



## 2008 Interim Results

22 August 2008



# Agenda



**Andrew Macfarlane**

Divisional & Financial Review

**Alan Brown**

Operational Developments

**Alan Brown / Andrew Macfarlane**

Q&A

\*At constant exchange rates



Andrew Macfarlane



# Financial Highlights



	Actual Rates	Constant Rates		%
	H1 08 £m	H1 08 £m	H1 07 £m	
<b>Continuing Operations</b>				
Revenue	1,178.1	1,120.6	1,068.8	4.8
EBITA	68.2	59.4	122.4	(51.5)
Interest	(24.6)	(24.3)	(38.7)	37.2
Associates	1.2	1.0	1.1	(9.1)
PBTA	44.8	36.1	84.8	(57.4)
One-off items	3.3	3.2	3.2	-
<b>Adjusted PBTA</b>	48.1	39.3	88.0	(55.3)
Free cash flow (actual exchange rates)		(16.4)	48.8	-
Basic EPS (continuing operations)		0.66p	2.88p	(77.1)
Interim DPS		0.65p	2.13p	(69.5)

€ average exchange rate 1.30 (2007: 1.46)

# Adjusted PBTA



<b>Constant Exchange Rates</b>	<b>Q1 08 £m</b>	<b>Q2 08 £m</b>	<b>H1 08 £m</b>	<b>H1 07 £m</b>	<b>%</b>
<b>City Link</b>	(15.4)	(12.5)	(27.9)	24.1	-
<b>Textiles/Washroom</b>	24.6	20.2	44.8	53.5	(16.3)
<b>Pest Control</b>	11.4	17.8	29.2	28.3	3.2
<b>Facilities Services</b>	8.6	9.1	17.7	18.6	(4.8)
<b>Asia Pacific</b>	6.0	4.8	10.8	14.3	(24.5)
<b>Ambius</b>	0.9	1.3	2.2	2.5	(12.0)
<b>Other (South Africa)</b>	2.7	2.2	4.9	4.8	2.1
<b>Central Costs</b>	(10.1)	(9.0)	(19.1)	(20.5)	6.8
<b>Adjusted EBITA</b>	<b>28.7</b>	<b>33.9</b>	<b>62.6</b>	<b>125.6</b>	<b>(50.2)</b>
<b>Associates</b>	<b>0.6</b>	<b>0.4</b>	<b>1.0</b>	<b>1.1</b>	<b>(9.1)</b>
<b>Interest</b>	<b>(14.7)</b>	<b>(9.6)</b>	<b>(24.3)</b>	<b>(38.7)</b>	<b>37.2</b>
<b>Adjusted PBTA</b>	<b>14.6</b>	<b>24.7</b>	<b>39.3</b>	<b>88.0</b>	<b>(55.3)</b>

In 2008, certain shared service, IT and other costs that were treated as central costs in 2007 are being charged to the business that benefit from them. In H1 these costs totalled £3.7m and have principally been recharged to TWS £0.8m, Pest Control £1.3m, Facilities Services £1.1m and Asia Pacific £0.2m. Comparative figures have not been restated.

# Year-on-year changes in adjusted PBITA



	<u>£m</u>
<b>1H 2007</b>	<b>125.6</b>
<u>Changes due to:</u>	
• City Link	(52.0)
• Australia Pest Control & Washrooms	(4.2)
• UK Washroom <sup>(1)</sup>	(3.7)
• UK Pest Control <sup>(2)</sup>	(2.3)
• France Textiles/Washrooms	(1.5)
• Benelux Textiles/Washrooms	(1.1)
• Central Costs <sup>(3)</sup>	1.4
• Other businesses in total	0.4
<b>1H 2008</b>	<b><u>62.6</u></b>

(1) Excluding Wipers: £0.8m additional central costs recharged in 2008

(2) Of which £0.5m is additional central cost recharged in 2008

(3) Of which £3.7m is the benefit of additional central costs recharged to divisions in 2008

# City Link



	2008		
	Q1 £m	Q2 £m	H1 £m
Revenue	95.2	96.1	191.3
Recurring Costs	(101.5)	(106.4)	(207.9)
Non-recurring costs <sup>(1)</sup>	(9.1)	(2.2)	(11.3)
<b>Adjusted PBITA</b>	<b>(15.4)</b>	<b>(12.5)</b>	<b>(27.9)</b>
One-off items <sup>(2)</sup>	(1.5)	-	(1.5)
<b>PBITA</b>	<b>(16.9)</b>	<b>(12.5)</b>	<b>(29.4)</b>
Change in network revenue (%)	(10.6)%	(7.0)%	(8.8)%
Change in RPC (%)	(2.5)%	(2.1)%	(2.3)%

<sup>(1)</sup> Comprising Q1: asset write-downs and additional provisions for bad debts, service credits and transit liability claims  
Q2: franchisee receivable write-off and additional leasehold depreciation

