

FINAL TRANSCRIPT

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RTOKY - Interim 2008 Rentokil Initial plc Earnings Presentation

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PRESENTATION

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Good morning everyone and welcome to our interim results. I'm going to start by taking you through the numbers and then Alan will talk about operational developments.

At constant exchange rates, half year revenue was 4.8% up on 2007, but organically revenues declined by 2.3% because of City Link.

EBITDA was down 51.5% primarily as a result of losses incurred in City Link and the declines in profitability in our other problem businesses.

The interest charge for the half was 37% lower, mainly as a result of the receipt in the second half of last year of the proceeds from the sale of the Electronic Security division.

One-off items were GBP3.3m and were principally incurred in City Link and Asia Pacific.

Our adjusted PBITDA was GBP39.3m at constant exchange rates, but GBP48.1m at actual 2008 rates. The principal reason for the difference is the euro which was 12.5% stronger on average in the first half of this year.

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Free cash was an outflow of GBP16.4m compared with an inflow of GBP48.8m last year. The change reflects lower profitability, lower proceeds from the sale of assets from last year and the changed timing of costs and interest payments and I will come back to that later.

We have declared a GBP0.65 interim dividend. Our new policy is to, provided that cash resources were available, we target dividends to be covered between 2.2 and 2.5 times by profit after tax before amortization and restructuring charges. We will follow this policy until the business has been stabilized and will then review the dividend again at that point. Until then, there maybe some volatility in the dividend payment, but the new policy will ensure that it remains affordable. We would typically expect to pay around one third of the dividend at the interims.

Most of our divisions reported a decline in profits at constant exchange rates compared with the first half of last year. As indicated in the footnote on this slide, we have been recharging certain shared service, IT and other expenses to be treated as central cost from 2007. And that's the source of the comparison. If this factor is taken into consideration, only Pest Control, Facilities Services and South Africa have increased their profitability this year.

The principal causes of the decline in first half profits are summarized on the next slide. First half PBITDA fell from GBP125.6m last year to GBP62.6m. The major causes were City Link followed by Australia, UK Washroom, UK Pest Control, and our two largest European Textiles and Washroom businesses. Central costs declined as a result of additional recharges to the operations this year. In aggregate, our other businesses produced profits at the same level at the first half of last year. Alan will talk in a few minutes about the actions we have taken to improve the performance of these businesses and indeed, of the whole Group.

Turning now to City Link, revenue in the second quarter was GBP96.1m in line with Q1. Q1 network revenues were 10.6% below the prior year and although Q2 was only 7% lower, this does not going to imply an improvement. An early Easter this year disadvantaged Q1 and flattered Q2. We saw some weakness in revenue in June which has continued in July and August and which appears to reflect general market factors. Revenue for consignment was 2.5% lower in Q1 and 2.1% down in Q2 although it did benefit from a slightly different mix as a result of a GBP3.8m increase in mail volume.

Recurring costs were higher in Q2 than Q1 despite the equivalent revenue. During the first half, the emphasis has very much been on improving customer service rather than reducing cost. Now that customer service has been restored to generally very good levels, the focus in the second half should turn into cost control. The benefits will be fairly limited this year.

During 2007 customer losses exceeded new business wins and in the fourth quarter our continuing customers were doing less business with us than they had the year previously. The position has now been stabilized. The major reason for lower revenue in the first half of this year is the loss of customers which occurred in the second half of 2007, shown on the charts as the left hand red box.

Revenue for new business won in the first half, which is the small green box, has offset customer losses, and continuing customers have done GBP10.4m net more business with us than in the first half of last year. The figures behind the chart are shown in the table.

City Link's loss of business in the second half of 2007 is shown very clearly on this chart. The graph shows the number of customers trading with us week by week over the last year. Until September 2007, we typically had between 30,000 and 35,000 customers trading with us every week. As you can see, customer numbers fell dramatically in the fourth quarter of last year.

Some of the fall was due to the introduction of a minimum weekly invoice which we implemented to improve the profitability of small clients. The balance is attributable to customer dissatisfaction. This fall in customer numbers caused the dramatic fall in profitability of which we are all aware, but we do now draw some comfort from the stability of the customer numbers in February. Our challenge is now to rebuild the customer base and we will be launching a win-back program later this year.

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This chart shows network revenue for 2006, 2007 and 2008 up to the August 8. The graph of three month moving averages to smooth out the week-to-week volatility in the underlying data. 2008 is the red line, 2006 the green, and 2007 is in blue. We've some concerns that revenues have been soft during June, July, and August versus the prior year than we had experienced in the first part of this year. We think this is due to the softening economy because our customer numbers are stable.

Our full year revenue and profitability will be very dependent on how well we trade in the run up to Christmas. Our expectation that City Link's full year loss would be in the GBP40m to GBP45m range is based on the assumption that revenues will be not less than GBP275m. This presumes that the effect of a slowing economy will not completely undermine Christmas volumes.

As we explained in our July trading update, the performance of Textiles and Washrooms has been disappointing. Our big European businesses all showed increases in profit last year with the principal problem in 2007 being UK Washrooms. In the first half of 2008, profits have declined in Continental Europe by GBP4.9m despite a 3.6% increase in revenues. In continental Europe, with the exception of Belgium where many of our contract prices are indexed to costs, the pricing environment remains difficult. Portfolio average price increases remain below cost inflation which is squeezing margins.

However, other factors have contributed to the poor performance. In France, they have incurred a GBP1.1m charge for back dated property tax assessments, and we are also seeing higher labor costs and production inefficiencies at some of our plants. In the Netherlands, although customer retention has remained strong, the level of new sales has been disappointing and there has been no revenue growth in the first half. In Spain, linen volumes are down principally as a result of factors affecting our hotels and local customers. With the Continental European economy is starting to slow, we are not expecting any improvements in these trends in the second half.

Turning to the UK, performance has been particularly poor with revenue down 16.80% and profits down GBP3.8m, albeit after a small increase in central costs we charge to that business. The restructuring has so far failed to deliver the planned benefits. Although the physical reorganization of the branch and plant structure was in place at the start of the year, operational problems en route to restructuring have adversely impacted service levels to the detriment of contract retention, profitability and cash flow.

It is likely that the business will broadly breakeven this year, compared with full year profits from 2007 of GBP9m. Significant remediation work is underway to improve the quality of customer service, but financial recovery can't occur until that is in place.

Despite very competitive markets in Continental Europe, we continue to grow the contract portfolio in absolute terms although the pricing of new business is putting margins under pressure. In the UK the encouraging progress that we've made up to the end of the third quarter in 2007 in stemming contract losses has gone into reverse as a result of the disruptive service experienced by so many customers this year.

The Pest Control division performed broadly in line with our plan for the first half with particularly good performances in the US and Continental Europe. Although we lost some Copesan business in the US in the second quarter, which accounts for the reduction in retention rates, JC Ehrlich has had good success in improving low season wage costs and labor flexibility. We are seeing the effects now of the slowing US economy with flat new business sales and a higher rate of terminations. In Continental Europe we continue to see good top and bottom line growth.

