

Statement by the Chairman and the Chief Executive

Overview of performance in 2009

2009 has been a year of strong progress for Rentokil Initial. Although there has been no easing in the wider economic conditions our results exceeded our expectations and clearly demonstrated the effects of the operational strategy we began 18 months ago.

At actual exchange rates group revenue rose by 5% to £2.5 billion (although it declined by 2.2% at constant exchange rates) and adjusted profit before tax grew by 54% to £166.5 million. Our cash flow performance was outstanding at £317 million – 2.4 times greater than the £130 million recorded in 2008. Net debt was reduced from £1.36 billion to £1.11 billion.

We also exceeded our service and cost targets for the year. The group's "state of service" is 98.1%, a very respectable performance when compared to our peers and a strong improvement on 2008. Cost savings of £82 million were achieved, of which £54 million was delivered by the on-going City Link restructuring programme.

In last year's annual report we stated that improving the performance of our five turnaround businesses would be key to restoring profitability for the group. We are pleased to report that City Link, UK Washrooms, UK Pest Control, Australia Washrooms and Australia Pest Control have made strong progress through the year and are now focused for growth. City Link in particular reduced its losses from £43.5 million in 2008 to £5.6 million in 2009 and returned to profitability in the fourth quarter. Restoring City Link to previous levels of profitability is now the challenge ahead.

Strategy update

In our 2008 statement to shareholders we outlined our key objectives for 2009. We were determined to deliver consistent and outstanding service to our customers while at the same time driving down the cost of running the business and achieving a high level of profit to cash conversion from our activities. The company's three-year plan continues to focus on the **five strategic thrusts** introduced last year, progress against which is shown below.

1. Delivering outstanding customer service

We have made excellent progress in driving customer service during the year. Three sub-initiatives to this thrust are: driving basic service levels across our business; ensuring accountability for customer relationships across our 500,000 customers; and instilling shared values and behaviours across the group of **Service, Relationships and Teamwork**.

State of Service at the end of 2009 was 98.1%. Service has improved dramatically across the turnaround businesses of City Link, UK Washrooms, UK Pest Control, Australia Washrooms and Australia Pest Control, all of which have a State of Service at 96% or better.

Our new values of Service, Relationships and Teamwork were developed in close consultation with our front-line colleagues and we have been particularly encouraged by the way in which they have been adopted so enthusiastically across the business.

Customer retention continues to be a major focus for the group. While progress has been made in ensuring personal accountability for customer contact management, further improvement is required in responsiveness, proactive customer contact and in tailoring customer propositions.

Initiatives for 2010 include the introduction of Customer Care staff and further systems development to enable improvement in first-time query resolution. A "Welcome Pack" pilot for new customers and implementation of Account Management Cycles to ensure customer satisfaction and identify growth opportunities (i.e. cross selling) will also be implemented. Net Promoter Score surveys (a measure of customer satisfaction) will be cascaded across our countries of operation down to branch level and competitor benchmarking tools will be adopted.

2. Developing the capability of our organisation and people

Strong progress was made in 2009 in driving HR initiatives, including upgrading functional and operational management, performance management and global grading.

Senior management was strengthened through the appointments of new managing directors and finance directors for Textiles and Washrooms, Asia Pacific and UK Pest Control, with good progress already visible. Senior management was strengthened further through the appointment of a new managing director for the Pest Control division. Gaps remain in sales leadership, procurement and innovation. We will strengthen these functions during 2010.

Performance Development Reviews (PDRs) were established and rolled out to 1,900 managers during the year. Global grading has been implemented across the group. A talent review was established for the top 120 managers and will be rolled out across the top 500 in the second quarter of 2010. Further HR process improvements are planned for 2010.

Development of service and sales capability has progressed in 2009 but requires on-going focus, particularly in sales. Maximising performance in this function will be a prerequisite for future growth. During the year a Technician Performance Assessment programme for Pest Control colleagues was launched in 39 countries, assessing service technicians on skills including communication, attitude and engagement with customers and other colleagues. Subsequent coaching was tailored to address areas of weakness. A similar programme for sales colleagues will be rolled out across the Pest Division in 2010.

3. Delivering operational excellence in all our processes and functions

Progress has been made in driving common systems across all businesses and geographies and in updating the group governance framework and standard operating procedures. The roll-out of standard hand-held terminals is now advanced in developed markets and adoption of the iCABS contract management system is driving improved control in Pest Control and Washrooms. Further global iCABS implementations in Pest Control and Washrooms are planned for 2010. The Navision finance system will be implemented across a number of businesses over the coming years.

During 2009 we entered into a landmark agreement with Google to deploy Google Apps™ Premier Edition across the group's international workforce. The new platform provides a single web-based communication and collaboration suite to replace the existing 180 e-mail domains and 40 mail systems across the company's six divisions. Roll-out will be completed by the end of 2010.

4. Operating at lowest possible cost consistent with our service objectives and delivering maximum cash

A total of £82 million cost savings were achieved during 2009, of which £54 million can be attributed to City Link's depot rationalisation programme and on-going reductions in vehicle fleet and headcount.

