FINAL TRANSCRIPT

Thomson StreetEvents℠

RTOKY - Preliminary 2007 Rentokil Initial plc Earnings Presentation

Event Date/Time: Feb. 28. 2008 / 4:15AM ET

CORPORATE PARTICIPANTS

Doug Flynn
Rentokil Initial - CEO

Andrew Macfarlane
Rentokil Initial - CFO

CONFERENCE CALL PARTICIPANTS

Karl Green
Credit Suisse - Analyst

PRESENTATION

Doug Flynn - *Rentokil Initial - CEO*

Good morning, ladies and gentlemen. I have with me Andrew Macfarlane. This is going to be a longer presentation than usual but I think under the circumstance that is necessary.

I'm going to talk briefly about the overview of the Group and then I'm going to talk about City Link in particular. Andrew then is going to pick up the financials and he will elaborate also on the City Link situation.

So I think the adjusted PBTA/PBITA up 1.1% at GBP 211.4 million is probably the important metric. The adjustment in the PBT, PBITA and PBTA figures is a one-off cost of GBP 28.4 million and the statutory profit before tax is from continuing operations, i.e., it excludes trading from Electronic Security. The Board recommends that the total dividend is maintained and other than City Link our business performed throughout the year in line with our expectations and, indeed, at both the half year and quarter three update, all of our businesses were pretty much in line.

The Q4 performance of City Link was a huge disappointment and an unacceptable outcome. The City Link Q4 performance and run rate moving into 2008 is far and away a major issue and more than simply treating it as just one of our divisions, as I said I want to outline the position now and try to explain qualitatively what happened and Andrew will expand on that.

So what happened? The problem in City Link is wider than simply a big issue traffic issue that we originally thought it was. It's a broad problem of raising business and not [wanting] sufficient business plus some net downtrading of accounts. And for the first nine months of last year the performance of City Link is pretty much on track every month. In October we were down from plan and that was attributed by the management to a late start to Christmas.

And when the November management accounts became available in mid-December, it became clear they had a significant problem most particularly in the ex-City Link side of the business. Now this business is roughly [50%] B to C and on the top of that it had significant retail logistics business as well with Target overwhelmingly B to B.

Now management advises that it was a downtrading issue in the B to C sector and the situation was sufficiently serious to issue a statement on the likely outcome, which we did. Now over the last couple of months we've been seeking to find out exactly what had occurred, why and what we needed to do. And the answers are more complex and certainly the problem went beyond a simple, [contributed] behavior matter that the performance was originally attributed to.

I'd like to outline what we believe happened, our visibility of that and the actions and solutions that are put in place. The performance is mostly a revenue side issue than it was more costs in the business in quarter four than there should have been. In summary, some net downtrading, not enough new business, too much lost business, some decline in revenue per consignment and costs we brought on to deal with the Christmas peak which failed to materialize. And these trends are continuing into 2008. We've had a loss in January and, as Andrew will explain later, we may not trade greater than breakeven in this business in 2008.

Now when you carry out an integration, there are an array of matters you have to focus on. And first and foremost of these is the customer and revenue base. In the case of City Link, we did not achieve what was required. There was some impact from a softer market, however, the fundamental problems were created while bringing the group together with too many moving parts, too quickly.

The attention was on bringing City Link and Target Express together but there are [90] franchise businesses we hadn't properly bedded down which impacted many areas, most particularly account management, but also affected communications, cultures, systems, processes and sales management. And probably the most important issue is the management stretch. People who are perfectly good at performing a role within the relatively stable, form of City Link or Target Express models are not necessarily up to the dynamic planning required on what was a more complex integration than we had realized.

During the course of 2007, a hiatus occurred in our new business development pipeline. Our sales structure was unclear and on [demand] we extended about 50% and our pipeline development was poor and in September we made a change to the sales director's position. The integration program itself impacted service levels and directly affected revenue and together with relatively poor account management on the legacy City Link franchise business, this made for some dissatisfied customers which was thought to have somewhat lower RPC's, some customers lost and some downtrending together with an increase in service credits.

Now both first business is more specifically City Link had had a long history of strong trading leading into Christmas and ensuring service levels are maintained in the run-up to Christmas, some extra costs are normally incurred but are difficult to plan precisely. City Link planned for or expected, however, the normal Christmas surge was decidedly muted.

Now remember in 2005 and 2006 these two businesses were almost certainly the two fastest growing express parcel delivery businesses in the country. In 2006 after much of the franchise space had been [bought] in, we finished year ahead of plan. Where normally we had a significant integration in front of us, the leaders of this business expressed great confidence in their ability to maintain the grade. However, it is clear now the integration had internalized most of the attention rather than focusing it on clients.

All the top 50 clients were largely stable throughout 2007. This probably gave the false sense of security. These represent about a quarter of our revenues. We had much more visibility in our systems on these clients. I looked at that client base every week and saw how they were trading relative to the prior periods. And above-plan performance in Target masked the first nine months of below-plan performance in the ex-City Link franchise businesses. We only discovered that after the event. This business was not just left to its own devices but had frequent views and discussion about performance and integration.

The financial performance tracked budget until October. We had little information coming out of the business that indicated a major problem. The performance was off in October and then in the November management accounts that received on the evening of 11 December made it clear it was a year-end problem. There is no doubt that the KPIs, data capture and financial systems, together with management advice, was found wanting in providing visibility.

Now I just want to explain this chart. The dots and lines use the right hand axis which shows total profit in millions and the bars use the left hand axis that shows cumulative profit variance to budget, also in millions. When you work down from the top of the slide, this horizontal red line shows our full year budget profit which was GBP 59.8m before integration costs. The blue line shows a full year forecast change as the year progressed. You can see it actually went up through the course of the year. Now at the time of our trading update between -- we issued when we saw our November accounts, we were still expecting GBP 52.7m for the full year.

Now the really stark thing here is these yellow circles are the actual cumulative profit. The red dots are the budget cumulative profit so you can see all the way through to September they are pretty much on the button and then the divergence happens. And if you look at this you can see the actual profit (inaudible) is down in December which means we actually made a loss in December. The yellow bars here show the monthly variance to budget.

We have to get back to basics and deliver the service our clients want. We've made changes to our leadership team with the appointment of Peter Cvetkovic, a managing director, and Colin Tyler, the Finance Director. Peter Cvetkovic joined us only a week ago last Monday. He's formerly the chief executive of the Target Express business for four years and has more than 20 years experience in the logistics business. And while we are broadly clear of what we have to do there remains a significant amount of detail to be filled in. There is already a significant agenda to implement now while a lot of the plan continues to be developed.

Account management has clearly been an issue most particularly with the ex-franchisee customers. There's an opportunity to improve customer (inaudible) systems and processes to a single, high standard which will help improve service. Our information systems have not provided the visibility and control needed to run an enterprise of this size. We need to get the business growing again through new sales generation.

Given the lower volumes that we're now handling, we need to have tighter management costs to take costs out of the business but are not going to help our ability to deliver service or to generate sales. We're putting a hold on the physical integration of depots until we have brought most of the elements together and improved our performance. There will be some additional synergy benefits this year from the approach we're taking, however, if we were to press ahead with the original integration timetable there would be substantial benefits from further depot and [group] rationalization would be lost unless we get the service and account management back to the highest of standards. Quite frankly, the savings would be consumed by lower revenue.