As before our major challenge in the division is the UK where on a like for like basis profits fell by GBP1.8m when the additional recharges this year are taken into consideration. UK second quarter profits and revenues were damaged by the issue of credit to customers relating to various issues that occurred during the restructuring in 2007 and there is a need to resolve these problems to improve the ageing of customer receivables. Service in our UK business has significantly improved on prior years and is now at the best level recorded in the recent history of the business.

Although good progress has been made operationally, demand has weakened in recent weeks with revenues in June and July down on 2007 and inquiries were also significantly lower. Some of the slowdown may relate to cooler weather conditions but

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there also seems to be an impact of the weakening UK economy. We're becoming cautious about the outlook for this business this year and it may not achieve year on year revenue growth in the second half.

On a like for like business, in other words ignoring the additional cost recharge, the Facilities Services division produced flat profits for the first half. Given the pricing pressure in the UK cleaning market in particular this is a very creditable performance. Cleaning revenues increased by 7% primarily as a result of the acquisition of Lancaster in July 2007. Excluding Lancaster revenues from UK Cleaning were some GBP9m lower, reflecting contract losses in the second half of last year.

The division remains very focused on productivity, and initiatives to streamline the cost base and improve client retention are having a positive impact. Nonetheless the rate of contract re-tenders remains high and there's evidence of price discounting in the marketplace. We've been given notice of the termination of some GBP19m worth of contracts which will take effect later this year. The principal impact will be felt in 2009 and given the economic background there must be an increased risk of further client losses in the second half. Against this the new business pipeline remains really quite good although it's a little slower to convert than last year.

Revenue in Asia Pacific increased by 22.5% in the half but profit declined by GBP3.5m. In our Asian market revenue and profits were strongly ahead and good improvements were made to contract retention. However the profitability of the division was significantly undermined by the poor performance of Australia.

In the Australian Washrooms business sales in the first half were behind plan and contract terminations higher than expected. Service levels and operational efficiency declined and staff turnover rose to unacceptably high levels as we continue to struggle with the integration of Pink. As with the UK significant credits have had to be issued to customers and financial performance will not recover until service levels have been stabilized.

In Australian Pest Control the issues are somewhat different but we again have struggled to integrate the acquisition of Campbell Brothers, which we bought in early 2007 and which is largely a residential pest control business. Alan will talk about our recovery plans to these businesses.

Ignoring the additional costs that have been recharged to the divisions in 2008, central costs in the first half were running at about the same level as last year. Although 2007 costs were somewhat higher due to the set-up of the UK shared service center, the year on year benefit in 2008 from their non-recurrence was offset by the severance costs associated with the changes in the Group's leadership. Central costs are likely to run at about GBP11m to GBP12m a quarter for the rest of the year, reflecting in part the accounting costs of the long-term incentive plan for the management team.

Our net interest charge for the half was GBP24.6m compared with the GBP38.6m last year. The largest component of the reduction is the interest on bank and bond debt where the charge was GBP7.4m lower. This is attributable to lower average levels of debt because rates were neutral.

Average net debt fell by some GBP260m following the receipt of the Electronic Security sales proceeds in July 2007, offset by M&A and other spend in the second half of last year. The average interest rates we paid on our debt was unchanged at 5.8%, reflecting in part our higher exposure to euro-denominated funding this year.

The tax charge for the half was GBP5.1m giving an effective rate of 27.9%. Prior year adjustments have not had an effect on the tax charge in the first half, which is why the effective rate is higher than last year. The blended headline rate's at 30.1% and we expect it to be around 31% for the full year. The blended rate is not benefiting from the reduction in the headline UK corporation tax rate because of the fall in our UK profitability. We expect the full year effective tax rate, excluding prior year adjustments, to be in the range of 29% to 33%.

Operating cash flow was GBP38.3m compared with GBP80.3m last year if we exclude discontinued activities and one-off items. The poor trading performance of the Group means that EBITDA was in turn some GBP37.2m lower at GBP158.5m.

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The first half working capital outflow last year included a GBP23m reduction in a provision for legacy property liabilities which does not recur this year. Absent that factor, the working capital outflow was at similar levels to 2007. However, customer receivables are higher than our target, reflecting customer service levels and operational issues in our problem businesses. Improving cash flow continues to be a major focus for us.

Net CapEx was low in the first half of last year because we had receipts of GBP34m from the sales of surplus property and the sale and operating leaseback of our UK vehicle fleet. We expect full year gross CapEx to be around GBP220m this year which is similar to 2007.

First half cash outflow on interest was GBP44.4m, significantly higher than both last year and the P&L charge. This is caused by the timing of the interest payments on the new EUR500m bonds we issued in March 2007. Interest was EUR23m and is paid annually in arrears. The first payment was made in March this year.

Tax cash flow in 2007 reflected GBP8m of refunds, primarily relating to the UK and Germany. Absent this tax cash outflow would have been GBP15m last year. Payments this year are lower in line with profitability.

Free cash was an outflow of GBP16m and after dividends and acquisitions the increase in net debt was GBP152.2m. We've substantially scaled back our acquisition program and reduced our dividend in recognition of the Group's trading performance.

Net debt at the half year was just under GBP1.1b and its make-up is shown on this slide. Our core bank line is a GBP500m revolving credit facility which expires in October of 2012. We have GBP330m of maturing bonds this year, and in recognition of the difficult debt markets put in place an additional GBP252m facility at the start of the year to provide additional headroom. We can extend this facility to February 2010 at our option.

Our bank facilities contain a single financial ratio covenant based on adjusted EBITDA and adjusted interest. The covenant is tested semi-annually on a 12-month look-back. The documentation was agreed in 2006 when the debt markets were more benign and the Company was in a stronger financial position. As a result the covenant is looser than would be the case if we were negotiating it now.

We have substantial covenant headroom for 2008. Looking ahead to 2009, if profits were the same as our 2008 forecast, in other words if there is no recovery in the business, and if interest costs are higher as a result of our financing activities and I've assumed GBP10m to be conservative, then 2009 covenant headroom would still be more than GBP50m of EBITDA.

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

Alan Brown - Rentokil Initial plc - CEO

Thanks very much Andrew. Let me just start off by saying some of the things which have encouraged me in my early months in Rentokil Initial.

We've got some well-run operations, for example Pest in Continental Europe. We've got some good management teams in place, for example our UK Facilities Services business.

And we've got generally highly motivated, committed and proud frontline colleagues. And I've had a lot of personal experience in traveling with our frontline colleagues. And indeed in recent focus group discussions we've done with our frontline colleagues, we have seen a very high level of engagement in all of these discussions.

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We have many leading and attractive market positions. We are number one in pest control in most of the European markets, for example. The business has got a strong selling culture which we perceive as an advantage. And we've got similarities of business process across all of our divisions.

And I think that finally, in terms of longer-term development, we have significant growth opportunities, particularly in pest control, particularly in developing markets.

However, as you're all well aware, there are also key areas of weakness. And in particular there are common issues across key businesses, particularly in those businesses which have gone through a restructuring or acquisition integration in recent times.