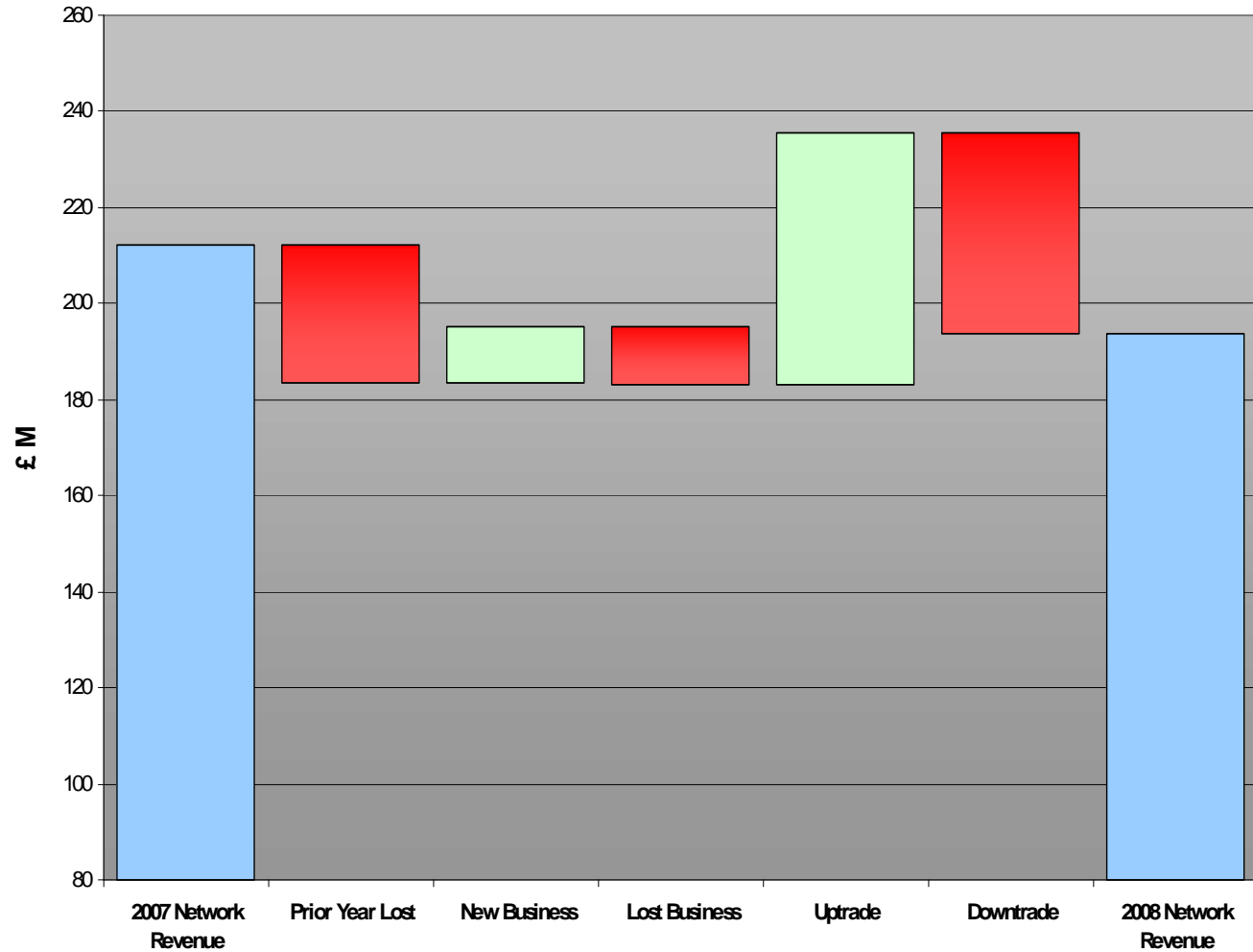
<sup>(2)</sup> Comprising Q1: redundancy and asset write-downs associated with depot integration

