FINAL TRANSCRIPT

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PRESENTATION

Doug Flynn - *Rentokil Initial plc - CEO*

Good morning. This is a longish presentation, I'm afraid. And there's a considerable amount, both in the release we gave you this morning, and indeed there's a huge amount of information in this pack. That's not intended to confuse, it's intended to clarify and we hope we achieve that objective.

I just want to say a few words at the beginning and then Andrew will take you through the details of the numbers. I'm afraid I still need to use some notes although my colleagues told me not to.

We have, I think, if we just look at the highlights for 2006, we made consistent progress in generating top-line growth both from retention and from new business. We are making progress in the restructuring programs, but in the main we have a line of sight to their completion.

We have commenced the task of process change to improve efficiency and, of course, part of those changes have been about redirecting the Company's portfolio towards stronger growing areas, strengthening strategic positions and exiting businesses more valuable to others. And for the future I believe we've established three growth platforms in Parcels, Pest Control and Asia-Pacific.

If we look at some of the trends from 2006 we've had solid growth in revenue, that's a combination of both organic and acquisitions. In the last quarter, both EBITA and PBTA both grew in Q4 year over year.

We saw improvements in contract retention in every quarter of last year and -- for every division. We also saw, if we look at organic growth, the pale blue line, excluding the U.K., in Washroom Services, Pest Control and Tropical Plants. And you can see those businesses that have been in remedial care held back the organic growth, to some extent, for the rest of the Group. But overall every division showed at least modest organic growth, with the exception of Electronic Security.

In terms of the achievements in 2006, we had improved performance in a number of businesses, for example in Pest Control. In Continental Europe that was principally through a strongly improved retention and in the United States through strong organic growth.

In Parcel Delivery it was through strong growth in revenue, it was through the integration progress that they've made in the business and they exceeded their profit plan for the year.

Now the shape of the Group has significantly changed and that will be significant in contributing to the future fortunes of the Company. But we still have some further work to be done, and most particularly in European Textiles and Washrooms.

I think the U.K., our Pest Control and Washroom, Plant businesses are beyond the midpoint in their restructuring programs and a path ahead is reasonably clear, even if there's still some navigation to be done.

Let me hand you over to Andrew.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Thanks Doug, and good morning everyone. We've had a very busy year with lots of M&A activity and restructuring. And that's inevitably led to a fairly complicated set of results, I'm afraid. I'm going to do my best to explain the figures and give you an insight into the underlying performance of the Group.

Let me start by explaining the basis of preparation adopted our results. Manned Guarding was largely sold in the first half and U.K. Linen and Workwear was closed at the end of April. They've been treated as discontinued. We expect to sell Electronic Security and exit the remainder of the German Hospital services business in 2007. These businesses have been treated as continuing for 2006.

We also sold a number of small businesses which aren't material enough to be accounted for as discontinued activity, so we've included their results up to the date of exit. Any profit or loss on sales has been included in operating income and treated as a one-off item. And, finally, Target Express was acquired at the end of November, so our results reflect its December trading.

Full-year revenue was up 12.7% at actual exchange rates, reflecting organic growth of 3.1% plus a lot of acquisition activity. We've always emphasized that it's important to get the top line moving and we've had some good success this year.

Asia-Pacific, Facility Services and Parcel Delivery have organic growth in the 6 to 10% range, although the Group as a whole was held back by growth rates of 1% or less in Textiles and Washroom and Pest Control.

At actual exchange rates, EBITA and PBTA both declined by 5.3% with adjusted PBTA which, is PBTA before one-off items, down 7.3%. The Washrooms and Textiles Division was a major drag on performance, our expectation of a slowly improving market during the course of 2006 was not borne out in practice.

I'll talk about free cash flow later. The GBP128.6m on the slide is a mixture of continuing and discontinued and one-off items which need to be looked at separately to understand the Group's cash flow performance. The 2006 free cash flow basically covers the total dividend for the year.

For the rest of the presentation, the figures that I quote will mainly be at constant exchange rates, as usual. Exchange movements have reduced 2006 revenue and profits by under 1% compared with 2005 rates.

Textiles and Washroom Services is our biggest division, accounting for 36% of the Group's adjusted profits in 2006. The division is dominated by our activities in France, the U.K., Netherlands, Belgium and Germany, and together those were 86% of last year's sales. Unfortunately we're facing difficult market or operational conditions in each of these businesses and the effect on divisional performance is clear from the table.

Looking at the right-hand side you can see that revenues, both total and organic, are basically flat this year, but EBITA and adjusted EBITA are both significantly down.

However, there are some encouraging signs. The fourth quarter portfolio net gain and retention rates were the best that we experienced all year. And the rate of decline in adjusted PBTA was the lowest.

There's a particular technical factor that resulted in us showing a 3.5% revenue growth in Q4. It won't recur, and the underlying sales growth in Q4 was 1.8%. That's still the best organic growth we saw all year.

We said at the Interims that we expected second half adjusted profits in this division to be broadly flat for the first half. The actual outcome was a small decline, GBP53.5m against GBP55.3m.

Adjusted operating profits in Textiles and Washrooms are GBP25.1m lower than 2005 on broadly flat revenue. Working across the slide, I've shown the country revenues for 2005 and 2006, the percentage change in revenue, the average contract portfolio price increase and the absolute change in adjusted profit.