There's been a lot of focus on customers and on customer service. There's been insufficiently clear accountability for customers and results. There has been a lack of focus on operational excellence. And there's a lack of clear policy or process or systems frameworks for branches to operate. And above all of course we have consistently failed to execute major change out of acquisition integration for our programs.

I shall address these issues. I have decided to focus on five short to medium term priorities. Firstly, as you're well aware, we've focused very strongly on customer service. Secondly, increasingly we are focusing on cash. Thirdly, we are going to develop a framework of common policies, processes, performance indicators and indeed systems. Fourthly, we intend to empower our branch networks to deliver customer service and results within this framework of policies. And fifthly, we are now working rapidly on developing a significant cost savings agenda.

This is an important chart and I'm going to illustrate some of the progress and scope we have made in the next series of charts. At the top of each chart you'll see in purple I hope a self-assessment of how we're getting on against each of these five short to medium term priorities.

And on customer service we are making good progress. I'm not going to go through all of the details in this chart but I will spend a little bit of time on City Link given that this is our major problem. We have a 98.5% internal delivery target and we are now beating this target regularly week after week. I'll come back and illustrate that in a chart quite shortly.

Andrew already has shown also that customers are getting the message and that we've had net up-trading of our existing customers during the last few months. And indeed net new business wins, despite the difficult economic environment, net new business wins are quite positive. And we have certainly significant billings for quarter four this year.

In UK Pest Control service levels have risen significantly. They are up to 95.4% to the end of July compared with mid-80s 12 months ago. In UK Washrooms on time delivery performance has been unacceptably poor, down at 77% earlier on in the year. It has now risen to 87%. There's a long way to go but we are making pretty rapid progress against this key target.

I said I'd show you some information specifically on City Link. This chart shows our service achievement for next day delivery in the blue line and for timed deliveries in the red line. Timed deliveries are where we commit to deliver by the next day by a particular period of time in the morning, either nine o'clock or 10.30 or 12 o'clock depending what the customer contracts with us to deliver.

We have made rapid progress. You can see there running from April through to actually the beginning of August our progress on the very sensitive timed deliveries has risen rapidly from down in 80s, 90s, mid-90% up to about 98% on a pretty consistent basis. And we believe we're now probably back towards the best in class in terms of service delivery in our City Link business.

In Pest Control, this chart shows the state of the service of our UK business, which has been problematic in terms of service delivery over many years I have to say. This shows the performance on a rolling average basis for each of the three UK regions, plus in the broad blue line the average of UK Pest Control in total. And our service has moved up from 84%, 85% in July '07 to

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92% on a, I think it's a 12 months rolling average in June '08. And certainly in the July month itself service rose to 96%. So we have made significant progress there again in this key major customer service in the UK.

If we move on to the second short term priority, focusing on cash. One of the side effects of the operational issues we have been having in the business has been it has not been good doing -- collecting money from our customers. So there are a whole series of reasons, extending from not delivering service reliably, not billing reliably and just not following up on non-payment of bills. I'm pleased to say that the adverse trend which has been evident for many months has now reversed. Our accounts receivable are reducing. But there is much more to do.

I will highlight just three points in this chart on the UK Washrooms. We have passed responsibility for consumers back to our branches. In UK Pest Control in the second bullet point, you can see the accounts receivable have reduced by 15% in quarter two. And then lastly and most notably City Link, overdue accounts receivable have halved over the last three months. So I feel that we are getting on top of this issue but there's a lot more to go.

The third key short to medium term priority to develop common systems and process framework across our branch and depot and service center network. This work is at an early stage of development. We have developed a common process map for our operations and this similarity of business processes across our parcels, our Pest and our Washrooms business is really quite striking. Which is I think an encouraging feature for us because if we are able to develop common processes and procedures and systems which are applicable across almost all our businesses then we will have significant leverage of knowledge and scale.

A significant example of an area where this is working well for us is the roll-out of our so-called ICABS tool. This is a tool which manages the administration of our contracts through from reading the contract right through to service delivery. This tool, which has been developed in-house, is being extended across the Pest businesses worldwide, including Asia Pacific, and has also been piloted in one of our Washrooms business in the UK.

Furthermore we are focusing on developing the standard branch model for processes and procedures as well as systems. In finance we are working towards the decision on common systems. We think -- also you will see from the work on ICABS, our work is focusing very much on the development and exploitation of the best of our existing systems.

We do not expect to be facing significant investment costs as a result of the initiatives we're taking. I must say I think that I have been fortunate to find that within the business we've got some quite good operating systems. The challenge is to select the right ones and to roll them right across the -- across our branch network.

And finally we are focusing on developing project management training and tools to be implemented across the business to deal with the endemic weakness we have in managing change, as evidenced by the numerous problems we've had in systems in acquisition, integration and in restructuring.

The fourth short term to medium term priority is to empower our branch networks within the framework, the process and procedure framework that we are developing. Implementation is underway. We have actually slightly over 1,000 branches across the world, many of whom already do operate the traditional guidance model. But in those businesses where we have encountered problems, most of them resulted from moving away from the guidance model. In particular, we are now restoring accountability for service and results to branch level and this is largely implemented rapidly in our UK Washrooms, our Australia Washrooms and indeed in our City Link depots over the coming weeks and months.

The fifth area of focus over the next few months is on developing a cost savings agenda. This is at an early stage of development. The initial priority has as you know been to focus on restoring customer service. This having now largely been achieved will release us to focus on the cost saving agenda.

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There are three main areas of focus. First, increasing productivity of frontline colleagues. I have to say I've been surprised coming into the business to find that we have minimal risk optimization tools available at any of our businesses. So we have plenty of opportunity to go for in this area. Secondly, reducing administration costs, and thirdly increasing productivity in our textiles processing operations in Continental Europe.

Now, to give you some idea of the scope of the opportunity, our total admin and overhead cost currently accounts for 20% of revenue. So there is quite a lot to go for in that area.

And in the City Link business we have identified so far GBP25m of cost savings which we believe can be delivered over the next 12 months. We will of course have to take more costs out of City Link over time, but the second will be more -- it's in the delivery of infrastructure adjustments, such as looking at our hub and depot network which will be our longer term plans. But we do believe there are GBP25m of savings to be obtained in the short term.

I'll give you some examples of that. We have found that over 10% of our fleet is currently not being used. Out of the 3,000-odd vehicles we have 300 which are not being used at all. So you can take them off the road. And we've also found that there are significant numbers of people who do not meet the test. And the numbers have come down by 500 from 7,500 to 7,000, and are likely to come down by another 400 to 500 over the next six months, largely through non-replacement of the high turnover of staff that we have in our business.

So we do not expect that we'll have a significant restructuring bill for City Link certainly in the short term as we go through these immediate cost saving opportunities. And again I think the fact that these savings proving easy to identify shows that the operational excellence then is the right agenda for the business. That is the area of significant weakness that we need to address quite urgently.

