

## Business overview

## Initial Textiles and Washroom Services

**£772.1m**  
2009 revenue

**2.5%**  
% change

**£115.1m**  
2009 APBITA

**(6.7%)**  
% change

**10,719**  
Employees

The Textiles and Washroom Services division comprises the washroom, linen hire, garment rental, floorcare, medical services and specialist hygiene activities in the UK and continental Europe. It provides services to customers in a diverse range of industries from manufacturing to retail and from banking to hospitality.



% Group revenue



31.9% Group revenue

Geographical spread



38.7% France  
13.1% Netherlands  
11.4% Belgium  
11.2% Germany  
7.4% UK  
3.6% Austria  
3.5% Spain  
3.2% Italy  
7.9% Other

Activities



53.3% Textiles  
32.6% Washrooms  
14.1% Other

## Rentokil Pest Control

**£396.7m**  
2009 revenue

**3.3%**  
% change

**£75.2m**  
2009 APBITA

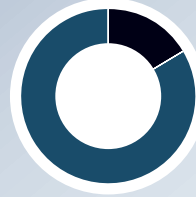
**1.9%**  
% change

**6,733**  
Employees

Rentokil Pest Control seeks to be the finest provider of pest control services in all major international markets. It aims to satisfy the needs of both commercial and residential customers who seek protection from health and financial risks and the reassurance that comes from dealing with the industry's finest service provider. The division has leading market positions in the UK, continental Europe and North America.



% Group revenue



16.4% Group revenue

Geographical spread



30.9% USA  
15.2% UK  
7.5% South Africa  
7.3% Netherlands  
7.2% Germany  
5.3% France  
5.2% Spain  
3.3% Belgium  
2.7% Portugal  
2.6% Libya  
2.5% Ireland  
10.3% Other

Activities



100.0% Pest control

## Asia Pacific

**£183.4m**  
2009 revenue

**(6.7%)**  
% change

**£19.8m**  
2009 APBITA

**(16.1%)**  
% change

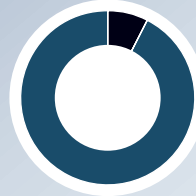
**6,465**  
Employees

Asia Pacific covers all the group's activities in the region, principally washroom services, pest control and tropical plants.

*Excludes share of associate in Japan*



% Group revenue



7.6% Group revenue

Geographical spread



45.5% Australia  
10.7% New Zealand  
10.5% Singapore  
8.8% Malaysia  
5.6% Indonesia  
5.1% Hong Kong  
4.3% South Korea  
2.8% Thailand  
1.2% China  
5.5% Other

Activities



46.3% Washrooms  
42.7% Pest control  
6.9% Tropical plants  
4.1% Security

### Ambius

**£106.8m**

2009 revenue

**(10.5%)**

% change

**£7.6m**

2009 APBITA

**(23.2%)**

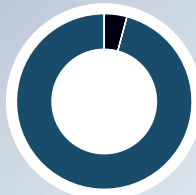
% change

**1,725**

Employees

The Ambius division (formerly referred to as Tropical Plants) provides interior landscaping, design installation and maintenance services in North America, the UK and continental Europe.

% Group revenue



Geographical spread



Activities



### City Link

**£353.1m**

2009 revenue

**(7.5%)**

% change

**£(5.6)m**

2009 APBITA

**87.1%**

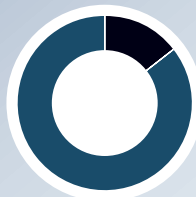
% change

**5,681**

Employees

City Link is a leading overnight parcel delivery service operating in the UK. In November 2006 it acquired Target Express.

% Group revenue



Geographical spread



Activities



### Initial Facilities Services

**£608.6m**

2009 revenue

**(6.8%)**

% change

**£26.3m**

2009 APBITA

**42.9%**

% change

**36,050**

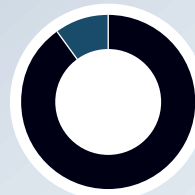
Employees

The Facilities Services division comprises a number of related businesses including Cleaning, Catering, Hospital Services and Specialist Hygiene Services in the UK.

% Group revenue



Geographical spread



Activities



All numbers at 2008 average exchange rates.