# City Link – Year-on-year change in network revenue



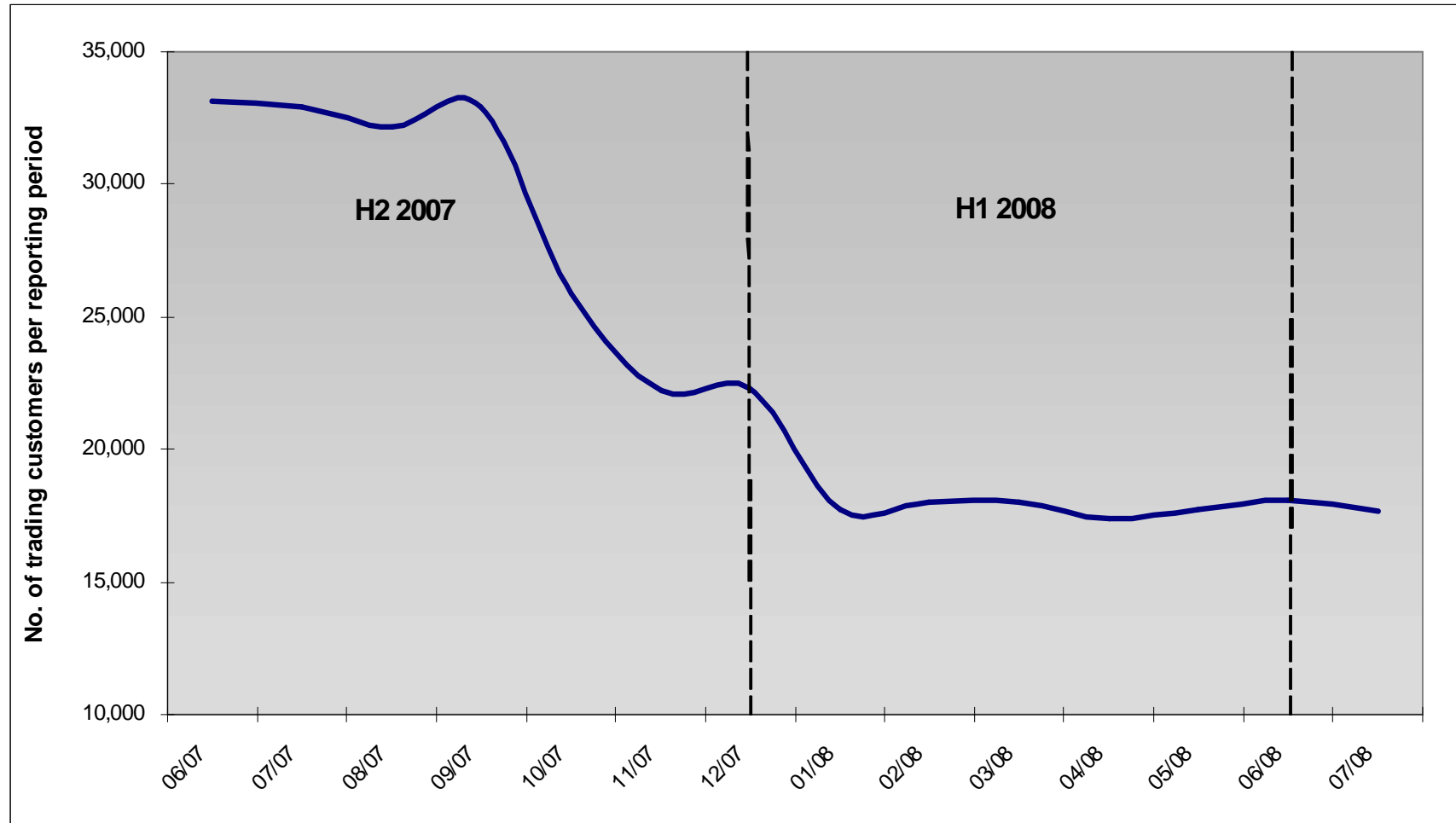
## Network Revenue

	£m
Jun-07 YTD	212.3
Prior Year Lost	(29.0)
New business	11.7
Lost business	(11.8)
Net WIn 08	<u>(0.1)</u>
Uptrade	52.5
Downtrade	(42.1)
Net Uptrade 08	<u>10.4</u>
Jun-08 YTD	<u><b>193.6</b></u>