We experienced cost price inflation across Europe in the 2.5 to 4% range, driven mainly by wages and fuel, and this was also true in France. The competitive market in France means that average price increases were restricted to 0.8%, and this inability to recover our cost increases, together with additional investment in the sales force, was the principle reason for the profit decline.

The U.K. was the cause of the -- the biggest cause of the fall in divisional profits and I'll talk about that shortly.

In the Netherlands, the revenues declined because strong competitive pressures in the second half of 2005 and the first half of 2006 resulted in a net loss in the portfolio, although we've recently seen positive net gain in the Netherlands which is very encouraging. A generally high route density in Holland meant we were able to manage our costs better and we held the fall in profits to GBP0.9m.

In Belgium, a more benign price environment meant that we were able to pass on most of our costs and broadly hold profits, although there was competitive pressure particularly in the Hospital Service business.

In Germany we've been able to grow revenue but, again, the price increases were less than cost inflation with the result that profits declined by GBP0.8m.

The other countries include Austria, Eastern Europe, Spain, Italy and the Nordics, which we generally view as development markets. Profits were typically slightly down as we continued to invest in sales resource to growth the business. Some of the GBP2.6m change in operating profit there was due to an increase in divisional costs, reflecting additional management resource, particularly in sales and marketing.

The U.K. Washroom business has been undergoing radical restructuring. At the end of 2005 and into 2006 we separated the Washrooms business from Linen and Garments which we closed at the end of April. For the remainder of the year we've been integrating the two legacy Washroom businesses into one, whilst at the same time reducing the number of branches from 35, following the closure of Linen and Workwear, to 25 at December. And our target is to be down to 20, the final number, during the second quarter.

This restructuring has been very disruptive and we lost more Washrooms business than we anticipated. We have many customers who have taken both services from us and we continued to lose Washroom business from this Group in the aftermath of the Textiles closure.

U.K. Washroom revenues are down GBP4.1m on 2005 and most of it flowed straight through to the bottom line. Adjusted EBITA was down GBP13.2m for the year because our routing and processing operations were very inefficient during the transition period. And we had the establishment costs of holding surplus branches pending their disposal. Plus, of course, retention incentives and such-like. We expect the restructuring of this business to be complete by the end of this year.

This slide summarizes the one-off costs incurred by Textiles and Washrooms in 2006 and indicates the benefits we expect to get. The principal payback will be the exit from the loss-making German Hospital Services business plus productivity gains on some other sides. This will save GBP1m in 2007 and GBP2m a year in 2008 and on.

In the U.K., restructuring has reduced the branch cost base by GBP3m which we'll see from the second quarter of '07. However the U.K. business in particular has significant potential for performance improvement over and above these cost savings.

In 2006 the Pest Control division represented 13% of revenues and 23% of the Group's adjusted EBITA. As you can see the U.S.A. is now our single largest market, followed by the U.K., with all the other European businesses being significantly smaller.

The acquisition of Ehrlich on the March 1 was the main reason for the large increase in total revenue. However, organic growth was only 1.2% and this reflects the performance of the U.K. business which I'll come back to.

Adjusted EBITA is up GBP2.9m at GBP68.4m, benefiting from the acquisition of Ehrlich, but held by the U.K. However we've continued to focus on retention and the trend has generally been positive over the year.

This slide summarizes the main reasons for the year-on-year change in revenue and adjusted EBITA. The U.S. market was the main source of additional revenue and profit reflecting the acquisition of Ehrlich. However, the U.K. business was undergoing significant restructuring during 2006 and sales and profits both declined.

The other businesses on the slide are mainly in Continental Europe and these operations have traded well, with revenues up 6.1%. The profit increase was offset by additional divisional costs to support M&A and sales and marketing initiatives.

In 2007 GBP3m of costs were transferred to this division from the centre because responsibility for R&D has now been devolved.

Semi-annual revenues from U.K. Pest Control has been on a declining trend, although our efforts to improve the contract retention rate are proving successful. Retentions rose to 82.4% in the second half of '06. The challenge in U.K. Pest Control is now to grow sales.

Our new structure will enable us to focus better on our customers, through properly tailored propositions, which will help build the top line. The reduction in revenue coupled with cost price inflation has resulted in the falling profit that you can see at the bottom of the slide.

The one-off items related to restructuring and redundancies announced at the end of 2006. The branch footprint is being reduced from 26 sites at the end of December to 11 area offices by the end of [inaudible] combined, this will save an estimate GBP2m in the full year and we expect to achieve this run rate by the end of 2007. Closure costs of around GBP0.5m -- sorry GBP1m will be incurred in the first half.

The Electronic Security division has had a good year, increasing adjusted EBITA from GBP37.2m to GBP40.1m and improving customer retention rates. The division recovered well in the fourth quarter from a slow start by the U.K. Systems business earlier in the year. Customers have been slow to call off work already won, but by the fourth quarter, Systems output levels were at their highest for two years.

We grew profit in all of the businesses in this division, and revenue in all of them apart from the Netherlands. In Holland our 2006 performance improvement program enabled us to shed unprofitable work with the associated cost savings contributing to its significant margin improvement.

