227.9)	(367.1)
Derivative effect (note i)	**(244.7)**	**249.8**	**5.1**	(132.6)	120.5	(12.1)
Net debt position	**(435.9)**	**(103.1)**	**(539.0)**	(271.8)	(107.4)	(379.2)

(i) Excludes the forward foreign exchange contract derivatives.

b) Credit risk

Credit risk is managed on a group or local basis as appropriate. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as credit exposures to customers, including outstanding receivables and committed transactions.

For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Trade receivables consist of a large number of customers spread across geographical areas. If there is no independent rating, management assesses the credit quality of the customer taking into account, its financial position, past experience and other factors. Individual risk limits are set based on internal ratings. Management monitors the utilisation of credit limits regularly.

Management does not expect any significant losses of receivables that have not been provided for as shown in note 13 (trade receivables). Management does not expect any losses from non-performance by the counterparties.

Treasury related credit risk
Counterparty risk arises from the investment of surplus funds and from use of derivative instruments.

As at 31st December 2008 and 31st December 2007, we had a number of exposures to individual counterparties. In accordance with our treasury policies and exposure management practices, counterparty credit exposure limits are continually monitored and no individual exposure is considered significant in the ordinary course of treasury management activity. Management does not expect any significant losses from non-performance by these counterparties.

The counterparty exposure under all financial assets including trade and other receivables, cash and cash equivalents and derivative financial contracts were £272.1 million (2007: £238.3 million).

18.1 Financial risk factors continued

c) Liquidity risk

We manage our liquidity requirements by the use of both short and long-term cash flow forecasts. These forecasts are supplemented by a financial headroom position which is used to demonstrate funding adequacy for periods of 12–36 months.

The table below analyses the group's financial liabilities which will be settled on a net basis into relative maturity groupings based on the remaining period at the balance sheet to the contract maturity date. The amounts disclosed in the table are contractual undiscounted cash flows using spot interest and foreign exchange rates at 31st December 2008. Balances due within 12 months equal their carrying balances as the impact of the discount is not significant.

	As at 31st December 2008				
	Due within one year £m	**Due between one and two years £m**	**Due between two and five years £m**	**Due five years and beyond £m**	**Total £m**
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	**0.5**	**0.1**	**426.0**	**179.2**	**605.8**
Interest payments on borrowings	**22.3**	**22.3**	**33.1**	**–**	**77.7**
Finance lease liabilities	**3.4**	**3.5**	**3.9**	**–**	**10.8**
Other non-interest bearing liabilities	**179.4**	**–**	**–**	**–**	**179.4**
Derivative financial liabilities					
Derivative contracts – payments	**8.9**	**8.9**	**26.7**	**25.7**	**70.2**
Total at 31st December 2008	**214.5**	**34.8**	**489.7**	**204.9**	**943.9**

	As at 31st December 2007				
	Due within one year £m	Due between one and two years £m	Due between two and five years £m	Due five years and beyond £m	Total £m
Non-derivative financial liabilities					
Borrowings, excluding finance lease liabilities	0.4	0.4	311.4	126.5	438.7
Interest payments on borrowings	15.4	15.4	38.3	–	69.1
Finance lease liabilities	3.5	2.8	4.3	–	10.6
Other non-interest bearing liabilities	159.8	–	–	–	159.8
Derivative financial liabilities					
Derivative contracts – payments	6.8	6.8	20.4	26.3	60.3
Total at 31st December 2007	185.9	25.4	374.4	152.8	738.5

d) Sensitivity analysis

Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments. The following analysis is intended to illustrate the sensitivity to changes in market variables, being UK, euro, Swedish krona and Danish krone interest rates and sterling exchange rate on our financial instruments. We have excluded from this analysis the impact of movements in market variables on the carrying values of trade receivables and payables, since these are not exposed to risk from the market variables.

This analysis excludes the impact of movements in market variables on the carrying value of pension and other post-retirement obligations, provisions and on the non-financial assets and liabilities of overseas subsidiaries.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 31st December 2008 and 31st December 2007. As a consequence, this sensitivity analysis relates to the positions at those dates and is not representative of the years then ended, as all of these varied.

The following assumptions were made in calculating the sensitivity analysis:

- financial derivatives in net investment hedging relationship will not influence interest or foreign exchange sensitivity analysis;
- the sensitivity of accrued interest to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments;
- the sensitivity of accrued interest to movements in interest rates is recorded fully within the income statement;
- changes in the carrying value of financial instruments from movements in exchange rates are recorded fully within equity.

Notes to the consolidated financial statements continued

18.1 Financial risk factors continued

The following table shows the group's exposure to foreign exchange risk as at 31st December 2008 and 31st December 2007, which is a result of foreign exchange gains/losses on translation of foreign currency denominated borrowings. The foreign exchange risk is naturally hedged against the net assets of our operations in Continental Europe. All foreign exchange on both the borrowings and net assets is taken to reserves where it will offset.

	As at 31st December 2008 Equity £m	As at 31st December 2007 Equity £m
Euro exchange rate + 10%	28.8	17.8
Euro exchange rate –10%	(35.2)	(21.8)
Danish krone exchange rate +10%	8.0	9.2
Danish krone exchange rate –10%	(9.7)	(11.3)
Swedish krona exchange rate +10%	14.6	11.3
Swedish krona exchange rate –10%	(17.9)	(13.8)

The table below shows the sensitivity of post-tax profit to interest rates as at 31st December 2008 and 31st December 2007, due to an increase/decrease in interest rates of 100 basis points (bp) with all other variables held constant. Post-tax profit for the year would have been mainly affected through interest expense on floating rate cash and cash equivalents and borrowings.

	As at 31st December 2008 Income statement £m	As at 31st December 2007 Income statement £m
UK interest rates ±100bp	0.3	0.5
Euro interest rates ±100bp	(0.5)	0.1
Danish krone interest rates ±100bp	(0.2)	(0.9)
Swedish krona interest rates ±100bp	(0.8)	(0.7)

18.2 Capital management

The group's objectives when managing its capital structure are to safeguard the group's ability to continue as a going concern, to provide appropriate returns for shareholders and benefits for other stakeholders.

In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or take other steps to increase share capital or reduce debt.

The group manages its capital structure using a number of measures and taking into account its future strategic plans. Such measures include its net interest cover and leverage ratios, which are included in its banking covenants. The group continues to remain compliant with all its banking covenants.

Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents.

19 Provisions

	Vacant properties £m	Restructuring £m	Property disposals £m	Total £m
At 1st January 2008	0.3	0.3	–	0.6
Charged in the year	–	6.6	–	6.6
Utilised in the year	(0.1)	(2.3)	–	(2.4)
Reclassification from other creditors	–	–	2.5	2.5
Currency translation	–	1.0	–	1.0
At 31st December 2008	0.2	5.6	2.5	8.3

All provisions 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.

20 Deferred tax

Deferred tax is calculated in full on temporary differences under the liability method using the tax rate applicable to the territory in which the difference arises.