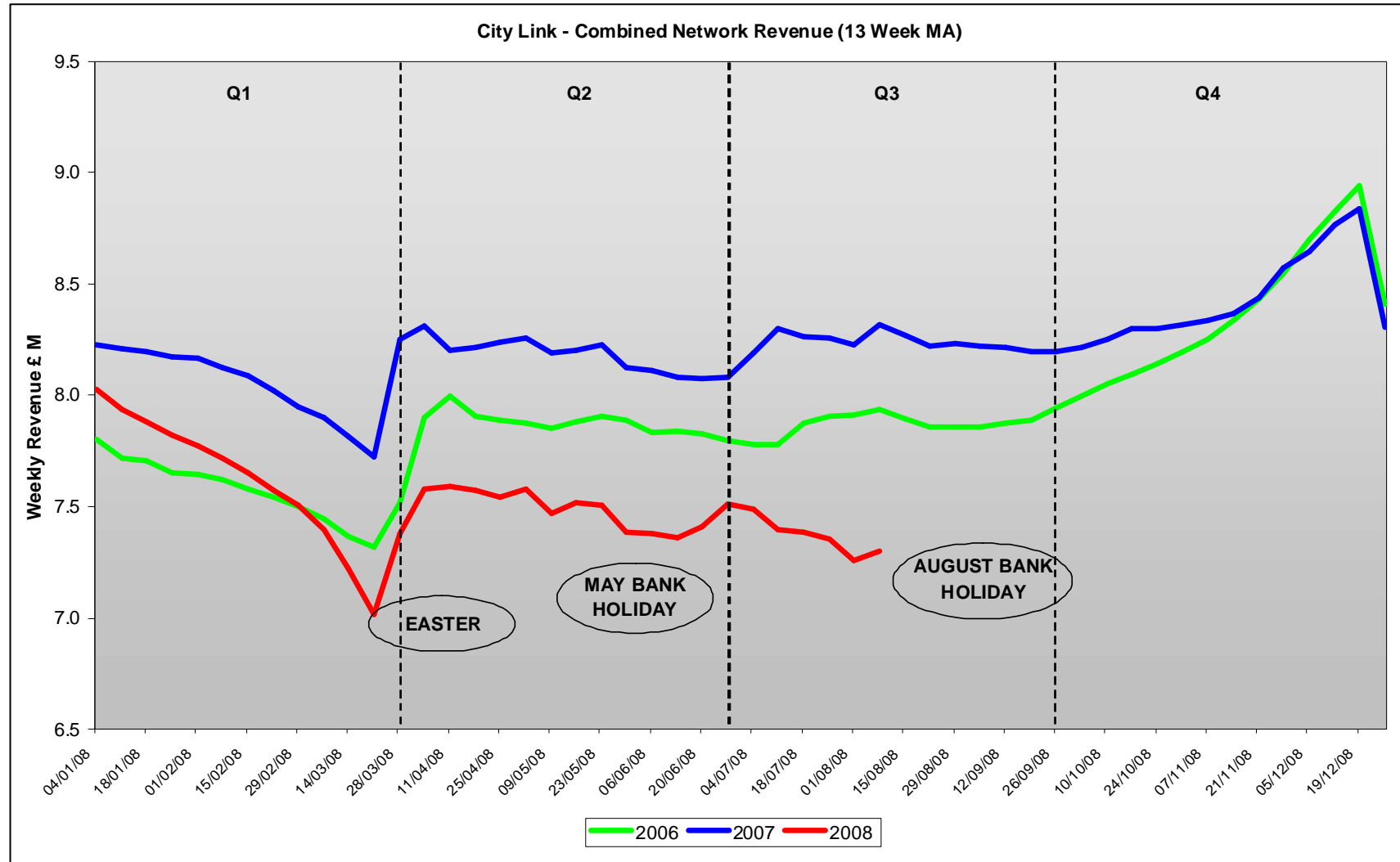




# City Link – Number of customers trading



# City Link - Combined Weekly Network Revenue



# Initial Textiles & Washroom Services



## Constant Exchange Rates

	H1 Revenue £m			Portfolio ave. price change <sup>(1)</sup> %	Organic Net Gain £m	Change in adjusted EBITA £m
	2008	2007	%Change			
France	116.0	110.4	5.1	1.4	8.4	(1.5)
Netherlands	37.9	37.9	-	0.7	0.3	(1.1)
Belgium	35.7	33.9	5.3	5.1	1.9	-
Germany <sup>(2)</sup>	33.6	34.9	(3.7)	(0.7)	2.5	(0.2)
Others/divisional centre	45.8	42.5	7.8	2.0	1.4	(2.1)
<b>Continental Europe</b>	<b>269.0</b>	<b>259.6</b>	<b>3.6</b>	<b>1.7</b>	<b>14.5</b>	<b>(4.9)</b>
UK <sup>(3) (4) (5)</sup>	35.2	42.3	(16.8)	2.1	(1.7)	(3.8)
<b>Divisional Total</b>	<b>304.2</b>	<b>301.9</b>	<b>0.8</b>	<b>1.7</b>	<b>12.8</b>	<b>(8.7)</b>
					<b>Adj. EBITA 2007</b>	<b>53.5</b>
					<b>Adj. EBITA 2008</b>	<b>44.8</b>

(1) Annualised

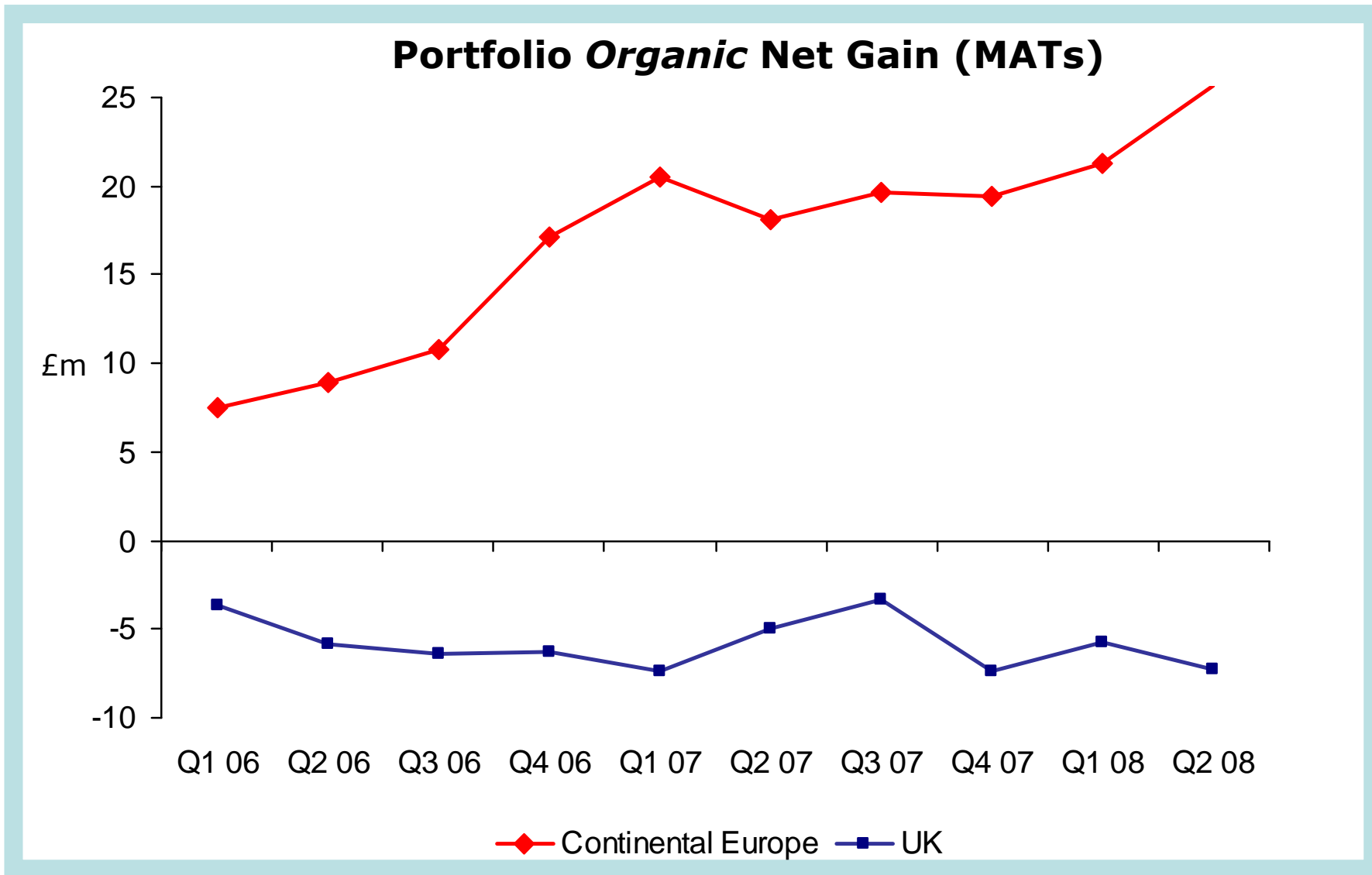
(2) Revenue reduction reflects withdrawal from hospital service