## 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, Asia Pacific, Ambius, City Link, and Facilities Services**. In each case we report on market conditions, record our progress against key performance indicators and discuss the most important developments in 2009 and our expectations for 2010.

### Basis of preparation

Segmental information has been presented in accordance with IFRS 8 “Operating Segments” which the group has implemented with effect from 1 January 2009. This review also reflects internal organisation changes made in the third quarter resulting in some businesses moving from Pest Control to Textiles and Washroom Services. Prior year comparisons and prior year periods have been restated. In all cases references to operating profit are for continuing businesses before amortisation and impairment of intangible assets (other than computer software). References to adjusted operating profit and adjusted profit before income tax also exclude items of a one-off nature, totalling a net cost of £37.1 million (2008: £19.6 million) that have had a significant impact on the results of the group. They relate directly to the group’s various performance improvement initiatives and consist mainly of redundancy and other reorganisation costs including consultancy, plant and office closure costs net of the profit on sale of certain properties, profit or loss on disposal of businesses not classified as discontinued and acquisition integration cost. They have been separately identified as they represent an investment in the future performance of the group and are not considered to be “business as usual” expenses and have a varying impact on different businesses and reporting periods. All comparisons are at constant 2008 full year average exchange rates.

### Full year financial overview

Full year revenue of £2,355.8 million (at constant exchange rates) declined by 2.2% on the same period last year, but grew 5.0% at actual exchange rates. Revenue performance was held back principally by City Link and Initial Facilities Services, both of which experienced particularly difficult market conditions in 2009. Despite the weakened economy, Textiles and Washroom Services and Pest Control reported revenue growth of 2.5% and 3.3% respectively with some notably robust country performances in both divisions. The contract portfolio decreased by 3.6% year-on-year reflecting customer terminations and a slowdown in new business which we attribute directly to the economic downturn. Group operating profit (before amortisation and impairment of intangible assets) increased by 7.2% to £158.2 million and adjusted operating profit (again before amortisation and impairment of intangible assets) amounted to £195.3 million, an increase of 16.8% on the prior year. Group full year adjusted profit before tax and amortisation grew by 29.8% to £140.1 million. Profit before income tax from continuing operations was £47.2 million (2008: £22.8 million), an increase of 107.0%. This profit reflects £55.8 million of amortisation and goodwill impairment charges (2008: £65.5 million) and is stated after charging one-off costs of £37.1 million (2008: £19.6 million). Full details of divisional performance can be found on pages 11 to 15.

## Textiles and Washroom Services

### Market conditions

Difficult trading conditions were experienced throughout 2009 in the textiles and washrooms market in Europe. These macro economic issues have been reflected in lower volumes and continuing price pressure. Some first signs of recovery began to emerge in late Q4 2009, with a slow improvement expected through 2010.

£m	Fourth quarter 2009	2008	Change	Full year 2009	2008	Change
<b>At 2008 constant exchange rates:</b>						
Revenue	<b>195.2</b>	191.3	2.0%	<b>772.1</b>	753.6	2.5%
APBITA*	<b>34.3</b>	32.4	5.9%	<b>115.1</b>	123.3	(6.7%)
<b>At actual exchange rates:</b>						
APBITA*	<b>38.5</b>	34.0	13.2%	<b>128.4</b>	123.3	4.1%

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

Revenue increased by 2.5% primarily due to a robust performance from France (up 4.9%), modest growth in Germany (up 2.4%) and the benefit of the Raywerk acquisition in Austria at the end of 2008. Excluding Raywerk underlying growth was 1%. Performance was impacted by market declines and competitive pressure in the Benelux, where revenue was marginally below the prior year, and reflected strong price competition coupled with poor retention rates. Reduced demand and changes in the pricing structure in the UK manufacturing business also had an adverse impact on revenue. Divisional portfolio growth of 2% was encouraging given on-going market challenges.

Adjusted operating profit decreased by 6.7% on the prior year (up 5.9% in Q4) reflecting unusual items associated with reorganisation costs and post-acquisition integration costs for Raywerk. Excluding these and the contribution from Raywerk, underlying profit fell by 2.0%. Profits in France and Germany were ahead, driven by the above-mentioned revenue growth, but this was offset by reduced profits in the Benelux due to severe pricing competition and the inability to cover various cost increases such as wage inflation. Margins were under pressure during the year due to increases in depreciation costs due to new garment rental contracts and cost increases on longer-term energy contracts not fully covered by price increases.

