

## Business review

### Business review

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**This review of performance takes a close look at each of our business areas – Textiles and Washroom Services, Pest Control, Ambius, City Link, Facilities Services and Asia Pacific. In each case we report on market conditions, record our progress against key performance indicators and discuss the most important developments in 2008 and our expectations for 2009.**

### Basis of preparation

In all cases references to operating profit are for continuing businesses before amortisation and impairment of intangible assets (other than computer software and development costs). References to adjusted operating profit and adjusted profit before income tax also exclude items of a one-off nature, totalling a net cost of £19.3 million (2007: £28.4 million) that have impacted the full year results. They relate mainly to the group's restructuring programme and consist of consultancy, redundancy and reorganisation costs net of the profit on sale of certain properties. They have been separately identified as they are not considered to be "business as usual" expenses and have a varying impact on different businesses and reporting periods. This commentary reflects the management divisional structure and not the statutory segmental information (see note 1c on page 64). Changes will be made to segmental reporting with effect from 1 January 2009 following the introduction of IFRS 8: Operating Segments. Further details are given at the end of this statement. All comparisons are at constant 2007 full year average exchange rates.

### Full year financial overview

Full year revenue of £2,252.9 million was 2.2% above the same period last year, 9.4% at actual exchange rates. Organic revenue decline was 0.8% held back by City Link. All divisions with the exception of City Link reported increased revenue, with Asia Pacific and Pest Control showing 13.9% and 10.9% improvement respectively. The contract portfolio increased by 2.9% year-on-year. Although the level of terminations has remained stable quarter on quarter, new business has slowed, which we are attributing to economic slowdown. Group operating profit (before amortisation and impairment of intangible assets) declined by 50.8% to £123.6 million and adjusted operating profit (again before amortisation and impairment of intangible assets) amounted to £142.9 million, a decrease of 48.9% on prior year. Group full year adjusted profit before tax and amortisation fell 60.1% to £83.6 million. Net margin decreased to 6.3% (2007: 12.7%). Statutory profit before income tax from continuing operations was £22.8 million (2007: £142.0 million). The statutory profit reflects £65.5 million of amortisation and goodwill impairment charges (2007: £39.2 million) and is stated after charging one-off costs of £19.6 million (2007: £28.4 million).

Full details of divisional performance can be found on pages 9 to 15.

### Measuring achievement in 2008

Up until the end of 2008 the board has used a number of key performance indicators (KPIs) to judge progress towards strategic objectives. In a complex company such as Rentokil Initial, output measures such as portfolio development, revenue and profit growth have been a relevant way of demonstrating to internal management and to shareholders progress on important issues such as customer satisfaction, service levels, staff satisfaction and innovation. The group's progress against these KPIs is shown in the table below. Divisional progress is tabulated in pages 9 to 15.

A new set of 18 KPIs under the following three categories, Colleagues, Customers and Shareholders, was identified towards the end of the year and from 2009 will replace those shown below. A full explanation of these new KPIs can be found on pages 15 and 16.

### Key performance indicators

	£m	Change vs 2007
Revenue	2,252.9	+2.2%
Organic revenue growth		-0.8%
Operating profit	123.6	-50.8%
Adjusted operating profit	142.9	-48.9%
Net adjusted margin	6.3%	-6.4%
Contract portfolio gain	44.8	-61.5%
New business wins	178.0	+3.9%
Net additions/reductions	39.4	-18.8%
Acquisitions	12.7	-86.2%
Terminations	(185.7)	-5.9%
Retention rate	87.8%	+0.2%
Operating cash flow	129.5	-31.2%
Free cash flow	34.9	-65.3%
PBTA	64.3	-64.5%
Adjusted PBTA	83.6	-60.1%

### Explanation of 2008 KPIs

For businesses with recurring revenue (i.e. virtually all of our companies apart from City Link) KPIs relating to the development of our contract portfolio are important, some because they are an inherent measure of the level of service we are providing to our customers and others because they are indicators of market strength. The contract portfolio represents the annualised value of our customer contracts and is a leading indicator of performance. We refer to the increase in the contract portfolio as "net gain" which is made up of a number of component KPIs. "New business wins" shows us how successful our sales activities are. "Customer retention" indicates how satisfied our customers are with the service we provide. Changes in the "as used" portion of contracts show variation in the amount of business existing customers give us under their contracts and the impact of price movements: as such they can often be

an early indicator of market trends. For example, in some of the European Textiles businesses, a general decline in the “as used” portion of garment contracts (i.e. the actual number of garments we process for customers) is a reflection of the shift in manufacturing jobs to lower cost countries. For non-portfolio businesses such as City Link, the equivalent KPIs are numbers of consignments handled and Revenue Per Consignment (“RPC”).