(3) Includes wipers activities in 2007 (revenue £3.4m, profit £0.1m)

(4) After charging additional central costs in H1 2008 of £0.8m

(5) UK Washrooms: Adj PBITA H1 2008 £1.3m, H1 2007 £5.1m, 2007 full year £9.0m

# Initial Textiles & Washroom Services



ex GHS

# Rentokil Pest Control



## Constant Exchange Rates

	H1 Revenue		Annualised Retention		Organic Net Gain	Change in adjusted PBITA
	2008 £m	2007 £m	2008 %	2007 %	£m	£m
USA <sup>(1)</sup>	53.1	41.5	74.0	83.2	0.1	3.4
Europe	69.1	60.0	86.6	86.3	3.6	1.3
UK <sup>(2)</sup>	32.7	31.2	81.9	84.2	0.2	(2.3)
Divisional Costs <sup>(2)</sup> / Other	9.6	10.3	91.5	92.0	-	(1.5)
	<b>164.5</b>	<b>143.0</b>	<b>81.9</b>	<b>85.1</b>	<b>3.9</b>	<b>0.9</b>
					<b>Adj EBITA 2007</b>	<b>28.3</b>
					<b>Adj EBITA 2008</b>	<b>29.2</b>

<sup>(1)</sup> Loss of Copesan business in March 2008 reduced retention rate by 9.3 percentage points

<sup>(2)</sup> After re-charging additional central costs in H1 2008 of £1.3m - £0.5m UK, £0.8m divisional costs

# Initial Facilities Services



## Constant Exchange Rates

	H1 Revenue		Annualised Retention		Organic Net Gain	Change in adjusted PBITA
	2008 £m	2007 £m	2008 %	2007 %	£m	£m
Cleaning / IFM	191.2	178.6	89.1	88.9	8.8	(0.9) <sup>(1)</sup>
Catering	29.8	32.2	-	-	-	-
Hospitals	33.7	31.3	74.4	88.3	(5.0)	0.1
Other / Divisional overheads	49.8	42.5	88.8	85.5	1.8	(0.1)
	304.5	284.6	87.2	88.4	5.6	(0.9)
					<b>Adj EBITA 2007</b>	<b>18.6</b>
					<b>Adj EBITA 2008</b>	<b>17.7</b>

<sup>1</sup> After charging additional central costs in H1 2008 of £1.1m

# Rentokil Initial Asia Pacific



## Constant Exchange Rates

	H1 Revenue		Annualised Retention		Organic Net Gain	Change in adjusted PBITA
	2008 £m	2007 £m	2008 %	2007 %	£m	£m
North Asia	15.7	9.3	90.0	78.0	1.2	1.2
South Asia	26.6	19.5	85.1	81.0	2.3	0.8
Pacific <sup>(1)</sup>						
- Australia Pest Control	17.2	14.7	86.4	90.3	1.1	(1.5)
- Australia Washroom	17.4	18.3	90.8	91.5	0.2	(2.7)
- Other <sup>(2)</sup>	13.5	12.0	89.8	90.3	0.6	0.2
Divisional Costs <sup>(1)</sup>	-	-	-	-	-	(1.5)
	90.4	73.8	88.5	87.2	5.4	(3.5)
					<b>Adj EBITA 2007</b>	<b>14.3</b>
					<b>Adj EBITA 2008</b>	<b>10.8</b>

<sup>(1)</sup> After charging additional central costs in H1 2008 of £0.2m

<sup>(2)</sup> Australia Ambius, New Zealand and Fiji

# Central Costs



## Adjusted PBITA

	2007					2008	
	Q1	Q2	Q3	Q4	FY	Q1	Q2
	£m	£m	£m	£m	£m	£m	£m
<b>Central Costs</b>	<b>(10.4)</b>	<b>(10.2)</b>	<b>(8.0)</b>	<b>0.1</b>	<b>(28.5)</b>	<b>(10.1)</b>	<b>(9.0)</b>

### 2007

- Costs higher in 1H due to set up of UK Shared Service Centre
- Run-rate fell in Q3 – efficiency savings
- Q4 reflects bonus and property provision adjustments

### 2008

- £7.4m p.a. is being re-charged to divisions for IT and Shared Services in 2008; 2007 not restated
- Provisional cost of new management team LTIP £2m in H2



# Interest



## At actual exchange rates

	£ million	
	2008	2007
	H1	H1
Net interest on bank/bond/finance lease debt*	(29.9)	(37.3)
Expected return on pension scheme assets	30.1	25.4
Interest on pension scheme liabilities	(27.0)	(25.7)
	3.1	(0.3)
Fees and South Africa BEE	(0.8)	(0.7)
Unwind of discount on provisions	(0.6)	(1.1)
Mark-to-market/forex adjustments	3.6	0.8
Per income statement	(24.6)	(38.6)
Average interest rate on bank/bond/ finance/lease debt	5.8%	5.8%
Average net debt	£1,031m	£1,294m