A few other points that I should make in support of the five short to medium term priorities we are focusing on. July 1 we made an internal announcement of some changes to our authorization. The first and third I think are relevant to our operational agenda.

In the UK pretty well all of our cleaning businesses were brought under one management team under Peter Lloyd, who currently leads the Facilities Services business including UK Washrooms. I did this because I felt that the operating skills of the Facilities Services team would be extremely relevant to the challenges that the Washrooms business faces. And indeed the commonality of customer base will lead over the longer term to better business development opportunities.

The third point shows that I have decided to focus our Continental European Textiles and Washrooms business management team on the Continental European business. It's a very different business from our UK business and they were getting really distracted by the UK issues, which were very specific to the UK. So this is bringing greater operational focus to enable us to execute the operational excellence agenda.

The other change that we've made which is shown here in the second bullet point is that we have decided to dedicate a management team to Pest Control worldwide. Previously the Pest Control management team was also responsible for (inaudible) business and also for many of our specialty hygiene businesses. That team is now focusing entirely on Pest Control, which is indicative of the significant scale of opportunities we see for Pest Control in developing markets. We need to have a dedicated team focusing on that opportunity longer term.

Now all of these actions will come together in the development of a three-year operating plan. All the divisions and indeed the functions importantly are currently focusing on the development of this plan. Finance, IT and HR functions will, for the first time in Rentokil, be developing their own operational plans to go forward to support the divisions in delivering the operational excellence agenda.

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On the [doubling] plan we will also focus on the growth agenda, but not covered today but I will come back to cover that at some later stage. But I do want to show and demonstrate to you that we can make progress on an operational agenda before we start to spend a few months time talking to you about the growth agenda.

But one thing of course I think is worth just finishing on is the success we have had in China with supporting the Beijing authorities in the pest control initiatives they've taken around the Olympics. We have been a leading contractor in supporting the Olympic Village and the associated event locations. And we were invited to draw up the manual and the operating procedures to support the authorities.

Now, as you know I've had very significant personal experience in China. This isn't just a PR initiative. This will give us credibility as we over the longer term develop our operations in China. The fact that we were invited by the Beijing authorities to lead the pest control challenge at the time of the Olympics will stand us in good stead for many years to come.

Our outlook for 2008 really is unchanged from that we communicated to the market on July 25. I think that that was pretty clear. We reckoned that -- on our profit for 2008 was likely to be around the GBP150m mark. And we restate that end, but we also indicate that there is actually some possibility of movement upwards and downwards because there is quite a lot of uncertainty still in the market, particularly as you move into more typically economic conditions. Particularly also one of the things you find difficult to predict the impact of our business wins in City Link on the Christmas rush, which is a feature of the parcels market in the UK.

And 2009, I'm loathe to say anything at all to be honest with you. But I think it will be clear to you that we would expect the bulk of any improvement to come from the progress we made in the City Link restructuring program. But that we may incur some costs elsewhere as we strive to redevelop the capabilities of (inaudible) moving forward.

Now I think it's also incumbent upon me to ensure that I have set realistic expectations for forward communication about our operating plan and strategy. And I think what I would like to say is that the -- I would expect that it is very unlikely that I will be able to come forward with a Batman-like blockbuster communication, the silver bullet to fix Rentokil Initial.

It is much more likely to be in keeping with an operational excellence agenda. By that I mean to say a long-running series of episodes of communication between us and the market as we progress. I hope it's going to be something that has a rather happier ending than EastEnders and something which is rather less dramatic than EastEnders. But nevertheless our intention is to communicate with you a little and often and no doubt at the prelims you'll get to make sense of how we are trying to pull this together in a format which is a little easier to understand.

But for the meantime I think the best approach is to communicate with you regularly on our initiatives, which we've done now certainly over the last three to four times I've talked to you. To give you further material and further substance behind the efforts we're making to turn around a business which has clearly fallen on difficult times, but which I maintain as I did when I first joined the business has got tremendous potential long term.

Thank you very much for being here and for listening to us. I'd be delighted with Andrew to take any questions that you might have.

QUESTIONS AND ANSWERS

Andrew Ripper - *Merrill Lynch - Analyst*

Morning. It's Andrew Ripper from Merrill Lynch. I've got a couple on City Link and then one on Textiles and Washrooms. Just I was quite interested in the slides you presented on slide eight and slide nine in terms of how sharply customers fell away from

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the fourth quarter of last year. And one of the factors you mentioned on that was the minimum invoice. I was just wondered if you can confirm when that was imposed and when it was dropped.

And obviously the comps have been a lot easier for you, if you put the market to one side, from the end of this year. But just -- can you confirm that the GBP29m of lost business which annualized is GBP58m, it's about 14% of last year's sales, that's purely down to issues that you had in relation to customers reacting negatively to the invoice or customer service issues which have been addressed?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Andy, we implemented the minimum invoice target in phases. I think there were six waves and it started I think coming out of the August bank holiday. The idea as planned had been not only did we assess those customers as being unprofitable but if we could get some of those customer's volumes out of the system it would create more capacity for Christmas last year.

Obviously things didn't turn out as we anticipated and I think we have now, we've now softened our approach to minimum invoice. But I think it is still in effect and most of the big carriers do it. So mainly we're asking for something like a GBP50 a week minimum invoice amount. The problem being obviously it's hard to schedule your pick-ups and delivery if you've got lots of small account trading and spasmody.

Alan Brown - *Rentokil Initial plc - CEO*

But I think it -- the last point I think is important, Andrew, was that it was due to the minimum invoice and the customer service. And I would have to say that the customer service was more, was a greater part of the losses.

But what I can say quite clearly is that it seems that we've got through that and that we're no longer losing customers. In fact we are seeing success with the major customers in building and increasing business. We managed not to lose many of the major customers. In fact it's difficult for major customers to move quickly because there's quite a lot of systems integration, transmission of information etc. And we managed to recover our service levels before they got totally fed up with this. We're now growing again.

The problem for the base is, is it takes much longer to recapture the companies of the small customers who you're not able to contact directly. The bigger customers with go-betweens (inaudible) to do that. Small customers will take much longer to come back.

Andrew Ripper - *Merrill Lynch - Analyst*

And then just on costs and gross margin, I noticed on slide seven your recurring costs were up GBP5m sequentially. I know there's some seasonality in the business but given the revenue trends I was a little bit surprised about that. Can you explain why costs were up so much?

And also on the gross margin, is there any correlation between the gross margin that City Link delivers and customer service, and is it possible to correlate the improvements in customer service with potential improvements in gross as you're not having to give as much back in terms of credits for mistimed deliveries?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

I think the problem with costs was the focus in the first half has very much been on trying to get customer service levels back. As Alan mentioned, we've identified something like 300 surplus vehicles that are not being used and, as Alan said, (inaudible)

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we'll get out of the system. So there wasn't the rigor and the discipline around cost control. And neither was there all of the information needed to do that properly, making it drill down to depot level. We've made an effort with changes to accounting systems, getting better information from suppliers and getting that in the hands of depot managers, weekly, promptly.