Other business and divisional KPIs include growth in total and organic revenue and net margin, as a way to judge the success of performance and productivity and improvement initiatives; improving efficiency in a sustained way is fundamental to first stabilising and then expanding margin. Our business and divisional profit KPI is operating profit (before amortisation of intangible assets). In 2008, we reported operating profit both before and after one-off items, referring to the latter as adjusted operating profit. We believe that to look at underlying trends we need to strip out these items, as they principally relate to one time restructuring/rationalisation projects.

Our activities have the capacity to generate significant cash flow, although growth in revenues is likely to be to the detriment of working capital performance and spend on capital equipment for rental to customers. We therefore monitor divisional operating cash flow and days sales outstanding (which measures the amount of working capital tied up in trade receivables). For the overall group we look at all these KPIs plus some which are only relevant to the group as a whole – free cash flow (which measures our ability to invest in our businesses and to pay dividends) and profit before income tax and amortisation of intangible assets (PBTA). As with operating profit in 2008 we have used adjusted profit before income tax (adjusted PBTA), which also excludes one-off items.

## Divisional performance

### Initial Textiles and Washroom Services

#### Market conditions

The textiles and washrooms market in Europe developed consistently in 2008 through to the summer. Market conditions worsened in the second half, particularly in the auto and heavy industrial sectors. While customer terminations have not risen significantly, existing customers have put reduced volumes through the business. We have only small exposure to these sectors.

#### Key performance indicators

	£m	Change vs 2007
Revenue	612.3	+1.1%
Organic revenue growth		+0.2%
Operating profit	86.0	-19.2%
Adjusted operating profit	85.9	-20.8%
Net adjusted margin	14.0%	-3.9%
Contract portfolio gain	22.1	+10.0%
New business wins	57.1	+4.2%
Net additions/reductions	19.6	+32.4%
Acquisitions/disposals	(0.8)	-
Terminations	(53.8)	+6.3%
Retention rate	90.7%	+0.7%

#### 2008 review

2008 has been a mixed year for the Textiles and Washroom Services division, with marked differences between the performances of the UK and continental European businesses. Overall revenue for 2008 rose by 1.1% (0.2% organic) but adjusted operating profit of £85.9 million was down 20.8% on prior year. Across Europe revenue grew 4.1% on prior year (2.0% organic) with all major markets demonstrating growth with the exception of Spain, where falling hotel occupancy rates have created a difficult market for flat linen laundering services. European adjusted operating profit declined 8.4%. Revenue in the UK declined 17.9% reflecting in part the exit from the wipers business in 2007. The UK Washroom business produced a loss of £5.2 million after adding a further £6 million to its bad debt provisions in Q3. As in 2007 obtaining price increases has again proved challenging in most markets in 2008, with cost inflation leading to an erosion of margins in 2008.

#### Continental Europe

Excluding the UK the division saw strong organic development of its contract portfolio, which grew 5.3% over the 2007 closing contract portfolio. New business sales were up 9.0%, representing good performances in all markets except for the Netherlands and Austria.

Excellent growth was recorded in France and Germany. A consistent trend of month-on-month improvement in customer retention to the end of Q3 was marred by a dip in the last quarter and as a result the annual retention rate remained at 92.0% for the year. Similarly, for the year as a whole the net of customers' uptrades and downtrades remained steady at a positive 4.1% of opening portfolio, although this dipped slightly in Q4.

