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## RTOKY - Preliminary 2008 Rentokil Initial plc Earnings Conference Call

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## PRESENTATION

**John McAdam** - *Rentokil Initial plc - Chairman*

Well, good morning, ladies and gentlemen, and welcome to Rentokil Initial's full year results presentation.

My name's John McAdam, and I was appointed Chairman of the Company at the AGM last May, following the appointments in April of Alan Brown as Chief Executive and Andy Ransom, who's also in the audience, as Executive Director, Corporate Development.

I'd also like to take this opportunity to introduce Michael Murray, our new Chief Financial Officer, who joined the Company a few short weeks ago. And he's certainly had some fun in those few short weeks, I can tell you!

At the interim results last August, a preliminary assessment of the issues facing Rentokil Initial was presented. Alan explained that, while the Group contains some really good businesses and enjoys a number of leading market positions, the Group's overall performance has been unsatisfactory. Inconsistent customer service, organizational and operational weaknesses inhibiting sales effectiveness and limiting productivity improvements, and an inability to execute major change, new acquisition integration in particular, have all contributed to the underperformance across the Group.

In October the Board, therefore, approved a three-year plan to address these issues. The simple, robust, and operationally focused strategy for the business, which Alan will outline, is designed over time to achieve sustainable profit growth by delivering outstanding customer service consistently while, at the same time, continuously driving down the cost of doing business. Now I believe the progress we've made this year represents a creditable start but, as you'll hear today, there is much, much still to be done.

Current conditions are, however, extremely tough, and we consider it prudent to take a number of measures to preserve and improve our financial headroom. These include working capital reduction, deferral of discretionary capital expenditure, cost reduction programs throughout the Company and the passing of the final dividend proposed for 2008.

Now, the Board regrets that our shareholders will not receive a final dividend, but we firmly believe it's the right course of action given the present economic uncertainty. Rentokil Initial shareholders should, however, be encouraged by the fact that there are numerous opportunities to improve the financial performance of the business, many of which are entirely within our own control.

Let me now hand over to Alan and Michael to explain the results, and describe the action we will be taking to deliver improved performance. Alan.

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**Alan Brown** - *Rentokil Initial plc - CEO*

Thanks, John. Morning, everyone. I'm going to just give a brief introduction, then hand over to Michael to talk you through the numbers relating to 2008. Then, I'm going to come back and talk about our plans for 2009 and beyond. But just one summary chart before we do that.

To state the obvious, 2009 -- 2008 has been very, very challenging for Rentokil Initial, driven primarily by a whole series of implementation failures over a period of years before that. We have seen a reduction in our adjusted profit before interest and tax and amortization of GBP137m, and that's primarily what I'm now calling the Turnaround businesses. Foremost amongst those, of course, is City Link, which had an adverse move year on year of GBP88m, UK Washrooms a further GBP14m, and then we've got the rest of the businesses that also declined GBP35m. UK Pest, for example, was down about GBP7m within that.

I should mention that Australia, though it certainly has been a difficult market for us in 2008, is the one which is most clearly recovering, apart from City Link. And I think we're probably going to take that out of the intensive care list for 2009.

Customer service, which was an endemic issue across these businesses, has turned around. And I'm delighted, I must say, with the progress we've made. I'll come back and talk about that later. Accounts receivable got very, very sticky in the middle of the year. We have made progress in the second half of the year and we've ended up the year pretty well where we started the beginning of 2008, with lots more to go for, in my view. But, again, we've made some progress.

We've got an operating plan for three years. You might call it a strategy, but I think it's better described as an operating plan, because there's a lot of operational focus in it. It's not a portfolio plan. It's an operating plan. And, in particular, I think we've made great progress in City Link.

Now, with regards to the outlook, I don't want to talk about it now, I'll talk about it at the end. Trading conditions clearly are extremely unpredictable at the moment, and the situation is deteriorating in the UK and the US, less so in Continental Europe and less so in Asia.

Now, with that caveat, as John said, a lot of the improvement is within our control and I do expect to see significant improvements in 2009, particularly through the City Link initiatives we've taken, which I'll come back and talk about in my part of the presentation. But I would like to highlight that what improvement we do see in the other business, and I do expect to see some, we would intend to reinvest in capability to develop in the business, if economic circumstances allow.

Now, with that brief introduction, let me hand over to Michael to go through the results for 2008.

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**Michael Murray** - *Rentokil Initial plc - CFO*

Thank you, Alan. Good morning, ladies and gentlemen. What I plan to do first of all is enter in to the Group financial results, walk you through the divisions and then, at the end of the presentation, address items such as refinancing, the cash and the debt.

So, moving on to the Group financial summary, these are the constant exchange rates. At constant exchange rates, revenues in quarter four were 0.4% behind 2007, after a flat performance in 2003 -- in quarter three. Whilst the main year-on-year decline in quarter four came from City Link, at 8.7%, this was an improved performance from City Link compared to quarters two and quarters three. The resultant year-on-year actual revenue was 2.2%.

Adjusted PBITA for the quarter was 40.4% down, mainly attributable to City Link. All the Turnaround businesses, namely UK Pest, UK Washrooms, Australia Pest and Washrooms, as well as central costs explained by provisional leases in 2007.

One-off items you'll see in the quarter totaled GBP16.1m, and these were principally incurred within the City Link business. Interest costs for the quarter were GBP3m higher than 2007 but, at GBP61.5m, they were GBP10m on the full year.