(a) The movement on the net deferred tax account is as shown below:

	2008 £m	2007 £m
At 1st January	(47.7)	(28.1)
Acquisitions	(5.3)	(8.3)
Charged to income (note 5)	2.1	2.3
Charged/(credited) to equity	3.3	(11.6)
Currency translation	(8.6)	(2.0)
At 31st December	(56.2)	(47.7)

The balance sheet presentation shown below is after the offsetting of deferred tax balances within the same tax jurisdiction. Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Balance sheet presentation

	As at 31st December 2008 £m	As at 31st December 2007 £m
Deferred tax assets	16.6	9.0
Deferred tax liabilities	(72.8)	(56.7)
	(56.2)	(47.7)

Deferred tax assets have been recognised in respect of tax losses and other temporary differences giving rise to deferred tax assets where it is considered probable that these assets will be recovered.

Notes to the consolidated financial statements continued

20 Deferred tax continued

Deferred tax assets have not been recognised as follows:

	As at 31st December 2008 £m	As at 31st December 2007 £m
Unused tax losses	4.9	1.4

Included in unused tax losses is an amount of £0.3 million (2007: nil) which will expire in 2013 if relevant losses are not used.

No deferred tax is recognised on the unremitted earnings of overseas subsidiaries. As the earnings are reinvested by the group or the timing of dividends is controlled by the parent, no tax is expected to be payable on them in the foreseeable future. If the earnings were remitted, tax would be payable as follows:

	As at 31st December 2008 £m	As at 31st December 2007 £m
	15.1	11.9

(b) The individual movements in deferred tax assets and deferred tax liabilities, before the offsetting of balances within the same jurisdiction, are shown below:

Deferred tax liabilities

	Accelerated tax depreciation £m	Fair value gains £m	Pensions £m	Derivatives £m	Other £m	Total £m
At 1st January 2008	(41.9)	(0.7)	(5.7)	(1.7)	(8.9)	(58.9)
Acquisitions (note 30)	(4.4)	–	–	–	(0.9)	(5.3)
Credited/(charged) to income	(3.0)	0.7	(0.5)	–	0.5	(2.3)
Credited/(charged) to equity	–	–	1.7	(0.1)	0.2	1.8
Currency translation	(11.0)	–	–	–	(0.1)	(11.1)
At 31st December 2008	(60.3)	–	(4.5)	(1.8)	(9.2)	(75.8)

Deferred tax assets

	Provisions £m	Pensions £m	Tax losses £m	Derivatives £m	Other £m	Total £m
At 1st January 2008	2.9	4.2	2.2	–	1.9	11.2
Credited/(charged) to income	0.1	(1.9)	3.5	–	2.7	4.4
Credited/(charged) to equity	1.7	0.4	–	–	(0.6)	1.5
Currency translation	0.3	–	1.5	–	0.7	2.5
At 31st December 2008	5.0	2.7	7.2	–	4.7	19.6

21 Called up share capital

	Ordinary shares millions	Ordinary shares £m
Authorised		
Ordinary shares of 732,150,842 at 30 pence per share (2007: 732,150,842 at 30 pence per share)	732.2	219.6
Allotted and fully paid		
At 1st January 2008	171.4	51.4
At 31st December 2008	171.4	51.4

21 Called up share capital continued

Potential issues of ordinary shares

Share options
Certain senior executives hold options to subscribe for shares in the company at prices ranging from 251.29 pence to 445.75 pence under approved and unapproved share option schemes. Options on 51,352 shares were exercised in 2008 (26,348 at an exercise price of £2.56, 7,162 at an exercise price of £2.99, 15,816 at an exercise price of £3.40 and 2,026 at an exercise price of £3.96). The weighted average market price at the time of exercise was £4.85. The number of shares subject to options, the period in which they were granted and the periods in which they may be exercised are given below:

		Not exercised at 31st December 2008	Not exercised at 31st December 2007	Price per share pence
The Davis 1998 Share Option Scheme				
Date of grant	25th June 1998	**–**	15,816	340.04
	19th April 1999	**70,895**	70,895	367.77
	24th March 2000	**50,974**	50,974	251.29
	11th October 2002	**75,400**	75,400	291.00
	10th October 2003	**88,593**	88,593	367.00
	2nd June 2005	**400,000**	400,000	445.75
The Davis Service Group Savings Related Share Option Scheme				
Date of grant	14th October 2002	**–**	41,098	256.00
	15th October 2004	**156,988**	174,850	299.00
The Davis Service Group Sharesave Plan 2006				
Date of grant	31st October 2006	**290,767**	348,451	396.00
	31st October 2007	**293,403**	368,451	445.00
		1,427,020	1,634,528	

Share awards
As at 31st December 2008, the following conditional share awards granted to directors and staff remains outstanding:

		31st December 2008	31st December 2007
Performance Share Plan			
Date of grant	2nd May 2006	**173,080**	173,080
	5th March 2007	**284,809**	284,809
	6th March 2008	**384,316**	–
Deferred Bonus Share Plan			
Date of grant	5th March 2007	**36,521**	36,521
	6th March 2008	**51,613**	–
Executive Incentive Plan			
Date of grant	6th March 2008	**601,067**	–
	18th December 2008	**54,210**	–
		1,585,616	494,410

21a Share based payments

The following share based expenses charged in the year are included within administration expenses:

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Executive and Sharesave option schemes	**0.2**	0.3
Performance share plans and Deferred bonus share plans	**0.6**	0.3
Executive incentive plan	**1.0**	–
	1.8	0.6

Notes to the consolidated financial statements continued

21a Share based payments continued

Share options
During the year the group had seven share based payment arrangements granted since November 2002, outstanding with employees to grant share options. The schemes are equity settled. The details of the arrangements are set out below:

	Number of options originally granted	Contractual life	Exercise price (pence)	Share price at date of grant	Number of employees	Expected volatility	Expected life	Risk free rate	Expected dividend yield	Fair value per option (pence)
The Davis 1998 Share Option Scheme										
Date of grant 10th October 2003	401,500	10 years	367.00	367.00	60	25%	5½ years	4.2%	3.5%	59.86
2nd June 2005	460,000	10 years	445.75	445.75	12	25%	5½ years	4.2%	3.5%	72.71
The Davis Service Group Savings Related Share Option Scheme										
Date of grant 15th October 2004	186,908	3½ years	299.00	373.00	112	25%	2½ years	4.2%	3.5%	82.87
15th October 2004	376,421	5½ years	299.00	373.00	135	25%	4½ years	4.2%	3.5%	85.78
The Davis Service Group Sharesave Plan 2006										
Date of grant 31st October 2006	403,993	3½ years	396.00	495.00	625	22%	3 years	4.8%	4.0%	123.91
31st October 2007	213,286	3½ years	445.00	556.25	372	22%	3 years	5.0%	4.0%	141.18
31st October 2007	163,090	5½ years	445.00	556.25	152	22%	4½ years	5.0%	4.0%	147.80

The group has used the Black-Scholes model to value its share option awards.