Approximately 75% of the division's revenue is generated in France, Germany and Benelux. 2008 revenue from these territories grew by over 4.3% year-on-year as a result of strong new business wins in France and Germany, price indexation in Belgium and excellent retention rates in France (93.9%) and the Netherlands (87.7%). However, higher service expenses in the French and Belgian textiles operations relating to rising labour costs, a back-dated property tax assessment and higher energy costs have impacted financial performance for the year.

In France the industrial textiles portfolio grew strongly from key contract wins secured towards the end of 2007 and further strengthening of the contract portfolio during 2008; the business exited the year having secured significant contracts with SNCF, Sodexho and Rhodia. However cost pressures, in particular those relating to fuel and energy costs in H1, together with competitive price pressures, have offset any benefit from increased revenue, the full benefits of which will not be felt until 2009. In the washrooms business investment in infrastructure to increase the rate of market expansion has enabled the business to grow profits. Customer retention rates across both businesses were excellent and have shown improvements on the prior year. The pressures outlined above, coupled with a back-dated property tax charge and some production inefficiencies during the early summer, have resulted in a year-on-year profit decline.

In Benelux, while the Netherlands struggled to grow the top line, Belgium, assisted by index driven pricing benefits, grew respectably in both revenue and profit for the year. In the Netherlands the sales team put in place in 2006 struggled to maintain the same levels of key account development as those achieved in 2007. Retention, however, was much improved on prior year. Overall the region grew revenue by 2.9% but profit declined as a result of an inability to pass on cost increases to customers.

Our German Washrooms and Textiles business performed well during 2008, growing portfolio by 7.8%, the result of a 15.5% improvement in new business sales and a half-point improvement in retention. Following the sale in Q4 2007 of the loss-making hospitals business, management was able to focus on the profitable businesses, achieving sales growth of 1.6% and good profit growth.

While the Spanish business achieved good growth in its washrooms and garments activities, revenue was flat from linen services which were heavily impacted by

a slowdown in hotel and restaurant linen usage, caused by difficult market conditions in the Spanish hospitality industry.

All of the division's smaller continental European businesses recorded higher revenue in 2008 than in 2007. However, for the majority of these businesses, the full year cost impact of increased sales investment implemented during the course of the year offset any growth in profit. The full benefits of the growth in contract portfolio will not be fully reflected until 2009.

A number of capital investment programmes continued in continental Europe during 2008. A new plant for Prague in the Czech Republic opened on schedule and to budget in November 2008 and a new laundry for our garment textile rental services opened at the beginning of the year in Lokeren in Belgium. The total investment associated with these projects is estimated to be £15 million, of which £2.8 million was spent in 2008 with a further £1 million to follow in 2009.

### UK Washrooms

As the UK business strives to overcome legacy operational issues, performance during 2008 has been impacted by terminations and unacceptably high levels of credits arising from poor service levels delivered from H2 2007 through H1 2008. Revenue fell 17.9% to £67.6 million, of which 7.0% related to the closure of the wipers business in 2007 and 2.6% to credits. A new management team put in place during the first half of 2008 has made significant progress in improving customer service levels (consistently reaching 95% for the last three months of the year) and the rate of contract terminations has fallen from its Q2 peak.

However, because of the extent of service issues, accounts receivable has been a major problem for the business and an additional £6.0 million was provided in Q3 2008. Although we believe this will deal with the legacy issues, it has resulted in the business posting a loss of £5.2 million for the year.

The new management team has restructured the business, focusing on service and assigning responsibilities back to local service centres. Cost reduction initiatives are in place alongside efficiency initiatives which are expected to turn the business around during 2009 and restore it to profitability.

### 2009 preview

In continental Europe we anticipate improvements in productivity and capital efficiency. However revenue progression is uncertain given the very challenging economic circumstances we are likely to face later in the year. In the UK the washrooms business is expected to show improved profitability in 2009 due to the avoidance of one-off costs and productivity improvements. However revenue growth is likely to be challenging.

## Rentokil Pest Control

### Market conditions

Market conditions during 2008 have been mixed. In the UK, despite a strong start to the year, the larger market participants have seen a significant downturn in sales enquiries from the end of Q2 through the second half. Economic conditions in the US have been difficult. The European market slowed somewhat in Q4. The pest control market in East Africa and the Caribbean appears to have been unaffected by global slowdown.