The resultant adjusted PBTA for the full year at actual exchange rates was GBP107.9m, including a positive foreign exchange impact of GBP24.4m, due to the recent heavy depreciation of the sterling.

Free cash flow for the year at actual exchange rates was GBP21.7m (sic - see press release), compared to GBP102.1m 2007. And net debt at actual exchange rates closed the year at GBP1.362b, adversely affected by the depreciation of the sterling. I shall come back to that later in the presentation.

If I now move on to the divisional summary, and this is really an entry page into the divisional section, all divisions, with the exception of the Facilities Services division, reported a year-on-year decline in profits in Q4 and the full year. While City Link losses were stemmed versus [2000] in quarter four, both the Pest and Asia Pacific business reported material shortfalls. In Q4 2007, Central Costs, as you will see, were zero, and this was due to the release of bonus and surplus property provisions in 2007 last year.

So if I now move on and walk you through each of the divisional performances, first, starting with City Link, City Link revenues in quarter four, of GBP97.2m, were the highest of the year, driven by seasonal up-trading and strong business-to-consumer revenues over Christmas. The level of quarterly losses fell with Q4's operating loss of GBP4m, representing the strongest quarter during 2008 and an GBP8.3m improvement over quarter three. You will notice the recurring costs in quarter four were the lowest of the year and showed a reduction of GBP4.3m compared to Q3, despite higher volumes.

Q4 one-off costs were GBP14.6m (sic - see press release), mainly relating to planned changes in the fleet configuration, with a full shift to curtain-sided trailers and related equipment to accommodate that approach. Resultant full-year revenues were GBP381.9m; an 8.6% shortfall on '07. Therefore, the total loss for the year was GBP42.9m after GBP11.3m of non-recurring costs, as you can see, at the start of the year. The 2008 exit cost -- sorry, run rate is approximately GBP30m lower than quarter one, mainly driven by a reduction in heads and vehicles.

The City Link management team has made real progress on the implementation of the seven-point recovery plan, with service levels consistently around the internal target of 98.5%, aided by the rollout of new handheld scanners within the operations. We are estimating losses for City Link business of approximately GBP20m in 2009.

Moving on now to Textiles and Washrooms, Textiles and Washrooms' revenues grew by 1.1%, but profits fell year on year by GBP22.6m. Divisional performance has been held back by the UK Washrooms business. And I'll come back to that on the next slide. Our Continental European business achieved revenue growth of 4.1%, driven mainly by Belgium and France.

Profits, however, declined compared to last year by GBP8.4m, with the exception of Belgium, where many of our contract prices are indexed to costs and, therefore, the pricing environment remains difficult. You can see this illustrated on the chart, where you see the portfolio average price increase which, with the exception of Belgium, is below the cost of inflation.

Our French operations recorded year-on-year revenue growth of 5.9%. However, this translated into year-on-year reduction. Whilst the France business exited the year, having secured some significant contract wins, profits were impacted by competitive pressure in prices, product inefficiencies in some of our plants and the previously-reported GBP1.1m charge for a backdated property tax assessment.

The Netherlands business produced flat year-on-year revenue due to the lack of new business wins and, despite excellent retention rates, profits fell due to pricing pressure. Belgium recorded strong year-on-year revenue growth of 6%, through its ability to index price to costs, and grew year-on-year profits. And, finally, Germany grew its portfolio by 7.8%. After adjusting for the sales of the loss-making Hospital Services business in quarter four 2007, it recorded a profit growth.

Moving on now to the actual -- the UK Washrooms, which is one of our problem areas. As the UK business strives to overcome legacy operational issues, performance throughout the year has been impacted by terminations and unacceptably high levels of credits, arising from poor historical service. Revenues in quarter four fell by 12%, including the impact of selling the Wipers activities. The business recorded a full-year loss that was GBP14.2m behind last year, including a bad debt provision of GBP6m taken in quarter three.

The new management team that we've put in place in the UK have made significant progress in improving customer service, which have constantly reached 95% over the last three months. The rate of customer terminations has also fallen since the quarter two peak.

Moving on now to the Rentokil Pest Control. The Pest Control division delivered a strong top line performance in 2009, with overall revenue growth of 10.9%. Growth has, however, declined quarter on quarter, primarily reflecting the impact of prior acquisitions and shortfalls in the UK. Despite this top line growth, adjusted profit declined year on year by GBP5.8m, driven mainly by the poorly-performing UK business. The UK remains a challenge, and I will talk about this on the next slide.

Our US business grew revenues by 18.1%, assisted by the Presto-X and Watch All acquisitions, but was negatively impacted by the forced exit from Copesan. Europe grew revenues by 12.3% but profits were flat year on year, driven by some underperformers and provision taken in Ireland in relation to environmental issues. Retention rates for the division fell as a whole by 2.2%, mainly due to the Copesan exit and the UK.

Just looking now at the UK Pest Control activity itself, despite management focus and the resultant improvement in service levels, which ended the year at 98.9%, revenues fell 2% on the year and 10.5% in quarter four. Adjusted profits were down GBP7.2m on 2007 full year. Whilst the sales slowdown can be attributed to a weakening economy, revenues have also been impacted by legacy service issues and a focus on debt clearance, which has resulted in the backlog of terminations and service credits. As you can see from the chart, contract revenue -- retention fell to 71% in the second half and portfolio net gain fell by GBP2.9m.