As the City Link franchisee businesses came into the group nearly established, regional call centers and regional account management picked up most of the customers' telephone traffic, an important link to the depot general manager as well. A new structure, a new process and new people was a recipe for poor performance. And in seeking to improve local service we are reinstating a local account management and sharply increasing responsibility for direct customer relationship with the depot general managers. The business also has been operating at less than planned number of customer relationship managers and that will be brought up to the appropriate headcount.

In terms of sales, we've appointed a new director of sales and marketing on the 1st of September 2007. He has restructured and reenergized the national sales team. The business has been operating with many fewer sales personnel (inaudible) some of City Link, plus the franchises, plus Target and also fewer than our major competitors. We are in the process of recruiting further field sales people.

Over the course of the last four months, good progress has been made in developing the new business pipeline and we are seeing the early stage of conversion in new account wins. These wins should begin to affect revenue in quarter two.

Timed delivery is the premier service we offer. Ensuring that timed deliveries arrive on time pretty much means that everything else follows, everything else should be to the required standard. As I've mentioned, we've planned a pause and review of the depot integration and to ensure that we continuously provide high quality service. We had some issues in July last year when the cage handling system was changed in the ex-Target business and affected the hub and trunking times. Now the good news is that both major hubs have been operating effectively since the end of September and the first and last trunk arrivals are on plan. We continue to roll-out mechanical handling equipment into all depots. This is always planned as part of the integration as it improves the depots sort times. Hand-held, real-time proof of delivery devices for the collection and delivery drivers continues to be rolled out in advance of subsequent integration. The PODs are providing important quality measures of our service and information.

Even depot scanners associated with the mechanical handling, [real-time] equipment, provide good end-to-end visibility control of and tracking of where the parcels are. Our customers generate labels on their sites. It is critical that those labels have the right barcodes, labeling and written information. The autogazetteer project that is underway will complete shortly and will allow us to update automatically [drive] the internet to customers' labeling computers. And this will have a significant impact in reducing misrouting.

Now there are a number of actions which we need to take which are fundamental to the future integration plan but which also continues to serve us directly and in making the business one cohesive operation. In particular, as we mentioned, consistent information from C&D drivers through real-time scanners, improving depot sort times by using handling equipment and systems harmonization in finance and operations are fundamentally important.

The real-time number of softer issues was difficult to measure benefits such as culture and training which we need to progress. We still have some way to go in creating one culture throughout the Company but it remains important to get everyone pointed in the same direction. We're moving ahead in all these areas, however, it is clear we need time to dig these down adequately before we introduce product, physical change, infrastructure, which may impact desired customer levels and stretch management further. Therefore, we decided to pause the depot rationalization and closure plan and that will probably be until January of 2009.

We discovered some of the impediments to good information that included too many unintegrated systems, different definitions to similar measures and a lack of capacity to capture and measure data in too many areas. The management information systems were simply not feeding up adequate information to look forward. The key part of the reason for this was the fact that City Link systems were designed for hub and trunking operations and not the very different business model we have now; monitoring the progress of the business, the validity of the recovery plan and the success of its implementation with the right personnel priorities. I've reviewed with the new managing director and finance director the data set they plan to provide and I'm satisfied it will sharply improve our understanding of this progress.

Both the franchise and Target acquisitions have apparently compelling economics. We've always been looking at Target Express. We learned later that they appear (inaudible) looking at City Link. We have to deliver the service that both predecessor businesses were renowned for and operate the market in the way that both had been accustomed to. We will get back to the physical integration once the processes and systems are harmonized and our sales and account management are sound. There is a significant impact on profitability but the business and economic potential remains to be realized.

Let me pass you over to Andrew.

Andrew Macfarlane - *Rentokil Initial - CFO*

Thanks, Doug. Good morning, ladies and gentlemen. I'm going to start, as usual, by talking about what is in and what is not in the numbers. Electronic Security has been treated as discontinuing for the whole of 2007 and the composite figures for 2006 have been adjusted onto the same basis.

In addition, during 2007 we sold the remaining German Hospital Services business, Dutch Cleaning and closed UK Wipers. These have been treated as continuing up to the date of sale with any profits or losses on disposal being recognized in trading profits at the time but the amounts were not significant.

Full year revenue was up 20.3% on 2006, of which 3% was organic. EBITA was up 7.1% which reflects the benefits of acquisitions and improving underlying trading in many of our businesses, offset by year-on-year profit declines in the UK Pest Control and UK Washrooms as they continue with their turn-around programs. Full year interest charge is GBP 20.5m up on last year primarily as a result of higher interest rates. Full year adjusted PBTA was GBP 211m, 1.1% up on last year.

Looking at the fourth quarter, adjusted PBTA was up 8.7%. With the exception of City Link, all of our divisions produced profits in line with our expectations. Compared with 2006, the fourth quarter 2007 benefited by an approximate GBP 7.5m reduction in interest due to the receipt of proceeds from the sale of Electronic Security in early July. Relative performance in the fourth quarter was badly damaged by City Link which came in GBP 9m below last year.

One-off items were GBP 28.4m, of which GBP 25.4m relates to City Link. The bulk of this is a provision for property exit costs which I'll talk about later.

The Board is recommending an unchanged final dividend.

With the exception of City Link, in the fourth quarter our division showed growth and in most cases, very strong growth over 2006. You'll note the Q4 central costs were a credit of GBP 0.1m principally because of the partial release of bonus and incentive plan provisions from the significant shortfall when the performance became apparent. These provisions had been built up during the course of the year and the excess was released in the fourth quarter.

Textiles and Washroom has done very well to arrest the decline in profits that we saw in 2006 and finished up flat for 2007 despite the turn-around still underway in the UK. Similarly, Pest Control has done well to finish with profits only 3.1% below last year, bearing in mind that 2007 bears, of course, first quarter operating loss of JC Ehrlich in North America which we acquired in March 2006 and profits declined in the UK which is still in the process of turn-arounds. UK Pest Control was completely reorganized at the start of the year.

Facility Services, Asia Pac and Ambius all had good years. So let's talk about City Link.

This slide shows the quarter-by-quarter progression of City Link's revenue and profits before integration costs for 2007. The figures are compared to budget because of progressive acquisition of franchisees and then Target Express at the end of 2006 distorts the comparison with last year's results.

Until the end of the third quarter, City Link tracked its budget quite closely and by the end of September was cumulatively ahead of plan for both revenue and profit. The same, by the way, was also true of 2006 when the bulk of the franchisee acquisitions took place.

The Q4 budget calls for a GBP 25 million growth in revenue over Q3 reflecting expected Christmas peak which is a recurring feature of this business.

The budget assumed an approximate 40% drop through the incremental revenues into profit, reflecting the seasonally lower revenue for consignment and the needs for additional collection and delivery resources to handle the extra volumes. We issued our trading statements in mid-December when it was clear that performance had deteriorated quite sharply in November and we would not achieve our expectations for the fourth quarter.

In the fourth quarter we had three basic problems, volume and price, leading to lower revenues and costs. I'm going to start with revenue.

In case it's not clear from the back of the room, this red line is 2005, green is 2006 and blue at the top is 2007. This chart shows the pro forma combined weekly network revenue for City Link and Target Express for 2005, 2006 and 2007. Looking at total network revenue gives the best understanding of what's happened because it's not distorted by acquisitions. The franchisees were progressively acquired during 2006 and 2007 and we bought Target Express at the end of 2006.

By the end of 2007 we owned the entire network with the exception of one small franchisee with annual revenue of about GBP 3 million. You can see from the graph that there is a seasonal pattern to revenues but the typical end-year trend is for broadly flat revenues in Q1, Q2 and Q3 with growth up to Christmas after the August Bank holiday.