2006 was a transformational year for City Link. The franchise buying program continued to run ahead of our original plan, and we also acquired Target Express at the end of November. The two charts at the centre of the slide show the progress of the franchise buying, with City Link's share of network revenue steadily increasing. At the end of 2006 the exit run rates gave City Link an 82% share of its network revenue.

Last year Parcel Delivery was 10% of the Group revenues. For the full-year effect of these acquisitions, means that on a pro-forma 2006 basis, Parcel Delivery is now a GBP385m business.

The developments of City Link's revenue and profits over the course of 2006 was very hard to follow because of the impact of acquisitions. This slide shows how the franchise buying and Target Express are changing the business.

The left-hand pie chart shows the make up of reported revenue for 2006, analyzing it between the pre-2005 City Link branches, sales attributable to the franchise acquisitions in 2005 and 2006, and finally the December revenues from Target Express. In 2006 we reported actual revenues of GBP213.3m and adjusted EBITA of GBP36.1m.

In the middle pie chart we've restated 2006 on an approximate pro-forma basis as if Target Express and the 2006 franchise acquisitions had been owned for the full year. This indicates revenue of GBP385m.

On the right-hand side we've shown the same thing for adjusted profits which are estimated at GBP55m pro-forma for 2006. In producing the profit pro-forma, we've taken no account of integration costs or synergies for Target Express which we've adjusted onto the December year end. The figures are obviously estimates but I hope will help your modeling.

As a reminder, we said that we expect to achieve synergies from targets at an annual run rate of at least GBP10m a year by the end of 2008 and that integration costs are expected to be GBP12m. They'll be spread fairly evenly between 2007 and 2008. We still have 13 franchise territories to buy in. These businesses had combined revenues of GBP46m in 2006.

The bulk of our Facilities Services businesses are in the U.K. and some 63% of the division's revenue comes from cleaning. Facilities Services revenues grew strongly during the year assisted by the acquisition at the end of September of Insitu, a specialist shopping centre and leisure cleaning business.

Organic revenue growth had been strong for the first three quarters of the year, but fell back during the fourth quarter. This was partly as a result of tough trading conditions in our catering business and partly because of the strong performance in the fourth quarter of 2005.

Divisional EBITA was behind last year, despite retention rates and net gains substantially ahead of 2005 and the reasons are shown on this next slide.

Cleaning grew its top line significantly during the year, although profits did decline slightly as a result of continued margin pressure and the need to invest in the infrastructure of the business as a results of its growth. We have a number of productivity improvement initiatives underway, which we hope will protect margin in 2007.

The catering business had a difficult year. We lost some contracts in the business and industry segment and struggled in the school segment where the Government's nutritional guidelines proved unpopular with our customers. The combined result was a EUR7.8m reduction in revenue and we're not able to protect profit. We've made management changes to revitalize this business and have exited unprofitable contracts where we can.

The decline in profit in our other businesses includes our specialist hygiene company where the introduction of smoking bans in Norway, France and Scotland has undermined our air quality businesses. We also reduced prices in our supplies company as we reported at the half year.

In 2006 the Asia-Pacific division represented 5% of Group revenue and 8% of adjusted EBITA. However there's been significant acquisition activity during the year and the division will have much higher revenues in 2007.

The pie charts at the top of the slide show the pro-forma business mix of the division taking account of acquisitions completed up to the end of January this year. Pro-forma 2006 revenue, excluding the Japanese associate, was GBP118m compared to the GBP103.6m reported.

Australia continues to dominate the region's revenue and profit and Washrooms continues to be our largest product line. Looking towards the right hand side of the table, the main difference between EBITA and adjusted EBITA in 2006 was restructuring expenditure incurred in the fourth quarter in Australia, as the new management team there gets to grips with the business.

Again, the main changes in revenue and EBITA are set out in the slide. In Australia the acquisitions we've made and the restructuring of our operations have created a very strong platform for 2007. We were also pleased with profit growth experienced in New Zealand and Malaysia. Profits were held back for the rest of the division because we invested in central costs and infrastructure to make sure that we've got the capability to run a much larger business effectively.

Central costs were significantly influenced by one-off charges and credit. In 2005, these were primarily the cost of defending the Raphoe approach and various re-organization costs.

In 2006, in addition to some restructuring charges, there was also a significant credit as a result of the closure of the U.K. [defined benifit] pension scheme to future accrual. The principle reason for the increase in underlying costs in 2006 was inflation, together with the accounting costs of the first cycle of the long term incentives plan. I've noted at the foot of the slide some of the factors that will affect central costs in 2007.

Net interest on our third party debt was GBP50.2m compared with GBP52m in 2005. Average net debt was some GBP150m lower in 2006 but this was partly offset by rising interest rates, they were approximately 1% higher on average, to leave the P&L charge slightly improved. The reduction in the Net notional interest costs of the pension scheme is largely due to the injection of GBP200m into the U.K. funds at the end of last year.

We hedge our interest rate exposure on a rolling basis and our debt is managed so that the currency mix of our borrowing broadly matches that of our cash flows. This approach has reduced the impact of rising interest rates but has not eliminated it. Our 2006 average interest rate was 5.2% and looking ahead to 2007 we've now almost full hedged the interest rate risk on our budgeted net debt.

