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PRESENTATION

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Morning, everyone, and thank you for coming to Rentokil Initial preliminary results, 2012. One comment from us please; as this webcast is being recorded live, please switch off your mobile phones.

And with that, may I now hand over to our Chairman, John McAdam, who will make some opening remarks.

John McAdam - *Rentokil Initial plc - Chairman*

Thank you, Katherine. Good morning, ladies and gentlemen, and welcome to the Rentokil Initial preliminary results for 2012.

I'm pleased to report that, despite continuing tough market conditions, we've made good progress against our plan, and finished the year strongly. Our major international service categories of Pest Control, Hygiene and Workwear, have all delivered increased revenue and profitability.

In Pest Control, we've built a significant market presence in North America, acquired footholds in the emerging markets of Brazil, Mexico and the Middle East, and seen good growth from our operations in Asia.

Whilst recent acquisitions are performing well, I'm particularly pleased that organic growth continues to improve. And I expect to see this bolstered by our recent investments in marketing and innovation.

[2003] will see the Company's first major product launches for some time, with seven Pan-European workwear ranges planned for Q2, and a new hygiene range called Signature to be launched in May, in pretty well all of our hygiene markets across the world.

That said, City Link remains a drag on the overall financial performance of the Group. Whilst it's made good progress in improving customer service and productivity during the year, City Link's financial performance has continued to disappoint. Alan will outline the actions taken to date, and plans for 2013.

So overall, despite challenging market conditions and the City Link problems, the Company has made good progress in 2012, and we anticipate further progress in 2013. The Board is, therefore, recommending a final dividend of 1.43p per share, in respect of 2012, an increase of 7.5%.

Let me now hand over to Alan and Jeremy, to explain the full-year results in more detail.

Alan Brown - *Rentokil Initial plc - CEO*

Thanks, John. Welcome, everyone, to the Inmarsat Center. I think this business is the home of the mobile satellite, so let's just hope nothing comes crashing to earth over the next hour or so, including our share price.

So let me just give you a quick update, if I can, on the year. You've already seen this in the announcement I'm sure; revenue up 2.8%, organic 0.8%. Pleased with the acquisitions, adding 2.4%, and the momentum was the strong Q4 with PBT up 16%, against a full-year increase of 10% on an adjusted basis.

The Initial Textiles & Hygiene business, I think, performed solidly in really tough conditions, across France, Germany and Benelux. Asia was really good, with strong growth in China and India, but Malaysia has been the outstanding performer for us now, for a couple of years, and continues to go very well.

City Link had a mixture, obviously. Volumes up 17% year on year, but the loss reduction of GBP5 million was obviously less than we would have hoped for, albeit that most of that did come in Q4. So the momentum coming into Q1 is pretty encouraging.

The IF business, as you know from the seminar we did earlier on in the year, is transitioning from a single service cleaning business to a TFM business, and that is now moving pretty rapidly, I have to say. And that is leading to some volatility in performance but, overall, a good year for the IF business.

And then of course, finally, in our Pest Control business, we're delighted with the expansion of our footprint that has taken place during the year, particularly through the acquisition of Western [in] California, but also entries into Central America and into Brazil in particular.

So overall, good progress in 2012, strong finish to the year. I'm going to hand over to Jeremy to give you some more detail on that, then I'll come back and talk a bit more about the achievements in 2012, and what we have in mind for 2013. Jeremy, over to you.

Jeremy Townsend - *Rentokil Initial plc - CFO*

Thank you, Alan, and good morning, everybody. I'll now run through the key financial highlights for 2012, and give a little bit of guidance on some of the numbers for 2013. And unless I say to the contrary, all numbers are at a constant rate of exchange.

Revenue in the year grew by 2.8%, with organic growth of 0.8%, excluding our Spanish Facilities Management business. Adjusted operating profit, before interest for the year, was up 5.1%, with reduced losses in City Link and increased profits in all of our divisions.

Despite adverse exchange rate movements, adjusted profit after interest, at actual exchange rates, grew by GBP6.7 million, or 3.6% in the year. And the Group continued to achieve strong operating cash flow in 2012 of GBP157 million, at actual exchange rates, slightly higher than the prior year.

Drilling into the Group financials in a bit more detail, revenue growth of 2.5%, or more, was achieved in all of the divisions. This was driven, in part, by the net impact of acquisitions, which accounted for GBP61 million, or 2.4% of revenue growth in the period.

The organic revenue growth of 0.8%, as John said, continued the trend of improved year-on-year performance over the last four years, and despite more challenging trading conditions in the second half. Organic growth has been driven, in part, by increased retention, which improved further in the year, by 1 percentage point, to 84.9%.