### Key performance indicators

	£m	Change vs 2007
Revenue	335.8	+10.9%
Organic revenue growth		+6.4%
Operating profit	59.7	-7.9%
Adjusted operating profit	59.7	-8.9%
Net adjusted margin	17.8%	-3.8%
Contract portfolio gain	10.3	-67.8%
New business wins	38.3	+12.3%
Net additions/reductions	8.8	-3.3%
Acquisitions	5.9	-71.9%
Terminations	(42.7)	-31.8%
Retention rate	82.3%	-2.2%

### 2008 review

During 2008 the Pest Control division delivered a strong performance in mainland Europe and North America despite a backdrop of deteriorating economic conditions. The UK has, however, continued to prove challenging, in part due to legacy service issues arising from the 2007 business restructuring and partly due to a significant decline in job sales which became evident during the summer and which has continued through Q3 and Q4. Full year divisional revenue grew by 10.9%. However, adjusted operating profit declined by 8.9% year-on-year, held back principally by the poor performance of the UK business.

The retention rate in the year for the division as a whole fell by 2.2%, impacted by the exit from the Copesan trade association and the decline in the UK. State of Service rose to 96%, 1% above target.

### Europe

Across continental Europe revenue grew by 12.3% during 2008, of which 6.4% was organic. Countries growing most strongly included the Netherlands, Italy, Denmark and Austria. Our newest operations in Estonia and Lithuania are also performing in line with expectations. Profit increased during the year in Germany, Austria, Italy, the Netherlands and Denmark. Overall growth was however held back by Spain, Switzerland and Ireland.

### UK

The UK delivered a disappointing financial performance for 2008. State of Service has risen quarter on quarter and cash collection and days sales outstanding have shown steady improvements. However, revenue fell 2.0% in the year, 10.5% in Q4. This decline is largely attributable to a 25% decline in job sales in Q4. The business has experienced a significant downturn in sales enquiries from the end of Q2 through the second half. However, revenues were also impacted by legacy service issues and the focus on debt clearance has resulted in a backlog of terminations and service credits. Retention levels fell 5.2% year-on-year to 76.6% and were impacted most heavily in quarters two and three when the debt clearance programme was at its peak. The business's continuing focus on customer service and cash collection is resulting in steady reductions in credits, terminations and ageing debt. Profit fell by £7.2 million year-on-year, partly attributable to shared service centre recharges which were not levied in 2007.

### Libya

During Q3 the UK business secured its first major contract in Libya with a three-year governmental contract worth some £25 million in total with the General Corporation of Housing and Utilities. UK Service teams were deployed in Q4 in Tripoli, Benghazi and Misratah.

### North America

North America grew revenue by 18.1% (5.5% in Q4), driven principally by strong contributions from Presto-X acquired in August 2007 and Watch All acquired in March 2008. Growth was, however, impacted by the commercial business's forced exit from the Copesan trade association, announced at the end of Q1 and completed end Q2, which reduced revenue by £3 million. Organic revenue growth (adjusted to exclude acquisitions and Copesan) slowed to 2.7% for the year. Profit growth was strong reflecting ongoing progress in managing J C Ehrlich's cost base and specifically off-season productivity.

### 2009 preview

We anticipate a mixed performance in 2009 with very difficult trading conditions in the UK and US being broadly offset by continuing progress in continental Europe.

## 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.

In the UK Cleaning revenue increased by 3.7%, largely as a result of the Lancaster acquisition. Excluding its contribution underlying revenue declined by 7.0%.

Profit from our Catering business grew on flat revenue. This follows the decision taken in 2007 to exit a number of unprofitable school contracts and this, along with procurement and other initiatives, has delivered substantially improved results. A number of new contracts secured at the end of 2008 will commence in Q1 2009.

Hospital Services, which provides cleaning, catering and portage services to NHS hospitals in the UK and independent healthcare sector, increased revenue by 3.5%. This can be attributed to an ongoing focus on efficiency improvements particularly in relation to several contracts identified as being unprofitable during the prior year. A number of contracts that were up for re-tender have been extended and the trend for hospitals to manage these services in-house appears to be slowing.