Operating cash flow increased by 63% reflecting the division's drive on DSO, lower capital expenditure and tighter stock management.

A review of the division's processing footprint and its procurement strategy identified cost savings of around €30 million (of which €20 million is anticipated to come from procurement).

In Belgium two textiles and one hospitals services plant are due to be closed by the end of Q1 2010 with annualised cost savings of £3.7 million from 2011. In France the closures of one textiles plant, one hospitals services plant and flat linen operations have been agreed with annualised cost savings of £4.4 million in 2011. Union negotiations in both countries have proceeded in line with plan and associated capital expenditure and change programmes are largely on track.

Operating units in Italy, the Nordics and the UK manufacturing operations have been consolidated under single management teams. The Swiss Textiles and Washrooms unit is now managed as an integral part of our German operations. Further management structures and cost cutting initiatives have been approved in the French Hygiene operations, Spain and the Divisional Team.

One-off investments in these restructuring plans represent a £26.3 million charge in 2009, £6 million cash outflow in 2009, £26.4 million in 2010, to realise £12.4 million cost savings in 2011.

A divisional Executive Supply Chain organisation was created during the year to enable initiatives to be leveraged across the broader procurement, warehousing and distribution arena. However, the procurement and innovation agendas remain at an early stage of development.

The leadership of the division was significantly strengthened during the year with a number of key appointments including a new Managing Director and Finance Director.

### 2010 preview

A number of initiatives have been put in place to improve the competitiveness of the Textiles and Washrooms division during this period. Significant restructuring programmes are underway in Belgium and France, which should start to yield benefits in 2010. Extensive cost-savings programmes will also be on-going through the year across all businesses.

## Pest Control

### Market conditions

Most countries within the Pest Control division experienced difficult market conditions in 2009. The global recession affected South Africa later than the other geographies, the impact of which was felt from Q2 2009 onwards. Our operations in the Caribbean did not appear to be significantly affected.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
Revenue	96.4	94.2	2.3%	396.7	384.1	3.3%
APBITA*	18.2	15.3	19.0%	75.2	73.8	1.9%
<b>At actual exchange rates:</b>						
APBITA*	20.6	16.5	24.8%	84.9	73.8	15.0%

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

Pest Control grew revenue by 3.3% in challenging market conditions, primarily the result of strong performances in North America, growth in the higher inflation economies of South Africa and the Caribbean, and the Libyan contract which commenced in December 2008. Revenue growth was held back by the UK (including the products business), Ireland and Spain. Contract sales were down 10.9% year on year. However, overall revenue has been supported by an increased mix of job sales, up 1% on the prior year. Divisional retention improved by 1.3% to 81.7%, reflecting a continued focus on customer service. Portfolio grew by 0.5%.

Divisional profit increased by 1.9%, with declines in the UK and Europe (principally Spain) being offset by strong growth in North America, the Caribbean and the Libyan contract.

Across Europe revenue was flat. Poor revenue performances from Spain and Portugal were offset by growth in the Netherlands, Switzerland and Austria.

New management appointed in the UK has made excellent progress in turning the business around. State of Service was 99.9% at the year end, customer retention improved H2 on H1 and cost savings of £2.1 million were delivered in line with plan. Full year revenue decline of 5.8% (0.9% growth in Q4) was a solid improvement on H1's decline of 10.2%, reflecting better retention and rising job sales in Q3 and Q4. The portfolio contracted by 7.2% in the year but showed marginal growth in November and December 2009. Debt over 90 days is at a record low and DSO improved by 13 days on 2008.

North America had an excellent year, growing profit and revenue by 16.5% and 4.0% respectively. Although contract sales declined by 14%, job sales grew by 5% and retention improved to a record high of 83% (up 6.2% on 2008). DSO improved by 10 days to 34 days.