\*After interest received on fair value hedges

# Taxation



## Actual exchange rates

	2008 H1		2007 H1		2007 FY	
	£	%	£	%	£	%
Profit before tax (continuing ops)	18.3	100.0	65.3	100.0	142.0	100.0
<u>Explanation of tax charge</u>						
Expected charge at blended rate	5.5	30.1	19.7	30.2	42.6	30.0
Untaxed provision release	-	-	(2.7)	(4.1)	(2.7)	(1.9)
Other factors affecting tax charge	(0.4)	(2.2)	0.4	0.6	0.2	0.1
Prior year adjustments	-	-	(5.4)	(8.3)	(9.8)	(6.9)
<b>Actual tax charge</b>	<b>5.1</b>	<b>27.9</b>	<b>12.0</b>	<b>18.4</b>	<b>30.3</b>	<b>21.3</b>
<b>Cash tax paid</b>	<b>10.3</b>		<b>7.3</b>		<b>27.1</b>	

- Full year blended rate approx. 31%
- Full year effective tax rate, excluding prior year adjustments, in range of 29% to 33%

# Operating Cash Flow



At actual exchange rates

	1H		1H 2007		
	2008		2007		
	Continuing activities	Continuing activities before one-off items	Discontinued activities	One-off items	Total
EBIT	41.7	106.0	19.4	3.2	122.2
Amortisation <sup>(2)</sup>	26.5	18.3	1.5	-	19.8
Depreciation	88.9	76.2	2.2	-	78.4
Non-cash items <sup>(3)</sup>	1.4	(4.7)	-	(2.3)	(7.0)
EBITDA	158.5	195.8	23.1	(5.5)	213.4
Working Capital	(16.0)	(40.9)	1.7	(18.0)	(57.2)
Net capex	(104.2)	(74.6)	(2.6)	-	(77.2)
Operating cash flow	38.3	80.3	22.2	(23.5)	79.0

(1) Includes cash flows from one-off items, which were not significant

(2) Excluding computer software and development costs

(3) Impairment charges, profit on sale of fixed assets, pension curtailment etc.

# Free Cash Flow and Movement in Net Debt



Actual exchange rates

	<b>£ million</b>		
	<b>2008 H1</b>	<b>2007 H1</b>	<b>2007 FY</b>
Operating Cash Flow	38.3	79.0	188.1
Interest <sup>(1)</sup>	(44.4)	(22.9)	(58.9)
Tax	(10.3)	(7.3)	(27.1)
<b>Free Cash Flow</b>	<b>(16.4)</b>	<b>48.8</b>	<b>102.1</b>
Equity dividend	(94.9)	(94.9)	(133.4)
Acquisitions <sup>(2)</sup>	(28.9)	(93.6)	(197.4)
Disposals	(1.8)	0.6	596.8
Pension contribution <sup>(3)</sup>	-	(30.0)	(80.0)
FX/other	(10.2)	7.0	(47.0)
<b>Increase in net debt</b>	<b>(152.2)</b>	<b>(162.1)</b>	<b>241.1</b>

(1) Including finance leases. Interest on €500m bond issued March 2007 is paid annually in arrears - €23.1m p.a.

(2) Cash plus acquired debt

(3) £33.3m put into escrow in July 2008 following finalisation of 31 March 2007 UK pension scheme valuation

# Net Debt and Liquidity



	At 30/06/08 £m	
Cash / Bank	(86.6)	- £252m facility to February 2010 (inc 12 month term-out option) - £500m RCF to October 2012
€100m note	(80.0)	July 2008
£250m bond	(258.3)	November 2008
€500m bond	(392.7)	March 2014
£300m bond	(281.7)	March 2016
<b>NET DEBT</b>	<b>(1,099.3)</b>	

## Headroom and Covenants

- €100m note repaid July
- At 31 July bank drawings £155m leaving committed headroom of £597m
- Facilities contain single financial ratio covenant: EBITDA/interest cover, tested semi-annually on 12 month look back
- Substantial covenant headroom for 2008
- For 2009, **IF** profits same as our forecast for 2008 and interest £10m higher as a result of financing activities **THEN** 2009 covenant headroom would still be >£50m EBITDA



Alan Brown, Chief Executive Officer



## Encouraged by...



- Some well-run operations
- Some good management teams
- Generally highly motivated, committed and proud front-line colleagues
- Many leading and attractive market positions
- Strong sales culture
- Some similarities in business processes across the divisions
- Real growth opportunities, particularly in pest control

***...no single major and insurmountable obstacle***

## However...key areas of weakness



- A number of common issues across key businesses:
  - Loss of focus on the customer and on customer service
  - Insufficient and unclear accountability for the customer and for results
  - Insufficient focus on operational excellence
  - Lack of clear policy, process or systems framework within which to operate
  - Consistent failure to execute major change or acquisition integration programmes



## Short to medium-term priorities



- 1. Focus on customer service***
- 2. Focus on cash***
- 3. Framework of common policies, processes, KPIs and systems***
- 4. Empower our branch network to deliver within this framework***
- 5. Develop a cost savings agenda***