In our Specialist Hygiene business revenues were up 5.4% on 2007, with strong growth coming from the UK and Benelux. However, profit declined as a result of integration and management issues in the French business acquired in 2007. Management changes effected in Q4 2008 are anticipated to significantly improve performance in 2009.

In our Supplies business profit increased sharply as a consequence of increased third party activity, coupled with higher demand for products resulting from the strong portfolio growth of the European Washrooms businesses.

### 2009 preview

We expect market conditions to be very difficult in 2009 but this business has a good track record of delivering bottom line improvement as a result of productivity savings whilst offering excellent customer service.

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## Rentokil Initial Asia Pacific

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### Market conditions

The Asian pest control and washroom hygiene market showed modest growth in 2008 despite the tightening economic conditions. Some softening of markets in Malaysia, Singapore, Hong Kong and Indonesia were offset by strong performances in China and India. Growth in the Australian and Pacific pest and washroom hygiene markets slowed during 2008, especially in the second half, due to tightening economic conditions.

### Key performance indicators

	£m	Change vs 2007
Revenue	179.9	+13.9%
Organic revenue growth		+3.1%
Operating profit	19.7	-37.3%
Adjusted operating profit	22.1	-29.6%
Net adjusted margin	12.3%	+7.7%
Contract portfolio gain	7.5	-74.2%
New business wins	19.6	-31.5%
Net additions/reductions	4.4	+22.2%
Acquisitions	1.4	-86.9%
Terminations	(17.9)	-24.3%
Retention rate	86.5%	-0.4%

### 2008 review

Revenue in Asia Pacific increased by 13.9% during 2008 but was held back by operational issues in the Australian washrooms and residential pest control businesses. Divisional profit declined by 29.6%. Q4 profit declined by 45.6% on revenue down 1.4%. One-off costs of £2.4 million were incurred during 2008 as a result of management restructuring to dismantle the previous country structure and replace it with separate organisations for washrooms, pest control and Ambius in the region. Divisional costs increased by £2.2 million as we strengthened the management infrastructure to improve control in the region and support its expansion into India and China.

### Australia washrooms

In the Australian washrooms business revenue and profit has been behind plan during 2008 due to the legacy of poor customer service and badly executed integration of Pink Healthcare. This has led to high levels of contract terminations, the issue of credits to customers for missed service and poor debt collection. At the half year we reported that following the appointment of new management a recovery plan was well under way. Customer service has improved steadily from Q2, rising from 59% to 93% during Q3 and Q4, aided by the roll-out across the network of new hand-held scanners. Terminations, although still high, have shown a declining trend from July through December despite an aggressive debt clearance programme. A number of terminations experienced in Q4 resulted from company liquidations and we believe these losses to be the first tangible signs of economic downturn.

Accountability for customers and service is being restored to branch level and additional supervisors and technicians have been employed to address service shortfalls. Ten small, local technician and sales teams, called "Pods" have been introduced across Sydney, Melbourne and Brisbane. Customer relationship management is also being strengthened by the creation of a new "Customer Care Executive" role. Revenue and profit are on a rising trend.

### Australian pest control

At the half year we reported that Campbell Bros., our residential pest control business, was job-based (i.e. non-contract), had an inflexible cost structure, was being impacted by poor revenue (due in part to bad weather) and had not been merged with our commercial business.

We are now making good progress in merging the residential and commercial branches. The new structure will result in fewer locations, a reduction in administrative costs and increases in service productivity. We now have a greater ability to flex resources according to demand and State of Service has improved quarter on quarter.

### Asia pest control and washrooms

Revenue in Asia was £82.2 million, up 23.6% on the prior year, but profit declined by £0.5 million. In Asia approximately 50% of 2008 revenues were derived from pest control, 45% from washrooms and 5% from electronic security. Revenue and profit performance was disappointing in both the main divisions, held back by Malaysia and additionally in the case of pest control, by Singapore. In Malaysia we have experienced a higher rate of washroom customer terminations and sales credits associated with service issues earlier in the year. In pest control there has been a slow down in government contracts and fumigation work generally. In Singapore pest control the issues have been similar; we have won less government work and experienced lower fumigation sales. The fall-off in fumigation appears to be a reflection of slowing levels of international trade.