City Link revenues increased by 4.8%, despite a reduction in revenue per consignment of 10%, with volume growth of 17%. And City Link losses, as Alan said, were GBP5 million lower than in 2011.

Cost savings of GBP59 million were achieved through restructuring, procurement, service productivity and back office rationalization, particularly in our Textiles & Hygiene, Pest Control and City Link divisions. The savings were offset by cost inflation running ahead of price inflation, as well as increased investment in capability.

And then, as John said, on the back of the underlying profit growth, and continued strong cash flows, we're proposing a final dividend of 1.43p per share, a 7.5% increase on the 2011 final dividend, and a notional 5% increase for the year as a whole.

Looking now at the divisions in more detail. In Textiles & Hygiene, revenue in the division was up by 2.5% in the year, and 0.8% on an organic basis, reflecting robust performance, particularly in Germany and France.

Pacific achieved growth, despite adverse weather conditions affecting the Pest business in Australia. And the profit performance is reasonably strong in most of the divisions' territories, with the Benelux performance continuing to benefit from its turnaround plan.

Within Pest Control, the Pest Control Division achieved 2.8% revenue growth, and that's 0.4%, excluding acquisitions. This was driven by strong growth in North America and Northern European markets, but again offset by weaker performance in the Southern European countries of Spain, Portugal and Greece.

Profit growth was slightly ahead of revenue growth, driven by continued strong cost control. The division completed a number of small acquisitions in 2012, as well as the more significant acquisition of Western Exterminator, at the end of the year. All of the acquisitions are performing in line with expectations, and we expect Western to deliver some GBP6 million of incremental profits, in 2013.

In Asia, revenue was up by 6.2% for the year, and 7.4% on an organic basis. Growth in Asia was driven by the established markets of Malaysia and Singapore, as well as the emerging businesses in Vietnam, India and China, albeit off a small base. The increase in sales, combined with improved productivity, led to impressive profit growth of 39%.

City Link incurred a loss of GBP26.4 million in the year on revenues up 4.8%. The GBP5.1 million reduction in losses has been achieved through the implementation of management's recovery plan, with a 13% reduction in direct costs, helped by the implementation of new driver contracts, increased efficiency in hub and line haul, as well as productivity improvements supported by systems investment.

In Initial Facilities, revenue was up by 3.8% in the period, driven by growth from acquisitions. Underlying revenue, excluding Spain, was down 1.7%, reflecting contract reductions and terminations, particularly in single service cleaning contracts. Profit growth of 9.6% was driven through the impact of acquisitions combined with cost reductions, both in operational areas and back office rationalization.

Interest costs in the P&L were GBP8.3 million lower than the previous year. This was primarily driven by a GBP9.1 million favorable movement on pension scheme interest. Underlying interest increased slightly, reflecting the impact of the carry cost of the bond issuance in September.

Looking at Group cash flow; as I said already, the Group delivered another strong year of operating cash flow with GBP157 million, slightly ahead of 2011. Cash flow from trading, after taking into account one-off items, was GBP7 million below last year at GBP391 million. This was more than offset by lower working capital outflows, and a small reduction in net CapEx. These favorable movements, which were in part due to phasing, I expect to reverse slightly in 2013, as I'll get in to more detail when I talk about guidance.

Looking at free cash flow and the movement in net debt, underlying cash interest payments in 2012 were broadly in line with 2011. However, we did incur a one-off cost of GBP31 million in closing out a high yield GBP75 million loan at its carrying value. Cash tax was GBP9 million lower in the year, in part due to the abnormal phasing of payments in 2011.

Net expenditure on acquisitions and disposals increased by GBP50 million in the year, and this was primarily reflecting the acquisition of Western for GBP57 million at the end of the year.

The Company recommenced dividend payments in 2012 and paid GBP36.2 million to shareholders. And there was also a special payment of GBP12.5 million to the pension scheme as part of the funding arrangements agreed in 2011.

The pension scheme triennial valuation falls due at the end of this month, and the level of ongoing funding for the pension scheme will be reviewed later in the year, once the valuation has been agreed with the scheme trustees.

Net debt reduced by GBP13 million, reflecting favorable exchange rate movements and so, overall, net debt increased by GBP70 million in the period, and this primarily reflects the acquisition of Western at the end of the year.

Just briefly touching on funding requirements over the next two years; we have a EUR500 million bond maturing in March 2014. As you'll be aware, Standard & Poor's liquidity requirements means that such maturities have to be funded at least 12 months in advance in order to maintain investment grade credit rating.

To address this, we raised EUR500 million in September, and this has been used to refinance the [GBP17 million] high yield bond referred to earlier, fund the Western acquisition and will also be used to fund the GBP50 million bond maturing in 2013. And the balance is earmarked for the 2014 maturity.