The options granted on 31st October 2007 under the Sharesave Plan are available to all UK employees. The exercise price of the granted options is equal to the average market price of the shares less 20% at the date of invitation. Options are conditional on the employee completing three years' service (the vesting period). There are no other conditions. The options are exercisable for a period of six months after vesting.

A reconciliation of movements in the number of share options for the group can be summarised as follows:

The Davis 1998 Share Option Scheme

	1st January 2008	**Number of shares**			**31st December 2008**	**Exercise price (pence)**	**Exercise period**
		Granted	**Exercised**	**Lapsed**			
10th October 2003	**88,593**	**–**	**–**	**–**	**88,593**	**367.00**	**Oct 2006 – Oct 2013**
2nd June 2005	**400,000**	**–**	**–**	**–**	**400,000**	**445.75**	**Jun 2008 – Jun 2015**

	1st January 2007	Number of shares			31st December 2007	Exercise price (pence)	Exercise period
		Granted	Exercised	Lapsed			
10th October 2003	244,000	–	(154,407)	(1,000)	88,593	367.00	Oct 2006 – Oct 2013
2nd June 2005	400,000	–	–	–	400,000	445.75	Jun 2008 – Jun 2015

21a Share based payments continued

The Davis Service Group Savings Related Share Option Scheme

	1st January 2008	Number of shares Granted	Exercised	Lapsed	31st December 2008	Exercise price (pence)	Exercise period
15th October 2004	**8,359**	**–**	**(6,459)**	**(1,900)**	**–**	**299.00**	**Dec 2007 – May 2008**
15th October 2004	**166,491**	**–**	**(703)**	**(8,800)**	**156,988**	**299.00**	**Dec 2007 – May 2010**

	1st January 2007	Number of shares Granted	Exercised	Lapsed	31st December 2007	Exercise price (pence)	Exercise period
15th October 2004	77,365	–	(66,169)	(2,837)	8,359	299.00	Dec 2007 – May 2008
15th October 2004	181,630	–	(3,176)	(11,963)	166,491	299.00	Dec 2007 – May 2010

The Davis Service Group Sharesave Plan 2006

	1st January 2008	Number of shares Granted	Exercised	Lapsed	31st December 2008	Exercise price (pence)	Exercise period
31st October 2006	**348,451**	**–**	**(2,026)**	**(55,658)**	**290,767**	**396.00**	**Dec 2009 – May 2010**
31st October 2007	**209,136**	**–**	**–**	**(36,317)**	**172,819**	**445.00**	**Dec 2010 – May 2011**
31st October 2007	**159,315**	**–**	**–**	**(38,731)**	**120,584**	**455.00**	**Dec 2012 – May 2013**

	1st January 2007	Number of shares Granted	Exercised	Lapsed	31st December 2007	Exercise price (pence)	Exercise period
31st October 2006	400,273	–	(426)	(51,396)	348,451	396.00	Dec 2009 – May 2010
31st October 2007	–	213,286	–	(4,150)	209,136	445.00	Dec 2010 – May 2011
31st October 2007	–	163,090	–	(3,775)	159,315	455.00	Dec 2012 – May 2013

Share awards

During the year the group had six conditional share awards granted to directors and staff. The schemes are equity settled. The details of the arrangements are set out below:

	Number of options originally granted	Contractual life	Share price at date of grant	Number of employees	Expected volatility	Average correlation	Expected life	Risk free rate	Expected dividend yield	Fair value per option (pence)
Performance Share Plan										
Date of grant 2nd May 2006	215,089	3 years	473.40	10	16%	11%	3 years	4.7%	Nil	167.80
5th March 2007	284,809	3 years	513.70	9	22%	17%	3 years	4.9%	Nil	266.24
6th March 2008	384,316	3 years	506.80	6	22%	24%	3 years	3.9%	Nil	202.14
Deferred Bonus Share Plan										
Date of grant 5th March 2007	36,521	2 years	513.70	8	19%	n/a	2 years	4.9%	4.0%	56.89
6th March 2008	51,613	2 years	506.80	9	22%	n/a	2 years	3.9%	4.0%	57.30
Executive Incentive Plan										
Date of grant 6th March 2008	665,298	3 years	506.80	82	22%	n/a	3 years	3.9%	4.0%	449.49
18th December 2008	54,210	3 years	251.00	2	22%	n/a	3 years	2.2%	4.0%	222.62

Notes to the consolidated financial statements continued

21a Share based payments continued

The Performance Share Plan (PSP) provides for the grant of awards in the form of conditional free shares. Shares in relation to the award will be released to participants at the end of a three-year performance period, dependent upon the extent to which the performance condition has been satisfied. The group uses the Monte-Carlo model to value the award. For each award, the group established a comparator group of other companies from the FTSE Mid 250 (Investment funds excluded). The expected volatility under this model is based on the daily movement of total shareholder return over the three years prior to the grant. The correlation figure shown is the average against all other companies' movements in total shareholder return in the comparator group. If a company leaves the comparator group it is removed from the performance criteria for vesting, although the remuneration committee can at their discretion replace it. The dividend yield is set as zero as the value of dividends can only be awarded at the discretion of the remuneration committee. The awards vest as follows:

Performance of total shareholder return:	% vesting
Below median ranking	0
Median ranking	25
Upper quartile	100
Between median and upper quartile	25% to 100% pro-rata on a straight line basis

The Deferred Bonus Share Plan (DBSP) awards are conditional on the employee completing two years service from the date of the grant.

The Executive Incentive Plan (EIP) awards are conditional on the employee achieving relevant, stretching three-year performance targets. The DBSP and EIP have been valued using the Black-Scholes model.

A reconciliation of movements in the number of share awards for the group can be summarised as follows:

Performance Share Plan

	1st January 2008	**Number of shares**			**31st December 2008**	**Vesting date**
		Granted	**Exercised**	**Lapsed**		
2nd May 2006	**173,080**	**–**	**–**	**–**	**173,080**	**May 2009**
5th March 2007	**284,809**	**–**	**–**	**–**	**284,809**	**March 2010**
6th March 2008	**–**	**384,316**	**–**	**–**	**384,316**	**March 2011**

	1st January 2007	Number of shares			31st December 2007	Vesting date
		Granted	Exercised	Lapsed		
2nd May 2006	205,056	–	–	(31,976)	173,080	May 2009
5th March 2007	–	284,809	–	–	284,809	March 2010

Deferred Bonus Share Plan

	1st January 2008	**Number of shares**			**31st December 2008**	**Vesting date**
		Granted	**Exercised**	**Lapsed**		
5th March 2007	**36,521**	**–**	**–**	**–**	**36,521**	**March 2009**
6th March 2008	**–**	**51,613**	**–**	**–**	**51,613**	**March 2010**

	1st January 2007	Number of shares			31st December 2007	Vesting date
		Granted	Exercised	Lapsed		
5th March 2007	–	36,521	–	–	36,521	March 2009

