

Business Performance (Interim Management Report): 1H08

1. Significant events and group performance in the first half of 2008

During the first half of 2008 the company completed several acquisitions of document management and reprographics companies in Europe. In all, these acquisitions gave rise to the following changes in its consolidation scope vis-à-vis 30 June 2007:

1. **Quality Imprés Estivill Marin S.L:** Barcelona-based digital reprographics company with annual revenue of approximately €4mn. SPS closed the acquisition of 100% of this company in September 2007. Since then it has been fully consolidated in SPS' financial statements.
2. **Koebcke GmbH:** A German print management company with annual revenue of approximately €8mn. SPS acquired the remaining 49% of this company in January 2008 having taken an initial 51% stake in February 2006. Koebcke GmbH has been fully consolidated by SPS since January 2008.
3. **UCAD, N.V:** A Belgian document management company with annual revenue of approximately €3mn. SPS acquired this company outright via its Dutch subsidiary Service Point Netherlands Holdings, B.V in February 2008. It has been fully consolidated since January 2008.
4. **Reprotechnique S.A.:** In May 2008 SPS acquired 51% of this digital reprographics company with annual revenue of approximately €21mn, with an option to acquire the remaining 49% in 2012. The second step of this acquisition can be settled in SPS shares. This company has been consolidated since June 2008.
5. **KSB Groep B.V:** In June 2008 SPS, through its subsidiary Service Point Netherlands Holdings B.V., completed the acquisition of 100% KSB Groep B.V. and 75% of Xtreme Print B.V., providers of printing and reprographics services with annual revenues of approximately €5.5mn. These newly acquired companies have been fully consolidated since June 2008.

The total cost of business combinations in 2008 was €13.4mn, of which €4.6mn are deferred payments. The KSB Groep B.V purchase agreement includes an earn out clause tied to the company's future financial performance. Business combinations closed in 2008 have given rise to the recognition of goodwill amounting to approximately €19mn.

The company's 2Q08 results are beginning to reflect the return on the significant capex in 1Q07 and 2008 on new centres, capacity additional and acquisitions.

Thus, from April to June, revenue climbed 5.5% to €59.1mn. EBITDA rose 14.0% (14.4% excluding currency impact), with margin expansion to 11.2% compared to 10.4% in 1Q08. EBIT meanwhile increased 21.9% quarter-on-quarter, yielding a margin of 4.5%. Net profit was €1.5mn, up 47.9% quarter-on-quarter.

The margin trends also reflect the dilutive effect of acquisitions made in their first 18-24 months of consolidation, as well as the pattern in the revenue mix.

(€ thousands)	1Q08	2Q08	% chg
Revenue	55.990	59.076	5.5%
Gross profit	40.282	41.934	4.1%
EBITDA	5.808	6.620	14.0%
EBIT	2.197	2.678	21.9%
Financial expense	(1.178)	(1.054)	-10.5%
Profit attr. to parent	1.005	1.487	47.9%
Net debt	50.635	73.151	44.5%

% of revenue			
EBITDA	10.4%	11.2%	
EBIT	3.9%	4.5%	
USD vs. Euro	1.50	1.56	4.0%
GBP vs. Euro	0.76	0.79	3.9%
NOK vs. Euro	7.96	7.94	-0.3%

In 1H08, revenue and gross profit increased 13.8% and 11.9% year-on-year, respectively. EBITDA, EBIT and net profit, although down year-on-year, improved significantly on 1Q08.

Investment in new services and capabilities in recent months, needed to ready the business for the future, have taken a short term toll on EBIT due to higher depreciation charges.

(€ thousands)	1H07	1H08	% chg
Turnover	101.001	114.518	13.4%
Revenues	101.117	115.067	13.8%
Gross profit	73.441	82.217	11.9%
EBITDA	14.104	12.429	-11.9%
EBIT	7.642	4.875	-36.2%
Financial expense	(2.052)	(2.230)	8.7%
Profit attrib. to parent.	4.500	2.492	-44.6%
Net debt	43.609	73.151	67.7%

% of revenue			
EBITDA	13.9%	10.9%	
EBIT	7.6%	4.2%	
USD vs. Euro	1.33	1.53	2.1%
GBP vs. Euro	0.67	0.78	2.0%
NOK vs. Euro	8.15	7.95	2.4%

On the balance sheet side, the increase in net debt reflects capex during 1H08, including investment in organic business growth (new centres and capacity, mainly in large format colour printing, print on demand and document management) of €8mn, as well as an M&A spend of €23mn, including the acquisition of CFI, announced yesterday to the market.

2. Significant events after the close at 30 June 2008

On 30 July 2008, the company announced an agreement to purchase 100% of Chris Fowler International (CFI), an international company based in London engaged in printing financial reports (research) with revenue of approximately €15mn. This acquisition will be fully consolidated from 1 August 2008.

3. Business outlook and risks

The company reiterates its forecast for double-digit growth in 2008. SPS has a healthy balance sheet and capacity to continue to fund its growth strategy. Management reaffirms the 5-year plan presented to the market on 30 April. Specifically this included the company growing to revenue of €600mn, EBITDA of €100mn and doubling ROCE to 15%.

Against the current economic backdrop, SPS is focused on strengthening its cash generation, increasing target returns on investments and cutting costs, with a view to lifting profitability in the second half of 2008 and in 2009.

The Group is exposed to certain risks managed through the implementation of systems designed to identify, assess, oversee and limit concentration of these risks.

1. Interest rate risk

During the first half of 2008 the company arranged interest rate hedging contracts which increased the notional amount hedged by €20mn compared to year-end 2007.

The company pays a floating rate on its bank debt, with a spread in 1H08 of 1.25 basis points over EURIBOR. The company faces significant interest rate risk exposure as rates are their highest in 5 years and the company's debt has increased on acquisitions.

Also, the company has increased target returns on investment to generate greater value in the future.

2. Foreign exchange risk

The company faces significant foreign exchange exposures, specifically to a depreciation of the U.S. dollar and pound sterling relative to the Euro. Currency movements eroded EBITDA by €1.2mn in 1H08.

To reduce exchange risk, the Group seeks to match cash receipts and payments on foreign currency denominated assets and liabilities. In addition, due to the company's core business (service sector), the structure of revenue and costs by currency and geographic area is highly vertically integrated, providing a natural business hedge. Specific payments from subsidiaries in respect of management fees, royalties, etc. are hedged using forward contracts.

3. Credit risk

The Group's credit risk is not significantly concentrated. Its top 25 customers represent 22%, while the largest customer accounts for approximately 1.3%.

While there has been no significant customer default, average collection periods have lengthened in some of the company's operating markets due to the unfolding economic slowdown.

4. Liquidity risk

SPS' policy is to hold long-term debt, so there is currently no pressure to rollover short term lines. Existing debt does not fall due until July 2011.

5. Commodities price risk

The Group is exposed to commodity price risk primarily via procurements.

Due to the large amounts managed and the high turnover of goods purchased, no specific measures are taken to hedge this risk, although supplier agreements do include clauses providing for the periodic renegotiation of contractual terms, with a goal to keeping the economic terms in balance.

Wherever possible the group tries to pass on the positive and negative changes in the prices of its consumables (e.g. paper) in its service fees.

6. Pension plans at certain subsidiaries

The value of pension plan assets is volatile and depends on external factors.

7. Integration of acquisitions

The company completed 3 acquisitions in 1Q08 and another at the end of July 2008. During the year, the corporate team has been strengthened, notably with the addition of a COO. In addition, the company has strengthened financial controls and checks (dual signatures, parent company consent requirements for investments, bank controls, etc.) and signed an international cash pool contract.