In addition, we've secured an additional two-year, GBP240 million revolving credit facility. This is a more cost effective way of managing the short-term carry costs of the liquidity requirements, and we'd envisage issuing a bond towards the end of 2013, nearer the maturity date for the 2014 bond.

And finally, before I hand back to Alan, just some numbers for your models in relation to 2013. We've targeted GBP50 million of cost savings for the year, and Alan will talk about these in a bit more detail, but we continue to see opportunities in procurement, service productivity and back office efficiencies across the Group.

I expect central costs for the year to be in line with 2012 at round about GBP52 million. This is despite the fact that we'll be absorbing around GBP2 million of pension admin costs through the P&L, rather than through the pension fund, following a change in accounting standards.

The profit and loss charge for interest will increase significantly in 2013 for three reasons. Firstly, as I've already said, we've got more debt following the Western acquisition; secondly, we will have the carry cost of the funding arrangements; and thirdly, we'll no longer be including the pension credit in our adjusted figures because we do not think this provides a meaningful indication of underlying performance.

Taking all these moving parts together, I anticipate interest costs for 2013 to be in the region of GBP56 million to GBP58 million. I would expect, however, once we're through the refinancing, for interest costs to revert to a level more in line with the 2012 numbers.

You'll be aware of the volatility in the foreign exchange markets at the moment. We trade in many currencies, apart from sterling, with the main currency being the euro, but also an increasing US dollar mix, given our recent acquisition over in North America.

The recent weakening in sterling creates a potential exchange benefit in our profit and loss account actual exchange rate levels. And just to give you a feeling for this, for every cent movement in average exchange rates in the year, movement in the euro, it has an impact of about GBP1.6 million. So at today's exchange rate, if that was to prevail throughout the year, there'd be impact in the region of GBP10 million, plus or minus.

I expect CapEx for the year to be in the range of GBP230 million to GBP250 million. This reflects some hangover from investment in 2012, as well as further investment in Textiles & Hygiene plant, and the further deployment of Program Olympic initiatives across the Group. The increase in investment will be partially funded by a small number of anticipated non-core disposals, such as the Q1 disposal of our Belgium Flat Linen business.

Although they are, by their nature, difficult to predict, I would expect reorganization costs to be broadly in line with 2012, as we focus on back office rationalization, at around GBP35 million. And finally, I expect the adjusted tax rate for 2013 to be slightly higher at 26%, and cash tax payments to be in the region of GBP40 million.

I'd now like to hand back over to Alan.

Alan Brown - *Rentokil Initial plc - CEO*

Thanks, Jeremy. So let's just have a quick run through our big objectives for 2012 before I talk about 2013. We had four; a turnaround in City Link; really moved forward our customer care agenda across the Group; delivered GBP50 million of cost savings; and get the growth moving. So I'm going to go quickly through each of these four.

On this chart, I think, as best as we can, sets out the progress we've made in City Link throughout the year, and I've got a new weapon here which I'm looking forward to using (laughter), so I'm going to use this to show you that the trading performance quarter by quarter, as you can see, has moved on as we go across the year. And we've managed to deliver about GBP4 million improvement in quarter 4, on the back of a GBP9 million revenue improvement.

I think, broadly speaking, we would expect to see a similar level of improvement in the early part of 2013 as well. And that reflects, of course, a whole series of actions that we have managed to implement in City Link with a really good management team in place. You will have seen some of the key numbers from Jeremy earlier, 17% up on volume, 13% improvement in productivity, but that's been offset, to some extent, by this 10% reduction in revenue.

So the big challenge for 2013 is really about addressing this yield issue, which I'll come back to a bit later on. That is the trend in City Link for the moment; I'll return to that later on.

The second big objective was customer care to improve the reality and, indeed, our customers' perspective of our care, and I'm delighted to say that every division moved forward in this area. This shows a point improvement in Q4 on a moving [annual] total basis, compared to Q4 moving annual total in 2011.

It doesn't show the absolute levels of performance, but it gives a good indication of where we've been focusing. This is our equivalent of the Net Promoter Score measure; we call Customer Voice Counts within the business, CVC, because we think that is more user-friendly for our front-line operatives. But it basically is this Net Promoter Score methodology which will be familiar to many of you.

So again, we're pretty pleased and there are a lot of initiatives supporting that improvement which we've implemented in 2012.

Cost savings; we've already highlighted to you that we did better than our GBP50 million. We got GBP59 million, and the source of these savings was pretty broad spread during the course of the year. GBP18 million from Textiles & Hygiene, GBP15 million from Pest, GBP17 million from City Link, and then we had about GBP9 million from the IF business as well.

That, I think, shows that this target we've set ourselves of GBP50 million per annum is something which we should be able to sustain, certainly for the medium term, given our current portfolio of businesses.