Although we don't normally take account of M&A activity in our budget, the hedging program has, however, reflected our estimate of the amount and timings if the proceeds from the sale of Electronic Security. Now obviously I can't tell you what those assumptions are, but we expect the full-year interest rate in 2007 to be between 6.1 and 6.2%. I've noted the estimated pension interest figure for 2007 at the foot of the slide.

At December 2006, our Group defined benefit IAS 19 deficit was GBP118.8m, of which GBP108.3m related to the U.K. Details of the assets and liabilities of the U.K. scheme are set out on the slide and you can see that the investment policies have changed. 80% of the assets are now held in fixed-income investment compared with 20% at the start of the year. Derivatives have been put in place to protect the scheme against changes in inflation and interest rates.

The other point to note is the volatility if the IAS 19 deficit. In the first half of the year the scheme benefited from favorable market movement pending the switch out of equities and the implementation of the hedges. In the second half, we again reflected market movements as well as the results of an interim valuation which picked up the effect of some adverse variances compared with the actuaries' assumptions. 45% of the Scheme's liabilities are associated with just 5% of its members so our risk is quite concentrated.

I do expect some future volatility in the reported IAS 19 deficit. The deficit is the difference between two large numbers and as the deficit comes down over time, relatively small changes in the Scheme's assets or liabilities will have a disproportionate affect on the deficit. This will be particularly true of the 20% of Scheme assets that are likely to be held in equities.

Last year the effective tax rate, 22.5% for 2006, was significantly below the average rate for the countries in which we operate, primarily as a result of prior-year adjustment. The GBP14.7m credit in 2006 in the middle of the slide reflects the release of provisions for matters which have now been agreed with the relevant fiscal authorities and which are no longer open to challenge.

The extent to which tax provisions can be released is hard to predict, so I prefer to focus on the blended headline rate and what I've described as recurring factors affecting the tax charge. These are a better indication of what I'd expect the long term effective tax charge to be. The blended tax rate in 2007 is expected to be around 0.4% lower than 2006, mainly as a result of the reductions in the Dutch corporate tax rates.

I've split 2006 cash flows between continuing activities, discontinued activities and one-off's to make the figures easier to understand. You can see that U.K. Linen and Workwear and Manned Guarding incurred trading losses in the months up to their disposal.

So with an increase in working capital over the year, which primarily reflects changes in our business. In 2006 our fourth quarter revenues from continuing businesses was GBP590m compared to GBP510m in 2005, an GBP80m or 16% increase. Given normal credit cycles and the December peak in parcels delivery, you'd expect at least half of this increase in fourth quarter revenues still to be in the receivables at the year end, and this accounted for most of the increase in working capital.

However, there was also a build up of working capital in Electronic Systems due to the contract delays I referred to earlier and in Cleaning due to some late payments by major customers in December. These funds were received in January.

Turning to free cash flow and just quickly working down the slide. You'll see the cash tax is significantly lower in 2006 than in 2005. This reflects lower profitability, tax relief on the GBP200m contribution to the U.K. pension scheme, as well as some prior-year refunds.

In cash terms, our M&A activity over the last two years has been neutral, with 2005 net proceeds being offset by equivalent net investment in 2006. So, overall, our net debt is back to the position at the start of 2005. Our intention is to use the proceeds from the sale of Electronic Security to pay down debt.

In 2007 we expect to incur up to GBP10m of rationalization costs on projects either underway or under consideration. GBP1.5m related to U.K. Washrooms and U.K. Pest Control branch reductions, and although these plans have been announced in December, it was not appropriate to recognize those closure costs in 2006. They'll be incurred in the first half.

In addition, we're considering some other projects which could cost around a further GBP8.5m in 2007. If we spend this money we'll be explicit about the payback.

In 2007 we'll also incur GBP5 to GBP6m of the estimated GBP12m costs of integrating City Link and Target. We don't expect to realize significant synergies from combining the businesses in 2007, they'll start to come through in 2008.

Thank you very much, and now let me hand over to Doug.

Doug Flynn - *Rentokil Initial plc - CEO*

So across the Company there's a big agenda. But thinking about the elements that are most important to get us back to sustainable growth in profitability, then these are my priorities. These represent the change points we need to get right in 2007.

We turn first to Textiles and Washroom Services. Put simply, given the market conditions, we need to become more efficient and, at the same time, drive volume at the right price through the business. The divisional management team has been refreshed and I'm confident that we are making the right moves. We do expect there maybe some consolidation in the European market and we need to understand the market implications of any possibilities.

Within Textiles and Washroom Services, we referred to the situation in France. Quite frankly we've put in structural changes in place in the second half of 2005. Those changes, we believe, went to far, they added some cost and they moved P&L responsibility too far up the organization. That structure has been modified in November and we now have clear P&L responsibility back at the branch level.

Now that business has been good progress with Washroom integration. The ongoing path is significantly about improving efficiency, being more on the front foot with cost recovery and continuing to develop the revenue opportunities.

Now, Andrew also mentioned the fact that we're seeing some gain -- some improvement in our net gains which have yet to turn into revenue and profit. This is an MAT charge and you can see the gains particularly over the last -- I'm not quite sure how clear that is. If you count back about six or eight from there you can see an improving trend in net gain in France.