The business's three-year contract with the Libyan government is proving to be very successful at an operational level and we have leveraged our technical expertise to create a customer-focused and responsive service. However, we are still experiencing delays in receiving payment with some £4 million remaining outstanding at the end of the year. There is some risk that payment will not be forthcoming. Separately, we have established a joint venture in Libya to explore the opportunity to develop a conventional commercial business.

Despite the delayed payments from Libya outlined above operating cash flow increased by 11.1% to £82.1 million in 2009, the result of increased profit, reduced accounts receivable and a tight control on capital expenditure.

### 2010 preview

We expect conditions to remain challenging in 2010 with improvement in the US and UK likely to be offset by deterioration in Europe.

## Asia Pacific

### Market conditions

The Asian pest control and washroom hygiene market had a difficult first half in 2009 in tightening economic conditions with a slowdown in Malaysia, Singapore, Hong Kong and Indonesia partially offset by strong performances in China and India. Growth in the Australian and Pacific pest and washroom hygiene markets was slow in 2009, especially in the first half, due to nervous economic backdrop. Some recovery was seen in the second half.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
Revenue	44.5	46.3	(3.9%)	183.4	196.5	(6.7%)
APBITA*	1.9	5.9	(67.8%)	19.8	23.6	(16.1%)
<b>At actual exchange rates:</b>						
APBITA*	2.1	5.8	(63.8%)	21.1	23.6	(10.6%)

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

Revenue declined 6.7% year on year and adjusted operating profit decreased by 16.1% (£3.8 million).

## Asia

Revenue fell by 12.5%, the result of legacy issues including the cancellation of the Hong Kong government contract and weaker government business in China (including the non-repeat of the Olympics pest control contracts). Excluding these items revenue fell by 0.2%. There has also been a severe decline in the fumigation business in Singapore, the Philippines and Malaysia as a result of slower international trade in 2009. This decline was marginally offset by growth in Indonesia, India and Korea.

Profit declined by £4.7 million largely due to the impact of charges related to the clean up of prior year control and acquisition issues as well as lower revenue noted above.

## Pacific

In the Pacific region revenue was 1.7% below the prior year due to weaker residential jobbing in the Pest business and loss of portfolio in the Ambius business. Profit grew by 4.3%, led by a strong turnaround in Australian Pest, a steady Washrooms performance and aggressive cost-savings programmes.

Service levels in the Australian Pest Control business reached a record 98.9% during 2009. Contract turnover rose by 2.8%. However, job revenue declined due to reduced demand for pre-construction termite barriers due to a downturn in building construction. DSO improved by 10 days to 42 days.

Washrooms service has continued to improve and is now at 97.1% but contract portfolio declined by 7.1%, revenue by 1.3%. Service staff retention increased year on year from 14.3% to 53.3%. This has led to improved service levels which in turn have led to an improved contract retention rate of 78.8%.

Cash performance has been strong and debtor days have decreased from 55 days to 42 days year on year.

During the year the Asia Pacific management team was significantly strengthened by the appointments of a new Managing Director, Finance Director and other senior country heads.

## 2010 preview

Market conditions in some of our Asian and Pacific markets are expected to improve in 2010. Against this backdrop we expect to achieve a modest overall improvement across the region through improved retention, focusing on high levels of service and implementing a continuing series of cost reduction measures.

## Ambius

### Market conditions

Growth declined in 2009 as demand for products and services softened in the major markets, especially in the US, UK, France and Belgium and principally the result of challenging economic conditions. 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 and product offering. Ambius currently has approximately 55,000 customers over 13 countries.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
Revenue	<b>30.5</b>	35.2	(13.4%)	<b>106.8</b>	119.3	(10.5%)
APBITA*	<b>4.3</b>	4.9	(12.2%)	<b>7.6</b>	9.9	(23.2%)
<b>At actual exchange rates:</b>						
APBITA*	<b>4.9</b>	5.0	(2.0%)	<b>8.8</b>	9.9	(11.1%)

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

Ambius has experienced exceptionally difficult market conditions in 2009. Revenue fell 10.5% as a result of increasing contract terminations and a 22.3% decline in job sales. Although overall customer retention fell from 81.9% in 2008 to 77.3%, it improved in the second half to 79.8% (H1 2009: 75.2%).