On the growth agenda, I'm going to come back and focus on this a bit more when I look into 2013, but we have established the central marketing innovation team. We are continuing to focus on the nine key projects for implementation in 2013 and 2014, and we have moved on in all of these projects during the course of the year. This, then, has added some support to the volume performance which you will have seen.

But of course, the bigger impact in the short term has been the acquisitions which we've done in 2012. We've added GBP128 million of annualized revenue through these businesses, the dominant one, of course, being the Western business.

I think it's interesting, really, acquisitions can be risky things. We did a review of the 26 acquisitions we've made over 2011 and '12, over the last few days. We've added about GBP180 million of annualized revenue over that period, and we've paid about GBP112 million for those businesses. I think, if one goes down the list, we have not found one of them which is looking as if it's not going to work out. We've got 10 or so who are on amber status, where there's more work to be done.

But I think it's becoming really a core capability of our organization to acquire businesses at the right price and then to merge them successfully into the organization. Not an easy thing to do, but I think we're now developing a pretty solid track record of being able to acquire and execute very well.

Just, perhaps, a few words on Western, which we paid $93 million for, acquired in December 2012. The business has, in the months of January and February, traded certainly in line with our expectations, and the integration is proceeding pretty strongly. I also note here, at the bottom of this chart, that we managed to pull off two other, smaller, deals in the west of the US which really top and tail the Western acquisition. We acquired one business called Eden in Portland and another in Phoenix, Arizona. So I think that our presence in North America is really becoming very substantial, as we'll talk about later on.

Just I think a word about Western and the GBP6 million or so incremental profit Jeremy referred to earlier, just recall of course, that the business in North America is quite focused towards Q2 and Q3. So we'd expect to see the benefits of Western coming through in Q2 and Q3, not so much in Q1 or Q4, for that matter.

So let me move on then to 2013. We are focusing, as we have done over the last five years, on the five strategic thrusts in the business, which really have not moved as objectives; customer care, developing capability, operational excellence, cost and cash, and growth.

I'm not going to run down all of the bullet points to the right of this chart; I'm going to focus on four. But perhaps before I do that, I should maybe just highlight one of them in particular, which I'm not going to talk about in detail, which is under developing capability. We are indicating we're going to spend about GBP35 million in capital expenditure on systems.

We've come to the end of Program Olympic, which was the development phase of the systems and tools we wanted to deploy in the organization. We're now into the deployment phase, and this capital is mostly around the deployment of the various tools that we are really quite excited about.

(technical difficulty) of analysts, and I can think of nothing better than this wonderful chart with numbers which, hopefully, add up along the bottom and along the side. But I hope to be able to reassure you how this is really going to work in our new model.

So we have now a single country manager for each of these operations here and here. This is a miscellany of various other parts of our world, such as the Nordics and Southern Europe. So there's more than one manager looking after this, but each country has a single manager.

So the accountability for the profitability of the business is very clear. And then, of course, in the vertical axis we have the four core categories, plus then the Facility Services and the Parcel Delivery business which are run as single country entities.

So I will leave you to look at that and come back with any questions you have on. But think it will give you a very clear view of where our business is and what our ambitions are, and we will be reporting now in this format, going forward.

Now to growth. So I picked out some of the highlights of the growth agenda for 2013; the first is the launch of the Signature range. It's a global launch; it's focusing on the hygiene category, and it's coming to most of the markets in May 2013.

It consists of 32 products; it's a proprietary design; we've sourced it from a series of manufacturers in Asia and Europe. We think it's a major advance on both our current ranges, and indeed, we think it's best in class. So we're looking forward very much to seeing whether this has the impact in the market that we think it deserves.

We've also been working very hard on our Workwear range. And perhaps I should just pause for a moment on Workwear. This was formerly known as Textiles, and textiles was a description given to garments and workwear, and also flat linen. We've now got to the point where our Flat Linen business is a very small part of our total portfolio, so we've decided to rename that part of our business as the Workwear range.

The vast major part of our Flat Linen business will leave the Group at the end of the month; we are selling about EUR33 million of revenue of Flat Linen in Belgium. We're doing a swap; we're acquiring about EUR6 million of Workwear; we're getting, I think, about EUR11 million for that, and we're also going to be improving our profitability slightly as a result. So it's been a pretty good deal for us.

We will still be left with some Flat Linen in France, servicing the hospital market which is reasonably profitable, but other than that we are now a pretty pure play Workwear business.

So we've pulled together a number of European ranges; I show two here, the Universal range and the Knitwear range. And I think in the back of your pack you will see a number of other examples of these ranges. We've never had European ranges before; we've always managed in country. We've now really cooperated across the countries to develop these standard ranges. And, again, we're quite excited about this.