Moving on to Initial Facilities Services, despite operating in extremely difficult economic circumstances which has seen a number of retailers fail, the Facilities Services business achieved overall revenue growth of 3.2% in 2008, and increased profits by GBP1.9m. Excluding the acquisition of Lancaster Cleaning in July 2007 and the disposal of our Netherlands cleaning business in Q3 2007, organic revenue growth was 2%.

UK Cleaning revenues were up by 3.7% but, after adjusting for the Lancaster acquisition, there was an organic decline of 7% as a result of contract losses and reductions in the second half. Quarter four saw the notification of GBP15m worth of customer terminations and reductions that will affect 2009.

Catering performed well in 2008, with profits up GBP1.3m (sic - see presentation) on flat revenues after having made the decision to remove a number of unprofitable hospital contracts. A number of new contracts will commence in quarter one 2009. And Hospital Services also performed well as a result of ongoing focus on efficiency improvements.

Moving on now to the Asia Pacific business, total Asia Pacific revenues rose by 13.9% in 2008. However, profits fell year on year by GBP9.3m, mainly driven by operational issues in the Australia Washrooms and Pest businesses. We have already reported upon the disruption caused to the Australian businesses by the integration of the Pink and Campbell Brothers acquisitions.

Management launched recovery plans for both the Washrooms and Pest businesses at the half year and there is visible evidence of recovery, with customer service levels rising in the former business from 59% to 93% during Q3 and Q4. Likewise, the state of service has significantly improved in the Pest business to 93%. It appears that we are starting to see the early signs of financial recovery in the Australian business.

So that's a run through the divisions. If we now look at central -- certain central items, starting, first of all, with the interest, our net interest charge in 2008 at actual FX rates was GBP61.9m, representing a reduction of GBP10m on 2007. This can be attributed to two things. First, a GBP4.3m reduction in interest on bank and bond debt primarily due to lower average interest rates and, secondly, -- the second element is a GBP6.8m increase in the notional interest income associated with the pension scheme. And more details on the pension scheme can be found in the preliminary statement.

I would like -- now like to look at a slide that hopefully will help you with regards to your modeling. What this slide shows are the fixed interest costs related to our debt throughout the year. So what you see is interest is fully fixed -- 100% fixed until the end of February, and that will cost GBP9.9m. Approximately 60% of the interest is fixed from March until September. That will cost GBP23.4m. A lower percentage, about 30%, is fixed for the remainder of the year, costing GBP5.2m. So this shows the fixed element as it declines over the year. Therefore, the remainder will be floating rates and we should benefit from reductions to those rates.

In addition, the Group has purchased approximately GBP125m worth of interest swaps -- sorry, interest rate caps for the second, third and fourth quarters, to protect against unexpected increases in LIBOR. So, in other words, the total cost of interest should go down as the year progresses.

Moving on to taxation, the actual tax charge in 2008 was GBP6.4m, giving an effective tax rate of 28.1%. The blended rate of 31.6% compared to 30% in 2007. The increase in the blended rate was due to lower levels of UK profits in 2008.

The principal factor that caused the effective rate to be lower than the blended rate is the release of provisions for prior year items, as irrelevant matters now [we have the] tax authorities. So this provision release is offset by other items, details of which are included in the footnote. And the blended rate for 2009 is expected to be approximately 30.1%.

Moving on now to the operating cash flows, cash flow at actual rates of exchange was GBP129.3m (sic - see press release) compared to GBP188.1m in 2007. EBITDA was GBP79m lower, due to poor trading performance in 2008 and the loss of the Electronic Security profits when this business was sold during the second half of 2007.

Working capital flows was GBP71.3m better than 2007, due to better working capital management in the divisions and the non-recurrence of significant payments made in 2007 to exit owners' property leases. And, finally, asset disposal proceeds were significantly lower in 2008 and are now back to more normalized levels.

Moving on to free cash flow, tax and interest payments were GBP8.6m higher than last year, primarily due to the phasing of interest payments. Free cash flow was, therefore, GBP34.9m for the full year, having made a GBP16.4m outflow at half year. Acquisitions, dividend payments and pension deficit repair payments accounted for a further outflow of GBP183m. And foreign exchange losses, driven by the heavy depreciation of the UK sterling against the euro and US dollar have caused the sterling value of our debts to decrease by GBP267m over the year, particularly in the last quarter. This has resulted in a total net debt amount of GBP1.362b at the year end.

Looking at the net debt, and this explains partly how we do our hedging, net debt at December 31, 2008 was GBP1.362b at IAS 39 values. You will see from the top pie chart that 66% of the debt was issued in sterling and 34% in euros. Our Treasury policy is to achieve an economic hedge by matching the currency mix of our debt to the forecast currency mix of our operating cash flows.

At the result -- As the result of poor performance of our UK business, more than 80% of our operating cash flows are denominated in euros or US dollars. We use FX swaps to synthetically create the target currency mix of debt, as shown in the bottom pie chart, therefore, removing the risk.

As a result of this policy the sterling value of our effective debt rose sharply in the fourth quarter, but this has largely been offset by an increase in the sterling value of our overseas assets.

On to financing. Basically, we've got two main bank facilities. The first is the GBP500m revolving credit facility which expires in 2012, October. GBP436m has been drawn at year end. We have also the GBP125m revolving credit facility which replaces the previous GBP250m facility, which would have matured in 2010, January. That is fully un-drawn. In other words, we have got headroom at December 31 of GBP189m, or GBP225m at February 18, i.e., this week.

