

Operating cash flow has been a key focus for 2009 with conversion of 165% compared to 81% in 2008. This has been achieved through a focus on working capital and tight control over capital expenditure. DSO at 37 days improved by two days year on year.

2010 preview

Trading for Ambius in 2010 is anticipated to remain challenging in all markets, at least for the first half of the year. The implementation of cost savings initiatives in 2009 will show a full year impact in 2010 as we attempt to maintain our current levels of profitability.

City Link

Market conditions

2009 saw unprecedented declines within the domestic parcel market. In the 12 months to the end of Q4 2009 the value of the market fell by some 8% (£170 million) year on year. Severe pressure on price has accounted for almost all of this decline. Volumes in the final quarter of 2009 were 6% higher than in 2008, resulting in full year volumes remaining broadly similar to the previous year.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
At 2008 constant exchange rates:						
Revenue	100.9	97.2	3.8%	353.1	381.9	(7.5%)
APBITA*	2.7	(4.0)	-	(5.6)	(43.5)	87.1%

*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

City Link's operating loss of £5.6 million is £37.9 million better than the corresponding loss in 2008 despite a £28.8 million reduction in reported revenue to £353.1 million. The business returned to profitability in Q4 2009 posting a profit of £2.7 million – £6.7 million better than the corresponding period in 2008. Revenue declined by 7.5%, impacted by difficult economic conditions, pricing competition and the full year effect of poor service in 2008. Q4 revenue was £15.8 million (19%) higher than Q3 reflecting the seasonal sales uplift, and £3.7 million (3.8%) ahead of Q4 2008, with particularly strong growth in the B2C business.

Volumes were down 3.1% on 2008 and revenue per consignment (RPC) weakened by 4.5% on the prior year.

City Link's customer base has been broadly consistent throughout the year although many are trading at lower levels. The market has been extremely competitive during 2009 with severe price cutting by competitors in order to drive volumes through their networks.

City Link's improved loss performance has been driven by cost savings of £54 million in 2009. This was achieved through depot closures (97 to 84 by year end) and reductions in vehicles and headcount. Vehicle fleet numbers are a third lower than this time last year and total employee numbers have fallen below 5,500, a 16% reduction since December 2008. Plans to migrate from two hubs to one will be implemented by the end of H1 2010.

Apart from periods of heavy snow in early February and early December 2009, customer service has remained consistently above our 98.5% target. The restoration of customer call handling at depots was completed early in the year and has been met with very positive customer feedback.

The successful roll-out of new hand-held scanners and an upgraded route scheduling tool has underpinned improved productivity and customer service. The functionality of the new scanners has been expanded to allow delivery drivers to capture real-time customers' door and parcel images. This latter feature, which we believe is industry-leading, will further aid electronic, real-time proof of delivery. Additional improvements include the recently relaunched City Link website which has been very positively received by customers.

DSO at the end of the year was 34 days, an improvement of 10 days on 2008.

2010 preview

There have been signs of recovery within the market recently, with forecasts suggesting the parcel market will return to positive growth by the latter stages of 2010. Even so the market is expected to remain very competitive throughout the coming year as excess capacity in the industry still remains the predominant feature.

Facilities Services

Market conditions

Market conditions deteriorated during 2009 with customers continuing to look for cost reductions. However, the number of administrations/closures has slowed considerably.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
At 2008 constant exchange rates:						
Revenue	150.6	164.4	(8.4%)	608.6	653.0	(6.8%)
APBITA*	11.6	9.2	26.1%	26.3	18.4	42.9%
At actual exchange rates:						
APBITA*	11.6	9.2	26.1%	26.6	18.4	44.6%

*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Market conditions have been challenging in both the UK and Spain with severe price cutting from competitors, site closures and reductions in service frequency. Revenue decreased 6.8%, of which 1.8% can be attributed to Retail. Adjusted operating profit rose 42.9% almost entirely due to improved profitability from UK Washrooms. The Division delivered an outstanding cash performance in 2009 with cash flow of £46.4 million (representing 176% conversion) and significant improvement in debtors in all business units.

Cleaning revenue fell by 7.2% on the prior year, largely reflecting retail contract losses as a result of pricing pressure. However, over 75% of the lost portfolio was recovered by contract wins in Q4 which will take effect in Q2 2010.

Catering revenue fell by 1.6% following the loss of a large schools contract in H1 2009. This was replaced with other contracts which commenced in Q4. Underlying profit performance was positive (after an exceptional VAT recovery in the prior year) due to the exit of unprofitable contracts and new profitable wins in the latter part of 2008 and H1 2009.

Hospital Services revenue fell by 8.2% due to the loss of two large hospitals contracts at the end of 2008. The business has focused on the innovation of its food offering and has been recently merged with the Catering business under a single management team in order to leverage its expertise in this area.

Market conditions have been challenging for the UK Washrooms business with revenue down 8.2% year on year. After adjusting for the £6 million bad debt provision taken in Q3 2008, profit grew by £3.1 million driven by various cost-savings initiatives and reduced service credits. 95%+ service levels are now being consistently maintained despite reductions in headcount and service centres. The business has had continued success in the collection of debt, with DSO down 39 days since December 2008 and 90-day debt reduced by over 70%.

2010 preview

Our focus for 2010 is on growth and we have had an excellent start to the year with a major contract win in the transport sector. However, markets will continue to be difficult in 2010. As in 2009 we will continue to focus on on-going cost reductions and cash.

Central costs

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
At 2008 constant exchange rates:						
APBITA*	(8.2)	(9.6)	14.6%	(43.1)	(38.3)	(12.5%)
At actual exchange rates:						
APBITA*	(8.4)	(9.6)	12.5%	(43.4)	(38.3)	(13.3%)

*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Central costs for the full year were £4.8 million higher than 2008 primarily due to higher incentive scheme costs.

Principal risks and uncertainties

The principal risks and uncertainties relating to our strategy are summarised below. While some of these risks remain just that, others are more likely to manifest themselves. The key operational risk to the company is further deterioration of the global economy. Should our markets weaken it may become difficult for our operational businesses to maintain volumes and pass on price increases to customers. Cash collection could potentially prove more difficult and bad debts may arise as customers suffer from the recession.

The principal risks are:

- A continuing weakening of the economies in which we operate; and
- The number, scope, complexity and interdependencies of many initiatives – risk of management stretch and overlapping priorities.