

Ambius

Market conditions

Growth slowed in 2008 and demand for products and services softened in the US and the UK, principally the result of challenging economic conditions. The main markets of operation are at different stages of development with the US and the Netherlands more developed than the UK. All markets are highly fragmented with a large number of small operators, although the larger companies have a competitive advantage in terms of route density. Ambius currently has approximately 60,000 customers over 13 countries.

Key performance indicators

	£m	Change vs 2007
Revenue	108.7	+1.2%
Organic revenue growth		0.0%
Operating profit	7.6	-12.6%
Adjusted operating profit	7.6	-12.6%
Net adjusted margin	7.0%	-1.1%
Contract portfolio gain	0.4	-77.8%
New business wins	6.8	-5.6%
Net additions/reductions	3.2	-5.9%
Acquisitions	2.0	+17.6%
Terminations	(11.6)	-10.5%
Retention rate	86.6%	-1.0%

2008 review

Ambius, our tropical plants division, delivered a solid performance from its European businesses in 2008 but overall divisional performance was held back by a weak performance in North America, where poor levels of new business and increasing terminations can be directly attributed to the challenging US economy. Divisional revenue rose by 1.2% but profit declined by 12.6%. Retention rate declined from 87.5% in 2007 to 86.5%, driven largely by contract terminations in the US and the exit from a large but unprofitable contract in Sweden in Q3.

Operational improvements during 2008 included the completion of the Ambius re-branding exercise which commenced in 2007. A number of service extensions, including ambient scenting and fresh fruit delivery, were launched in Europe and latterly in the US and these now account for 5.8% of total contract sales during 2008. Debtors performance remains excellent despite softening market conditions.

In Europe the portfolio increased by 3.3% and job revenues were up 9.5%. During the year European sales of new brand extension services accounted for 10.6% of portfolio sales. The UK business has continued to show signs of operational improvement in both sales and terminations following two difficult years, though it was adversely affected by the economic downturn in Q4.

In Q4, Ambius North America revenue fell by 2.5%. Holiday sales fell 3.3% year-on-year. Brand extensions will continue to play a key role in development of the business and a full line of brand extensions including art, ambient scenting and interior/exterior living wall displays will be rolled out progressively throughout the business.

2009 preview

Trading for Ambius in 2009 is anticipated to be challenging in all markets, particularly in North America. We will attempt to maintain our current levels of profitability through good cost control and implementing savings initiatives.

City Link

Market conditions

The UK domestic express parcels market grew nominally in the first two quarters of 2008 and declined by between 5% and 6.5% in quarters three and four. Orders started to reduce in weight and quantum of parcels, contributing to an ongoing trend of reduced revenue per consignment. We have seen some aggressive pricing from competitors as they attempt to buy volumes.

Key performance indicators

	£m	Change vs 2007
Revenue	381.900	-8.40%
Organic revenue growth		-11.20%
Operating profit	(59.900)	-
Adjusted operating profit	(43.500)	-
Net adjusted margin	(11.400%)	-
No. of consignments (m)	48.226	-6.94%
Revenue per consignment (£)	7.940	-3.64%

2008 review

The widely documented problems experienced at City Link towards the end of 2007 and into the beginning of 2008 have resulted in the business posting a £43.5 million loss for 2008. Nevertheless, City Link has made progress on the implementation of its seven-point recovery plan. Service levels have remained around our internal target of 98.5% on-time deliveries, customer relationships have stabilised and significant improvements have been made to systems and processes. The level of quarterly losses has fallen as the year progressed with Q4's operating loss of £4.0 million representing the strongest quarter during 2008, and a £7.6 million improvement on Q3. Q4 revenue of £97.2 million was £3.8 million (4.1%) higher than Q3, but £9.3 million (8.7%) lower than the prior year.

City Link experienced record network consignment volumes in the week before Christmas, a seasonal peak far more compressed than in prior years. Customer service levels remained strong throughout. Customer queries and complaints over the Christmas peak have been substantially down.

Revenue per consignment (RPC) has weakened during the year by 3.7%. Q4 RPC fell by 5.8%, largely as a result of the seasonally higher proportion of Business to Consumer (B2C) revenues.

Customer service

Our customer base has remained broadly consistent for the last three quarters, although trading volumes within it have been mixed. Our top 50 customers account for approximately 25% of revenues and approximately half have put higher volumes across the network compared to 2007. The balance has downtraded. Implementation of plans to restore customer calls and queries to City Link depots are well advanced.

Costs and productivity

During the year City Link improved route and warehouse productivity levels without compromising service. Total employee numbers have fallen from 7,600 to approximately 6,600 and the vehicle fleet has been reduced by over 10%.

Following the introduction of a new weekly depot management information system, visibility on cost trends has improved during the year and the business now has a greater ability to flex its cost base in anticipation of softening demand. Measured over a six-month period, between April and November (i.e. avoiding seasonal peak distortions) the business reduced its annualised cost base by some £30 million. Much of this benefit will be felt during 2009 although the impact of a weakening economy on volumes may reduce the final benefit to operating performance.

The business continues to target further areas for productivity improvement. Having reviewed its operational trucking requirements it has decided to phase out its mixed use of hard-sided trailers and curtain-sided trailers in favour of curtain-sided trailers only. These have proven to be more cost effective and operationally more flexible. The business has therefore taken a one-off restructuring charge of £14.5 million in Q4 2008 for the exit from the lease obligations for the hard-sided trailers and associated handling and IT equipment. This project will be rolled out progressively from mid-2009 and is expected to give annualised productivity benefits of approximately £5 million per annum once fully operational in 2010. Detailed plans have been formulated to ensure that the change will not impact adversely on service.

Further system and operational improvements will be rolled out during the next 12–18 months. Physical unification of the depot/hub network will remain on hold until management is confident it can be achieved

without compromising service, though co-location of the ex-City Link and ex-Target Express business is now being implemented where suitable depots are available.

Cash

Despite weakening economic conditions City Link made good progress on cash collections during the year, ending 2008 with debt over 90 days at its lowest level in the year, and less than half that at year end 2007. Further improvement will remain a key focus for 2009.

2009 preview

Market conditions are expected to become more difficult in 2009. However we expect the modest drop in revenue will be more than offset by the impact of the £30 million cost savings programme in 2009.

Initial Facilities Services

Market conditions

Market conditions deteriorated in the second half of 2008 and are expected to continue to deteriorate in 2009. Some of our customers have looked to reduce service levels and we have been affected by some building closures and administrations.

Key performance indicators

	£m	Change vs 2007
Revenue	605.1	+3.2%
Organic revenue growth		-1.1%
Operating profit	40.2	+3.9%
Adjusted operating profit	40.8	+4.9%
Net adjusted margin	6.7%	+0.1%
Contract portfolio gain	1.5	-
New business wins	52.4	+19.9%
Net additions/reductions	-	-
Acquisitions	4.1	-92.7%
Terminations	(55.0)	+4.0%
Retention rate	88.1%	+1.9%

2008 review

During a year of worsening economic conditions, particularly in the retail sector, Initial Facilities Services has again delivered a solid performance during 2008. Revenue and adjusted operating profit increased by 3.2% and 4.9% respectively. Excluding the acquisition in July 2007 of our office cleaning business Lancaster and disposal of our Netherlands Cleaning business in Q3 2007, organic revenue growth was 0.5%. Profit improvement is principally a result of an improved performance in Catering and strong delivery from Medical and from Supplies.