Covenants. We've got one single financial ratio covenant, which is EBITDA interest, which must be four times, always, when you go back to your banks. That's tested semi-annually. It's currently running at 5.6% and improving.

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**Unidentified Company Representative**

5.6 times, Michael.

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**Michael Murray** - *Rentokil Initial plc - CFO*

5.6 times, yes, and currently improving.

And then, finally, we will be making some changes to our reporting segments in Q1 -- from Q1. The main changes will be the transfer of UK Washrooms to Initial Facilities Services, the transfer of Specialist Hygiene from IFS and Pest Control to Textiles and Washrooms, and the transfer of the UK Shared Service Center to IFS from the Group center.

And that's it from me. I will hand back to Alan. Thank you.

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**Alan Brown** - *Rentokil Initial plc - CEO*

Right, a quick canter through our strategy. The top line stuff is pretty straightforward. We've spent a lot of time putting this together, in the business. I think we've got really excellent buy-in to what we're trying to do. We've got a very simple mission statement, to deliver added-value services across our existing portfolio of businesses through our network of over 1,000 branches.

Added value will come through four areas, generic areas. Service excellence, of course; quality of relationship management, which has proven to be very critical in our business, of that I'm quite clear; higher standards of professional advice, having the best technicians on the road, clearly, for example; and being able to leverage our global reach and learning, and to leverage category leadership, particularly in Pest, Washrooms and Ambius across our operations.

We've got, again, an equally simple set of visions and values. The vision is to be the best at what we do. Whether we be an accounts receivable clerk in our Shared Service Center or whether we be a Washrooms Superintendent out on the road, we want to be the best of breed.

The key values that certainly came from the bowels of the organization, from the front line staff themselves, are service, relationships and teamwork, again, very, very simple with three matching behaviors; with service to keep our promises, on relationships to communicate with our customers and, indeed, internally, and in teamwork to support our colleagues.

These are really very deeply felt values and behaviors. We did a number of focus groups, 21 I think, across the organization. All came back with a very, very similar message. And one of the things which has really encouraged me, coming into Rentokil Initial, quite different from previous businesses I've operated in, is the degree of enthusiasm and commitment I see on the front line. By and large, our people enjoy their jobs and the freedom they have in their roles, day to day.

So mission; vision, values, goals, before we get to strategies. I'm very committed indeed to having the same set of goals from the top to the bottom of the organization, and we've spent a lot of time on this. Our Pest division had a broad concept of having goals, focusing on colleagues, on customers and on shareholders, and we've adopted that for the Group. They are quite detailed, of course. We are monitoring these at Group level. But by the end of the first quarter we'll also be monitoring a selection of these goals at every branch across the world. So we will have 1,020 branches focusing on a very similar KPI, Key Performance Indicator chart, to this one. And I've decided I'm going to share it with our shareholders as well, certainly, on a retrospective basis.

But in addition to that, given the current priorities of the Group, I am going to set targets for three particular areas which you can monitor our progress against during the course of 2009. These three areas are all related to cash. I guess we don't surprise you at all, given the current prerogatives.

Day sales outstanding on accounts receivable, which has been an issue for us, we are going to aim to take it from 65 day sales outstanding at the end of 2008 to 59 by the end of 2009. Cost savings, we're committing to delivering GBP50m in year in 2009. And overall cash conversion as a percentage of our operating profit, we will commit to increasing that from 85% to 95%. I'll come back to that a little bit later.

How are we going to deliver the goals? Through five broad strategic thrusts which apply right across the Group. And I think, again, I've emphasized previously that the issues I've seen across the Group are not dissimilar division by division. Cantering through these very quickly, delivering outstanding customer service is number one. Capability improvement of our organization and people and systems is two. Delivering operational excellence, i.e., getting that capability to deliver in the operational units is number three. Operating at lowest possible costs and obviously maximizing cash is number four, and profitable growth is number five.

I'm going to give you some update on some of these. Customer services is about actually getting there and doing the job on time, and focusing on the relationship development through using our values and behaviors to leverage our performance. I'm going to give you some snapshots of what's happened.

City Link, you know we've made very substantial improvements in service. There are two lines on this chart. The red line is the performance against what we call timed deliveries. These are deliveries where we commit to delivering the next by, say, 7.30 a.m., 9.00 a.m. or 12.00 a.m., typically. And we were in a really disastrous situation earlier on in the year in this area. You can see the red on the -- well, for me, it's the left-hand side of the chart. And we've improved that a lot. The blue line, which is the bulk of our deliveries, is next day, so these are our commitments in terms of next-day performance.

There was some dip towards the year end, but I've got to tell you, the volumes we were putting through our system at the year end, with that incredible rush over the last two to three weeks up to Christmas, were absolutely huge. And, in fact, on some days in the week before Christmas we were delivering record consignments. Over 2m parcels per night were going through our system. And I'm pleased to say that I think that City Link did very, very well, not only in service, but in volumes over the Christmas period, not least because of our relationship with Amazon.

Equally pleasing, on a smaller level, is UK Washrooms. This is a business which was delivering chronic service in previous years. Even at the beginning of this year it was operating around 77%, you can see there, for three months in a row, March, April, May. I'm delighted to say we're up to our target, 95%, and doing it very consistently across all branches. So I'm really, really pleased that this difficult business has made big operational progress.

Pest Control, also, has done very well; 98% plus service to our customers over the last four months. It's required some investment to do that, but it's an excellent achievement. I'm not going to show a chart for Australia but, again, they've made similar progress.