Executive Incentive Plan

	1st January 2008	**Number of shares**			**31st December 2008**	**Vesting date**
		Granted	**Exercised**	**Lapsed**		
6th March 2008	**–**	**665,298**	**–**	**(64,231)**	**601,067**	**March 2011**
18th December 2008	**–**	**54,210**	**–**	**–**	**54,210**	**December 2011**

22 Share premium account

	2008 £m	2007 £m
1st January	95.5	93.6
Premium on shares issued during the year under the share option schemes	0.1	1.9
	95.6	95.5

23 Retained earnings

	2008 £m	2007 £m
1st January	151.7	95.1
Profit for the year	41.7	63.2
Dividends paid	(33.8)	(31.4)
Value of employee service in respect of share option schemes and share awards	1.8	0.6
Actuarial (losses)/gains	(17.8)	23.1
Purchase of treasury shares	–	(1.1)
Purchase of own shares by the Employee Benefit Trust	(2.1)	–
Tax on items taken directly to equity	4.3	(10.9)
Currency translation	37.9	13.1
	183.7	151.7

24 Other reserves

	2008 £m	2007 £m
1st January	8.4	5.8
Cash flow hedges	3.7	3.3
Tax on items taken directly to other reserves	(1.0)	(0.7)
	11.1	8.4

Notes to the consolidated financial statements continued

25 Shareholders' funds and statement of changes in shareholders' equity

	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 2007	51.2	93.6	5.8	150.9	95.1	396.6	1.7	398.3
Issue of share capital in respect of share option schemes	0.2	1.9	–	–	–	2.1	–	2.1
Purchase of treasury shares	–	–	–	–	(1.1)	(1.1)	–	(1.1)
Dividends	–	–	–	–	(31.4)	(31.4)	(0.1)	(31.5)
Actuarial gains	–	–	–	–	23.1	23.1	–	23.1
Value of employee service in respect of share option schemes and share awards	–	–	–	–	0.6	0.6	–	0.6
Cash flow hedges	–	–	3.3	–	–	3.3	–	3.3
Tax on items taken directly to equity	–	–	(0.7)	–	(10.9)	(11.6)	–	(11.6)
Profit for the year	–	–	–	–	63.2	63.2	0.4	63.6
Currency translation	–	–	–	–	13.1	13.1	0.2	13.3
At 31st December 2007	51.4	95.5	8.4	150.9	151.7	457.9	2.2	460.1
Issue of share capital in respect of share option schemes	**–**	**0.1**	**–**	**–**	**–**	**0.1**	**–**	**0.1**
Purchase of own shares by the Employee Benefit Trust	**–**	**–**	**–**	**–**	**(2.1)**	**(2.1)**	**–**	**(2.1)**
Dividends	**–**	**–**	**–**	**–**	**(33.8)**	**(33.8)**	**(0.1)**	**(33.9)**
Actuarial losses	**–**	**–**	**–**	**–**	**(17.8)**	**(17.8)**	**–**	**(17.8)**
Value of employee service in respect of share option schemes and share awards	**–**	**–**	**–**	**–**	**1.8**	**1.8**	**–**	**1.8**
Cash flow hedges	**–**	**–**	**3.7**	**–**	**–**	**3.7**	**–**	**3.7**
Tax on items taken directly to equity	**–**	**–**	**(1.0)**	**–**	**4.3**	**3.3**	**–**	**3.3**
Profit for the year	**–**	**–**	**–**	**–**	**41.7**	**41.7**	**0.4**	**42.1**
Currency translation	**–**	**–**	**–**	**–**	**37.9**	**37.9**	**0.9**	**38.8**
At 31st December 2008	**51.4**	**95.6**	**11.1**	**150.9**	**183.7**	**492.7**	**3.4**	**496.1**

At 31st December 2008, the company held 1,025,000 (2007: 1,025,000) treasury shares. The Employee Benefit Trust held 441,873 (2007: nil) shares that had been purchased during the year.

26 Minority interest

	As at 31st December 2008 £m	As at 31st December 2007 £m
1st January	2.2	1.7
Share of net profit of subsidiaries	0.4	0.4
Dividend paid	(0.1)	(0.1)
Currency translation	0.9	0.2
31st December	**3.4**	2.2

27 Principal subsidiary undertakings

Company	Country of incorporation
UK and Ireland	
The Sunlight Service Group Limited*	England
Spring Grove Services Limited	Republic of Ireland
Central Laundries Limited	Northern Ireland
IH Decontamination Services (Cardiff) Limited	England
Rocialle Limited	England
BDF Limited	England
Davis Finance Limited*	England
Continental Europe	
Sophus Berendsen A/S	Denmark
Berendsen Textil Service A/S*	Denmark
Berendsen Textil Service AB	Sweden
Björnkläder AB	Sweden
Berendsen Sourcing AB	Sweden
Berendsen Tekstil Service AS	Norway
S Berendsen OY	Finland
AS Emblému Pakláju Serviss	Latvia
UAB Tebúnie Švara	Lithuania
Berendsen Beteiligungs GmbH	Germany
Berendsen GmbH	Austria
Berendsen Textiel Service BV	Holland
Berendsen Textile Service Sp.z.o.o.	Poland
AS Svarmil	Estonia

* Owned directly by The Davis Service Group Plc. All principal subsidiary undertakings are 100% owned and consolidated.

Notes to the consolidated financial statements continued

28 Cash flow from operating activities

Reconciliation of operating profit to net cash inflow from operating activities:

		Total group
Cash generated from operations	**Year to 31st December 2008 £m**	Year to 31st December 2007 £m
Profit for the year	**42.1**	63.6
Adjustments for:		
Taxation	**18.3**	15.1
Amortisation of intangible fixed assets	**22.7**	14.6
Depreciation of tangible fixed assets	**156.9**	143.9
Loss/(profit) on property disposals	**2.7**	(2.6)
Profit on sale of plant and equipment	**(0.6)**	(0.9)
Restructuring costs	**6.6**	–
Growth initiatives written off (non-cash element)	**0.3**	–
Profit on loan notes	**–**	(0.3)
Negative goodwill	**–**	(1.1)
Finance income	**(3.4)**	(5.4)
Finance expense	**28.7**	21.7
Other non-cash movements	**(1.0)**	0.6
Changes in working capital (excluding effect of acquisitions, disposals and exchange differences on consolidation):		
Inventories	**(7.4)**	(4.6)
Trade and other receivables	**13.0**	(14.8)
Trade and other payables	**(13.7)**	17.4
Provisions	**(2.4)**	(0.8)
Cash generated from operations	**262.8**	246.4

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

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Net book amount	**5.4**	2.8
Profit on sale of property, plant and equipment	**0.6**	0.9
Proceeds from sale of property, plant and equipment	**6.0**	3.7

Additionally, in 2007, the group received £4.3 million in respect of assets held for disposal.