2006, the green line, had good growth over 2005, the red line, throughout the year. The blue line, 2007, shows reasonable network growth over 2006 until the end of the third quarter. You'll recall that at last year's entrance we mentioned that we'd seen some softness in City Link's B to C business offset by strength in B to B and we made similar remarks in our third quarter release.

As we got into the fourth quarter it was clear by the middle of November that network revenues were dropping below 2006 levels and even down to 2005 levels for a short period and conversations with our largest customers suggested we were facing a late Christmas.

By early December, it was obvious that the pick-up in volume was going to be too little and too late to recover the lost ground (inaudible) trading updates. This prompted a detailed review into the quarter for the shortfall. Doug's already talked about the business problems, I'm going to try and provide some quantification.

We've analyzed monthly billings to all of the combined networks' 30,000-plus customers over the last three years to understand the course of the revenue short-fall in Q4, that includes Target Express pre-acquisition. The results are summarized on this chart which is before it shows changes in network revenue. The yellow line shows the year-on-year change in the combined network revenue. It's the total of net customer wins, in other words, new business minus lost business, and that's shown in orange and net uptrading shown in blue. Uptrading is where continuing customers do more business with us and downtrading is when they do less.

In practice it can be difficult to distinguish between a customer that's downtrading and lost business and also between uptrading and new business. For example, we may do lower volumes with a customer either because the customer itself is less busy or it could be trialing another carrier before switching suppliers. For context, 2007 network revenues were GBP 427 million.

In 2006 as a whole, the end year effect of customer losses exceeded the end year benefit of new business wins by GBP 5 million, the total of the orange bars. Although the trends have been improving quarter-by-quarter in 2006 the position deteriorated in 2007 resulting in quarterly net losses totaling GBP 24 million over the year.

The issue is not so much customer losses in that our attrition rates in 2007 and we measure this at the end year value of business lost as a percentage of revenue was fairly stable. The rate was 13.2% in '07 compared to 12.4% in 2006. Our problem was principally new business. New business sales were GBP 43 million in 2006 but only GBP 31 million in 2007 and this affected both networks since then.

Total revenue continued to grow in 2006 because our customers net uptraded with us. Strong uptrading in Q1 and Q2 is typically associated with good new business performance at the end of the prior year and this benefited both '06 and '07. Care is needed because the definitions used -- where we use uptrading will usually appear to fall off over the course of the year but the slope of the line is very relevant.

The 2007 uptrading initially offset new business weakness to leave network revenue growing quarter-on-quarter. However, we didn't recognize that the fall off in uptrading was deteriorating much more sharply than in 2006 and in the fourth quarter, for the first time, our customers' net downtraded. Again, this affected both networks. The downtrading, combined with the effects of poor new business wins resulted in an GBP 11 million fall in network revenue in the fourth quarter compared with 2006. And we, of course, had expected growth to continue.

We analyzed the trends on our continuing customers to better understand the uptrading and downtrading patterns in Q4. The left hand chart shows the industry mix of network revenues in 2007 and the right hand chart is built up from estimates of where the customers are on balance B to B or B to C shippers. Looking at the right hand pie chart you can see that we estimate that we are about 30% B to B, that's the other segment. However, our exposure to the consumer is higher than this implies.

The left hand pie chart is an approximate sector split of our revenue. Industrial goods and services is the largest sector in pink, at 34%, but approximately 55% of revenues arrived in sectors that are close to the consumer. I tried to illustrate it here in this segment around here. Those sectors are personal and household goods, technology, retail, healthcare, telecommunications and media.

While it's true that in the fourth quarter a majority of the downtrading was in those sectors that we've identified as being close to the consumer, it's now clear that the statement we made in December that softness in revenue was due to B to C factors was only partly correct. We saw that downtrading was occurring, particularly in the old City Link business which is higher B to B exposure and came to the conclusion that it was caused by poor consumer spending driven by our relatively high exposure in that area.

However, as Doug has already explained, other important factors are behind the revenue shortfall - a failure to build the sales pipeline and manage our customer relationships.

This chart shows the trends in network revenue per consignment, RPC, during 2005, 2006 and 2007. You'll notice that RPC has a seasonal trend and is typically lower in the fourth quarter. We've priced by weight and in the run-up to Christmas there's more just-in-time deliveries and sell more single pack consignments. As a result, the weight per consignment and therefore the price per consignment tends to be lower in the fourth quarter. That said, there's been a long term secular trend for RPC to reduce in the industry and we are no exception.

The rate of decline in RPC in the fourth quarter of 2007 was greater than we had expected and this had a direct impact on margins. We believe that we may have been a bit softer on price as customers suffered service disruptions stemming from integration activities in 2007 and this has affected RPC. RPC was GBP 0.24 lower than budgeted in the fourth quarter which on GBP 14 million consignment reduced profits by about GBP 4 million.

The principal reason for the profit shortfall in Q4 was the top line but costs also played a part. The chart breaks down City Link's 2007 cost base into broad categories with the more fixed costs at the bottom and the more variable costs towards the top. It shows that agency staff, overtime and subcontract drivers account for about 40% of our cost base. We have to manage the costs very actively on a day-by-day and sometimes hour-by-hour basis to optimize margins.

In the run up to Christmas we, and most other carriers, need to add additional capacity to handle the extra traffic. The balance we have to strike is between having too many subcontract and agency staff to the detriment of margins against not having enough to the detriment of service.

During the fourth quarter we carried too much additional costs for too long because we did not correctly understand the reasons for our poor volume growth. We were attributing it to a late Christmas rather than the more fundamental problems in the pipelines. This cost us around GBP 3 million in the fourth quarter.

Putting all of this together, actual profits in the fourth quarter was GBP 17 million below our budget. Of this, approximately GBP 10 million relates to a GBP 25 million revenue shortfall caused by customer downtrading and poor new business.

In addition, the GBP 4 million profit deterioration was due to lower than expected revenue per consignments and the balance GBP 3 million to carrying too much costs in the run up to Christmas. This has serious implications for 2008 which I'll return to after I talk about integration.

As Doug has explained, we'll be pausing and reviewing our depot integration program and will modify it if we think the customer service would be put at risk. We're expecting substantial savings from depot integration. We delivered the expected GBP 2 million to GBP 3 million end year benefits in 2007 and our assessment of future potential is unchanged at more than GBP 15 million per year. But the timing will be subject to any changes we make to the integration program.

Our estimates of integration costs at the entrance is GBP 21 million split between 2007 and 2008 as shown on the slide. In 2007 the actual costs were GBP 25.4 million because we recognized the leasehold property exit provision this year. We'd expected the costs to be taken in 2008. However, these property costs are about GBP 8 million higher than we expected at the entrance due to softening in the market for secondary warehousing and industrial units.

In the last six months we've found it very difficult to gauge pricing in the UK commercial property market and although the exit of the City Link properties will cost more than anticipated, we've actually done better by an equivalent amount in selling our surplus UK washroom branches which is some compensation. It's possible that we may deflect this provision again if we modify the depot program. The remaining non-property integration costs are estimated at around GBP 5 million but, again, the timing is under review.

As we exited the fourth quarter there were some strongly adverse trends apparent in our business with a poor new business performance in 2007 continuing to hurt us and continuing adverse movement in RPC with actions underway to address these issues and, in particular, we have a good new business pipeline. However, it will take some time before this becomes apparent in the top line.