A review of the Textiles and Washroom 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) by 2011. In Belgium two textiles plants and one hospitals services plant are due to be closed early in the second quarter of 2010 with annualised cost savings of £3.7 million from 2011. In France the closures of one textiles plant, one hospitals services plant and the flat linen operations have been agreed with annualised cost savings of £4.4 million in 2011. Other European streamlining initiatives are underway in Switzerland, Italy, Spain and the Nordics. Procurement savings in Washrooms have started well. A textiles supply chain project has begun to tackle the complex, resource intensive and large procurement opportunity in this division.

We anticipate a further £75 million of savings in 2010, over and above those delivered in 2009. These will be realised predominantly from the City Link and Textiles and Washrooms restructuring programmes.

The group generated operating cash flow of £317 million (2008: £130 million), representing 143% cash conversion, and well in excess of our full year target of 95%. This was achieved through reducing Days Sales Outstanding (DSO) from 61 days to 49 days and

by reducing capital expenditure from 116% of depreciation in 2008 to 83% in 2009. Our target DSO for 2010 is 47 days, cash conversion at 102% and capex at 95% of depreciation, excluding cash spent on restructuring.

Programme Olympic

Programme Olympic, so named because our planned completion date is in 2012, is a programme of process-led change for our business support activities. Our goal is to deliver the desired organisational and technological requirements to drive a culture of **"Right First Time"** throughout the organisation. Our objectives are to dramatically improve both customer service – driving retention and revenue growth – and our financial performance – both the cost base and the balance sheet.

Olympic consists of six programmes. The first four are process focused; the remaining two – property and organisation development – are big drivers of administration and overhead costs.

The six goals of the programme are:

Prospect to Cash – development of best practice processes to drive the customer lifecycle from prospecting for new customers to cash collection

Procure to Pay – development of best practice processes to drive the supplier lifecycle

Recruit to Reward – development of best practice processes to drive the employee lifecycle

Record to Report – development of best practice processes to drive accounting processes

Property – optimise the use of our property portfolio through greater utilisation of facilities

Organisation Development – develop best practice and optimise our organisation structure

The high level design phase has been completed for most components of the process programmes with some pilot studies underway.

5. Delivering profitable growth through organic actions and bolt-on acquisitions

Our focus up until the first half of 2009 was directed at driving a customer service and operational excellence agenda. At the beginning of the second half we turned our attention to the growth agenda. Our growth strategy will focus on increasing market share in our established markets – through effective sales and marketing and service expansion – and by acquisition. In addition we will seek to develop our presence and capability in growth markets (including the Middle East, China and India).

In the third quarter we embarked on an important project to refine our markets and marketing propositions within the Washrooms and Pest Control businesses with the intention of differentiating ourselves more clearly from our competition. Historically we have left almost complete discretion to local sales teams over *how* they present our service offering and *where* they look for customers. Work is now underway to better segment our markets, refine our customer propositions and identify and develop prospects more effectively. By doing this we can match our offers to customer needs, identify the most attractive segments to be in and equip our sales teams with the tools necessary to increase sales conversion rates.

It has become clear to us over the year that our Facilities Services division would be strengthened by the addition of a manned guarding operation, given the continued move in the market towards bundled services.

Goals

In last year's report we introduced 17 key performance indicators (KPIs) under three categories: **Colleagues, Customers and Shareholders**. These have been introduced across the organisation with all divisions reporting monthly to senior management on progress. Full details of our performance against these KPIs can be found on page 6.

Funding and dividend

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. 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. Headroom at 26 March 2010 was £285 million.

Full details of the group's capital structure and financing are set out in the Financial Review on pages 16 to 19.

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 not to propose a final dividend to shareholders. We hope, however, that our shareholders will be encouraged by what we achieved in 2009. We and the board remain committed to restoring the dividend and this will be kept under review as we make further progress in both rebuilding the profitability and strengthening the balance sheet of Rentokil Initial.

People


In October 2009 Andy Ransom, Executive Director, took on the role of Managing Director of Pest Control and has relinquished responsibility for the Asia Pacific division. As mentioned earlier, in 2009 there were a number of changes in the leadership of the group's divisions in key businesses to strengthen the capability of the organisation.

In March 2010 Michael Murray resigned as a director and Chief Financial Officer with effect from 31 March 2010. The company has announced the appointment of Jeremy Townsend as his successor and this appointment will take effect later in the year. The board thanks Michael Murray for his contribution during his time with the group.

Outlook

In 2009 we delivered on our promises by substantially improving customer service, maximising cash flow and accelerating cost savings. We are now mobilising the group to create a platform for growth. Although we see no easing in economic conditions across most of our markets this year, our objectives are to deliver modest revenue growth, take out more costs and make further improvements in customer service and responsiveness. Above all in 2010 we intend to lay the foundations for profitable growth in 2011 and beyond.

To conclude, 2009 saw your company take many small steps on its three- to five-year journey to recovery. Our objective for 2010 is to continue along this path but the emphasis will be on laying the foundations for profitable growth in 2011 and beyond. Our shareholders, employees and customers continue to give strong support to Rentokil Initial and we thank them for their loyalty, commitment and trust.



John McAdam
Chairman
26 March 2010



Alan Brown
Chief Executive