29 Reconciliation of net cash flow to movement in net debt

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Decrease in cash	**(17.9)**	(67.3)
Cash outflow from movement in debt and lease financing	**(21.1)**	(31.2)
Changes in net debt resulting from cash flows	**(39.0)**	(98.5)
New finance leases	**(3.8)**	(5.5)
Bank loans and lease obligations acquired with subsidiaries (note 30)	**(2.8)**	(4.7)
Currency translation	**(131.4)**	(21.2)
Movement in net debt in year	**(177.0)**	(129.9)
Net debt at beginning of year	**(367.1)**	(237.2)
Net debt at end of year	**(544.1)**	(367.1)

30 Acquisitions

During the year the group acquired a number of textile maintenance businesses in existing territories as well as in the Baltic countries of Latvia, Lithuania and Estonia.

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

	Carrying values pre-acquisition £m	**Provisional fair values £m**
Intangible fixed assets	2.4	**25.6**
Property, plant and equipment	9.0	**10.5**
Inventories	1.5	**0.6**
Receivables	4.0	**3.6**
Payables	(3.7)	**(4.0)**
Taxation		
– Current	(0.3)	**(0.2)**
– Deferred	(0.6)	**(5.3)**
Cash and cash equivalents	1.5	**1.5**
Overdrafts	(0.5)	**(0.5)**
Bank loans	(2.3)	**(2.3)**
Lease finance obligations	(0.5)	**(0.5)**
Net assets acquired	10.5	**29.0**
Goodwill		**23.6**
Consideration		**52.6**
Consideration satisfied by:		
Cash		**43.2**
Deferred consideration		**8.5**
Legal and professional fees		**0.9**
		52.6

The goodwill arising on these acquisitions is attributable to the acquired work force and the expected synergies to be achieved.

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

Notes to the consolidated financial statements continued

30 Acquisitions continued
The outflow of cash and cash equivalents on acquisition is calculated as follows:

	£m
Cash consideration	44.1
Cash acquired	(1.5)
Overdrafts	0.5
Deferred consideration paid for 2007 acquisitions	7.2
	50.3

The total consideration including net financial liabilities assumed and deferred consideration payable for the acquisitions is £61.6 million. The intangible assets acquired relate primarily to values attributed to customer contracts. Details of the amortisation periods for these contracts are given in the accounting policies.

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.

	2008 £m
Revenue	23.4
Profit after tax	0.7

From the date of acquisition to 31st December 2008, the above acquisitions contributed £18.8 million to revenue and £0.5 million to the profit after tax for the year.

31 Employees and directors
Staff costs for the group during the year:

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Wages and salaries	331.8	285.1
Social security costs	43.4	34.6
Other pension costs	11.0	8.7
Share based payment charges	1.8	–
	388.0	328.4

Average number of people (including directors) employed

	2008 Number	2007 Number
By business group		
Textile maintenance – UK and Ireland	9,140	9,161
Textile maintenance – Nordic	3,469	2,899
Textile maintenance – Continent	4,002	4,367
Clinical solutions and decontamination	668	638
Corporate	19	19
	17,298	17,084

31 Employees and directors continued

Key management compensation

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Salaries and short-term employee benefit	2.9	2.1
Post employment benefit contributions	0.4	0.3
Share based payments	0.5	0.2
	3.8	2.6

The key management compensation above includes seven (2007: seven) Davis Service Group plc directors and four (2007: four) Executive Board members who are not Davis Service Group plc directors. The Executive Board was formed in July 2007. Therefore, the 2007 amount includes compensation for six months only for the Executive Board members except for Roger Dye, Chief Executive and Kevin Quinn, Finance Director.

Directors

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Aggregate emoluments	1.3	1.3
Company contribution to money purchase pension schemes	0.2	0.2
Share based payment charges	0.2	0.2
	1.7	1.7

32 Pension commitments

Defined contribution schemes
Pension costs for defined contribution schemes are as follows:

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Defined contribution schemes (note i)	10.6	7.7

(i) Total included within staff costs (note 31).

Defined benefit plans
Within the United Kingdom, the group principally operates a registered defined benefit scheme (The Davis Service Group Retirement Benefits Scheme). There was a triennial valuation in February 2007.

Overseas, the only significant pension arrangements are the defined benefit scheme operated in Ireland and unfunded schemes within Sweden, Germany and Norway. Under such schemes the group discharges its pension obligations through schemes administered by insurance companies or government agencies.

The overall surplus on the funded plans is £2.0 million (of which £6.9 million is in respect of the main UK plan). There is a deficit of £25.5 million on unfunded plans.

Where a defined benefit scheme is administered by an insurance company with a collective of other companies and the insurance company is unable to assess the share of the group's pension obligation, the pension scheme has been accounted for as a defined contribution scheme.

Notes to the consolidated financial statements continued

32 Pension commitments continued

The actuarial valuations of the principal scheme, together with eight other defined benefit schemes operated by the group have each been updated as at 31st December 2008 by qualified actuaries using revised assumptions that are consistent with the requirements of IAS 19. The principal assumptions made by the actuaries were:

	2008 %	2007 %
Rate of increase in pensionable salaries	3.8	4.3
Rate of increase in pensions in payment and deferred pensions	2.7	3.3
Discount rate	5.9	5.7
Inflation rate	2.7	3.2
Expected return on plan assets		
– Equities	8.0	8.0
– Bonds	5.1	5.6

Mortality rate
Assumptions regarding future mortality experience are set based on advice, published statistics and experience in each territory.

The average life expectancy in years of a pensioner retiring at age 65 on the balance sheet date, is as follows:

	2008	2007
Male	20.0	20.0
Female	22.1	22.1

The average life expectancy in years of a pensioner retiring at age 65, 20 years after the balance sheet date, is as follows:

	2008	2007
Male	21.8	21.8
Female	23.3	23.3

	As at 31st December 2008 £m	As at 31st December 2007 £m
The amounts recognised in the balance sheet are determined as follows:		
Present value of obligations	(203.4)	(216.0)
Fair value of plan assets	179.9	210.3
Net liability recognised in balance sheet	(23.5)	(5.7)
Analysed as:		
Pension scheme surplus	6.9	12.9
Pension scheme deficit and unfunded schemes	(30.4)	(18.6)
	(23.5)	(5.7)

32 Pension commitments continued

The major categories of plan assets as a percentage of total plan assets are as follows:

	2008 %	2007 %
European equities	29	36
North American equities	5	5
Asia Pacific equities	5	8
European bonds	17	15
European gilts	19	15
Cash	14	14
Other	11	7
	100	100

Other assets consist principally of investments in a managed dynamic asset allocation fund. The objectives of the fund are to hold a diversified basket of assets which is pro-actively changed to avoid the risks of a static portfolio.

The expected return on plan assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the balance sheet date. Expected returns on equity and other investments reflect long-term real rates of return experienced in the respective markets.