So I think the benefits that are coming through, both in Hygiene and in Workwear, of developing global or regional ranges are; first of all, speed to market; secondly, better design values; thirdly, the centralization, the bringing together of expertise in both of these categories; and, fourthly, the scale benefits will drive significant reduction in stocks and SKUs over a period of time.

So the proof of the pudding is in the eating, as they say. And the trend, which has not been easy to deliver, but the trend does continue to be positive in terms of organic growth. We've moved from minus 0.5% in 2011, to plus 0.8% in 2012. That excludes the IF business in Spain which, as you know, we're withdrawing from large parts of the retail market.

This 0.8% has been held back, actually, by withdrawal from significant chunks of UK retail cleaning market as well, where we think that the future is not great. So overall, we've made progress, not as much as I would like, but I think, given the market conditions, it's quite commendable.

Now to the outlook; we expect to see conditions remaining very tough, particularly in the UK and Continental Europe. But we are buoyed up by the strength of our innovation agenda for 2013. We're also encouraged by the initial results from integrating our country management in this Integrated Country Operating Model.

And we are particularly encouraged by the early performance of the North American business as we have integrated Ambius, and Western, into one organization, now of something over $520 million pro forma revenue for 2013. And, of course, we would expect to see substantial reduction in City Link losses as the year progresses.

So I think the takeaway for us is that, despite tough conditions, we are confident in sustaining the momentum we've achieved in Q4 of 2012, through 2013 as a whole. I would just add, the rider is I think the performance in Q2 and Q3 will really drive the business forward, because the impact of the Western acquisition will be mostly in Q2 and Q3.

And with that, Jeremy and I will be delighted to take any questions you might have. Thank you.

QUESTIONS AND ANSWERS

Rob Plant - *JPMorgan - Analyst*

Rob Plant, JPMorgan. I'm a bit surprised, Alan, that you've downgraded expectations again for City Link, because when you first read the statement, things seems to be doing better. What is the main reason why you no longer think it's going to break even?

And then one for Jeremy; your guidance on interest and pensions, Jeremy, does it include IAS 19? Thanks.

Alan Brown - *Rentokil Initial plc - CEO*

On City Link, I just don't think it's realistic to get from a loss of GBP26 million to a break-even in the space of 12 months. And I think that what I'd hoped for, of course, was that the losses wouldn't be GBP26 million in this year. But the pricing issues, and the customer mix issues, have gone against it.

A serial weakness in City Link, over the last five years, has been our inability to retain the small customer base. It's been really difficult to attend to. But we now think, with the renewed operational rigor in the business, that we are able to address that.

So we've got to, I think, having got the operations really sorted out, really start to win substantial business in that smaller end of the market, to drive margins up, and I don't think you can do that in 12 months. But we do think we will make very substantial progress this year in terms of City Link profitability.

And I think that we would expect to see reductions, certainly in excess of GBP10 million of losses, and hopefully a lot more, but I'm a bit loathe to provide too much guidance in this early part of the year. But I can say that the Q1 losses should be of the same order of magnitude, in terms of reduction, as they were in Q4, 2013.

Rob Plant - *JPMorgan - Analyst*

(inaudible) GBP10 million loss was GBP16 million loss for this year?

Alan Brown - *Rentokil Initial plc - CEO*

Yes.

Jeremy Townsend - *Rentokil Initial plc - CFO*

On the interest, Robert, let me give you a bridge. If you take our underlying interest charge for 2012 at GBP36 million, if you add back the interest credit which we're no longer going to include, that will get you to GBP48 million. And then if you add GBP2 million for the extra debt relating to Western, and the GBP7 million carry costs, that gets you to GBP57 million, in the GBP56 million to GBP58 million range.

Andrew Ripper - *BofA Merrill Lynch - Analyst*

Andrew Ripper, Merrill Lynch. Given you put the slide in especially for us, it would be rude not to ask a question about it, so obviously, I'm talking about the Integrated Country Operating Model. Just wondering on the other bucket, in terms of the GBP79 million, presumably that includes the central costs, the GBP52 million, what else is in there? Is that intercompany number, or overhead? Or is it some underlying losses on those other businesses that you're looking to dispose of?

Jeremy Townsend - *Rentokil Initial plc - CFO*

GBP73 million I think, Andrew, I think it's --

Alan Brown - *Rentokil Initial plc - CEO*

[No, GBP79 million].

Jeremy Townsend - *Rentokil Initial plc - CFO*

It's predominantly divisional overheads, as well as central costs, is the difference, and then there's some losses. On the other income, a lot of those are small margin, or loss-making, businesses. So the difference between the GBP73 million and the GBP76 million is some small loss-making businesses on the turnover.

