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 porterage 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.

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

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.