Although the cost trend is surprising, go back to the fourth quarter of 2007 the costs then were GBP100m, GBP100.2m. So what's happened is that despite having geared up in the fourth quarter of last year for the expected Christmas rush that didn't happen, in the first half of this year we haven't let the cost base go. The focus is absolutely on cost now.

Alan Brown - *Rentokil Initial plc* - CEO

I think just to add a bit to what Andrew said, the [straight] answer is that we do not -- have not had visibility of costs until extremely recently. This is what has then led us to focus very much on getting cost accountability back to the depots over the last two to three months. I think Andrew now, really for the first time towards the end of June, he became happy with the accounting. And going through the business he's had reconcile the cost ledger, and as of the end of July we've been able to push costs and allocating those costs back to depots completely.

Andrew Macfarlane - *Rentokil Initial plc* - CFO

To do cost control well you need to get weekly information into the hands of the depot managers, but we have huge transaction volumes. You can imagine the number of times vehicles refuel, for example, every week. But if a depot manager is going to report back that that wasn't our vehicle, an error has been made, that vehicle shouldn't have been used, or to actually get those discipline into the use of fuel, if the information comes a month later in some huge invoice, it's no good. We have -- we used to have something like 12,000 invoices a year for temporary staff. (technical difficulty) the month after you've spent the money, by the time you get the manager and have whatever lesson's going been learned and another two months has gone by.

So with the help of our suppliers we are now getting management information from that into depot P&Ls on the Tuesday for the week ending the previous Friday. And if necessary, depot managers can now see which vehicle was being fuelled, where, by whom and on which camera you can now see the picture of that happening on the forecourt. So we've got -- we're getting that sort of granularity back into the systems and that's the discipline we need. Neither predecessor business had that.

Andrew Ripper - *Merrill Lynch* - Analyst

Okay. And then on the gross margin point, is there a correlation between service levels and profitability?

Andrew Macfarlane - *Rentokil Initial plc* - CFO

I believe there is. Last year we had particular problems, but I think we issued something like GBP20m worth of credits either for double money back, failed service delivery or transit liability claims for lost and damaged parcels. So operational excellence around delivering everything on time and not losing it has a potential -- has a large potential upside just there, so, yes, I think there is that correlation immediately.

Andrew Ripper - *Merrill Lynch* - Analyst

And then, just finally, in terms of your intention to improve productivity in European Textiles, I appreciate your comment that your plants were at an early stage. But do you envisage having a smaller number of depots and plants across the European business? What are you thinking of in terms of profit initiatives?

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Alan Brown - *Rentokil Initial plc - CEO*

Yes. We -- if I can just make one final comment on City Link before we move off. I don't want to lose this point. On City Link there have not been additional costs associated with improving customer service. There have not. The issue in City Link has been absolutely about control in management. The fact of the matter that we're able to deliver 98.5% service and still have 300 surplus vehicles is indicative of the operational problems we have in City Link. There's not a cost behind that. We should be able to deliver excellent service at much lower cost when we get our act sorted out.

Now, I'll come back to your point on Europe. We have, I think, 61 processing centers across Europe for Textiles. And this is a Textiles issue, not a Washrooms issue. So it's a mixed business, but it's the Textile issues that are the challenge. And a large number of those, or a significant number of those, there is about 16 I think, are located within Netherlands and Belgium, which, I think you probably know, is Sussex and Surrey combined in terms of geography. I'm exaggerating slightly. So we have some opportunities, to put it mildly. But they're not easy to take. I wouldn't like to pretend these are easy. Those of you who are familiar with restructuring in Continental Europe know that there are quite a number of constraints in the rate at which you can go at. But there is certainly significant opportunity, and we have try and work on how best to take that opportunity.

Mark Shepperd - *UBS - Analyst*

Hi, it's Mark Shepperd. Can you just, Andrew, just go through the -- your thoughts in a little bit more detail on the interest charge for next year? If we start off -- I think we've got a GBP250m bond which matures in mid November, which is, I think -- what 678? And yet you're hinting about, roughly, a GBP10m increase in the interest charge.

Alan Brown - *Rentokil Initial plc - CEO*

Yes, it's not easy.

Mark Shepperd - *UBS - Analyst*

Can you just, for the simple minded folk here, say how that transacts?

Alan Brown - *Rentokil Initial plc - CEO*

Definitely [true].

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Could I ask you to look at slide 21, net debt and liquidity? In the box on the right hand side headed headroom and covenants, second bullet point says that we had bank drawings of GBP155m at July 31. The -- you can see we had a EUR100m note which matured in July, so that GBP155m is struck after repaying that note. In November, we have another bond maturing, GBP250m. If we don't pre-finance it in some way and just repay it out of bank facilities, then you can see that, ignoring second half cash flow that would take our drawings in our core GBP500m facility up to GBP400m.

So, the GBP252m facility that we have is effectively headroom and it's not meant -- I hope we wouldn't -- we would not need to draw it. So, we have enough bank facilities and that additional GBP252m is extendable, at our option, into early 2010. I would obviously prefer that we didn't have GBP400m drawn on our bank loans.

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Normally, as bank debt builds up, you would expect to see us term it out and that's what we have been doing in the bond market. So, what -- as you would expect, what we will do over -- and are doing over the next two months, is looking at options around what we might do to term that out, bearing in mind the bond markets are difficult. If it were possible to term that debt out, I'm assuming that new debt would cost, perhaps, 300 basis points more than the debt that it replaces.

If we were to do the full GBP330m of maturing debt, if we were to take all of that and term it out at another 300 basis points, that could increase our interest cost by GBP10m. I don't know that that's what we will end up doing. It's a judgment about how much headroom do we want to have in our core facilities, as we go forward. So, obviously, our bank facilities are our cheapest source of debt and we want to -- we need to -- but they're also our most flexible, so we want to trade loss of flexibility, if we have set the level of drawings right, balance that against high costs in capital markets. And that's basically what we'll be doing, as we go forward.

Mark Shepperd - UBS - Analyst

Thank you for that. And just one other question. You talk, also, for 2009 about the possibility of further investment and possible restructuring charges. Any sense of what that kind of level might be? And are there any restructuring charges likely in the second half of this year as well?

Andrew Macfarlane - Rentokil Initial plc - CFO

I think 2009 will become clearer when we see where we get to with the operating plans. But I don't think we're -- we're not expecting anything radical. In the second half of this year, the only thing that I think might give rise to some one off costs, if we were not able to reabsorb those 300 vehicles back into the rest of Rentokil. If we had to pay a lease cancellation charge, we might have something there. We're not expecting any significant redundancies and have nothing similar. So, I would think -- I would be surprised if we got to GBP5m. It could be a lot less.

Mark Shepperd - UBS - Analyst

Okay. That's good. Thank you.

Mike Murphy - Panmure Gordon - Analyst

Mike Murphy at Panmure Gordon. Just on the City Link business, given the quality of the service at the end of last year, do you really think, actually, that you can win those customers back? Or are you already going after new customers? Because, in any service business where you've given a poor service, you tend to find actually that guys don't come back immediately.