If we look at the other Textiles and Washroom Services businesses, this is a big division, and with a number of major initiatives designed to improved productivity in processing, administration and in service, as well as key programs to improve top-line growth.

The businesses are having some success with range selling and are moving to establish a clear model in this regard. Actually that's also true for France. In fact France is probably the leader in that.

A number of restructuring opportunities are either underway or are being explored which will have the effect of improving the capability and profitability of the business in Germany and Belgium. Investments in new capacity will also have the effect of reducing processing costs.

In the U.K. this remains the most complex project we've undertaken. There is a clear progression now through the remaining steps and at the end of which I believe we'll have a modern well organized business with substantial revenue and significant profit upside. I would expect that we'll be in that position by the end of 2007.

The picture on net gain, this actually a month-by-month by chart as opposed to an MAT, where the picture is not so rosy as the situation in France that I showed you earlier. However, these losses are substantially as a result of contract terminations. The business won is essentially flat on a quarter-by-quarter basis.

But given that we know how to improve terminations, we've demonstrated that in pretty much every business around the world, and we can see the rate of decline is actually reducing, and we do have clarity about the steps to complete the recovery of this business. Then, if I put my rose-tinted glasses on, even in those numbers, I can see a path to growth for this business.

We turn now U.K. Pest Control. The key changes in this business were put in place at quarter four of 2006, and in January the planned structure was finally put in place.

And we've made good progress in stabilizing the larger and more technical accounts in this business. The next step is to achieve the same with the mid-size and smaller accounts. The key task they've got is bedding in the new structure. There's some key things that are still being put in place, the regional aid and support and the national customer contact centre is mostly in place now, but there is still more to do, just embedding in the structure.

The clarity of what needs to be done is absolutely there. Again, we expect to be back to business as usual by the end of 2007. Now the news in terms of the performance of this business is quite a bit more rosy. This is back to an MAT-style chart in terms of retention. And you can see reasonably significant improvement in retention but still much more to be achieved in that regard.

And the other thing that's very interesting is what's happened to headcount churn. With headcount churn actually falling at a time when there is deep introspection going on, as to who is in fact going to stay on the team sheet, because quite a bit of cost has been taken out, or is being taken out, of that Pest Control business at the same time, in the way that Andrew mentioned.

In both the cases, U.K. Washrooms and U.K. Pest Control, there are costs being taken out of the business, and again Andrew gave you those figures. But they considerably rebase the business in terms of cost and effort to get back to improve margins as well as improving top-line growth.

We turn then to Target. Target Express, the rationale. The Parcel sector has been growing at around 4%, and Target at City Link has been growing in the range 8 to 10% over the last few years. They're both well run. They have a similar culture. Both extremely focused on customer service. And they both have strong management teams, and the economics of the acquisition are compelling.

And despite massive volume growth, with multiple records nights pre-Christmas, the performance of both these businesses stayed above 98% right through and including the Christmas period.

And the integration program is extensive. It's going to take two years to complete. The major decisions required to progress that have been made. The integration team has been put in place. The combined management team was put in place in week one and they are on track.

Now among the key elements of the integration plan are the changeovers of trailers, moving to a common IT platform. That's not a new IT platform. It is, in fact, the City Link IT platform that will take time to roll out. But there's not a massive execution risk in moving to a new IT system, I hasten to say.

The common trailer and cage harmonization is about moving to the same operating system as City Link, and the business will ultimately be branded City Link.

So all those key decisions have been taken. But you can see that just getting to that point is going to the third quarter of this year. So the realization of synergies in 2007 is going to be really quite limited, and will start to come through in 2008. And by the time we get to the end of 2008 the run rate of those synergies will be in excess of GBP10m a year.

We turn then to Asia Pacific. Asia Pacific has been substantially about putting in place a strong management team and to revitalize good market positions, together with a program to significantly strengthen those positions and invest in growth markets with the Company's core business models.

It's not just been the story about M&A. This team that we've put in place there are driving organic growth quite hard. And when you look at the earlier organic growth charts, I think it shows about 5 or 6%, not that exciting in Asia Pacific. The fact of the matter is that we are still significantly exposed to Australasia, which has growth rates a bit higher than most of Europe, but not the same as China.

Now they are making some real gains in terms of organic growth. They have won recently a pest control piece of business for Hong Kong, which is GBP24m over a two-year period. Now that is the largest pest control contract that we are aware of anywhere in the world. So this group, I believe, will make a significant difference in that division and, ultimately, it will be -- the delta will be important for the Group.

Now if we turn then to organic growth, we've said that we believe that organic growth will accelerate in 2007. And if we think about it thematically and then inspect individual initiatives, then that's not really the way we're going to be looking at this in a year's time. We're going to be saying what happened to organic growth for the whole Group? What happened to it in individual businesses? But the fact of the matter is there's lots of things go into driving that.

And those initiatives relate to things like customer contact processes, customer segmentation and better meeting customers' needs, brand articulation and communication, cross-selling and range-selling initiatives, and simply management focus and attention on driving revenue.

And finally, it's also about more concerted cost recovery. Confident companies are simply better able to put through price increases when they're not concerned about whether their service is up to scratch.

Now a similar story is about the progress in improving efficiency. There's been a lot of effort gone into restructuring businesses and that's been more about getting the business the right size, ensuring the right service capability's there, and being able to meet the demands of customers and then restoring them to growth.