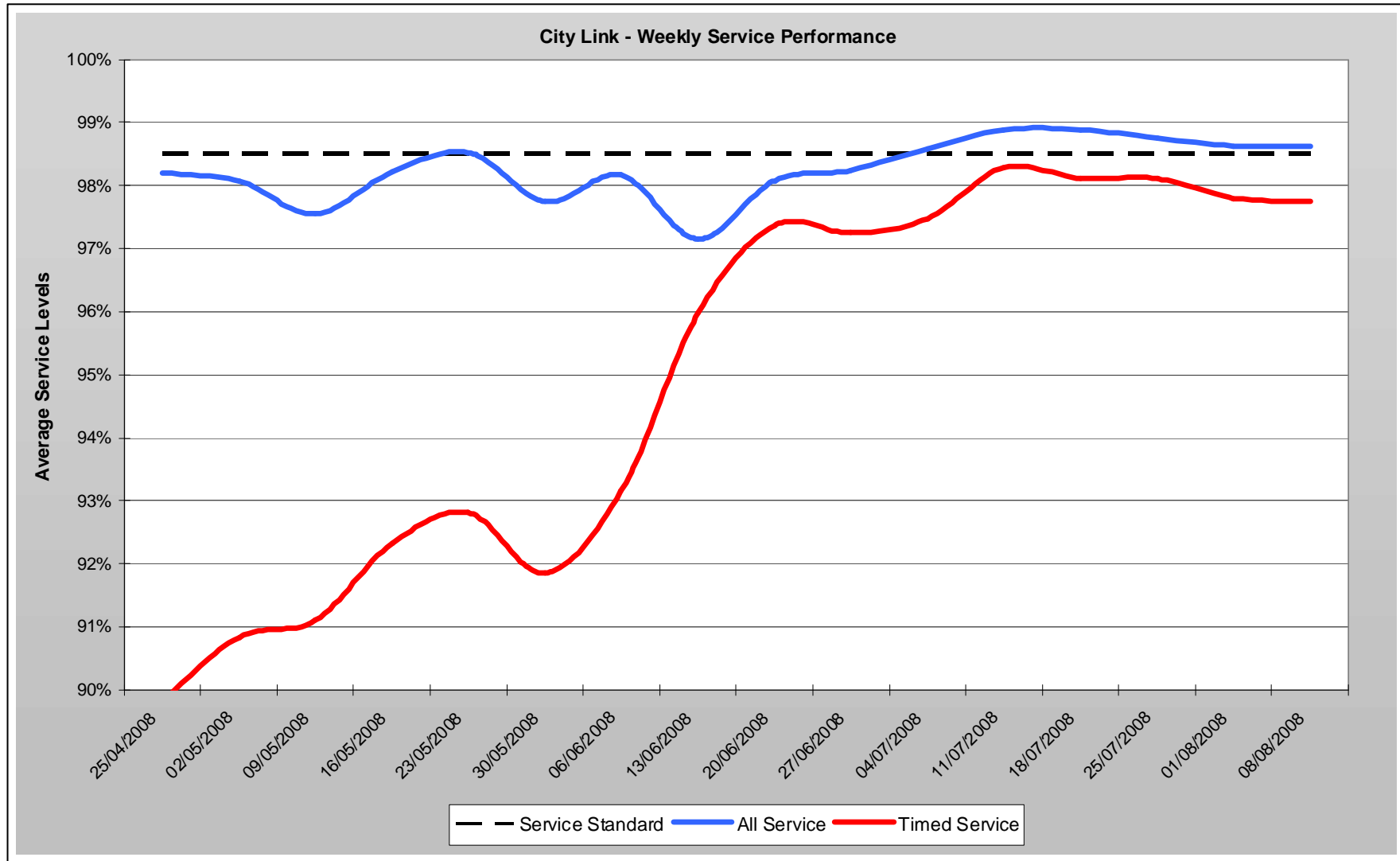
# 1. Focus on customer service



## *Good progress*

- **City Link:**
  - 98.5% internal delivery on-time performance target - overall service now better than this
  - Net customers uptrading
  - Net new business wins from large customers and strong pipeline
  - Relocalisation of customer service - by year end
- **UK Pest Control:**
  - State of service up to 95.4% end July compared to mid-80% in 2007 – target is to deliver 100% service level for first time in business's history
  - Additional service heads to further improve service levels
- **UK Washrooms:**
  - On-time service delivery performance improved from 77% to 87%
  - Investment in additional drivers to meet customer service agreements
  - Roll-out of new PDAs - combined mobile phone, SatNav and 'proof of delivery' service – customer signs and prints name – complete by year end