Andrew Ripper - *BofA Merrill Lynch - Analyst*

Okay.

Alan Brown - *Rentokil Initial plc - CEO*

The revenue is partly other business held for sale, non-core businesses. It also includes business like the Property Care and Property Insurance operations in the UK, which we will retain.

Andrew Ripper - *BofA Merrill Lynch - Analyst*

Okay. And then just following on from that, in terms of the magnitude of stuff you're looking to offload, can you just give us a sense in terms of aggregate sales and profits?

Alan Brown - *Rentokil Initial plc - CEO*

It would be EUR50 million, Andrew, and profit will be zero.

Andrew Ripper - *BofA Merrill Lynch - Analyst*

And then finally, just in terms of the cost outlook, and thinking about your ongoing drive on productivity; in recent years it's been quite challenging, and the savings haven't dropped through to the bottom line, because you've had difficult pricing environment, or cost inflation, that has offset it. What's your outlook, please, in terms of the major cost items for the Group, like staff costs? And what would you say to us about pricing? I'm particularly thinking about City Link and B2C and capacity.

Alan Brown - *Rentokil Initial plc - CEO*

Yes, the staff cost inflation is round about 2%, other than Asia, of course, which is somewhat higher. The other costs I think we're maybe seeing some increase in cotton prices coming through, etc., etc., but nothing material. It's generally the staff costs which dominates for us.

In terms of pricing, I think we used to talk about pricing bubbles; we had certainly one in Benelux. I don't think we have, though, really any substantial worries about that in terms of pricing bubbles. I think pricing is broadly at a sustainable level.

City Link, specifically, will deliver about GBP15 million of price increase this year. And that is what -- we certainly have achieved GBP14 million of that in the first couple of months of the year. So I think that's not quite in the bag; it's certainly very close to being in the bag. Difficult to get much more than that. And I think that the challenge with City Link is to make sure that not only have we got the price increases through, but the volume continues to regress in the way it has been doing, which has been very favorable, of course.

Across the rest of the markets, we are pricing largely in line with our expectations of inflation, except for Asia, where we would be pricing below inflation. The volume impact in the business is so great that you have to really price below inflation to remain competitive in that market. So I think that would be my general outturn on the pricing and the cost inflation side.

On the cost saving side, we've got a GBP50 million target which we've beaten this year, of course, 2012. How much should we expect to come through? I don't think I'll change my guidance material to what I've said before which, I think, the first 1% of the revenue of the business needs to be reinvested for competitiveness.

But I wouldn't see this year as being a year where it's going to be, say, 1.5%. I think we should see a bit more coming through to the top line than perhaps we have done the past.

Andrew Ripper - *BofA Merrill Lynch - Analyst*

Thank you.

Tom Sykes - *Deutsche Bank Research - Analyst*

Tom Sykes, Deutsche Bank. Could you maybe just talk about the retention rate, sorry, in Q4, I think you mentioned it for the year as a whole, but just talk about how the retention rate has moved over the course of the year, and what your expectations are for 2013?

And then also, could you talk about the -- I think there are about GBP6 million of the unused provisions which you reversed, I think, in the second half of the year. I think that compares to about GBP7 million in the second half of last year. Could you just talk about whether they're in the third or fourth quarter, and maybe some clue as to what divisions they sit in, please?

Alan Brown - *Rentokil Initial plc - CEO*

I don't think, Tom -- I will answer your first; I'll leave it to Jeremy to deal with the second question, if he can. I see him struggling through his papers. On the first question, I don't think I'll give you a direct answer, I think what I would say, because I think the quarterly impact of retention is marginal. I think you're looking for longer term trends on retention.

And what we've seen is really significant and proven retention through 2012 in total, and that's particularly the case on our core Textile & Hygiene businesses, and in the Pest business. And I would expect that we'll see some further small improvement in 2013, in total.

My concern isn't really about retention, which I think we've done an excellent job on, but my concern, if any, is really about new business. The markets are really tough and I think that is where we will have to work very, very hard. That's where the innovation is important and that's where the focus on sales productivity is really important.

Now, it does vary a lot by market, obviously. Southern Europe continues to be very difficult. I think that the [Central European] markets have become tougher as well, but we continue to see a lot of progress in Asia and North America. And the Nordics continue to do quite well as well, actually.

So I think we'll see further incremental improvement in retention through the year, but the challenge will be the new business. I'll make one caveat on that, one caveat, which is about the Initial Facilities business.

We are now really moving quite quickly to reverse our way out of a lot of the small, single serve cleaning contracts. We are finding that our customer base is, let's say, in a parlor state. We think that we have credit exposure in some parts of the UK market, so we are really pulling out of that, very much like we did in Spain.