What is not necessarily going on in that exercise is deep [line], how do we change processes to take costs out long term out of the businesses. There are a wide array of things going on, and we are still at an early stage of systematically changing processes to take costs out, and the objective here is to, at the same time as take costs out, improve quality and improve customer relationship and service.

There will be some [inaudible] things that we'll be doing, such as the things like the U.K. service center. It's a very modern center which operates both back office and front office for a number of businesses, and the ongoing cost saving out of this will be around GBP3m by the end of 2008. But there are efforts going on in many businesses to take costs out. We believe there is a significant prize in this regard, but it is a long program it just doesn't happen overnight.

We turn then to reshaping the business portfolio. Now happily the acquisitions and disposals add up to pretty much -- pretty similar numbers over a two-year period. A quantum of change of this business portfolio is quite significant, and I believe [technical difficulty] is fundamental to reviving growth and generating shareholder value.

We've been prioritizing areas with the strongest market growth. Acquisitions have been made where management have the capability to carry out the necessary integration, and we have clear post-acquisition plans in place before any deal is agreed. And the principal areas that you can see there were undertaken in Parcels, Pest Control in Asia Pacific. The slide shows we think market growths are like in Asia Pacific. We've balanced that to some extent because of the exposure to Australasia.

I am confident that we will get to the stage where we are significantly exceeding these underlying market growths. And we talked earlier about the Parcel delivery. We are currently doing 8 to 10% growth. I'm very confident Asia Pacific will exceed those sorts of rates. And in Pest Control, we're not there yet at 1.5 times GDP, it's roughly what pest control markets are growing around the world. I'm very confident that we'll exceed that over the next few years.

In January of this year we moved from a strategic review of Electronic Security to a decision that we would, in fact, proceed to sell the business. We've had very strong interest in the Company and we have now moved to a second-round process, and the participants have been selected for that. We would expect that this would be completed by about June of this year.

If we turn then to the Outlook. We expect to make good progress in the business we've talked about, Pest Control, Parcel and Asia Pacific, if market conditions continue to impact the European Textile and Washroom Services business. We do expect to see an improvement in our revenue performance. We expect our PBTA to be in line with 2006.

For a variety of reasons EBITDA will regress, we think, in the first quarter of '07, and that's principally because of the decline in trend that we experienced apparent in Q4 in Textiles and Washroom Services business. There are some other specific factors as well. On the other side we are also seeing improvements in portfolio development and that could improve the position.

The dividend policy is maintained. And to remind you we have said that we'll maintain the dividend until such time as we see sustained profit recovery.

So, in summary, the Company has a strong management team with a clear agenda, and I don't mean Andrew and I, I mean we have a strong management team within the divisions, and within the business units around the world. And they are clear about what they have to do. We will see, this year, the realization of some key change programs in UK Washrooms, UK Pest Control, and in France Textiles and Washrooms. And they are all important and fundamental in terms of the profit growth in the years to come.

[New areas] for growth to build on in Parcel delivery, in Pest Control in North America and in Asia Pacific, we believe they're all going to be platforms for growth for the future. And the successful integration of the acquisitions we've made over the last couple of years remains a key task to make sure that we get right this year.

And we do see really significant opportunities in terms of improving the efficiency of the business. That is this year, it's next year and it's the year after.

Anyway, thank you very much. Any questions?

QUESTIONS AND ANSWERS

Mark Shepperd - *UBS - Analyst*

Hi, it's Mark Shepperd from UBS. Andrew two things, can you just talk a little bit about cash flow in 2007, particularly working capital and CapEx on what you see the trend's there?

And secondly, you were quite positive, I think, on U.K. Washroom. I think you said you saw significant potential upside. I don't want to give you -- I don't want to ask numbers but can you just go through where and how and maybe just flesh out a little bit more why you're so positive on the potential upside of that business?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

In terms of working capital in particular, I would expect to see the same sorts of factors that we've seen this year. So as we continue to grow the business and, in particularly, as we increase our exposure to businesses like City Link, that's obviously much more seasonal. So if we continue to have strong growth in sales in the fourth quarter then at the year end we're likely to suck in some working capital. But that apart, I don't believe that the dynamics of the business has changed significantly.

The same is true of CapEx. If you look in most of our businesses, CapEx is broadly equal to depreciation. However, we have got in European Washrooms and Textiles, we've got some plant programs underway at Lokeren in Belgium, Amstetten in Austria, Brie-Compte-Robert near Paris in France and also in Prague. And CapEx on that will be about GBP14m during the course of the next year. And we spent a bit less than that, maybe about GBP10m or so on those products in 2006, so they'll mainly finish in '07.

As for Washrooms, if you look at the things that have caused the decline in profits in Washrooms, I talked about GBP4m loss of revenue which you can see is associated with the loss in portfolio. And in the nature of that business, at the margins, that pretty much dropped all the way through.

So there are two key things to sorting out Washrooms. One of them is to get the portfolio back to growth. But, as Doug was saying, despite all of the disruption we've been able to maintain the level of sales. It's mainly been about terminations and again through the disruption we understand how to fix terminations we think now.