Alan Brown - Rentokil Initial plc - CEO

Yes. Thanks for the question. As I said, there's no doubt that, with the big customers our reputation has been salvaged by and large. And I'm quite confident that we're now on the route again to winning the business with the big accounts.

With the smaller customers, it depends. We have picked up a very major contract with Amazon. We are now accounting for a substantial amount of their business. And as Amazon's appointed contractor, providing we satisfy Amazon's high service expectations, then we're getting that business back.

The uncertainty with Amazon, of course, is that there is a significant seasonality to that business, which comes towards the end of the year. And that will give us, obviously, service challenges and gives us some unpredictability in terms of revenue outflow for the year. So, to the extent that we are able to satisfy the big Internet shopping companies that we can provide service, we

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will win business. The more difficult businesses to win are the smaller people who are doing GBP100, GBP200 a week and I think that will take time. It will take time for our service -- the improvement in our service levels to permeate to the market, generally.

However, as I think we have indicated before, it would be wrong to think that all our competitors are offering an absolutely superlative state of service. That's far from the case. So I am hopeful that, over time, our reputation will recover. And it's a not unimportant sector of the market, the B2C market, as it is known is growing more rapidly than the B2B market. And it's an area that we need to consider carefully, what our offering is, going forward. We have a number of ideas in that market.

The actual speed of delivery is probably less important in B2C. The challenge, of course, is actually delivering the goods at a time when the consumer is at home. And no one really has cracked that particular issue yet. So we've got to -- we're thinking through, at the moment, how we can provide a more appropriate service in the B2C market, to make sure that we can advantage of the -- now the large opportunities which exist in that sector.

Mike Murphy - *Panmure Gordon - Analyst*

Thank you. And a question for Andrew. Just on that GBP50m of EBITDA headroom it looks as though the EBITDA for this year and next year, if it stayed the same, you are saying if profits are the same as our forecast for 2008, then EBITDA is about GBP350m?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Sounds about right.

Mike Murphy - *Panmure Gordon - Analyst*

I'm taking GBP115m. Adding back interest of GBP60m gives you EBIT of GBP175m. Depreciation about GBP175m?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Depreciation is about GBP170m.

Mike Murphy - *Panmure Gordon - Analyst*

GBP170m. So it's roughly GBP50m on GBP350m?

Unidentified Participant

Just a quick question. If we were to take the view that Parcels' revenue doesn't recover at all in '09 versus '08, do you think you could still turn around the profits much in '09, versus '08?

Alan Brown - *Rentokil Initial plc - CEO*

Undoubtedly, yes. There have been significant one off costs this year. GBP11m?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

It's about GBP10m.

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Alan Brown - *Rentokil Initial plc - CEO*

And we have identified a GBP25m cost saving program and I would hope that most of that would flow through in calendar year 2009. So, the issue is whether we can get to breakeven or not. That is clearly the internal target. No secret in that. Our target would be to get to breakeven, but that doesn't mean we're going to get there. It will depend, in terms of the market and the revenue development. We will make profits.

Unidentified Participant

I remember that GBP25m being a little bit delayed previously. But now you're saying definitely that GBP25m can be hit in 2009?

Alan Brown - *Rentokil Initial plc - CEO*

No, I'm saying that most of that should come through in calendar 2009. I'm not saying all of it, but most of it will come through within the year.

Unidentified Participant

And what are you expecting the in year contribution to be in '08, so as to gauge the incremental impact?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

I -- we will get some gain this year, definitely. Some gain will come through this year.

Unidentified Participant

GBP5m to GBP10m or something?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Sounds not unreasonable.

Unidentified Participant

Thank you.

Steve Wolfe - *Kaupthing - Analyst*

Hi, Steve Wolfe, Kaupthing. Just a quick -- I'm sorry. Could you just update us on the likelihood of fuel surcharges at City Link? You mentioned they might come in back end of Q3 and into Q4. Do you think that's likely to have a significant impact on winning back new customers at obviously what is a critical time?

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Alan Brown - *Rentokil Initial plc - CEO*

Yes we have and no it won't, because everyone else is having to do it anyway. Everyone's really faced the same challenge. We have implemented and it's been accepted.

David Hancock - *Morgan Stanley - Analyst*

Good morning. It's David Hancock from Morgan Stanley. Three questions, please. The first on the Australia business. Can you talk a little bit about the timing and the extent of the profit improvement that you expect? You refer to an improvement in 2009 in the statements. Could you give a bit more detail on that please?

Secondly, on customer service credits, you quantified the City Link impact, in 2007, of about GBP20m. Can you just give us a sense of the quantum of use in the rest of the business, in 2007 and in the first half of '08?

And, finally, can you just tell us where you are on looking at the carrying value of acquisitions and accounts receivable, please? Thank you.

Alan Brown - *Rentokil Initial plc - CEO*

Maybe I'll have a go at the first and then maybe pass on the second and leave the third on to you, Andrew.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Give me 30 seconds to try and work it out.

Alan Brown - *Rentokil Initial plc - CEO*

With regard to the Australian business, what we will do going forward is -- probably not refer to the Australian business, but to refer to Pest Australia and Washrooms Australia. Because they are -- although they're very similar issues, they're entirely separate. Separate management teams and separate plans of action to deal with them.

So, if I talk about the Australian Washrooms first of all. We acquired a business called Pink, which we have attempted to merge into our existing Rentokil Washrooms business. This has not gone smoothly. The management team was not the right team to take on the challenge. A decision was taken to give the incoming Pink management team responsibility for the whole business. And it proved to be too much for the experience levels of that team. And we have, I think to a remarkable degree, experienced exactly the same problems in our Australian Washrooms business as we are suffering in our UK Washrooms business. Loss of focus on the customer, loss of focus on the service, not measuring the service correctly and loss of accountability to the customer at branch level.

I was fortunate to be able to identify, within the Rentokil firmament some very experienced New Zealanders who had gone into that business as of July 31 and are going through it. To use a proverbial expression, they're going through the business like a dose of salt at the moment. And they are sorting it out in double quick time. So I would expect, without being able to give you any quantification whatsoever, to see improved results, not just in terms of operational measures such as service, customer satisfaction, in the fourth quarter of this year. And I would certainly hope there will be some financial improvement in 2009.

The Pest business acquired a residential, or largely residential, pest control company called Campbell, around about the same time as we were acquiring Pink in Washrooms. And the merger of that business into the Rentokil commercial business, again, has not gone smoothly at all. A slightly more complicated picture. There were a few things missed in the due diligence, in the acquisition of the Campbell's business. It was really only realized after we had bought the business that the Campbell's was a

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loose assembly of about 11 different local companies. And the task of bringing those 11 different operations into the Rentokil family proved to be quite challenging. There were some local taxation issues which slowed things down and there were lots of procedural issues, which gave us difficulty.

We also have little experience in managing alongside each other residential and commercial pest businesses of this scale. And, again, I think it took the management team a little long to recognize the challenges that they were going to face. We have now, in quarter two, gone ahead with quite a successful pilot in Melbourne which, in fact, I think is our biggest branch operation in Australia. It's bigger than Sydney.