At the moment we're uncertain about City Link's likely performance for 2008 and cannot give reliable profit guidance. The outcome will all depend on how effective we are in driving volumes, controlling price while we do so and managing the cost base. In particular, we must ensure we maintain customer service levels as we integrate depots. End year synergies will be dependent on the pace of integration.

In the meantime, the financial performance of City Link is likely to be poor. So far this year, revenue's are between 2005 and 2006 levels and the business was loss-making in January with profits GBP 4 million worse than the prior year. It's possible that the business may not trade better than break-even levels for 2008.

The rest of our divisions had a good year showing strong growth in the fourth quarter and good performance for the year as a whole. The chart shows the quarter-by-quarter history of Textiles and Washrooms over the last two years. The figures in the top part of the slide show a percent of changes versus the prior year.

The division continues to face significant challenges in growing the top line in the price competitive environment. Revenue growth is currently being held back by the UK Washrooms business which is still engaged in its turn-around but growth is stronger on the continent. Organic revenue growth has been positive this year though you'll see from the table that it's down in the fourth quarter, again attributable to the UK.

Adjusted EBITA has shown steady progress since the middle of 2006 when profits were in strong decline. However, the position has now been stabilized and the division has reported quarterly profit growth since the spring. As with revenue, the picture is one of profit growth in continental Europe offset by declines in the UK.

France, which is the largest business in the division, had a good year turning a GBP 6.6 million profit decline in 2006 into a GBP 3.1 million profit growth in 2007. Although the pricing environment remains difficult, we've been able to grow revenue in the business at one of a number of important garment contracts during the year. The Washroom business has also seen consistent growth. We no longer see France as a turn-around project.

In the Netherlands, profits are up GBP 2 million and we've improved margins, again, in the face of a difficult market. There's been a strong focus on efficiency improvements this year.

In Belgium profit growth has been held back by weaker performance in hospital business as a result of competitive pressure and therefore market trends towards disposable rather than laundered sterile garments. Managerially, we've now combined Belgium and the Netherlands into a (inaudible) region.

In Germany, revenues declined by 7% reflecting the disposal of hospital services. This was completed in the fourth quarter and the elimination of these losses is one of the factors that contributed to a GBP 0.8 million increase in profits. The German results reflect the loss on the sale of the hospital business of GBP 1 million which has not been treated as a run off item.

In the UK, the primary cause of the revenue decline has been portfolio losses in 2006 and 2007 in the Washroom business. P&L figures include Wipers activities until closure at the end of the third quarter. The physical restructuring of the UK business is now complete with the opening of three new towel and mats plants and the closure of Bradford and Chorley. Despite the decline in profits in 2007, the Washrooms business remained profitable and entered 2008 restructured and positioned for future development.

The graph shows moving annual totals of organic net gain in the contracts portfolio. In continental Europe the figures have been adjusted to exclude German Hospital Services and it's clear that the trend over the last 18 months has been generally positive.

However, the absolute level of the net gain remains fairly low in the context of continental revenues of more than GBP 500 million. The decline in the second quarter earlier this year mainly reflects the nonrecurrence of fuel and energy surcharges put through in the middle of 2006.

The UK line in blue shows the loss of Washrooms business that we experienced following the closure of garments activities at the start of 2006. But we've been steadily improving a position since the first quarter of this year.

The decline in the fourth quarter of '07 is due to the loss of the final garment contract and the ex-garment position is shown in green on the slide. Its loss will not have a significant impact on 2008 profits.

Overall, 2007 was a year of strong performance for Pest Control with profit growth improving strongly as expected in the fourth quarter when profits dropped 15.6% on the prior year. For the year as a whole, profits declined by GBP 2.1 million to give adjusted PBITA of GBP 66.1 million for '07.

In the U.S., we acquired Presto-X which also delivered good organic growth. Although retention was a little down at 82.1%, strong focus on off-season productivity enabled the U.S. to report an increase in profit of GBP 11 million. We owned JC Ehrlich for the whole of 2007, having acquired it at the end of the first quarter in '06. The business is loss-making for seasonal reasons in the first quarter and it did well to improve year-on-year profits against tough comparisons.

In continental Europe we delivered strong organic growth whilst also making a number of acquisitions in Spain in the second half to give us a market leading position there. These acquisitions did not contribute significantly to profit this year. What's particularly impressive is the continental European business could grow so strongly while simultaneously improving customer retention to 87%.

I'll talk about the UK in a moment. The other Pest Control operations on this slide primarily relate to East Africa, the Caribbean and our property care business which managed to grow profits in each of these areas on broadly flat revenues. The regional costs increased by about GBP 3 million a year, largely as the result of the transfer of responsibility for R&D from the [group] centre at the start of the year.

Getting UK Pest Control back to profitable growth is a key focus for the division and we made solid progress in 2007. Revenue has been declining since the second half of 2005 but the new organization that we put in place at the start of this year has increased our sales effectiveness and we've managed to get the top line growing again in the second half. In fact, revenues were up 5.8% in the fourth quarter year-on-year, helped by strong job revenues.

During 2007 we did experience a decline in service and operational productivity as the new structure settled down. However, productivity improved as the year progressed and finished the year back at 2006 levels.

As a result of the improvements the UK team has made to the business the rate of regression and profits is slowing. They are driving hard to return the business to profit growth in the face of a fairly tight pricing environment in the SME markets.

Facilities Services has had a very good year increasing year-on-year profits by GBP 7.7 million against the decline of GBP 4.4 million in the prior year. Much of the growth in cleaning came from the acquisition of InSitu during 2006 and Lancaster this year. Even without these, the cleaning business was able to improve its profit in a tough market although contract retention fell as a result of the loss of one big contract and of course with another very large one during the year. Net gain and retention can be volatile in this industry due to the lumpy nature of some of the contracts.

We've done a lot of work in Catering and Hospital Services to exit loss making of poorly priced contracts and, in some cases, retaining or winning new ones at higher than expected margins. Procurement initiatives have also helped reduce [food] costs in catering. As a result of all these actions, profits have improved in both these businesses.

In our other businesses in divisional center, revenue has benefited from the acquisition of Technivac in France. The principal driver of profitability was better trading in our specialist hygiene and supplies activities together with a much lower level of divisional costs.

Asia Pacific is an important part of our strategy to return the group to profitable growth. Performance has been strong with profits up 27.5% year-on-year in the fourth quarter on revenues up 43.7%. Our profits dropped 31.4% for the full year. We've grown our business in the region substantially this year both by acquisitions and organically. The division's organic growth rate was 12%, up from 5.7% in the prior year, driven by a very strong performance in North Asia.

The most significant acquisition activity was in Australia with the addition of Campbell Brothers and other pest control businesses.

In the interest of time I'm not going to talk about Ambius or South Africa other than to say that Ambius has had a good year growing revenue and profits and South Africa has traded in line with last year. There are, however, some further details in the statement.

Turning now to central costs. Central costs for the year were GBP 28.5 million, marginally down in the prior year. In the first half costs were higher by about GBP 3 million due to the set up of the UK Shared Service Centre in Dublin. The run rate fell in the third quarter reflecting the benefits of various efficiency savings which continues into the fourth quarter.

The costs of some bonus incentive plans is borne in the divisions and some at the Group Centre. Provisions are adjusted during the year in line with our forecast of full year performance. At the end of the third quarter we expected the Group to outperform budget and provided accordingly. In the event this does not happen because of the problems at City Link and significant bonus and incentive provisions were released back to profit in the fourth quarter which reduced central costs.