The other factor that has been very inefficient, logistics. If you can imagine while we were still in 35 branches coming down to 20 we could not possibly optimize all of these logistics routes. We've been trunking our roller towels all over the country basically in a most inefficient way. So we also had a lot of cost of maintaining vacated branches until we were actually able to get of the leases and sell the properties. So a lot of that can cost, but that should go away, so I'm pretty confident we can get that business back.

Mark Shepperd - *UBS - Analyst*

So what -- I'm not holding you to a target for the next couple of years, but what do you think is a potential margin at some point down the road for that business?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

I think we -- obviously we have one major competitor and this is a single product line business in the U.K. The last time the information was publicly available, [PHS] has quoted as having margins of like 24 or 25%, that would be a nice target to shoot for.

Marc van't Sant - *Citigroup - Analyst*

Good morning. It's Marc van't Sant at Citigroup. Could I just ask you, Andrew, your guidance for full-year profitability, does that include Electronic Security?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Those figures assume that we sell Electronic Security. Sorry, that we hold Electronic Security.

Marc van't Sant - *Citigroup - Analyst*

For the whole period?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

For the whole period.

Marc van't Sant - *Citigroup - Analyst*

Okay. And Doug, could I just ask you, in the interview you give with Cantos, you talk about pursuing cost synergies in Textiles and Washrooms through consolidation. Could you maybe talk a little bit more about it? Are you thinking about bolt-ons, are you thinking about -- or are you thinking about more transformational deals like we've seen in Parcels?

Doug Flynn - *Rentokil Initial plc - CEO*

I think the situation is that our competitors are being affected by the environment as well in Textiles and Washroom Services business. But most particularly the Textile side. And we just simply need to be alert to the changes that are going on there and continue to explore and consider what we should be doing if there are, indeed, going to be some changes. I'm not -- I wouldn't wish to suggest we're about to undertake a transformational acquisition, or anything else. But we've got to stay alert to what's happening in the market.

Andrew Ripper - *Merrill Lynch - Analyst*

Morning. It's Andrew Ripper at Merrill Lynch. A two-part question on the budgeting process and guidance and then on the Hygiene division. I guess you've just been through your second budget process since you guys joined the business, and I wonder if you can just contrast how this process worked in comparison to last year and whether, second time around, that gives you greater confidence in terms of the guidance that you've given us today. And presumably the budget process is feeding into your outlook statement?

Doug Flynn - *Rentokil Initial plc - CEO*

It is. The distinction is, whereas I would've said the budget that we had for 2006 was primarily owned at divisional level, and I believe that the budget that we have for 2007 is owned by the country management teams within divisions as well. So it feels much more ownership from the bottom up.

Andrew Ripper - *Merrill Lynch - Analyst*

That was a quick answer. And the follow-up to that is Hygiene, and you've given us some additional disclosure today in terms of the price increases across the major geographies, and you mentioned cost inflation of 2.5 to 4%. So a two-part question really in terms of the outlook for that division. One, what sort of assumptions are you making in terms of price and cost inflation? So how does that feed into your overall guidance of flat profits for the group ex-reorg?

And two, in terms of the evolution of the profits pre-reorg, when do you see yourself getting to the position where that division will return to profit growth?

Doug Flynn - *Rentokil Initial plc - CEO*

We were significantly hit during 2006 by energy and fuel costs which were both about 25% higher than in '05. So hopefully we've seen the end of that. We may get a little bit of benefit. But, on the other hand, we continue to experience wage inflation at, it depends on which country, but let's say in the -- one country was slightly below 2%, another one was nearly 4%. So that is obviously the biggest driver of our costs.

The challenge now, for example, the Dutch and the Belgians are good at this, is to make sure that each year we come forward with enough credible efficiency improvement initiatives to offset that dynamic. And much as we might wish the markets were easier, that's what we have to deal with.

And you can see that what happens in the Netherlands with revenues down 3%. Change in profit was only 0.9m. They're very good at this. So we've got to get more of that into some of the other markets. Harder in places like France where we don't have such good [inaudible]. We've got great density near Paris, for example, but not in the rest of the country. So it's got to be about efficiency and productivity gains and it's got to be about smarter selling.

Andrew Ripper - *Merrill Lynch - Analyst*

You're assuming that the price momentum that you had in '06, that you've revealed today, will be maintained in '07 no material change?

Doug Flynn - *Rentokil Initial plc - CEO*

I hope it's better but we're planning on the basis that it won't be.

Andrew Ripper - *Merrill Lynch - Analyst*

Okay. And in terms of --

Doug Flynn - *Rentokil Initial plc - CEO*

After being pressed because we are being pressed in a different direction to be more active in the cost recoveries. So although we are budgeting conservatively, I can assure you there's a different pressure coming from a different direction than Andrew to get those price increases through.

Andrew Ripper - *Merrill Lynch - Analyst*

And just in terms of looking at the evolution, actually you were down GBP5m absolute in the fourth quarter. Looking forward over the course of this year, you're likely going to be down in Q1. Are you anticipating going back to profit growth in Q2 or is that more second half?

Doug Flynn - *Rentokil Initial plc - CEO*

[Call it] inflection point. I think you're going to see largely a maybe close to flat in the first half. So how the second quarter comes out [inaudible] Q1 down, it's there or thereabouts.

Andrew Ripper - *Merrill Lynch - Analyst*

Okay. So Q2 potentially the turning point. Thank you.