So I think we will certainly see losses of business in IF which we will be actually leading rather than suffering from. But having said that, the IF business is certainly moving very strongly in the direction of the facilities management market.

So if I bring it down to numbers, I think you will see in Q1 that the IF business will have a tough time in terms of organic growth, but we have already booked new business, substantial new business in Q2 and Q3. So I think there'll be a bit of volatility there, and everything will be okay for the year as a whole, but there will be some quarterly issues in IF as the year progresses.

Tom Sykes - *Deutsche Bank Research - Analyst*

Thank you.

Jeremy Townsend - *Rentokil Initial plc - CFO*

I'm just waiting for an email from my financial controller on this. (laughter) On the provisions we [tie] to tell you those at the end of the year, Tom. The bit that I was shuffling around my papers, and we'll come back to you on is, some of those will be above the line provision releases and some will be below the line provisional releases.

So I'll get you a more specific answer on the Q3/Q4 and what's above the line and below the line. As I say, I think it's in line with the previous year, but I haven't got that detail with me.

Tom Sykes - *Deutsche Bank Research - Analyst*

Thank you. And just back onto City Link; the price increases that you've put through, that's your own new price structure, or is it on larger contracts you've actually already made those stick? And there seems to be maybe a bit more competition in price, and certainly Royal Mail seem to be a bit more aggressive on parcels, the enlarging of their second class weight category. Do you think that's going to have a negative impact on the industry? They're obviously going for volumes perhaps a bit more aggressively.

Alan Brown - *Rentokil Initial plc - CEO*

On the pricing, we've gone for pricing really related to the level of profitability of customers. We've made [big drops] in City Link. We're now pretty clear on what the customer profitability is which we weren't clear of a year ago. So we've really gone for pricing in those customers which are loss-making, or we either get the prices up or we give up the business. We have a customer base which is also quite profitable where we've gone through really a marginal pricing.

So yes, the response to your question is that, generally, in the larger customers we've gone for some price increases. And I think the quality of our service in the B2C market has been such that most of those large customers have accepted some level of increase, or, alternatively, some change in the mix of business they're offering us to enable us to make a little bit more money, because there're some quite big issues in terms of business mix.

And delivering to a consumer's door is expensive and not very profitable. Delivering to a shop for the consumer to pick up is a much better margin. So I think, through a variety of mechanisms, we are getting the margin up, but we've got a straight GBP14 million in terms of pricing which is pretty well locked in across [that range].

Tom Sykes - *Deutsche Bank Research - Analyst*

Okay. Thank you.

Mike Murphy - *Numis Securities - Analyst*

Mike Murphy, Numis Securities. Just again, first of all, on City Link; you're talking about GBP15 million in price increases across the piece, so that's 5% across the Group, is that right, GBP300 million revenues locking in GBP15 million of price increases?

Alan Brown - *Rentokil Initial plc - CEO*

Yes, that sounds right.

Mike Murphy - *Numis Securities - Analyst*

And you said GBP14 million in the first two months?

Alan Brown - *Rentokil Initial plc - CEO*

That's right. We have secured agreement to GBP14 million for the year as a whole, yes. Great.

Mike Murphy - *Numis Securities - Analyst*

So that's suggests there're some pretty large price increases for some of the customers, double digits.

Alan Brown - *Rentokil Initial plc - CEO*

20%, 30%, yes. And that is not in the B2C area; that is in the B2B area where we have been providing services which were completely uneconomic. And I think our understanding of the business is so much better, where we're able to go back to customers and say we need to get really substantial price increases. And interestingly enough, most of the customers have not left us.

Mike Murphy - *Numis Securities - Analyst*

And was that done post-Christmas? So I presume you had a good quarter and then on the back of that you've gone to the customers and said, we need price increases, we've delivered.

Alan Brown - *Rentokil Initial plc - CEO*

It was done post-Christmas, yes. As I say, I think we had a good quarter in terms of large customers. We're still not satisfied with our service to small customer base. But for the large customers where we got the price increases, we were able to obviously, well, through the marketplace, we were seen to have delivered a pretty good performance over Christmas.

Mike Murphy - *Numis Securities - Analyst*

That's great. Thank you. Secondly, just on the cost savings, GBP50 million target and you say the first 1% of turnover needs to be reinvested, so essentially Group revenues GBP2.5 billion, 1% is GBP25 million, so GBP25 million of GBP50 million [in marketing].

Alan Brown - *Rentokil Initial plc - CEO*

Yes, those are the sums.