In addition, we had a better (inaudible) settlements than expected on the surplus but fully sublet property enabling us to release property provisions which further reduced Q4 costs. In 2008 central costs will be about GBP 9 million a quarter.

Interest in our bank, bond and lease debt to GBP 69.5 million, up from GBP 48.6 million in 2006. The average net debt for the year was GBP 129 million higher at just over GBP 1.1 billion. The increase in the interest charge was largely driven by higher rates averaging 6.2% in 2007 compared with 4.9% in 2006. Of the increase in bank, bond and lease interest GBP 6.1 million was attributable to volume and GBP 14.8 million to rate. We typically have an 18 month hedging horizon on interest rate risk and while our hedging program was able to delay the impact of rising rates, they did have a significant impact on the 2007 P&L.

Looking ahead as of today, approximately GBP 800 million of our debt is at fixed rate for most of 2008 with an average all-in interest rate of 5.8%. The balance of our debt is exposed to typically 6 month LIBOR.

The effective tax rate for the full year was 21.3% compared with 20.1% last year. The principal reason that the tax rate is much lower than the blended headline rate of 30.5% is, once again, prior year adjustments. These are the released surface tax provisions relating to potentially contentious matters which are being resolved in our favor. The figure is hard to predict, but I'd expect

2008 releases to be at least GBP 10 million. The blended headline rate for this year is estimated at 29.3%, reflecting reductions in headline rates, corporation tax in the UK and the Netherlands.

This slide shows on the right hand side total operating cash flow compared with 2006. However, because operating cash flow also includes discontinued activities and one-off items, I've shown on the left hand side the comparison for continuing activities before one-off items. So the 2006 figures have been adjusted to exclude Electronic Security.

Staying on the left hand side, operating cash flow is GBP 7.3 million worse than last year on EBITDA of GBP 23.8 million higher with the difference largely attributable to a significant working capital outflow. The outflow at the Group Centre of [GBP 50 million] is mainly due to payments against or releases of provisions including GBP 32 million for property and environmental matters. The divisional outflow of GBP 22.2 million was not unexpected given that Q4 revenues are nearly GBP 60 million ahead of last year. We have an opportunity to improve working capital management and we'll work hard on this in 2008.

Our net debt reduced by some GBP 240 million during 2007 largely as the result of the disposal of Electronic Security which generated just under GBP 600 million. The pension contribution towards the bottom of the slide comprised a special GBP 50 million payment which arose as a result of the sale of Electronic Security, plus our regular GBP 30 million deficit contribution. The foreign exchange movements are mainly the increase in the [Sterling] values over the year of our year euro denominated debt.

At the end of December the Group had net debt of GBP 947 million, GBP 241 million lower than last year end. It comprised GBP 1 billion of capital market issuance offset by cash. We've recently put in place a new GBP 252 million facility to provide additional liquidity this year, bearing in mind the difficult debt cap the market condition and upcoming maturities in July and November which total GBP 325 million. We're happy that we have sufficient flexibility for at least the whole of 2008 if the markets remain difficult.

Thank you very much. And now let me hand it back to Doug.

Doug Flynn - *Rentokil Initial - CEO*

(inaudible) badly knocked off course by the performance City Link, slow as though it's been, the January recovery is making progress - reenergized with bright new people, redirect through clear structure, reshape the portfolio and strengthen positions and drive growth through improved service and sales generation. Take costs out and improve productivity, get back sustainable growth in sales, profits and ultimately margins. This is the journey we sought to follow.

Look at it the other way around, I guess the other key elements to this strategy were to define the organization structure and put in place a leadership team; commit to take costs out of the business from day one which is now nearly three years ago, is not an option. [Acquiring] an operation where you leverage business is essential until we got back to revenue growth before we could really address the costs in the business. Over the journey, the priorities change, the principal elements about restarting revenue growth, reshaping the portfolio and improving efficiencies and productivity.

Turn to some of the actions in 2007, quite frankly I'm not sure this really encapsulates the breadth of 2007 but indicates a number of areas of progress.

The UK business has been the most challenging to reset on a revenue and profit growth path. We have at least established the platforms on which to build but in each case have yet to get back into profit growth. We have been active in seeking to eliminate unprofitable contracts and to improve lower margin ones and that has had the effect of improving the profit in some cases but reducing retention on organic growth.

In 2007 there was an increase in [EBIT], take costs out of the business and increase in commitment to doing so in 2008. However, in procurement it's becoming more organized and there is significant amount to go for in this area.

Now I'm going to speak briefly on each division except for City Link because of the amount of time we've spent on that today. However, we're going to be hosting a hub visit on April the 8th at (inaudible) and the management team will present their progress and thinking then. Now we can manage a maximum of 40 on that evening. And if there's more demand, we'll add another evening. Now while we know pretty much who to invite, if you already feel like you'd like to attend please e-mail Katharine Rycroft to make sure that you are on the list. We don't want to leave anybody out that wants to go.

Let's turn firstly to Textiles and Washrooms. Over the last 12 months in Initial Textiles and Washrooms this business has started to demonstrate growth in a tough sector but there are principal areas of tension both now and going forward [is] improving operational efficiency. This business is a valuable asset in the face of a market which will continue to consolidate.

We've taken some management costs out and provided better alignment between the constituent businesses. There are now seven regions replacing 17 head offices across 19 countries. We believe there's an opportunity to take costs out of the supply chain, equipment (inaudible) and consumables and we're exploring options to see what can be achieved.

Business wins have been widespread but stronger growth has occurred in specialty areas in the French Washrooms business. And over the last quarter a number of new textile contracts were renewed and, again, most particularly that was in France, a visual start to benefit revenue at various stages throughout the year and indeed in 2009. There is generally good momentum in sales generation in continental Europe.

The year two return on investment on the physical plant investment it was made that's outlined there. Some of that return on investment in year two is in the range of 10% to 20%. It's mostly not taken just for that reason. Quite a bit of it falls into the category of necessary to continue in business. In the UK, for two years, the last two years, every order roll and dust mat which has been transported to the north of England for processing and we now have three roller (inaudible) in productive facilities in Reading, Birmingham and Glasgow which will reduce the distribution costs and improve quality.

Rentokil Pest Control is growing organically and improving its service and operations. The key outstanding challenge remains getting the UK back in the profit growth. I'm not quite sure when we talk about the progress being made in Rentokil, I'm not quite sure it's being picked up the elements that have been going against them. First of all, it was that first quarter with JC Ehrlich which is a loss which we didn't have in the prior year. Secondly, is the UK is still going modestly backwards. And the third thing is if they did pick up some GBP 3 million in costs that were in the centre in terms of their research capability which we are now managing directly.

This is a robust business within a resilient industry. After a slow start, the US business has improved its cost flexibility during the year and we believe there is an opportunity to expand the margin over the course of the next couple of years. Throughout Europe we achieved strong organic growth, and also includes our market positions (inaudible) small acquisitions, most particularly in Spain where we are now in a clear number one position.

In the UK it's been negative -- I'm sorry, it's been revenue growth over the last half of 2007, however, as we said, (inaudible) back into profit growth yet. Currently the UK is driven by success in the national and key account segments rather than growth in small to medium-sized enterprises. And that was a turn-around of a previous weakness. However, the national accounts, these large accounts, tend to be low mileage in these segments. The Rentokil brand is a powerful and valuable brand and we've given it more support in 2007 and it will get a low cost, refresh in 2008.