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
The amounts recognised in the income statement are as follows:		
Current service cost	2.7	2.7
Interest cost	12.4	11.6
Expected return on plan assets	(14.7)	(13.3)
Total included within staff costs (note 31)	0.4	1.0

	2008 £m	2007 £m
Changes in the present value of the defined benefit obligation are as follows:		
Present value of obligation as at 1st January	216.0	232.7
Service cost	2.7	2.7
Interest cost	12.4	11.6
Actuarial gains	(27.6)	(25.4)
Benefits paid	(6.2)	(7.6)
Contributions by members	0.6	0.5
Currency translation	5.5	1.5
Present value of obligations as at 31st December	203.4	216.0

Notes to the consolidated financial statements continued

32 Pension commitments continued

	2008 £m	2007 £m
Changes in the fair value of the plan assets are as follows:		
Fair value of plan assets as at 1st January	210.3	190.6
Expected return on plan assets	14.7	13.3
Special contributions	–	12.5
Contributions	2.6	2.9
Benefits paid	(6.2)	(7.6)
Actuarial losses	(45.4)	(2.3)
Currency translation	3.9	0.9
Fair value of plan assets as at 31st December	179.9	210.3

The total contributions in excess of the current IAS 19 charge is £2.8 million (2007: £14.9 million).

	2008 £m	2007 £m
Analysis of the movement in the net balance sheet liability		
1st January	(5.7)	(42.1)
Total expense as above	(0.4)	(1.0)
Actuarial (losses)/gains recognised in the statement of recognised income and expense	(17.8)	23.1
Special contributions paid	–	12.5
Contributions paid	2.6	2.9
Liabilities due to acquisitions	–	(0.4)
Currency translation	(2.2)	(0.7)
31st December	(23.5)	(5.7)

Cumulative actuarial gains and losses recognised in equity

	2008 £m	2007 £m
1st January	(68.5)	(91.6)
Net actuarial (losses)/gains recognised in the year	(17.8)	23.1
	(86.3)	(68.5)

The actual return on plan assets was a loss of £30.7 million (2007: £11.0 million).

32 Pension commitments continued

History of experience gains and losses

	As at 31st December 2008	As at 31st December 2007	As at 31st December 2006	As at 31st December 2005
Experience adjustments arising on scheme assets:				
Amount (£m)	**(45.4)**	(2.3)	2.7	17.6
Percentage of scheme assets	**25%**	1%	1%	11%
Experience adjustments arising on scheme liabilities:				
Amount (£m)	**(27.6)**	(25.4)	5.4	32.0
Percentage of scheme liabilities	**14%**	12%	2%	15%
Present value of obligations (£m)	**(203.4)**	(216.0)	(232.7)	(219.6)
Fair value of plan assets (£m)	**179.9**	210.3	190.6	162.4
Net liability recognised in balance sheet (£m)	**(23.5)**	(5.7)	(42.1)	(57.2)

In addition, expected contributions to post employment benefit plans for the year ending 31st December 2009 are £1.5 million.

33 Operating lease commitments – minimum lease payments

	2008		2007	
	Property £m	**Vehicles, plant and equipment £m**	Property £m	Vehicles, plant and equipment £m
Commitments under non-cancellable operating leases expiring:				
Within one year	**6.5**	**5.8**	5.4	3.0
Later than one year and less than five years	**17.7**	**13.0**	15.7	9.0
After five years	**26.4**	**1.2**	21.1	0.5
	50.6	**20.0**	42.2	12.5

The group leases various offices and warehouses under non-cancellable operating lease agreements. The leases have various terms, escalation clauses and renewal rights.

34 Capital and other financial commitments

	As at 31st December 2008 £m	As at 31st December 2007 £m
Contracts placed for future capital expenditure not provided in the financial statements	**5.7**	2.9

35 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.

36 Related parties

There have been no significant related party transactions in the year ended 31st December 2008 (2007:nil).

The following parent entity financial statements are prepared under UK GAAP and relate to the company and not to the group. The statement of accounting policies which have been applied to these accounts can be found on pages 97 and 98 and a separate independent auditors' report on page 103.

Parent company financial statements

Company balance sheet at 31st December 2008

	Notes	As at 31st December 2008 £m	As at 31st December 2007 £m
Fixed assets			
Tangible assets	2	0.2	0.1
Investments	3	813.8	650.9
		814.0	651.0
Non-current assets			
Debtors	4	315.8	227.3
		315.8	227.3
Current assets			
Debtors	4	29.9	20.1
Cash at bank and in hand		36.5	54.1
		66.4	74.2
Creditors: Amounts falling due within one year	5	(57.1)	(43.7)
Net current assets		9.3	30.5
Total assets less current liabilities		1,139.1	908.8
Creditors: Amounts falling due after more than one year	6	(767.1)	(552.2)
Provisions for liabilities and charges	7	(2.5)	–
Net assets before pension asset		369.5	356.6
Pension asset		11.5	14.4
Net assets		381.0	371.0
Capital and reserves			
Called up share capital	8	51.4	51.4
Share premium account	9	95.6	95.5
Other reserves	9	30.6	29.0
Capital redemption reserve	9	150.9	150.9
Profit and loss account	9	52.5	44.2
Equity shareholders' funds	10	381.0	371.0

The financial statements on pages 96 to 102 were approved by the board and signed on its behalf.

I Roger Dye
Director

Kevin Quinn
Director

26th February 2009

Accounting policies to the parent company financial statements

These financial statements for the parent company are prepared on the going concern basis, under the historical cost convention, as modified by the revaluation of certain fixed assets and in accordance with the Companies Act 1985 and applicable accounting standards in the United Kingdom. The principal accounting policies, which have been applied consistently, are set out below.

Fixed assets
Land and buildings are shown at original historical cost or subsequent valuation. Other fixed assets are shown at cost.

Depreciation
Depreciation is provided at rates calculated to write off the cost or valuation, less estimated residual value, of each asset on a straight line basis over its expected useful life, as follows:

	Straight line %
Plant and machinery	10–50
Motor vehicles	25

Investments
Investments are stated at fair value.

Dividend distribution
Final dividend distribution to the company's shareholders is recognised as a liability to the group's financial statements in the period in which the dividends are approved by the company's shareholders.

Interim dividends are recognised when paid.

Deferred taxation
Deferred taxation is provided on a full provision basis, without discounting, on all timing differences which have arisen but not reversed at the balance sheet date. Except where otherwise required by Accounting Standards, no timing differences are recognised in respect of:

(a) Property revaluation surpluses where there is no commitment to sell the asset;

(b) Gains on sale of assets where those gains have been rolled over into replacement assets;

(c) Additional tax which would arise if profits of overseas subsidiaries were distributed, and

(d) Deferred tax assets except to the extent that it is more likely than not that they will be recovered.

Pension costs
It is the policy of the company to fund defined benefit pension liabilities, on the advice of external actuaries, by payments to schemes controlled by independent trustees. Pension costs are charged against profits on a systematic basis over the service lives of the eligible employees, based on payroll, actuarial methods and assumptions, in accordance with the actuaries' advice. The costs of defined contribution schemes or pension arrangements of a similar nature are charged against income as contributions become payable to the relevant scheme or arrangement.

The company's pension cost charged to the income statement is in accordance with FRS 17 – 'Retirement Benefits'.