Mike Murphy - *Numis Securities - Analyst*

And so the other GBP25 million [has] essentially be offset by cost inflation and primarily on labor, because labor is your biggest cost, and if that's 60% then --

Alan Brown - *Rentokil Initial plc - CEO*

No, I think we would hope to see some of that money dropping through to the bottom line. I think what I said was GBP25 million would be reinvested in increasing competitiveness, partly maybe below inflation [and] cost increases, part might be investment in better service. But the remainder of that, anything delivered over GBP25 million, I would hope, would come through to the bottom line.

Mike Murphy - *Numis Securities - Analyst*

Thank you. And then thirdly, you've been very successful in acquisitions in 2012; do you feel at all constrained by the fact that net debt EBITDA is 2.5 times, and also, is it frustrating because actually it appears that there probably are, or is, a big pipeline of potential acquisition opportunities? And should we be seeing more dramatic rationalization of the portfolio?

Alan Brown - *Rentokil Initial plc - CEO*

I'll leave Jeremy to address the first point of your question, Mike, in terms of the constraints or otherwise we might feel. In terms of the pipeline, I don't envisage that we'll see anything quite on the scale of Western in 2013. We might see one or two things which are a few tens of millions, but not nearly $100 million in terms of US dollars.

So I think, in terms of the pipeline, we don't have any great burning issues to finance. In terms of the portfolio change, obviously, we've been very clear of what we've indicated to be our core portfolio and what is our non-core portfolio.

So whether an opportunity arises to move City Link on during the year or not, I think it's going to happen some time over the next couple of years, but the timing is really uncertain. And clearly, the more we do to improve the performance of that business, the more likely we'll be able to get the business away.

I think that was the core of your question, was it?

Mike Murphy - *Numis Securities - Analyst*

It was.

Alan Brown - *Rentokil Initial plc - CEO*

Good.

Jeremy Townsend - *Rentokil Initial plc - CFO*

And in terms of capacity, I think given the debt reduction versus 2010, the balance sheet is pretty stable now. We're moving through the credit ratings. We're very happy with our bond issuance in September in terms of the yield we were able to achieve. We've got plenty of capacity for the bolt-on acquisitions that we've made.

If there was anything more substantial, we'd clearly have to look at it at the margin around equity versus debt. But at the moment, we're funding most of our bolt-on through free cash flow, and we're very pleased with the access to the debt markets we got in 2012. So we don't see any particular constraints in terms of the pipeline.

Mike Murphy - *Numis Securities - Analyst*

Thanks, Jeremy.

Hector Forsythe - *Oriel Securities - Analyst*

Hector Forsythe, Oriel Securities. First a very quick question. In terms of reporting this year, are there any movements around in terms of bits and pieces moving between divisions that we should be aware of?

Jeremy Townsend - *Rentokil Initial plc - CFO*

So having landed on this structure, which I think is category and country, it's going to be hard for us to rename the countries and we're unlikely to rename the categories.

I think this is the evolution of the movements over the last four/five years, and as Alan pointed out, there's one -- in terms of management, Benelux is still being managed separately until 2014. But I think what we're planning to do, it will report on this basis and just flag that Benelux is still being run by the West division.

But otherwise, Hector, this is the way we can report, and only from now on M&A will change the relative weightings of the countries and the categories.

Hector Forsythe - *Oriel Securities - Analyst*

Fantastic. Thank you for that. In terms of the one-off costs going through the business, I think you've said you've got something over GBP30 million expected this year. Do you expect that kind of one-off cost to endure into future periods also, because it's been there for the last five years or so?

Jeremy Townsend - *Rentokil Initial plc - CFO*

So we can still see, particularly for 2013 going in 2014 some significant opportunities in the back office rationalization as part of this one-country model, working the countries together, managing the branches to cover centralizing the administration and overheads.

So I think 2013, yes, and I think that will flow into 2014. I can see, though, beyond 2014, a period where those restructuring costs will come off as we get through the significant restructuring costs, we're now on to one operating model and we rationalize the back office. So I think heading beyond 2014, yes, I'd expect those to reduce.

Hector Forsythe - *Oriel Securities - Analyst*

And taking all of the guidance together, where do you expect net debt to come out for the end of '13?

Jeremy Townsend - *Rentokil Initial plc - CFO*

I would expect net debt, everything else being equal, to be broadly in line with 2012. Basically, the way we're looking at the businesses, we've got plenty of opportunities to invest in our textiles plant; we've got plenty of opportunities to invest in our Program Olympic initiatives. We're partly funding that through the disposals of non-core businesses as we've intimated.

And when you work it through, subject to M&A, I'd expect -- any significant changes in M&A, I'd expect net debt to be broadly in line with where it is currently.

Hector Forsythe - *Oriel Securities - Analyst*

Thank you.

Alan Brown - *Rentokil Initial plc - CEO*

Well, if there are no further questions, I'll thank you very much for your attendance today and look forward to seeing you in early May. Thank you.