Adjusted operating profit fell 23.2%. In addition to adjusting service head count in line with portfolio movement, the business has been pursuing a number of cost savings initiatives to mitigate revenue decline.

North America has been weak with a 12.3% decline in revenue. Portfolio has been impacted by the difficult economy and customer retention fell by five percentage points to 75.0% but improved as the year progressed. Job sales declined 21.0% year on year, but showed greater resilience in Q4 with Holiday sales only falling by 11.2% year on year.

Revenue in Europe declined 8.1% with most countries experiencing difficult economic conditions. Customer retention declined from 83.8% in 2008 to 79.9% but, as with the US, improved towards the end of the year. Profit was adversely impacted by increased redundancy costs, an increase in bad debts and a 24.6% reduction in job sales year on year.

Sales of brand extension services, including ambient scenting and fresh fruit delivery, have continued to rise during the period and now account for 11.8% of total contract sales compared to 7.2% in 2008.

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
<b>At 2008 constant exchange rates:</b>						
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
<b>At 2008 constant exchange rates:</b>						
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%
<b>At actual exchange rates:</b>						
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
<b>At 2008 constant exchange rates:</b>						
APBITA*	<b>(8.2)</b>	(9.6)	14.6%	<b>(43.1)</b>	(38.3)	(12.5%)
<b>At actual exchange rates:</b>						
APBITA*	<b>(8.4)</b>	(9.6)	12.5%	<b>(43.4)</b>	(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.

## Financial review

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### Overview

Full year revenue of £2,355.8 million declined by 2.2% over last year, but grew 5.0% at actual exchange rates. Group operating profit (before amortisation and impairment of intangible assets) increased by 7.2% to £158.2 million and adjusted operating profit (again before amortisation and impairment of intangible assets) amounted to £195.3 million, an increase of 16.8% on the prior year. Group full year adjusted profit before tax and amortisation grew by 29.8% to £140.1 million. Profit before income tax from continuing operations was £47.2 million (2008: £22.8 million), an increase of 107.0%. This profit reflects £55.8 million of amortisation and goodwill impairment charges (2008: £65.5 million) and is stated after charging one-off costs of £37.1 million (2008: £19.6 million).

### One-off items

One-off costs relate directly to the group's various performance improvement initiatives and consist mainly of redundancy and other reorganisation costs including consultancy, plant and office closure costs net of the profit on sale of certain properties, profit or loss on disposal of businesses not classified as discontinued and acquisition integration cost. They have been separately identified as they represent an investment in the future performance of the group and are not considered to be "business as usual" expenses and have a varying impact on different businesses and reporting periods.

This year these have amounted to £37.1 million (2008: £19.6 million) and represent costs associated with the reorganisation of the Textiles and Washrooms division (primarily the closure of processing plants in Belgium and France), the costs associated with the closure and relocation of the London corporate office and redundancy costs and impairment of assets relating to the continued integration of the City Link and Target Express businesses.

### Net debt and cash flow

£m at actual exchange rates	Year to date		
	2009	2008	Change
Adjusted EBITA – continuing businesses	220.8	167.2	53.6
Adjusted EBITA – discontinuing businesses	–	5.0	(5.0)
One-off items	(40.2)	(19.6)	(20.6)
Depreciation	215.9	190.8	25.1
Other non-cash	7.7	4.9	2.8
<b>EBITDA</b>	<b>404.2</b>	<b>348.3</b>	<b>55.9</b>
Working capital	91.7	3.2	88.5
Capex – additions	(189.2)	(237.8)	48.6
Capex – disposals	10.0	15.8	(5.8)
<b>Operating cash flow</b>	<b>316.7</b>	<b>129.5</b>	<b>187.2</b>
Interest	(61.5)	(67.3)	5.8
Tax	(17.5)	(27.3)	9.8
Purchase of available-for-sale investments	(0.8)	–	(0.8)
<b>Free cash flow</b>	<b>236.9</b>	<b>34.9</b>	<b>202.0</b>
Dividends	–	(106.7)	106.7
Acquisitions/disposals	(6.8)	(43.0)	36.2
Special pension payment	–	(33.3)	33.3
FX and fair value adjustments	24.0	(267.0)	291.0
<b>Increase/(decrease) in net debt</b>	<b>254.1</b>	<b>(415.1)</b>	<b>669.2</b>
<b>Closing net debt</b>	<b>(1,108.1)</b>	<b>(1,362.2)</b>	<b>254.1</b>

Operating cash flow at actual rates of exchange was £187.2 million higher than 2008 due to higher EBITDA, better working capital movements and lower net capex. EBITDA was £55.9 million higher than last year due mainly to improved trading performance offsetting higher one-off costs. Inflows from working capital were £88.5 million higher than last year mainly as a result of lower debtors. Savings in net capex amounted to £42.8 million, with reductions being achieved in most divisions.