Initial Facilities Services - this is a well run business (inaudible) attention both on its customers and improving its productivity. In cleaning, they had pursued to principal productivity programs, firstly "RAPID" which involved the (inaudible) management of smaller accounts and sites and "SmartClean" which uses daytime cleaning mostly in the retail sector and has the effect of improving quality, stock retention and reducing costs.

Catering and Hospital Services they have been actively managing on profitable and low margin accounts are either out of the business or in a more preferable situation. And they've also had meaningful success in improving costs as we bear up procurement and in winning new contracts.

Now in 2007 Ambius did around GBP 1 million of (inaudible) costs. They still made reasonable bottom line progress. And while we haven't established the business model quite like [ambition] of the objective, they made progress where it counts through their customers and business performance.

Key management changes made in 2007 have been effective. There's an (inaudible) internal promotions with a position to global head and the head of both the US and UK businesses being appointed. Progress was made in the UK but still has some way to go to get back into profit growth and a key issue from earlier years is retention that increased from 73.5 to 77.5 year-on-year. And the record holiday season sales in the United States was the result of some clever client targeting and servicing.

In Asia Pacific, advances made in 2007 in areas we were pursuing in 2008 have been directed towards securing acquisition synergy benefits, mostly in Washroom businesses, and driving organic growth, most particularly in strengthening Pest Control businesses.

Our Pest Control businesses are proving resilient and growing throughout the region. We've launched a number of service extensions most, in particular, fumigation in several markets and residential pest control in Australia and China. We really have a unique residential business model in China and we are tapping what is clearly a previously unmet demand there.

We also have an Electronic Security business in southeast Asia and IT Hygiene in Hong Kong which operated at plan. Most of the integration benefits from the acquisitions if CWS in Asia have been realized but there's still more to be achieved in the Australian business. We also entered a number of new markets, most particularly, with pest control.

Turning to the -- let's quickly look at the geography and businesses. Our Asia Pacific operation continues to be dominated by the size of Australian business, however north Asia is growing very much more rapidly, albeit from a small base and similarly southeast Asia is also growing more rapidly from a somewhat bigger base. If you just look at this chart, it's size of the pest control block is very much larger now than it was 12 months ago when it was the size of washrooms and the overall shape hasn't changed very much, of course, the acquisition that they made pretty much in parallel between Australia and the rest of -- but this is growing both through organic means and through a greater focus on pest control throughout the region.

Now as we discussed, restoring City Link to profitability and sharing the potential of this business is the Board's and my priority. There remains a lot to do before we can feel satisfied with the rest of the business. We've got a strong management team, we have clear plans underway. The opportunities include - to improve working capital, achieving integration benefits from prior acquisitions, sales growth and to reduce costs and increase productivity. That will all go on. But my challenge will be around restoring City Link's performance.

In terms of the outlook and thinking about the economic environment we have, each of our businesses will not be affected in quite the same way in the face of a downturn but broadly our Company should be quite resilient. Outside of City Link, we are expecting modest growth in the other divisions at the PBITA level. We have said City Link may not trade better than break-even. And as a result, the Group PBTA in 2008 will be lower than in 2007 but it's predicated by City Link's performance.

We're achieving good progress across the rest of the Company which makes the situation at City Link all the more disappointing.

I'll now hand it over to you for any questions that you may have.

QUESTIONS AND ANSWERS

Karl Green - *Credit Suisse - Analyst*

It's Karl Green from Credit Suisse. I've got a number of questions not surprisingly geared around City Link. Firstly to both of you, I don't really get a sense at the moment for what the biggest issue in City Link is. Is it the fact that the franchises haven't bedded down properly or are you seeing this customer downtrading and customer losses as a result of the initial actions being taken by the Target integration? So could you just say which you feel is the biggest driver at the moment?

But my second question is, going back to the chart which shows the split of costs, the variable, semi-variable and fixed, that would suggest that around 40% of the cost base is variable. But in light of the need to retain customer satisfaction what's the effective fixed cost base? And if you want to keep the customers and stop them going through all kinds of carriers?

Doug Flynn - *Rentokil Initial - CEO*

I think that what we've seen so far, the biggest issue in my view, was the failure to build the new business pipeline. The second, and really associated issue, was the account management of the ex-City Link franchisee businesses. And you didn't say, "Why did that happen?" Well, I think it's a combination of factors but it really is that suddenly the attention went towards integrating Target Express and that became the issue. And I think the attention to detail and the customers in City Link was found wanting.

There is no reason why the [sell] generation shouldn't have been -- should have worked at the same time but it didn't and we had, I think, about a 6 month period at least when there was just inadequate activity going on and you've got to maintain the new business pipelines and it just is about the number of calls that are going on in new development of the big prospective clients to come in, that has to be going on all the time, otherwise you just simply have a gap and that's how we process it. And that's precisely what occurred.

So it's a combination of both the account management, really of the City Link franchisee, plus the new business development and then on top of that some of the service quality particularly in mid-year 2007 wasn't quite up to scratch. I think that that [dissatisfied] some of the clients as well. And this whole issue of get the times, timed delivery right, and everything else follows and it probably wasn't focused on sufficiently.

But I think in terms of the costs, I think this is more -- we already talked about adding some people in, in field sales people and in account management. This is a business with about 8,000 people in it and we're talking about 25 sales people and I think about 45 to 50 account management people versus a body of people of some 8,000. So the issue about better managing and directing, I don't think -- I think the issue about delivering service, account management and sales can also be dealt with with sensible attention on the cost side of the business. We really haven't bottomed that out yet. It's exactly what we can do to improve the cost initiative of the bus. We're not quite there yet.

Andrew Macfarlane - *Rentokil Initial - CFO*

The (inaudible) rule of thumb that I use is that if you see a 4% reduction in volume you might only see, let's say, a 2% reduction in variable costs. Some costs are very variable so by early evening we know how many packages have to be handled so we know exactly how many agency staff we need in the hub and we can take the people -- we can flex the number of people and the hours they work night-by night. So that's highly variable.

However, if we have a trunker that is running from the hub to one of our depots, it's got to run whether it's 70% full or 60% full or 100% full. So there is very little difference in costs when that happens. Once you get down into the depots, if you see a reduction in volume you might be able to consolidate, let's say, four vehicle routes into three assuming that you've got the right people -- actually the driver you've got knows those different routes. So it's not completely flexible. This is very much in the hands of frontline management to make sure that they flex those costs.

The challenge for us, I think, is that because we know our customers are being sensitized to service disruption, therefore we're going place the safety in a way that they might not have done a few months ago.

Karl Green - *Credit Suisse - Analyst*

My final question with just having looked at DHL in the past and seen the number of integrations which they have problems with in Europe, something which burden their profitability with (inaudible) running costs, join the physical network integration which you're saying you're now going to defer until January 2009. I've not seen, nor given any guidance for 2009 but do you think the synergies which are still committed to are going to be potentially eroded by over that period, that 12 month period, do your running costs as you try and keep customer service levels up will keep customers in the (inaudible)?

Doug Flynn - *Rentokil Initial - CEO*

I think the problem we've had, it's a very good point about DHL and others, is that they -- the industry has a history of not properly integrating things and what the management team has set out to do was to not just [rebadge] things but to actually hardwire the businesses together and to completely integrate them and make them an organization.