Doug Flynn - *Rentokil Initial plc - CEO*

You said it, not me.

Unidentified Audience Member

Hi. [inaudible] at [ING Wholesale]. Just a question on the difference between cash tax rate and P&L tax rate on 2007, and how you see that developing over time on a bit of a longer time horizon?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

The GBP200m that we put into the U.K. pension scheme obviously gives us GBP60m of tax relief, but it's spread over four years. Because we pay our tax on account, the money was put into the U.K. scheme at the end of December and it was too late for that to have an impact on the cash tax that we'd paid in 2005.

So in 2006, because of the effect of the payment on account regime, we had about one and a half years' worth of cash refunds. But basically I would expect cash tax to lag or to be better than P&L tax by about that GBP15m, and then similarly offset by continuing contributions into the pension scheme.

Unidentified Audience Member

I just wonder, it's a slightly high-level question, Doug, but if you look at consensus estimates and how they've trended over the past few reporting periods, it would appear, based on guidance today, that's consensus estimates have been coming down 5% plus on a like-for-like basis once again.

And I'm just wondering whether you can share with us your perspective in terms of what you're hearing from people at the divisional level, whether it's ongoing underlying market factors, many of which are beyond your control in terms of difficult trading conditions and competitive pressures, pricing and so on. Or whether or not there's a sense that some of the programs that you've implemented over the last 12 months plus have actually been slower to achieve their outcomes, or maybe some of them haven't even worked.

But I think, in all honesty, certainly my perception was that '07 was not going to be another transitional year, that '06 was that transitional year, and that's not really the sense that I'm taking away from what you're saying.

Doug Flynn - *Rentokil Initial plc - CEO*

Well I think I wouldn't describe this as a [inaudible] but there are certainly some good bits and some not so good bits. We clearly have made good progress with a number of the businesses and we're really pretty happy with those. And one of the things that I didn't put up there as a priority for 2007 was the Pest Control business.

Why? Because we believe that's on track. We believe it's on track in North America. We believe it's on track in Continental Europe. Similarly we've got a task to do in the Parcels business in terms of the integration, I'm very confident we're going to get there.

Some of the restructuring efforts we would have liked to have seen -- we would like to be in a recovery phase in 2007 rather than still completing them in 2007. There's no doubt about that. The key thing has been the change which is largely economically driven in a Textiles and Washrooms business. I think we have made a couple of mistakes, but they're not that big, and they're pretty easy to correct, pretty straightforward to correct.

Unidentified Audience Member

[Inaudible - microphone inaccessible].

Doug Flynn - *Rentokil Initial plc - CEO*

Well, I think the changed structure in French Textiles -- every now and then it does happen that you back the wrong person, and that does occur. The trick is to recognize it quickly and get things back on track quickly. So it's not one answer to your question.

Some things are going extremely well, and that wasn't true to say 18 months ago. And we have got on track the turnaround. None of them have fallen over. But, on average, they've probably taking longer than we had planned. And then we've got a large division that has still got some tricky issues attached to it. So I'm afraid the answer is a bit of everything to your question.

Unidentified Audience Member

Looking at the reported numbers for 2006, it would appear that you've got fairly comfortable interest cover, certainly over five times, on a proforma basis probably over six times. You have said that you intend to use the proceeds from the sale of the electronics business to pay down debt. And it wasn't very long ago that somebody was standing on that platform telling us this was a business that could comfortably run with interest cover in the region of 2 to 2.5 times. What do you think the appropriate capital structure for the business will be going forwards?

Doug Flynn - *Rentokil Initial plc - CEO*

Can I answer part of that before I want to hand it back to Andrew, because he obviously knows the answer? The key thing is that we've undertaken a significant acquisition, and I believe for the right reasons and in the right direction for the Company. This reshaping of the portfolio does take time to flow through into the business, but it is fundamentally important.

If you look at what we've done over the last few years, including Electronic Security, we will have exited three significant divisions. That has substantially narrowed the focus of this Company. And I think everybody, if you'd gone back three years ago, people were telling me that's what needs to occur to the Company. And so we are doing that.

But the fact of the matter is we're also trying to strengthen our market position in a number of areas. And we do really quite fundamental things, like look at the correlation between market share and margins and profitability. And if the right deal economics are available and it's strategically correct, and we're confident the management can execute it, and there are clear integration plans, then that's a sensible path to go down.

So it's not -- this does give us some flexibility to continue to shoot at. In the event that our view changes about that, then we'll take another look at the balance sheet and how we should be dealing with it. In the short term it gives us back a little bit of flexibility. But we're not exactly ridiculously under geared either. We're GBP1.2b in debt on the balance sheet.

Andrew will answer the rest of the question.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

In terms of capital structure, I think a good place to be is a mid to strong BBB credit rating. It strikes a balance between efficient use of capital, giving us a low cost of capital on a rated basis. And also means that we can have liquid and reasonably priced access to the capital markets.

From a pragmatic point of view we have got a 500m Eurobond which matures in May this year, [GBP250] maturing in November '08, and it's very important that we're able to refinance that at some appropriate point. We also have to keep our promises to the debt capital markets.

Doug Flynn - *Rentokil Initial plc - CEO*

Okay. I'll think we're all done. Thank you very much.