And the -- and it looks as if that is proving to be successful, which is very important because if we can manage the commercial and residential pest needs out of the same branch, then we can operate much more efficiently. Because the residential business tends to have lots of peaks and troughs, depending on the weather. The commercial business is much more stable. So if you can share resource, you can manage the peaks and troughs much more efficiently, giving better customer satisfaction and also lower costs.

So, if that Melbourne plant is proven to be effective, and it looks as if it will, we'll then roll that out across the other cities in Australia. And really then truly get on with the merger, which has been greatly delayed because of the various issues we've had. That's Australia. Again, I would expect to see some improvement in 2009, in the Pest business, if we're successful.

With regard to customer service credits, this is really a feature of the City Link business. It does not apply, in the same direct way, in the Washrooms business. Where it tends to evidence itself in Washrooms is in terms of accounts receivable problems, of which we've had significant accounts receivable problems. So I think I've probably mentioned that we -- our accounts receivable were running at about GBP23m in UK Washrooms on a turnover of GBP70m, a little bit less than GBP70m. As I say, they have come down a little over the last couple of months, but they're still significant and we are holding provisions against those accounts receivable. And whether or not they are adequate well, time will tell I think Andrew is probably the best answer to give.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

And, to give you a little bit more flavor on credits in UK Washrooms. The first half of this year, we've issued something like GBP1.5m worth of credits. A lot of the problem comes from trying to collect the cash. People say I didn't have the service, I don't have all the kit. Whether that's true or not, unless you investigate it, and sometimes you might find quite a big invoice is held up for quite a small amount. And the commercial decision may be to issue a credit and just draw a line under the debate.

As we said, the rate at which credits are being issued in City Link has come down quite significantly over the last two to three months as we've really started making good progress in transit liability claims. And as the service levels have improved, I think the run rate of credits, annualized run rate at the moment is probably something like GBP5m a year, compared to something like a combined GBP20m a year last year. So, really, quite a significant benefit and that -- we'll see the main impact of that next year. We also issued some credits, as we mentioned in the statement, in UK Pest Control. Again, dealing with some disrupted services, we made organizational changes last year. They were about GBP1.4m, issued in the first half of this year, relating to service issues last year.

And just to give you a bit of an overview of receivables in total. For -- at the end of July the Group had something like GBP420m in accounts receivable, which was equivalent to about 55 day sales outstanding. Our target for the Group is to get down to something like 45 day sales outstanding. The targets obviously vary quite significantly across businesses. If we were able to achieve that, we would free up at least GBP60m in cash.

However, I think as Alan has suggested, it's not as simple as just putting more credit controllers on and dunning harder. The trick with this is to make sure that there is no dispute about the invoice at the time it's issued because the service has been

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done. And we are in good odor with our customers, then the dunning gets easier. And, in particular, if we are in odor with our customers and they know the service is reliable, they are likely to give us direct debits than, at the moment, where they say because your bills -- they may not always accept them. Why don't we give you a direct debit? So it's a virtuous circle.

Paul Steegers - *Merrill Lynch - Analyst*

Good morning. It's Paul Steegers at Merrill Lynch. Could you talk a bit about Facility Services, in terms of the contract pipeline that are coming up for retender? You say the retender amounts are staying at quite high levels. There's risk of further contracts that you could lose, obviously, above and beyond the GBP19m that I think you talked about earlier. So, I'm just wondering what percentage of your contract base is coming up for retender, say, over the next 12 months, in that division? And, secondly, what kind of price discounting? Can you give us a sense of what the pricing pressure is in Facility Services? Thank you.

Alan Brown - *Rentokil Initial plc - CEO*

I think that there's nothing particularly exceptional about the amount of business which is coming up for tender or retender. It tends to average out pretty well over the years. You do get some lumpy business within that. A big contract in this business might be a GBP5m or GBP6m contract. Some are bigger than that, of course. And I guess the contracts are running over, what, about a three year period, generally. So you can work out from the turnover the level of retenders. There's nothing particularly lumpy about this business to be honest with you, that you should particularly worry about.

We did lose some contracts, particularly in the retail sector. We lost part of the Marks and Spencer's business, which has hit us somewhat. And that's led, as Andrew said, to some of the portfolio loss. But I have to say, equally, we're quite encouraged by the pipeline coming through. We are doing particularly well, I think, in the City of London, through the Lancaster acquisition. And that is going well for us. We are winning business.

With regard to the margin pressure, margin pressure varies a bit by sector. It's quite extreme in the food sector. We have, represented businesses, really extreme margin pressure. However, there are a large number of clients who are still very much focused on quality of service. And, where quality of service is a -- still a strong criterion, we're doing pretty well.

So, I think the outlook for our Facilities Services business as a tightly managed business. The outlook is reasonably stable. It's not an area that I would have particular concerns about.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

To give you a feel for the pipeline, they're quite sophisticated in this division about tracking prospects. The total of all the business that they're aware of, and obviously it's at different stages, is about GBP0.5b worth of revenue. If you -- if we discount some of the really early stage stuff, the things that we're actively working on, it's over GBP100m. So the question, as I say, is the rate at which we can convert it. Just feel that clients are being a bit slower to take decisions, perhaps, this year, than in the past. So, they're absolutely on the case. They know they've got to really make up for losses.

Andrew Watson - *UBS - Analyst*

Good morning. Andrew Watson from UBS. Would you consider selective asset disposals in order to remain rated investment grade by the rating agencies?

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Alan Brown - Rentokil Initial plc - CEO

I would certainly consider selected asset disposals if it was in the shareholders' interest to do so. Not really driven by a financing issue, to be honest with you. More about whether it was in the shareholders' interest to do so. I think the circumstances under which it would be in the shareholders' interest to do so would be if we felt the amount of money we were being offered for the asset was greater than I could deliver through operational improvement over the next three to four years.

I think that that, then, reduces the likely number of assets which we'd want to sell to quite a small number. But, nevertheless, one has to go through that process every time. If you get a firm offer for a business, then you've got to look at what is the valuation the potential buyer is looking at for the business, in relation to what I think the business could deliver if it was running properly.

Andrew Watson - UBS - Analyst

Okay. So, just in terms of having the bank debt facility until 2012, you -- in the interim period, you wouldn't be too concerned if you were to be further downgraded?

Alan Brown - Rentokil Initial plc - CEO

I think one ought to be just a bit careful about that. The facilities we have in for 2012 are sufficient to meet our current levels of debt, but we would be operating with no headroom. The -- we need, or it would be desirable, to put more facilities in place to give us headroom. We have got enough money, 2012, to operate with no headroom. It's not a very good position to be in.

So, Andrew has talked about various options in terms of how to generate that headroom, how much headroom should we operate with. You're absolutely right, asset disposals is one option. I am absolutely of the view that we should be making the business more cash generative in terms of its underlying performance. And we have various other options in mind. But I wouldn't want to indicate that asset disposals is a likely approach to generating that headroom.