But quite frankly, they really didn't have -- as we look back now, we get this 20/20 hindsight, we really did not have a sound enough basis to start the physical integration. We are going to proceed to the integration systems to provide a quality look-through from a customer so that they can see what's happening to their your accounts, where their parcels are and so on and we've got far better visibility what's going on in the business and that we can properly integrate the management structure which still has got a little way to go before we actually carry out that physical integration.

At this stage there is no indication that we are going to lose those synergy benefits for all times but we have to -- I think we have to do what we're doing now. Because if we go ahead the way we are and then try to rebuild later on, I think we'd be further behind. I think we'd further behind rather than try to get the revenue back on track and take it a little more slowly and get the foundation right.

Andrew Macfarlane - *Rentokil Initial - CFO*

(inaudible) limited branch integration in 2007 basically (inaudible) at the very end of the year. Those (inaudible) costs are effectively in the 2007 cost base.

Unidentified Audience Member

Doug, perhaps you could give us some reassurance on the other businesses. Clearly the issues at City Link remained disguised for 18 months or more. If you reorganize a lot of the sales organizations across a lot of the other divisions can you give us some reassurance that you're sort of rechecking that there isn't going to be future disruption in any of those areas?

Doug Flynn - *Rentokil Initial - CEO*

I think the first point to make is that there's nothing of the scale of change going on anywhere else in the Company compared to what happened within the parcel business. So that's the first point.

The second point is that the nature of those businesses is that they are very much smaller business units and some of the biggest units that we've got at the moment as a profit would be France after City Link, so France's textile business. And if we look at the businesses in the way in which they are tracked, they are portfolio businesses with City Link -- so in other words they have ongoing contracts. You can divide their contract portfolio by 12 and that's roughly revenue you would expect to get the following month.

So there is an ability to track those businesses much more closely. Many of the businesses at the business unit level have not had significant management change so the -- certainly (inaudible) 18 months. And I think we review these businesses very closely as, indeed, we did with City Link. But I think we've got far more stable systems in places there and haven't had radical business model changes.

Unidentified Audience Member

Can I ask you to be a bit more specific on your thoughts on cash flow for this year? I think you've said that you expect the acquisition spend to be a lot less. Can you -- does that mean zero or almost zero? And can you give us some ideas how much you do to improve working capital by?

Andrew Macfarlane - *Rentokil Initial - CFO*

The reduction (inaudible) profits is pretty much a pound for pound impact on cash flow. I think the scaled back position activities will be significantly less. I think it's -- we're not going to do no acquisitions but probably -- expect the tens of billions but not much more probably. In terms of working capital, we've got something like GBP 500 million in receivables and there's probably a GBP 50 million opportunity in there.

If that's not where we're going to come out in the first quarter, though, it's a process improvement for me to happen (inaudible).

Unidentified Audience Member

Can I also ask you to kind of elaborate a little bit more on your thinking on the dividend? You said what your thinking is on profits this year. On that assumption that City Link makes nothing this year, then the rest of the business makes modest progress just on next year, what dividend?

Doug Flynn - *Rentokil Initial - CEO*

I think we understand how important the dividend is to stock. And if it is -- if we're in position -- we're not in position to really comment as yet. But we understand how important the dividend is and we'll be very conscious of that.

Unidentified Audience Member

Can you just talk about two things? One is, in respect to the size, how many acquisitions has (inaudible) made in 2006 and 2007 combined at the great level, roughly? And secondly, do you give a breakdown, a detailed breakdown of capital expenditure? Exactly what it's been spent on? (inaudible).

Doug Flynn - *Rentokil Initial - CEO*

We don't give the number for the number of acquisitions but in terms of the capital --

---

Unidentified Audience Member

Just roughly from your technology.

Doug Flynn - *Rentokil Initial - CEO*

I don't even want to give the number. There's a very significant number that are under the GBP 1 million category and that's almost like buying a portfolio at that level. So I think it's a very distorting figure. I think we've got -- I'm not sure I've got that number here.

Andrew Macfarlane - *Rentokil Initial - CFO*

There's a reason we give detailed breakdown in (inaudible). The biggest component to our capital expenditure tends to be what we describe as equipment for rent. In Textiles and Washrooms this is basically garments so in the typical contract we will procure all of the garments and rent and service them over about three-year period. So Textiles and Washrooms you can expect to see the CapEx, let's say, around about 20% to 30% of sales.

In addition, in that business from time to time we do work on (inaudible). As you've seen this year, we started a new plant and (inaudible) but closed two. We started a new plant in Prague. So if we do need new garment plants they might be for the EUR 20 million (inaudible) but we don't do that very often.

Outside Textiles and Washrooms, which is a big CapEx division, most of the other divisions have some elements of equipment for rent so, for example, Ambius will rent out its plant. Again, in Asia we've got Washroom businesses so we are providing (inaudible). Less rental goes on in pest control maybe to some of the more sophisticated traps and so on. Otherwise, outside the UK, the next biggest component of CapEx is probably vehicles. In UK we actually haven't been operating [these].

I'm not sure that completely answers your question but --

Unidentified Audience Member

Partly, yes. The point I'm trying to make is the number of acquisitions is -- as to one of the problems at City Link has been putting together franchises with small nature. And I think it's (inaudible) a great (inaudible) saying how many acquisitions you've made when that (inaudible) slightly stretching management.

Doug Flynn - *Rentokil Initial - CEO*

(inaudible).

Unidentified Audience Member

I have two more City Link questions, I'm afraid. The first one is very quick, just (inaudible) understanding. The problems you describe, do they include Target or just City Link?

Doug Flynn - *Rentokil Initial - CEO*

The biggest issues were with the ex-City Link franchise customer base. That was the biggest issue but the issue about generating new sales is -- that's a network-wide issue. I think the other thing is that as you look at the -- as you look at these businesses you've sometimes got to say, "Is that a performance problem, or is it a budgeting problem?" You only owned City Link for one month -- Target -- one month or two months? One month of 2006. Trying to design exactly how it was going to turn out in 2007 wasn't that easy. And now we've been trading strongly up in 2006.

Unidentified Audience Member

So mostly (inaudible) Target?

Doug Flynn - *Rentokil Initial - CEO*

Yes. (inaudible).

Unidentified Audience Member

And the second question, you've given us a lot of information on the cost basis of City Link. One thing that struck me was the -- obviously you mentioned the small number of sales people that you have relative to 8,000 employees in the business but the thing that struck me was the division between subcontractor drivers and employee drivers. Drivers must be your biggest contact with the customer base and you've mentioned it's basically a customer relationship problem. Having such a vast preponderance of subcontractor drivers must be a huge problem in controlling your customer relationships. They probably charge more per hour as well than employee drivers. I imagine it's a culture problem in having lots of new people coming to visit all the time. How can you sort the customer relationships out when you're not controlling your employees?

Doug Flynn - *Rentokil Initial - CEO*

It's a little more complicated than that because there are two groups of -- three groups of subcontractor drivers within that - one group, owner-operators, who are with us pretty much all the time. And those owner-operators own their vans and they have some (inaudible) by operating in that way but they are almost like employees. The turn rate in that body of people is actually very low. They cannot have accidents and they tend to perform very well.

There's another group in the coming -- going and come out that tend to handle peak stuff which is probably - and we have some of that on the trunking network and we have some of that in some of the longer run activities. Now your observation can apply to some extent to that group but probably not to the owner drivers. They've actual -- they actually do a very good job.

Unidentified Audience Member

And what's the split between those two cases?