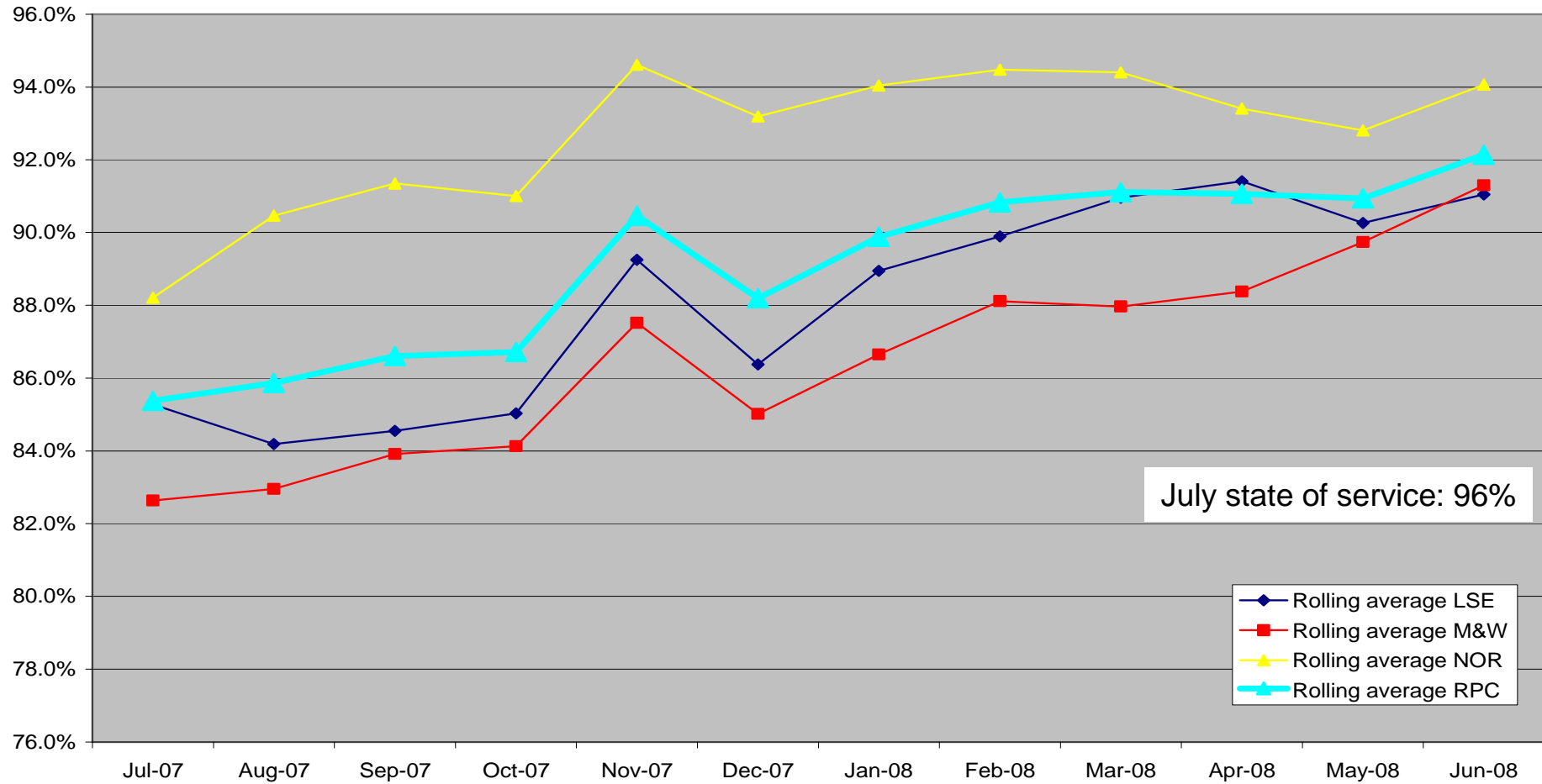
# Customer service improvements – City Link



# Customer service improvements – UK Pest Control



Rolling 12 Month LT SoS



## 2. Focus on cash



*Trend towards increasing accounts receivable has been reversed, but much more to do*

- **UK Washrooms:**
  - Customer responsibility back to branches
  - Co-ordinated programme between credit control with support of sales and account management teams on the ground
  - Shared information system being developed to ensure visibility of all aspects of customer relationship
  
- **UK Pest Control:**
  - Restructured credit control including new management team and added voice recognition/routing technology to improve efficiency of query management
  - Accounts receivable improved by 15% in Q2 vs. Q1 2008, but much more to do
  
- **Australia Washrooms:**
  - Credit control being transferred back to branches
  - Will allow quicker query resolution and cash collection
  
- **City Link:**
  - Overdue accounts receivables halved

### 3. Develop common systems/processes framework



#### *Early stage of development*

- Initiatives underway:
  - Common process map for all operations
  - Roll-out of International Contracts Administration Branch System (ICABS) tool across Pest Control, Asia Pacific and UK Washrooms
  - Standardised branch model for processing, procedures and systems
  - Finance - decision on common system pending
  - Development and exploitation of existing systems
  - Project management – design and training

## 4. Empowerment of branch networks



### *Implementation underway*

- Almost 1000 branches / depots / service centres around the world
- Serving tens of thousands of customers
- Serious erosion of accountability for service & results at branch level in some businesses
- Accountability to be restored to branches, within clearly defined operating framework
  - **UK Washrooms:**
    - Moving towards new organisational structure with clear ownership of customer experience and accountability for customer relationship
  - **Australia Washrooms:**
    - Establishing 'pods' – small, local branch service teams servicing particular areas, especially across Sydney
  - **City Link:**
    - Transfer of customer service, customer relationship and P&L responsibility back to branches

## 5. Develop a cost savings agenda



### *Early stage of development*

- Three main areas of focus:
  - Increasing productivity of front-line colleagues, both service & sales
  - Reducing administration costs
  - Increasing productivity in textiles business in continental Europe
- Scoping of opportunity:
  - Group:
    - Administration and overhead costs currently 20% of revenue
  - Australia Pest Control:
    - Integration of residential and commercial labour force post successful Melbourne pilot
  - City Link:
    - £25m cost savings identified so far, main benefit in 2009



## Top-line organisational structure



- Organisational changes implemented on 1 July 2008 to support operational agenda:
  - In the UK, all UK cleaning businesses plus UK Washrooms and Specialist Hygiene (excluding Medical Services) brought under one leadership team
  - Dedicated leadership team established for Pest Control worldwide, though operational responsibility for all Asia Pacific businesses remains with dedicated APAC team based in Singapore
  - Dedicated leadership team established for Textiles & Washrooms in continental Europe

## Development of three-year operational plan



- All divisions and functions currently developing detailed, three-year plans
- Operationally focused, outlining practical steps to implement five key priorities across the business
- Also addressing growth agenda

# Beijing Contract



# Outlook



- 2008 guidance unchanged from trading update 25 July 2008
- 2009 outlook:
  - Bulk of profit improvement to come from City Link
  - Performance improvements elsewhere likely to be offset by higher interest cost
  - Operational plan under development: may require additional investment



***A clear operational agenda...***

***Customer service & operational excellence***



## 2008 Interim Results

22 August 2008