Tax and interest payments (including finance lease interest) were £15.6 million lower than last year following receipt of tax refunds in respect of prior periods. Free cash was therefore £202.0 million higher than last year at £236.9 million.

Deferred acquisition and disposal cash flows consumed £6.8 million and foreign exchange gains and fair value adjustments added a further £24.0 million, producing a total cash inflow of £254.1 million, leaving net debt at £1,108.1 million at 31 December 2009.

### Funding

At 31 December 2009 the group had net debt of £1,108 million. Of this, £915 million is represented by capital market notes issued by the group and the earliest maturity of any of these instruments is 2013. Of the balance, £32 million is held as cash and other borrowings in the businesses and £225 million is drawn under the group's £500 million bank facility, which matures in October 2012. This facility provides the group's principal source of day to day liquidity. The group's Letter of Credit facilities of c.£70 million equivalent require refinancing in October 2010. Negotiations have commenced and no difficulties in securing replacement facilities are anticipated.

The group has good headroom in its bank facilities in terms of funds available to withdraw and has good and improving headroom in relation to its covenant. The group's bank facilities contain a single financial ratio covenant which requires EBITDA to be no less than 4x interest payable (on the basis of the definitions and subject to the adjustments set out in the bank facility documentation). The covenant is tested on 30 June and 31 December for the previous 12 months. At 31 December 2009 the covenant ratio was 7.0x, equivalent to £185 million of EBITDA headroom.

Full details of the group's net debt and borrowing facilities are set out in note 21 to the financial statements.

### Cash generation and dividend

Cash generation has been a key priority during 2009. A number of measures have been pursued to achieve this including a continuation of the drive on working capital, optimisation of capital expenditure and the implementation of cost reduction programmes across the group. As a result we have made excellent progress during the year in operating cash flow, generating £317 million, representing 143% conversion from profit. This, coupled with our decision to pass the interim dividend, enabled us to retire our fully undrawn £125 million revolving credit facility 12 months early on 3 September 2009. Headroom at 26 March 2010 was £285 million.

In view of the continuing economic uncertainty in the markets within which we operate and our desire to strengthen the group's balance sheet to increase our financial flexibility, the board has decided to not propose a final dividend to shareholders.

### Interest

Net interest payable of £57.6 million for the year was £4.3 million lower than in 2008. Favourable effective interest rates reduced the year-on-year charge by £7.1 million and mark to market moves by a further £4.3 million. These benefits were partly offset by higher interest charges of £4.6 million, due to higher average net debt, mainly as a result of 2008 translation differences, adverse net pension interest charges of £1.7 million and other smaller items amounting to £0.8 million.

### Tax

The blended headline rate of tax for 2009 was 27.0% (2008: 31.6%). This represents the weighted headline rates appropriate to the countries in which the group operates. The decrease in the blended rate was due to one-off restructuring costs within Belgium and France and a significant reduction in the UK loss position. The income statement tax charge for 2009 was 24.8% of profit before tax from continuing operations, compared with 28.1% for 2008. The principal factor that caused the effective tax rate to be lower than the blended rate is the reduction of the deferred tax provision in respect of overseas unremitted earnings, partially offset by various adjustments in respect of the prior period provisions for deferred taxation. The blended tax rate for 2010 is expected to be 28.6%. The actual tax rate for 2010 is expected to be broadly in line with 2009.