Doug Flynn - *Rentokil Initial - CEO*

Across the whole group, the Target Express group were mostly owner-drivers. The City Link operation was pretty much exclusive. These are the collection and delivery drivers, not the trunkers. Collection delivery drivers in the City Link business was pretty much exclusively employee drivers and it was just about over the rest in Target and the relationship between the two in terms of avoiding the traffic --

Andrew Macfarlane - *Rentokil Initial - CFO*

I would guess it's 60% and probably 40% subcontractor (inaudible).

Unidentified Audience Member

Do you see this as an opportunity in your restructuring of the business changing this relationship somehow?

Doug Flynn - *Rentokil Initial - CEO*

Yes. We do. Clearly working with all of our employees and our owner-drivers. We think there's an opportunity to bring that up.

Unidentified Audience Member

How much of a risk is this (inaudible) issue in US pest control? And then secondly, just looking at the businesses outside of City Link collectively, when you talk about modest PBITA growth are you thinking that's going to be driven more in terms of organic sales growth with a little bit of further margin pressure or is it going to be the organic sales growth staying at around 2%, 3% with a little bit of margin improvement? How are you seeing that progress?

Doug Flynn - *Rentokil Initial - CEO*

I'm not sure how wide (inaudible). (inaudible) issue remains in negotiation and possible litigation but expectation is that cause and effect (inaudible). At this stage we're not certain that we could be (inaudible).

In terms of how do we expect it will play out this year? I would expect that organic growth will accelerate in the other businesses and we will continue to see reasonable pressure on margins, not margins, reasonable pressure on price. I think that's probably most particular in (inaudible) and Facility Services, somewhat less in this control business. But we would expect that we're going to see more in organic growth.

Unidentified Audience Member

I've got three questions. First of all on parcels, a lot of information from you today. I'm still not quite clear, though, what the run rate is in terms of the magnitude of sales decline. I think you -- on one of the charts you put up a slide showing Q4 on a network basis was down about GBP 11.206 million suggesting about a 10% reduction in Q4. Perhaps you could just give us an idea of what the run rate is for the whole of the network and then, more importantly, what sort of sales assumption you're building in to the comment of profit guidance. It may be around break-even?

Andrew Macfarlane - *Rentokil Initial - CFO*

You need to use these figures with extreme caution because they relate only to the month of January and, obviously, if you look at that chart showing the weekly network volumes, you can see every year there's a big collapse in the post-Christmas period. So depending on whether people take one week off or two weeks off for Christmas (inaudible), you don't necessarily have direct to comparable numbers to trading days and all that sort of thing.

Revenue in January was down about 8% to 9% versus 2007. And within that there was about 2% to 3% of price in the balance with volume. So if you were to say that that represented a run rate, although we get a little bit of volume, we're not going to get full recovery in the variable cost. None the less, our costs space will generally inflate during the course of the year so that combination of lower revenues and an inflating cost base could lead to us being about break-even. So the whole issue is how quickly can we improve the volume and the top line?

If you look, again, it's only one month's data, the loss business continues at the sort of rate we've seen in the fourth quarter. This one month doesn't appear to be accelerated. Customers aren't, in January, are (inaudible) net uptrading with us which reflects the patterns that we've seen before. But I don't want to draw too many conclusions from one month's data. It's still very early days.

Unidentified Audience Member

Obviously, the reason for asking the question is the sale turn out to get a sense of what sort of leverage we could see around the break-even. I still don't really have a sense of that.

Andrew Macfarlane - *Rentokil Initial - CFO*

We're saying in run up to Christmas when we thought we were going to have to have extra costs (inaudible) 40% drop-through, if it's not a seasonal peak, we have to suck in costs and hope we end up using the capacity. You ought to expect drop-throughs of maybe in the (inaudible) 40% (inaudible) perhaps around 50%.

Unidentified Audience Member

Second question on working capital, I know you covered it to a degree during the presentation but maybe you could just give us a little bit more detail. I think it's about a GBP 17 million outflow. In the statement you talk about the cash payment on the organization provisions and the property and assets and then, obviously, there's a more fundamental change in receivables. Can you just sort of flesh out the difference between the three factors for me, please. And then secondly, a number of businesses within the Company take cash in advance on the network side and parcels (inaudible) was with more working capital [consumptive]. If parcel's revenues are falling, isn't that going to help you in terms of your working capital management this year?

Andrew Macfarlane - *Rentokil Initial - CFO*

If parcel hasn't fall, yes it will obviously we'll recover the seasonal peak in (inaudible) from December. Obviously, that will net reduce (inaudible).

The whole issue about getting out of the molding property, that was about GBP 17 million or GBP 18 million worth of cash and a bit of release of a provision. If you look in our balance sheets the note 13, you can see that we've got something like GBP 35 million of provisions (inaudible) property, GBP 26 million for environmental, we have some self insurance, and some other provisions mainly relating to disposed businesses, warranties, liabilities, some of which goes back many, many years. So there will just be a steady cash outflow against some of those provisions, more than the big one because otherwise on the environmental matter apart from that we had about GBP 3 million of outflow.

Unidentified Audience Member

And then finally, one for Doug. I don't expect your strategy to be beholden to the share price but just looking at the market caps and the original parcel (inaudible), I think it's down about GBP 1.5 billion and I don't think any of us who cover the Company thought that the parcels business was worth much more than GBP 0.5 billion before the warning so if there's a GBP 1 billion of value there that's maybe been lost. How does that sort of make you rethink your position in terms of where the Group should go in the future and how proactive should you be in terms of exploring other options aside from just the straight turnaround and obviously I'm thinking about break-up.

Doug Flynn - *Rentokil Initial - CEO*

Well, I think the Board has been -- has stayed throughout. We will be open for whatever is the right thing to do to generate shareholder value. So I can assure you we're not going to be steady (inaudible), just determined just to make work the structure that we've got now.

I think it's a little difficult to comment truthfully. Brian is standing down from the AGM and a new chairman is coming in. I need to sit down with him and discuss what the options are but we're not sitting there not considering other options. We do very frequently and try to work out what the right thing to do is.

There are impediments to moving quickly on these things, not least issues such as pensions.

Unidentified Audience Member

Doug, having sold the (inaudible) business very well and Electronic Security business well, would you accept that it was probably a strategic mistake to have bought Target given that it is a [jobbing] type business rather than contract-based business?

Doug Flynn - *Rentokil Initial - CEO*

I don't think the issue that it was more of nature of a jobbing business than it was contract work was the issue. Quite frankly the economics of both the franchises and (inaudible) and we'd like to end the conversation with (inaudible) that they actually have been looking at the City Link business. John [Leach] would telling me later on that it's a pity they didn't buy it.

Unidentified Audience Member

That what shareholders think as all.

Doug Flynn - *Rentokil Initial - CEO*

Right. I think the fact of the matter is that maybe this was a year too early. What is absolutely clear is that the way the integration has been carried out has been a failure. I really do believe that the value remains between those two businesses and in the case of that business, now is not the time to cut and run. We've got to fix it. And the value that's available between those businesses, I've got absolutely no doubt remains, and we can recover that.

On the (inaudible) subject, talking about the issue that for a business that might have been valued at GBP 0.1 million somehow we managed to avoid GBP 1.5 billion in enterprise value, that's a wider subject.

Unidentified Audience Member

And have you considered your own position in the light of these two (inaudible)?

Doug Flynn - *Rentokil Initial - CEO*

I don't think right now would be a helpful time for me to stand down. But I am there at the discretion, the determination, of the Board and I'm sure there are conversations about that with the new chairman when he is appointed.

Thanks very much everybody.