The FRS 17 valuation has been carried out at bid-value based on the recent amendment to FRS 17 – 'Retirement Benefits'.

The company's share of the defined benefit surplus or deficit is recognised in the balance sheet. Key assumptions and other disclosures for this plan are included in the disclosures in note 32 to the consolidated financial statements.

Accounting policies to the parent company financial statements continued

Derivatives and other financial instruments

Financial instruments
Financial instruments are reported and measured in accordance with FRS 25 and FRS 26 respectively. The company has availed itself of the exemption not to present FRS 29 disclosures in the notes to the entity financial statements as full equivalent disclosures are presented within the consolidated financial statements.

Financial instruments comprise non-derivative financial assets and liabilities, including amounts owed by and to group companies and borrowings and financial derivatives, whose value changes in line with movements in market rates. The company uses derivative financial instruments to hedge exposure to interest rate risks arising from financing and investment activities. In accordance with its treasury policy, the company does not hold or issue derivative financial instruments for trading purposes. Fair value hedging, cash flow hedging and net investment hedging is applied.

Non-derivative financial assets are classified as loans and receivables. The company's financial assets are stated at the lower of their initial cost (including accrued interest receivable) and their estimated recoverable amount.

Non-derivative financial liabilities are classified as borrowings. They are stated at their redeemable value, including accrued interest payable, less transaction costs that have not yet been recognised in the income statement.

Where the change in value of a non-derivative financial liability, due to the movement in market interest rates, has been hedged with a financial derivative, its value is adjusted for the change in market value due to the financial risk being hedged. Where such fair value hedging relationships exist, the change in the value of the liability being hedged should broadly offset the change in market value of the hedging instrument and any difference is recognised immediately in the income statement.

Derivative financial instruments are stated at their market value in the balance sheet and are classified as current assets or liabilities, unless they form part of a hedging relationship, in which case their classification follows the classification of the hedged financial asset or liability. Thus all currently held derivative financial instruments are classified as long term.

Interest expense reflects the underlying cost of borrowing arising from interest rate swaps. Net payments and receipts under interest rate swap contracts are accrued over the period to which they relate and added to or credited against interest expense. No accounting entries are required for the principal amount of interest rate swaps as it is purely a notional figure and does not represent an asset, a liability or a contingency.

Employee share schemes
In accordance with the FRS 20 'Accounting for share based payments', an expense is recognised in the income statement for the award to employees of shares in the company's UK Inland Revenue approved Sharesave Scheme.

Cash flow statement and related party disclosures
The parent company is included in the consolidated financial statements, which are publicly available. Consequently, the company has taken advantage of the exemption from preparing a cash flow statement under the terms of the FRS 1 (revised 1996).

The company is also exempt under the terms of the FRS 8 from disclosing related party transactions with entities that are part of The Davis Service Group Plc or investees of The Davis Service Group Plc.

Notes to the parent company financial statements

1 Parent company income statement

As permitted by Section 230 of the Companies Act 1985, the company has not presented its own income statement. The profit of the company for the year attributable to shareholders was £1.7 million (2007: £3.3 million loss).

The fees payable to the company's auditors for the audit of the parent company are included in the group fees disclosed in note 3 of the group financial statements.

2 Tangible fixed assets

	Short leasehold property £m	Plant and machinery owned £m	Total £m
Cost:			
At 1st January 2008	**0.3**	**0.6**	**0.9**
Additions	**–**	**0.2**	**0.2**
Disposals	**(0.1)**	**(0.2)**	**(0.3)**
As at 31st December 2008	**0.2**	**0.6**	**0.8**
Depreciation:			
At 1st January 2008	**0.3**	**0.5**	**0.8**
Charge	**–**	**0.1**	**0.1**
Disposals	**(0.1)**	**(0.2)**	**(0.3)**
As at 31st December 2008	**0.2**	**0.4**	**0.6**
Net book value:			
As at 31st December 2008	**–**	**0.2**	**0.2**
As at 31st December 2007	–	0.1	0.1

3 Fixed asset investments

	Interests in group undertakings £m
Cost or valuation	
At 1st January 2008	**651.9**
Currency translation	**162.9**
At 31st December 2008	**814.8**
Amounts provided	
At 1st January 2008	**1.0**
At 31st December 2008	**1.0**
Net book amount:	
As at 31st December 2008	**813.8**
As at 31st December 2007	650.9

Notes to the parent company financial statements continued

4 Debtors

	As at 31st December 2008 £m	As at 31st December 2007 £m
Amounts falling due within one year:		
Amounts due from group undertakings	21.6	7.7
Other debtors	0.8	1.1
Taxation	7.1	9.0
Deferred tax asset	0.2	2.0
Prepayments and accrued income	0.2	0.3
	29.9	20.1
Amounts falling due after more than one year:		
Amounts due from group undertakings	258.9	222.0
Deferred tax asset	2.4	1.4
Derivative financial instruments	54.5	3.9
	315.8	227.3

5 Creditors: amounts falling due within one year

	As at 31st December 2008 £m	As at 31st December 2007 £m
Bank overdrafts	33.9	27.7
Trade creditors	0.1	–
Amounts owed to group undertakings	16.7	8.8
Other creditors	0.8	3.3
Other taxes and social security	0.1	0.1
Accruals and deferred income	5.5	3.8
	57.1	43.7

6 Creditors: amounts falling due after more than one year

	As at 31st December 2008 £m	As at 31st December 2007 £m
Bank loans	602.1	435.1
Amounts owed to group undertakings	111.5	98.0
Derivative financial instruments	49.4	16.0
Deferred tax liabilities	4.1	3.1
	767.1	552.2

7 Provisions for liabilities and charges

The group has outstanding warranties, indemnities and guarantees on a number of properties operated by former subsidiaries which were issued prior to the sale of these businesses. The value of these provisions (£2.5 million) was previously classified as other creditors.

8 Called up share capital

	Ordinary shares millions	Ordinary shares £m
Authorised		
Ordinary shares of 732,150,842 at 30 pence per share (2007: 732,150,842 at 30 pence per share)	732.2	219.6
Allotted and fully paid		
At 1st January 2008	171.4	51.4
At 31st December 2008	171.4	51.4

9 Reserves

	Share premium account £m	Other reserve £m	Capital redemption reserve £m	Profit and loss account £m	Total £m
At 1st January 2008	95.5	29.0	150.9	44.2	319.6
Issue of share capital in respect of share option schemes	0.1	–	–	–	0.1
Actuarial loss recognised in pension scheme net of deferred tax	–	–	–	(4.5)	(4.5)
Value of employee service in respect of share option schemes and share awards	–	–	–	0.5	0.5
Net dividends received	–	–	–	5.0	5.0
Profit for the financial year	–	–	–	1.7	1.7
Hedging reserve net of deferred tax	–	1.6	–	–	1.6
Currency translation net of deferred tax	–	–	–	5.6	5.6
At 31st December 2008	95.6	30.6	150.9	52.5	329.6

10 Reconciliation of movements in shareholders' funds

	2008 £m	2007 £m
Profit/(loss) for the year	1.7	(3.3)
Net dividends received/(paid)	5.0	(10.1)
Currency translation	5.6	0.1
Actuarial (loss)/gain recognised in pension scheme net of deferred tax	(4.5)	10.2
Issue of share capital in respect of share option schemes	0.1	2.1
Purchase of treasury shares	–	(1.1)
Hedging reserve net of deferred tax	1.6	2.6
Value of employee service in respect of share option schemes and share awards	0.5	0.6
Net addition to shareholders' funds	10.0	1.1
Shareholders' funds as at 1st January	371.0	369.9
Shareholders' funds as at 31st December	381.0	371.0

11 Contingent liabilities

The company has guaranteed the liabilities of its subsidiaries, Spring Grove Ireland Limited, Spring Grove Services Limited and Steri-Tex Limited pursuant to Section 17 of the Irish, Companies (Amendment) Act, 1986.