### IFRS 8

IFRS 8, "Operating Segments" has been adopted by the group from 1 January 2009. IFRS 8 requires us to amend our segmental reporting so that it aligns fully with our internal management structure, and comparative figures have been restated. The principal changes involve the reallocation of the UK Washrooms business and the UK Shared Service Centre to the Facilities Services division, the transfer of the South African business to the Pest Control division and the transfer of the Medical, Supplies and Specialist Hygiene businesses from Facilities Services to the Textiles and Washrooms division. In addition, revenues are now stated gross of inter group trading rather than net and revenues and profits are shown at constant exchange rates consistent with our internal reporting and review processes.

### Financial risk management policies

The board has approved the following financial risk management policies. These policies cover those financial risks that are material to the company's operations and financial results. The board has set appropriate delegated authorities, treasury financing parameters and reporting procedures to ensure compliance with such policies at all times. The effect of the company's treasury activities is reflected in the disclosures in notes 16, 21 and 22.

### Capital structure and financing strategy (liquidity risk)

The board has set the following policies so as to minimise the company's exposure to liquidity risk and thus ensure that the company is able to meet its liabilities as they fall due.

The company is committed to maintaining a debt/equity capital structure that is sufficiently robust so as to ensure the continued access to a broad range of financing sources and thus be able to maintain sufficient flexibility to pursue commercial opportunities, in a timely manner as they present themselves, without the imposition of onerous financing terms and conditions. The company will target a minimum financing headroom of £200 million, when measured against its latest forecast/anticipated cash flows (adjusted for planned acquisitions and any maturing debt obligations) over a rolling 12-month time horizon. The company's sources of finance should be structured in a manner so as to minimise potential refinancing risk particularly arising from a bunching of debt/note facility maturities.

The company's financing sources should be diversified, across the international banking and capital markets, so as to avoid the over-reliance upon a single source, or disproportionately large source, of funds from an individual capital market note issue or bank finance provider.

In autumn 2005 the group's credit rating from Standard & Poor's was reduced from BBB+ with negative outlook to BBB. Following the publication of the group's interim results in August 2008, Standard & Poor's reduced the group's credit rating to its current level of BBB-. After the group's third quarter trading statement in November 2008, Standard & Poor's changed the outlook on this rating to negative outlook. We continue to target a stable BBB rating in the medium term as we believe that this strikes an appropriate balance between an efficient capital structure (as represented by a low weighted average cost of capital), liquid access to the capital markets and reasonable pricing.

At 31 December 2009 the group had approximately £275 million of undrawn committed bank credit facilities. The company is in compliance with the financial and other covenants within its committed bank credit facilities as well as all obligations relating to the notes issued under the Euro Medium Term Note (EMTN) programme.

### Market price risk

The company and its reported results are exposed to financial market price movements. These risks principally arise from the interest and foreign exchange rate markets. In addition, through its UK defined benefit pension scheme ("the scheme" – see note 24), the company also has exposure to equity market price movements, movements in interest rates used to discount liabilities for reporting purposes under IAS 19, changes over time to actuarial mortality assumptions, defaults on bonds and inflation. The trustee directors

are responsible for setting the risk management strategy for this scheme. In 2006 this scheme's exposure to equity market price movements was markedly reduced. In 2006 the scheme's assets were switched from being predominantly in equities (80%/20% equities/bonds) to being mostly in corporate bonds (20%/80% equities/bonds). A 10% movement in equity prices in any one year would give rise to a +/-£20.0 million movement in scheme assets and thus a corresponding movement in the underlying scheme surplus. Shortly after this asset switch, the scheme also undertook inflation and interest rate hedging actions. These actions, together with the closure of the scheme to future accrual for existing employees with effect from September 2006 were undertaken so as to increase the likelihood that the scheme's assets (together with the company's agreed future contributions) would be sufficient to meet its anticipated financial commitments to existing and future pensioners.

### Interest rate risk

The policy is to manage interest rate exposures on a 12-month rolling basis (measured quarterly). Unless otherwise agreed by the board, a minimum of 50% of the company's estimated future interest rate exposures should be fixed (or capped) for a minimum period of nine months forward. Additionally, in the event that the company's interest cover is forecast to fall below 4.75 times the board will be required to review a remedial action plan.

At the end of December 2009 approximately 97% of the group's debt was at a fixed rate of interest. During 2010 this proportion will reduce slightly to approximately 87%. Accordingly, the group is not materially exposed to rising interest rates.

