is estimated to be £21.0 million, of which £17.5 million was spent in 2006 and 2007 with the balance to follow in 2008.

Restructuring and other one-off costs in the division were a net £2.1 million (2006: £16.3 million), because costs were offset by the profit on sale of surplus UK washroom property of £10.7 million. Costs were incurred in plant closure in Belgium, the closure of the wipers business in the UK, UK branch closures and management reorganisation and redundancy. The division continues to explore opportunities to improve procurement and supply chain efficiency, but it is not yet clear whether this will result in restructuring or other one-off costs being incurred in 2008.

2008 PREVIEW

2007 was an important year for the division. It was the year that marked the cessation of a declining trend and a return to portfolio growth.

During the year we structured the division in such a way as to reduce overall costs and overhead of the business. We also improved efficiency and processes. Looking forward the divisional team is focusing on a number of potentially powerful initiatives that will help protect the business in future years. The regional structures in particular create significant opportunities for improvements in customer service and cost reductions in processing, service and management activities. Market research commissioned by us in 2007 has also given the business some useful insights into future development opportunities.

The restructuring programme in the UK will be completed early in 2008. At this time the business will be fully operational from its final 20 locations and will have modern, efficient processing plants incorporating the latest technology. In addition the centralised back office facilities will be running at full strength.

In France we expect the positive trends in portfolio development towards the end of 2007 to continue in 2008. Our aim throughout the coming year is to continue to develop the profitability of the French business. A number of initiatives designed to improve productivity, particularly in the washroom business, will be implemented. We are also aiming to improve sales productivity and continue to develop range selling in order to increase the number of products taken by each customer. Elsewhere in continental Europe cost recovery is a high priority. We will be seeking to maximise the benefits associated with the investment in the new processing capacity in Belgium, France, Austria, the Czech Republic and will build upon acquisitions made, especially in Sweden and Poland.

FACILITIES SERVICES

MARKET CONDITIONS

Market conditions remained difficult throughout 2007 and our competitors continued with aggressive pricing strategies. Towards the end of 2007 there was a significant downturn in conditions in the UK retail sector, where we have a strong presence. However this can also create opportunities. Anti-smoking legislation in the UK affected the Leisure Industry.

FLYING SQUAD

Airports are busy places requiring smooth operation throughout daily and seasonal fluctuations in demand. Initial Air Services, part of Initial Facilities Services, is a long-established partner at Manchester Airport. During the most recent round of re-tendering it was successful in gaining the business as sole cleaning contractor until 2010. This will represent an unbroken tenure of some 24 years. In 2007 it also won a £1.1 million a year cleaning and support services contract with the Peel Airport Group to service Liverpool John Lennon, Robin Hood Doncaster and Durham Tees Valley Airports.

KEY PERFORMANCE INDICATORS

	£m	Change vs 2006
Revenue	585.7	+12.8%
Organic revenue		+3.9%
Operating profit	38.7	+41.2%
Adjusted operating profit	38.9	+24.7%
Net adjusted margin	6.6%	+0.6%
Contract portfolio gain	47.0	-25.3%
New business wins	43.7	-27.2%
Net additions/reductions	15.7	-5.4%
Acquisitions	44.9	+156.6%
Terminations	(57.3)	-84.2%
Retention rate	86.2%	-4.9%

2007 REVIEW

Initial Facilities Services delivered a good performance in 2007, increasing revenue by 12.8% and adjusted operating profit by 24.7%. The Netherlands cleaning business was sold in the third quarter. Excluding acquisitions and disposals, revenue grew organically by 3.9%. The focus on expanding group services into existing customers, an activity in which this division takes the lead, is also beginning to show rewards.

In the UK, Cleaning revenue increased by 22.1% to £318.8 million (2006: £261 million), largely as a result of increased contract turnover and portfolio growth coming from the acquisitions of InSitu and Lancaster. Adjusted operating profit from Cleaning was £2.3 million higher than in 2006 due principally to higher volumes and acquisitions. Margins remain under pressure and management remains focused on cost and productivity. We are implementing a number of service initiatives including the "SmartClean" daytime cleaning concept; RAPID customer account management – an industry first in remote management of cleaning contracts; and streamlining our operating structure to offset price pressure. Annualised customer retention rates fell in the second half largely as a result of one major loss and a 25% reduction in contract scope by our largest customer.

During the year, revenues in the catering service business declined to £59.7 million following our decision to exit a number of unprofitable schools contracts. Contract wins effective from Q4 will offset much of this revenue loss and at better margins. The catering business is now profitable (it made a loss of £0.8 million in 2006) due to both the above factors and the success of procurement initiatives on food purchasing and distribution.

Hospital Services, which provides cleaning, catering and porterage services to NHS hospitals in the UK and independent healthcare sector, recorded revenue up 10.5% at £62.8 million and profit up 33.8%. Focus has been on improving efficiency generally and addressing a number of unprofitable contracts.

Our specialist hygiene businesses increased revenues by 26% to £52.0 million and profit by £1.1 million, largely as a result of the acquisition of Technivap in France in January 2007.

Improved profitability in Catering and Hygiene Services offset the continued margin pressure in UK Cleaning to give a divisional margin of 6.6% for 2007, compared with 6.0% for the prior year.

In UK Cleaning, market conditions during 2008 are expected to remain unchanged on 2007 with pressure on margins continuing, particularly in the retail sector. We continue to roll out service initiatives across the business to add value

SMARTER CLEANING

Countering the highly competitive commercial environment in the UK facilities services market, Initial has introduced efficiency initiatives including SMART cleaning, a day time cleaning concept, and RAPID Customer Account Management, an industry first in the remote management of cleaning contracts. Initial has led the market with its deployment of daytime cleaning; innovating to match day-time cleaning needs including battery and cordless powered cleaning machines and escalator cleaning machinery which cleans without having to switch off the escalators. Cleaner premises, cost reduction and customer benefit. That's smarter cleaning.