Andrew Watson - UBS - Analyst

Okay.

Unidentified Participant

Just following on from that. Would it be fair to say, then, that if you marked to market at the moment, in terms of the covenants -- you said, actually, if you were negotiating now, they'd be -- they were loose and, therefore by definition, they'd be tighter, that you'd have no headroom, essentially?

Andrew Macfarlane - Rentokil Initial plc - CFO

I don't know. We haven't had that discussion. We have a single covenant. I would imagine that our Bankers would want two covenants, for example. So -- and I suspect there would be a trade between duration of facilities, pricing and terms. And as I say, we haven't had that discussion.

Unidentified Participant

You did say earlier that, if you were negotiating now, --.

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Andrew Macfarlane - *Rentokil Initial plc - CFO*

It would be tighter, definitely.

Unidentified Participant

Tighter?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Absolutely.

Unidentified Participant

And therefore, the headroom, by definition, is a lot smaller, if --.

Andrew Macfarlane - *Rentokil Initial plc - CFO*

I imagine there's a price at which you can pay for headroom.

Unidentified Participant

Absolutely. There's a price for everything.

Phil Cliffe - *Orcan Asset Management - Analyst*

[Phil Cliffe] from [Orcan] Asset Management. Could you just elaborate just a little bit more on your comments about economic prospects and your bid, or your prospect pipeline, especially for the UK? Whether -- what type of sectors you're seeing weakness in new prospects. And, also, have you seen any weakness at all in continental Europe, given that Europe seems to be slowing quite dramatically, in terms of growth?

Alan Brown - *Rentokil Initial plc - CEO*

I think, setting aside the -- setting to one side the UK Washrooms business, where we have very serious operational issues and that business is not winning the business it should be at the moment. So let's put that to one side. The rest of our businesses are proving to be quite competitive at competing for and winning new business, whether that be City Link, whether that be the Facilities Services business, whether that be in -- actually, our particular strength at the moment is our Textiles and Washroom business for France. They're all winning quite encouraging levels of new business.

The business in the Netherlands is finding it tougher. The market there is really quite difficult and we're not winning as much business as we would like. But our business in the Netherlands is also a very profitable business, and I think it's also a margin/new business trade off.

Could I give you a feel of the sectors that are tougher than others? I would struggle a bit with that, because we really cover the washer front. We're -- we've got parts of the business in many sectors. I've indicated before that food retailing is extremely tight, in terms of margins. Extremely tight. In City Link, a big part of our customer base is the computing industry. And, certainly, if

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one looks at the fall in revenues from June onwards, one would have to say that it may be indicative of a slowdown in the consumer computing area that's taking place.

Across Continental Europe, as I say, the Netherlands is a specific issue where we've found that demand is down. But in the other markets, in France and Germany, demand has been okay. It's been cost inflationary pressures that have given us more problems. In Asia, growth has been very strong, with the exception of Australia, where, again, we've had operational problems holding us back. But Asia, through China, Indonesia, Thailand, all been pretty good. North America Pest Control, again, has been slower in the residential market. We've certainly seen a significant reduction in demand in residential Pest Control in North America.

Phil Cliffe - *Orcan Asset Management - Analyst*

Just to follow up. I guess my question was, really, in order to stand still you probably have to win something like 10% new contracts every year. Probably somewhere around that figure. And I guess my question was aimed at -- do you see a reduction in net new business, or requests for bids, that perhaps put pressure on that in, and over, the next six months to a year?

Alan Brown - *Rentokil Initial plc - CEO*

No, we've not seen that. I think what we are seeing, however, is that because of general economic conditions, the amount of business which is being tendered is not necessarily coming through if one wins the contract. That's right. I think the message I'm trying to give is that, despite all of the turmoil within the business, we are making strong progress in terms of improvement of customer service levels, which is enabling us to compete quite well in winning new business.

And notable, also, that our revenues are up almost 5% in the first half of the year, partly smaller acquisitions, of course. But organic growth of 2% is quite reasonable given that we're not getting a lot of pricing through it. And the downside of having a lot of contracts with this is that it's difficult to move your pricing. But I think the top line is not easy, but it is not one of the major problems for us at the moment. Perhaps I could just take two more questions. That will be it.

Michael Crawford - *Credit Suisse - Analyst*

Michael Crawford from Credit Suisse. Two questions. The first one. It sounds, from the comments you've made so far, that you're finding there's some good management embedded in the business and it's just a question of putting them in the right place. Is that a fair assessment for the whole business, or for all the businesses?

And my second question is, I'm still -- I'm slightly confused as to the role of the Chairman. Is he working with you on this recovery? Or is he, principally, a Non-Executive?

Alan Brown - *Rentokil Initial plc - CEO*

Well, let me deal with the second one first. The Chairman is a Non-Executive Chairman. He is also Chairman of Utilities. He's a Non-Executive Board member of --- he's a Senior Non-Executive Board member of Sainsbury, he's a Non-Executive of Rolls Royce. And he's got various other interests. So he is a -- he is, in one sense, a traditional Non-Executive Chairman.

And, in the other sense, he and I have worked together for 25 years, so we tend to be able to communicate, perhaps, two or three times as much as a normal CEO and Chairman, in the amount of time we have available, because we know each other very, very well. So, John clearly has got significant experience of business and I think in the limited amount of time he has available, which is about two days a week, we can get through quite a lot.

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With regards to your point about the management, the situation is mixed. It really is quite a mixed situation. As I said before, we've got some really very good management teams in place. We have other areas of the business where there has been huge disruption to the business.

If I look at, for example, the UK Washrooms business, the turnover, at a senior level, has been close to 100% several times over the last two to three years. And we have, down the organization, I think, a lot of rebuilding to do in terms of morale and confidence in terms of the operatives. I'm very pleased to say we have a leader in that business now who is very good at rebuilding morale and I'm quite confident that we will turn that business around.

What I would also say is in a general sense, is that the combination of the historic approach to business in the '80s and '90s, coupled with the cost pressures that are brought to the business over the last four to five years, have meant that there has been relatively little investment in capability development. And that's been particularly the case in the functions. The -- there was not an HR function in Rentokil-Initial before 2004?

Andrew Macfarlane - *Rentokil Initial plc - CFO*

Mid-2005. (Multiple speakers).

Alan Brown - *Rentokil Initial plc - CEO*

Until 2005, no HR function. There was no marketing function in the business until around the same time. So there are longstanding endemic capability weaknesses in the business, which need to be addressed. Perhaps one last question, or --?

Michael Crawford - *Credit Suisse - Analyst*

Actually, Rentokil was a very -- early days, was huge on sales and marketing, but I think it was down at divisional level, rather than at the Group level.

Just looking at your comments, it looks as though, when the new team first moved into Rentokil I think the market assumed it was going to be a 12 month job. You keep, I think, actually -- you've made no secret of the fact that it is a long term job. You seem to be suggesting actually that it is three to five years, but more towards five than three. Is that fair comment?

Alan Brown - *Rentokil Initial plc - CEO*

Yes. Thank you all very much for your attention.

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