### Foreign exchange risk

Foreign exchange risk can arise as follows:

1. from retranslation of overseas business profits into the sterling functional reporting currency of the company;
2. from retranslation of assets and liabilities of overseas companies into the functional currency of the company;
3. from cross-border trading transactions of group companies; and
4. from the use of currency denominated borrowings and financial instruments used to finance business operations.

The company has a policy of not hedging foreign exchange translation risks outlined in 1. and 2. above. Further, the company has a policy of not hedging foreign exchange risks arising from cross-border trading activities given that these are immaterial.

The company policy is to fund its business operations centrally with borrowings that are substantially denominated (90% or greater) in the same actual or effective currencies\*, and in the same proportion as the group's forecast cash flows generated by the business.

*\*Actual or effective currency. The use of either actual currency borrowings or currency swaps is permitted. Currency swaps economically change the actual currency of borrowing into an effective amount, borrowed in a different currency. Currency swaps will be used in preference to actual currency borrowings when the all-in cost is cheaper than the alternative currency borrowings and/or they enable a closer match to the company's debt maturity calendar.*

### Treasury risk

The company utilises financial instruments to manage financial risks that arise naturally from its business operations. Only group treasury personnel are authorised to deal such instruments on behalf of the company. The board has set strict policies for the use of such instruments. The company's policy is to ensure that their use shall be:

- strictly limited to the management of known or anticipated financial exposures which arise from the company's existing or planned commercial operations;
- only undertaken by suitably qualified or experienced group treasury staff;
- undertaken only after efforts have been taken to avoid the need for use of such derivative instruments to manage the group's financial exposures;
- limited to the management of interest rate or foreign exchange exposures (i.e. no equity related or commodity hedging shall be undertaken without specific board approval);
- undertaken only after the preparation of clear documentation which explains the purpose for the use of the specific derivative and its proposed financial accounting treatment;
- capped by the maximum approved counterparty limit for that transaction; and
- subject where relevant to detailed "hedge effectiveness" testing by group treasury, through to maturity of the transaction, if designated and documented as a "hedge" at the outset of the transaction.

### Credit risk

The company limits its exposure to credit risk on financial instruments by ensuring, where appropriate, that instruments used are subject to International Swaps and Derivatives Association market standard legal documentation.

The board also sets maximum counterparty approval limits for individual financial counterparties. These limits are reviewed and varied to take account of changes to the underlying credit rating of individual credit counterparties as required.

### Acquisitions

The group acquired businesses in the year for a net consideration of £2.7 million. Details of businesses acquired and revenue and operating profit therefrom are set out in note 30 to the accounts.

### Pensions

The group's total IAS 19 net deficit was £6 .3 million at the end of 2009 compared with a net surplus of £13 .9 million at December 2008. The group has a number of small defined benefit schemes outside the UK but the principal scheme ("the Scheme") is in the UK.

The UK scheme had a net deficit of £ 7.9 million at December 2009 compared with a net surplus of £15 .4 million a year earlier. This represents an adverse movement of £202.3 million due primarily to an increase in liabilities.

The net deficit comprises the aggregate of the value of the Scheme assets and liabilities:

- the Scheme assets reduced by £50.0 million to £978.8 million driven by a reduction in value of our interest rate swap portfolio, partly offset by an increase in value of our equity portfolio – our Scheme comprises approximately 20% equities and 80% bonds and other financial instruments; and
- the Scheme liabilities increased by £152.3 million to £1,026.7 million driven by:
  - a reduction in yield on AA corporate bonds – the yield determines the discount factor used to calculate the net present value of the future scheme liabilities (the lower the yield, the greater the liabilities);
  - the longer-term outlook for increased inflation – inflation drives our view on future pension increases; and
  - favourable experience gains on liabilities due to pension and salary increases being lower than anticipated, in part offsetting the above.

Asset allocation is determined by the trustees in conjunction with the company. The next triennial valuation of the UK Scheme takes place during 2010.

Further details are shown in note 24 on pages 74 and 75.

### Accounting standards

The financial statements included in this annual report have been prepared and presented under IFRS as adopted by the EU. The group's accounting policies are set out in pages 45 to 52.