If I then talk about relationships, we have introduced what I call a simple tiering model, again, picking up what City Link had done. They have grouped their customers into four tiers. This is a City Link example, I have to say, a little bit different in profile from some of our other businesses. You can see here that 200 customers account for almost 40% of turnover. So there are more bigger customers, if you like, with City Link than would be typical across our Pest and Washrooms business. Nevertheless, the methodology works very well.

We have ensured that we have specific either divisional directors or senior regional management who are responsible for each of the 197 relationships that account for 40% of our turnover. And, as we go down the chart, we ensure that everyone has a contact. Even if you are doing less than GBP250 of business a week with us, you can see that on the other side of the chart, there will still be a sales representative who will be responsible for your business and you will know who that sales representative is. So this -- we think will pay dividends in the medium term, after making sure that we are delivering added-value services to our customers.

Thrust 2 is about developing capability in the organization, people and systems in particular. And we have earmarked over GBP20m of investment across a number of initiatives, which I'm not going to go through in detail now, to drive capability across the organization. Again, I think I've said before that, in particular, I find that the functions in Rentokil Initial are under-developed. The business has been run very much at branch level by general managers, and really does need functional improvement.

And alongside these initiatives we are going to move to, at a senior level in the business, to functional reporting. So, for example, the financial officers down the organization will report to Michael rather than to general management, similarly for HR and for IT. And that, again, I think will facilitate faster progress of the functional agenda that we are trying to drive across the business.

Thrust 3 is about our operational excellence. The KPI consistency I've already shown you, in terms of the goals chart I showed earlier. We are developing a consistent operating framework. It's a complicated model, which I'm not going to go into at the moment. And then, of course, actually delivering stuff is a key part of this thrust, so I am going to spend a little bit of time on the City Link business in particular.

We know that City Link, of course, has been the major part of our problems in 2008. For 2009, out of that GBP50m total Group savings, GBP30m will come from City Link. Most of these savings are already in train, but there are some others that are going to support the delivery in 2009 and will also deliver further savings well into 2010. And here in the list are some of those new initiatives which will further underwrite the delivery of the savings program that mostly is actually in the bag, to be honest with you.

We are going to modify our current cage and trailer system. We have, at the moment, cages which -- small cages which are on little trolley wheels which are pushed manually around our hubs. And we have hard-sided trailers which are loaded from the rear, and they are the two-tier system, which means there has to be a lift at the back of each trailer to get these cages along the trailer. There are two issues with this. First of all, it takes several hundred people to push the trolleys around the hubs at night. And, secondly, it takes about 20 minutes to offload one of these hard-sided trailers because there is only one exit at the rear. And you have, as I say, a lift to get the cages off the top deck.

We are going to move back to the old Target Express [network] which used to have bigger cages, which will be moved around by pallet trucks. We will reduce the labor to about, probably, 10% of what it currently is in our hubs as a result. We use mostly temporary labor in our hubs. There is no massive redundancy cost involved in this. And we will be able to offload the curtain-sided trailers in four minutes, compared to the 20 minutes for the current trailers. So we see very significant savings coming through across the network as we roll that out during 2009.

Depot rationalization I've talked about before in principle. I'm now giving you some hard numbers. By the end of the year we'll be maximum 86, maybe less. I've talked, again, about reducing the GBP20m worth of credits and other money we give back to customers in the calendar year to April/May 2008. And I would expect that's going to come down to GBP10m or thereabouts, through not having to give customer service credits because of the great improvement in service, and also getting rid of the infamous Double Money Back, DMB, guarantee that the organization was in for. This was a system that City Link had which said, if we didn't deliver on time we wouldn't only give you your money back, we'll give you the same again, which was unique in the marketplace.

Full-year benefit from the reduction of 1,000 people already, that will come through in 2009. And we've got 400 vehicles going out of the organization. And we probably want to get as -- rid of as many vehicles again. Because, again, as I've explained to you, we still have traffic jams of City Link vehicles going around the country, queuing up behind each other to get to the same street because we're unable to merge the deliveries from those customers who enter the system through the old Target Express network as opposed to those customers who enter through the City Link system. As the year wears on we're progressively being able to merge the customers' deliveries into one vehicle, so we'll stop the City Link-induced traffic jams and save ourselves a lot of money.

The biggest challenge, actually, for 2009 is going to be minimizing loss in revenue. Well, we are quite clear. We will not be able to get GBP382m of revenue in 2009. The big question is what is the revenue going to be, to be honest with you, because market conditions are very tough. As I say, I'm delighted with our offering, but some of the pricing in the marketplace at the moment is absolutely crazy and people are increasingly desperate. So this is really a tough call for us, and I think we have to just watch this as the year wears on.

What I would predict at the moment is that, compared to the 2008 comparables, quarter one wasn't a bad quarter in terms of reported profit. Reality was rather different, I'm afraid. I think that we will still see difficult comparatives for the first half of the year, but I would expect the improvement that Michael referred to will come through strongly in the second half of the year, subject to the caveat of market conditions.

So we are saying that we are going to move from a loss of GBP43.5m to a loss of approximately GBP20m, but there is some caveat about the volumes, I have to say.

We've got some other tasks, of course, to go forward on. We've got further work on systems integration to do, which I think will be low risk whatever we do. We've now got a plan in mind to maximize the benefit of integrating the two networks. We will continue to work to find a way towards moving to a single hub rather than the two hubs we've got at the moment and, of course, we will not let service standards slip.