The company has considered the fair value of this arrangement under FRS 26 and assessed the value to be nil. This is due to the profitable nature of the underlying business and a considerable financial deposit held by the company from the Irish subsidiaries.

Notes to the parent company financial statements continued

12 Guarantees and other financial commitments

	2008 Land and buildings £m	2007 Land and buildings £m
As at 31st December 2008 annual commitments under non-cancellable operating leases comprise those which expire as follows:		
Within one year	0.3	0.3
Within two to five years	0.1	0.4
	0.4	0.7

13 Employees and directors

Staff costs for the company during the year:

	Year to 31st December 2008 £m	Year to 31st December 2007 £m
Wages and salaries	2.7	2.7
Social security costs	0.3	0.3
Other pension costs	0.8	0.7
Share based payment charges	0.4	0.2
	4.2	3.9

The average number of employees (including directors) of the company was 19 (2007: 19).

Independent auditors' report for the parent company

We have audited the parent company financial statements of The Davis Service Group Plc for the year ended 31st December 2008 which comprise the company balance sheet, the accounting policies to the parent company financial statements and the related notes 1 to 13. These parent company financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

We have reported separately on the group financial statements of The Davis Service Group Plc for the year ended 31st December 2008.

Respective responsibilities of directors and auditors
The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the statement of Directors' responsibilities for the financial statements.

Our responsibility is to audit the parent company financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, 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.

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the parent company financial statements. The information given in the Directors' Report includes that specific information presented in the Chairman and Chief Executive's introduction, business review, operations review and financial review that is cross referred from the business review section of the Directors' Report.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. The other information comprises only the sections 'Statements', 'Governance' (excluding the unaudited part of the Directors' Remuneration Report and the Directors' Report) and 'Investors'. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements and the part of the Directors' Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements and the part of the Directors' Remuneration Report to be audited are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements and the part of the Directors' Remuneration Report to be audited.

Opinion
In our opinion:

- the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31st December 2008;
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent company financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
London

26th February 2009

Five year record

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Continuing operations					
Revenue	**953.9**	822.1	704.6	655.7	645.4
Operating profit	**85.7**	95.0	91.6	88.8	94.5
Analysed as:					
Operating profit before exceptional items and amortisation of customer contracts and intellectual property rights	**116.6**	106.6	94.9	92.4	91.1
Exceptional items	**(11.5)**	0.8	2.8	(1.8)	4.0
Amortisation of customer contracts and intellectual property rights	**(19.4)**	(12.4)	(6.1)	(1.8)	(0.6)
Operating profit	**85.7**	95.0	91.6	88.8	94.5
Finance expense	**(28.7)**	(21.7)	(16.0)	(14.5)	(17.0)
Finance income	**3.4**	5.4	6.4	7.3	3.7
Profit before taxation	**60.4**	78.7	82.0	81.6	81.2
Taxation	**(18.3)**	(15.1)	(23.5)	(23.2)	(25.3)
Profit for the year from continuing operations	**42.1**	63.6	58.5	58.4	55.9
Discontinued operations					
(Loss)/profit for the year from discontinued operations	**–**	–	(0.3)	1.7	11.7
(Loss)/profit on sale of discontinued operations	**–**	–	(2.7)	66.9	(20.3)
(Loss)/profit for the year from discontinued operations	**–**	–	(3.0)	68.6	(8.6)
Profit for the year	**42.1**	63.6	55.5	127.0	47.3
Profit/(loss) attributable to minority interest	**0.4**	0.4	0.3	(0.1)	0.3
Profit attributable to equity shareholders	**41.7**	63.2	55.2	127.1	47.0
	42.1	63.6	55.5	127.0	47.3
Shareholders' funds	**492.7**	457.9	396.6	376.3	440.0
Earnings per share expressed in pence per share					
– Basic	**24.5**	37.1	32.4	66.8	23.3
– Adjusted	**39.3**	38.4	35.5	33.1	31.9
Dividend per ordinary share expressed in pence	**20.0**	19.4	18.2	17.3	16.5
Dividend times covered – on profit attributable to equity shareholders	**1.2**	1.9	1.8	3.9	1.4
– on adjusted earnings	**2.0**	2.0	2.0	1.9	1.9

The five year record has been restated for the disposal of Modeluxe, the former French business.

Advisers

Investment Bankers	Dresdner Kleinwort NM Rothschild & Sons
Stockbrokers	JPMorgan Cazenove Oriel Securities
Solicitors	Slaughter and May, London
Auditors	PricewaterhouseCoopers LLP, London
Registrars	Equiniti Limited

Financial calendar

Interim results announced	August
Final results announced	February
Ordinary interim dividend paid	October
Ordinary final dividend paid	May
Annual general meeting	April

Shareholder information

Enquiries relating to shareholders, such as queries concerning notification of change of address, dividend payments and lost share certificates, should be made to the company's registrars. The company has a share account, management and dealing facility for all shareholders via Equiniti Limited Shareview. This offers shareholders secure access to their account details held on the share register to amend address information and payment instructions directly, as well as providing a simple and convenient way of buying and selling the company's ordinary shares. For internet services visit www.shareview.co.uk or the investor relations sections of the company's website www.dsdgplc.co.uk. The Shareview Dealing service is available online at www.shareview.co.uk/dealing or by telephone on 08456 037037 between 8.30 am and 4.30 pm Monday to Friday.

The best way to ensure that dividends are received as quickly as possible is to instruct the Company's registrars to pay them directly into a bank or building society account; tax vouchers are then mailed to shareholders separately. Dividend mandate forms are available from the registrars either from their website www.shareview.co.uk or by telephone on the General Shareholder Helpline number 0871 384 2179. This method also avoids the risk of dividend cheques being delayed or lost in the post.

Website

Financial information about the company including the Annual and Interim reports, public announcements and share price data is available from the company's website at www.dsgplc.co.uk, which also contains further information about the group and links to the websites of its subsidiaries.

Sunlight Service Group	www.sunlight.co.uk
Sophus Berendsen	www.berendsen.com

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Radley Yeldar www.ry.com
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