### 2009 preview

Market conditions in most of our Asian and Pacific markets are expected to remain challenging in 2009. We would expect to achieve a modest overall improvement across the region through focusing on delivering high levels of service whilst implementing a series of cost reduction measures.

### Group goals and KPIs for 2009

We have identified a new set of 18 KPIs under the following categories, Colleagues, Customers and Shareholders. While some previously used KPIs have been retained others are new and being further developed. We will update shareholders on progress against them from time to time during the year and in full at the end of each financial year. In some cases the operational KPI data is selective rather than representative of the whole group as we are still in the early stages of collecting this data. Baseline data will therefore change over time. With that caveat, group results for 2008 and selective targets for 2009 are shown below:

	2008	2009
<b>Colleagues</b>		
Colleague engagement (Rentokil and Ambius)	<b>73.0%</b>	
Sales colleague retention	<b>63.0%</b>	
Service colleague retention	<b>66.0%</b>	
Health and safety (H&S) lost time through accidents (LTA)	<b>1.8</b>	
<b>Customers</b>		
Gross sales % of opening portfolio	<b>18.9%</b>	
Customer retention %	<b>80.9%</b>	
Net gain % of opening portfolio	<b>2.9%</b>	
Job revenue % of total revenue	<b>26.0%</b>	
State of Service	<b>96.0%</b>	
Customer satisfaction (Net Promoter Score)	<b>n/a</b>	
<b>Shareholders</b>		
Organic revenue growth	<b>(0.8%)</b>	
Total revenue growth (inc. acquisitions)	<b>2.2%</b>	
APBITA margin (%)	<b>6.3%</b>	
Debtors (days sales outstanding – DSO)	<b>65.0</b>	59.0
Cost savings delivered in year		£50.0m
Cash conversion targets as % operating profit	<b>85.0%</b>	95.0%
Gross capex as % of depreciation	<b>115.0%</b>	

### Explanation of 2009 KPIs

Colleague engagement (Rentokil and Ambius) – “Your Voice Counts” is an employee engagement survey and represents the aggregate engagement rating from these reports.

Sales colleague retention is the reciprocal of total sales heads leaving in the year as a percentage of the sales head count at the beginning of the year. Service colleague retention is the reciprocal of total service heads leaving in the year as a percentage of the service head count at the beginning of the year.

H&S lost time through accidents (LTA) is defined as a work-related injury or illness to an employee which results in them being absent from work for one day/shift or more (this excludes the day/shift in which the accident occurred).

Gross sales percentage of opening portfolio are additions to the portfolio (new business and additions to existing business but excluding price increases) expressed as a percentage of the opening portfolio. Customer retention percentage is the reciprocal of total terminations (reductions and terminations) expressed as a percentage of opening portfolio. Net gain percentage of opening portfolio is the movement in the portfolio expressed as a percentage of the opening portfolio.

Job revenue percentage is expressed as a percentage of total revenue.

State of Service is the total number of service visits performed divided by the total number of visits due. Customer satisfaction (Net Promoter Score) is measured by the average net promoter score rating across all branches in the business.

Organic revenue growth is revenue growth excluding the effect of acquisitions. Total revenue growth (inc. acquisitions) is the year-on-year increase in total revenue expressed as a percentage of the previous year revenue.

APBITA margin (%) is the adjusted profit before interest, tax and amortisation ("APBITA") expressed as a percentage of total revenue.

Debtors (days sales outstanding – DSO) are trade debtors gross of provisions calculated on the exhaust basis (i.e. going back over the relevant number of preceding days invoicing until the debt balance is zero). The number of days this takes is the debtor days.

Cost savings delivered in year is expressed as a percentage of the total cost base (everything between revenue and APBITA gross of the identified savings) prior to the savings being achieved. Cash conversion targets as percentage operating profit is operating cash flow expressed as a percentage of APBITA.

Gross capex as percentage of depreciation means cash capital additions (net of proceeds from disposals) expressed as a percentage of depreciation.

### **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 successfully 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;
- The number, scope, complexity and interdependencies of many initiatives – risk of management stretch, overlapping priorities; and
- Resolving the systems and infrastructure issues in City Link.