UK Pest Control I'm going to do more briefly, and also UK Washrooms. UK Pest Control is a revenue issue. It's a revenue issue. We need to do more work with our customers. We've got too far away from them. The business had been internally focused for a long period of time with major restructuring, rather like UK Washrooms. And we've got a number of initiatives going on at the moment to try and sort out that top line issue in the business, through a number of actions which I've set out here.

It is the one business that I would have to say I don't feel we have got to the bottom of the issues on. I think everywhere else we have got to the bottom of the issues, so this is still work in progress. We are, however, making improvements in the accounts receivable collection, I'm pleased to say. That is improving. And we are beginning to refocus on our front-line colleagues who have had a pretty difficult time, I must say, over the last three to four years, as the business has gone through continuous restructuring.

And that, actually, is part of the message also in UK Washrooms where, again, colleagues have had a pretty rough time. But, here, I think that we are more confident of the turnaround really coming through in 2009. We do expect to see significant improvement in profit in this business in 2009, partly of course because we don't expect to take a GBP6m hit for accounts receivable write-offs. So on this one I think I am more confident. And we've got very clear plans now to get to significant improvements in service and productivity.

And the opportunities are pretty obvious. We still have three separate vans delivering to customers, a mats service, a sanitary bin service and an air freshener service which is, in my view, not optimal. And we also have issues of stock management in this, and a number of other businesses, where we are not really managing the stock of towels optimally. So there are some pretty obvious things to go for here.

So strategic thrust 4 is about operating at lowest cost and maximizing cash. I'm going to give you a few examples of what we're up to here. The first one is more longer term. It's not going to be a big delivery in 2009, but it is there for '10 and '11. Admin costs at revised average exchange rates are GBP500m, approximately 20m -- 20% of revenue. There clearly is a very significant opportunity to sort this out. We have determined upon a number of design principles for sorting it out, but we're a long way from execution.

We are going to, again, keep true to the paramount importance of the branch in our operating model. We want the branches really to take accountability for our customer-facing activities, remembering, of course, that we have probably over 0.5m customers, if we can count them all, across the world. Our small customers we have to manage locally. And I think it's crucial that we retain responsibility for that account management at branch level.

On the administration side, however, we do see opportunities to do that much more strictly than we are doing at the moment. I can see the face of this German branch manager who's pleading with me, telling me, why is it I have to write down the name and address of every new customer three times in hard copy? Why can't I just do it once into the system? With all this stupid nonsense still going on, we've really got to get on top of that.

The model is that we will go to country admin centers to support the branches with the back-office staff. And I think very strongly that we should be able to get process alignment across all of our business, certainly on an 80/20 basis, and systems alignment, which will deliver us substantial efficiencies and substantial improvement in quality of administration which, at the moment, has now become the number one issue in customer service. We are now delivering the service but we are having problems with the administration, the invoicing and the credit control that goes behind it because of the inconsistency in our systems. Early scoping, as I said. Watch this space for 2010 and 2011.

More immediately, I said before, we are committing ourselves to getting our day sales outstanding from 65 down to 59, which is not an easy task under a difficult economic environment, I have to say. Every manager in the business, including myself, will have their bonus target for 2009 split 50/50 between cash and profit, right down the organization.

We are making sure, therefore, that cash collection is the responsibility of front-line management, not just the credit control people sitting in the shared services center. We've got issues in terms of upgrading the quality of our credit management. We've got to introduce best practice, such basic things as dunning letters, which any of you who've worked in a credit environment will know is a pretty standard practice to send out letters to customers when they get overdue. Some of the more advanced people are now sending out letters to remind customers their payment's becoming due even before it's overdue. So you've got all this type of best practice stuff which we are really at early doors on.

We have had a major push on direct debit over the last few months. We had tremendous resistance from our sales forces, I must say, but the early pilots are proving it's not an issue at all for our customers. So I'm quite pleased now the risk of penetration of direct debit is beginning to increase which, of course, takes away a lot of the risk and takes away a lot of the administration, etc., etc. So I think we've got lots of opportunities here to achieve this goal.

And now a slightly longer term one which I thought I'd come back to. Because I have mentioned this to many of you that we were going to bring in A T Kearney to help us to look at how to get more efficiency out of our 61 European laundry processing plants. We chose one of our best plants to start off with to see what the team could come up with. And our combined team of A T Kearney and Rentokil management, using the same model as we employed very successfully in [ICI], came up with a few little nuggets.

The on-site savings are not overwhelming; about 12.5% of the processing and distribution costs which, as I say here, about 45% of the revenue. But the big thing which really came out of this which, personally, was pretty clear on before he even went in, but even the management's now clear on, is that we're running at a capacity utilization of about 45% on a two-shift basis. This produces a massive opportunity, of course, absolutely massive. And we've just got to find a way to capture this.

Now, I can't tell you too much what the implications of this are. I know quite a lot of what the implications are. But I've got to be very careful in a very, very difficult scenario in Europe in terms of trade unions, etc. But the implications are that we can increase our capacity utilization dramatically, which will help longer term in terms of cash and, obviously, in terms of productivity. So I'm very, very excited about this.

But, early doors having said that again, we have to move forward [just] both to improve Lokeren, which is fairly straightforward, and then we've got to try and apply the key elements of this methodology of A T Kearney to the other 60 plants in Europe with, as I say, very positive implications for capital even in the short term, try and invest only where we're going to be longer term and we'll have to do something with our information systems to make sure that we have disaster recovery plans in place because, clearly, if you go from 60 plants to a lower number, you have to be very careful that you can still have backup for a plant if it happens to fall over.

