

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 portering 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.

Rentokil Initial Asia Pacific

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.