Strategic Thrust 5 is an area of lesser development at this stage. I'm just going to skip it through very quickly in this chart. In terms of growth, we have a lot to do in sales productivity. As elsewhere in the business, the operational excellence in sales is poor. We've got to do some basic things like improving the targeting of customers to enable us to go after density of sale.

We've increased our focus on selling more product lines to existing customers. I think you know that we sell only 1.9 lines to our washing customers, for example, in some of our businesses. And we offer four or five lines. I we can just increase the number of products we're selling to existing customers we can make a dramatic improvement in the profitability and growth of our business. People, obviously, a big issue in sales.

In the marketing area the number one priority is undoubtedly the UK in the Pest area where, as I've said, we have a competitiveness issue, we've got a revenue issue and we're focusing on sorting that out. And we still are retaining our interest in acquisitions, albeit the pipeline has reduced dramatically. We are obviously taking a much tougher line in terms of hurdle rates. And, at the moment, of course, there's great uncertainty with any acquisition about what markets you're buying into. So I think that that will slow very significantly in 2009 but should come back later on.

So, in summary, then, Group priorities for 2009; service, capability at the top of it, operational excellence delivering the City Link gains, getting the turnarounds in the UK. And we've got some issues in Spain as well, which I'm perfectly happy to respond to over Q&A. UK Washrooms is an issue. Cost and cash are where all our targets are for 2009; cash conversion up from 85% to 95%, DSO down from 65 to 59, reduce costs by over GBP50m and develop a program for that admin opportunity I talked about earlier. And the growth agenda still working away in the background to help us through, once we get into, hopefully, clearer blue water, beyond the immediate issues of the economic crisis.

And then if I just come back again with the chart I used early on. In summary, a very challenging year for the business, driven primarily by the problems we had in what I'm now calling the Turnaround operations. But we've made good progress on the customer service agenda. And the outlook is very tough trading conditions, as you all know, particularly in the US and the UK, and I think they're still deteriorating. But we expect to see, subject to total meltdown, improvement in profitability in the second half of the year, particularly driven by the City Link initiative.

And we will also benefit, certainly in the P&L line, if not so much the balance sheet, from currency improvement. 80% of our profit stream is in euro and, indeed, as Michael indicated, we would expect interest costs to decline in 2009 as we will benefit from the great reduction in LIBOR rates. Most improvement across the rest of the business, which I would hope we will be able to invest, in capability, to help us keep focusing on our five strategic thrusts and, indeed, our five-year agenda.

So, with that, I'll be delighted with Michael to take any questions you might have.

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## QUESTIONS AND ANSWERS

**Alan Brown** - *Rentokil Initial plc - CEO*

Andrew?

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**Unidentified Audience Member**

Good morning. I've got a few, if you'll indulge me. Just, given you've finished off on the currency there, Alan, could you just clarify? You said 80% of the profits in euro. Did you mean euro and dollar-related currencies, or --?

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**Michael Murray** - *Rentokil Initial plc - CFO*

No. 80% in euro, 10% to 15% in dollar.

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**Unidentified Audience Member**

Okay. So UK profits in '08 5%, 10% of total.

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**Michael Murray** - *Rentokil Initial plc - CFO*

Yes.

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**Unidentified Audience Member**

Okay, that's very clear.

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**Michael Murray** - *Rentokil Initial plc - CFO*

US dollar is US dollar and facsimiles of US dollar; the Asian currencies.

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**Unidentified Audience Member**

Yes, dollar related. Okay, fine.

Just in terms of the meat, then, of my questions, first of all, on parcels, I wouldn't expect you to give the forecast. But, obviously, to get to the loss of GBP20m you've got to make some sort of sales assumption. And we're obviously capable of plugging in our own assumptions. But can you give us any feel for what you've assumed behind the almost [20] --?

**Alan Brown** - *Rentokil Initial plc - CEO*

Yes, we've assumed a single-digit percentage reduction from the GBP382m. And I think we could tolerate some further reduction even from our internal estimates. So I think there is upside on the cost saving agenda. But, clearly, if you're getting into double-digit reductions, then it becomes much more difficult to be able to get to that GBP20m loss number that we're talking about, quite difficult.

**Unidentified Audience Member**

Okay. And then there's a chart in the appendix, I think it's page 53, if people want to turn to it, which tracks the weekly revenue, which shows a reducing rate of contraction against the prior year over the course of the fourth quarter. I don't know whether you can give us a little bit of color of what was driving that and what the outlook is for the first quarter? I'm conscious probably you were doing more business with Amazon which, presumably, is more seasonal.

**Alan Brown** - *Rentokil Initial plc - CEO*

That is the dominant driver, yes. The Amazon business has certainly gone very well for us, and we're particularly delighted about the service we were able to offer Amazon. But I think it's fair to say that Amazon's business is certainly seasonal, no doubt about it. The B to C stuff is more seasonal. But it's still growing I think month on month compared to previous year. Our B to C business is growing generally month on month compared with the previous year. So we would expect to see some benefit from that, even in -- from the first and second quarter but, having said that, the B to B business is definitely down year on year.

**Michael Murray** - *Rentokil Initial plc - CFO*

I think what the chart shows is over the summer periods there is a divergence in trends, which was put down to economic issues and then, coming back again towards the year end, indeed, driven by the Christmas uplift and the seasonal uplift helped by Amazon, of course.

**Alan Brown** - *Rentokil Initial plc - CEO*

I believe it's probably specific to us. I don't think that's typical of the market. I think everybody has their seasonality. But I think that the reduction in the gap was probably specific to us.

**Unidentified Audience Member**

Yes, which is Amazon. Okay, fine. The second question I had, on the Textile side, can you give us a sense of the outlook for France? You mentioned a number of new contracts coming in. I don't know what sort of visibility you've got on revenue for this year. Obviously, it's one of the more operationally-geared businesses. I'm conscious that there's an automotive exposure in there where, presumably, the number of wearers is declining, so maybe just some sort of outlook on French Textiles top line.

And then, just in Textiles overall, how operationally geared is the business? And your comments in the slide about the inefficiencies in terms of the Belgian plant, the utilization seemed quite low. Is that typical of the 60 plants, or is there a huge variance across the network?

**Alan Brown** - *Rentokil Initial plc - CEO*

French Textiles revenue projection remains positive. The new business that -- the French business has won a lot of business in late 2007/2008 is all service industry; SNCF for example. [Kompass] another big contract we won. So the mix -- the business mix is improving. So, you're absolutely right. I think in the as-used stuff will come down somewhat, but I think we're on pretty safe ground in France in terms of the top line.

What has been a difficulty in the French business has been cost management and, indeed, a number of other businesses across Europe. And that was partly because of obviously the spike in commodity prices in mid 2008 which we obviously -- that has washed through and we're in a better situation in 2009. But I'm still not happy with the cost management in our European business. But I think the opportunity there is more about getting the costs right. I'm less worried about the revenue. Clearly, it's not going to be as strong as in 2008 in terms of growth but, generally, the economy is more stable and it's more about the cost agenda.

Sorry, remind of your second question.

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**Unidentified Audience Member**

Well, I was just asking about the capacity utilization. You (multiple speakers). What's it like across the network?

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**Alan Brown** - *Rentokil Initial plc - CEO*

Yes. It is clearly much lower than I would be familiar with from other companies I've worked in. But we've obviously decided to replicate this technique across the organization. The result I've shown you I got last Friday, so I'm giving you pretty hot off the press where we're getting to. But I did undertake to you when we talked last time I would come back with some A T Kearney feedback, and I wanted to stick to that commitment. But the implications of it all we're still working through. But, clearly, it's very significant.

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**Unidentified Audience Member**

Okay. And then just very briefly, finally, the GBP50m of cost savings, just to be absolutely clear, you're basically saying that that's the cost reduction in '09 versus '08. That's GBP50m this year.

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**Alan Brown** - *Rentokil Initial plc - CEO*

That's correct. And, you're right, there is room for confusion because we were generating project-driven savings in City Link, but we're now saying that we're converting that into a year-on-year cost reduction for 2009.

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**Unidentified Audience Member**

All right, that's clear. Thank you.

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**Unidentified Audience Member**

Morning, if I could ask two top-down questions and two bottom-up questions. From a top-down point of view there's quite a few moving parts, quite a few positive swings that you've talked about; Parcels, UK washrooms, the lower interest charge. At the same time, you've still got some uncertainty from a revenue point of view in a couple of the areas. As you look at current

2009 consensus, which I think you have a pretty good feel for, could you take a view as to whether you think it's too optimistic or too cautious?

And then, secondly, from a top-down point of view, what kind of assumptions, what kind of financial performance would you need to deliver to re-institute a dividend payment?

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**Alan Brown** - *Rentokil Initial plc - CEO*

Well, the consensus as I understood it, and I'm looking at cash flow, I think, was for GBP125m.

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**Michael Murray** - *Rentokil Initial plc - CFO*

GBP123m.

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**Alan Brown** - *Rentokil Initial plc - CEO*

GBP123m, sorry, compared to the GBP108m we delivered this year. So there are some big swings on that. Clearly, the currency thing is a very significant positive. I'm going to leave you to work it out, but it's a big number. The interest rate cost is a much smaller number, but it's slightly positive. The cost savings number is significant. Against that you've got the investment in capability I've talked about. And the big unknown is the top line.

The top line, I have to say, it could be very bloody, it really could. We've got City Link and Ambius, and particularly the Tropical Plants business, which are at the front edge of the exposure in the UK and the US. The rest of our businesses, I think, are less sensitive to revenue. So all I can do is set out the factors for you and your guess for the top line is -- I think that has to be your judgment. I really can't give you guidance on that because we're into such uncertain times.

Clearly, if the revenue is up slightly, we're off to the races, we really are, no doubt about that. But I can't communicate any great confidence about revenue, just given the uncertainty that's out there. Nothing specific, it's just the generality of the difficulty in the market places is quite concerning at the moment.

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**Unidentified Audience Member**

And on the dividend?

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**Alan Brown** - *Rentokil Initial plc - CEO*

Dividend. Well, clearly, we're set up to an operating plan which does deliver substantial progress in the second half of the year. And I think that if we felt confident four months down the line, we get to five months down the line into August, we would certainly re-look at re-instituting an interim dividend. This is not a [flaw] from dividends for four or five years unless something absolutely disastrous goes wrong. This is something we want to review, or the Board will review, half by half. So I think we'll have a close look at it again in August. And if we're confident the operating plan is delivering, then I think it's quite likely we will come back in with dividend payments.

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**Unidentified Audience Member**

And just two quick follow-up questions. Just UK Pest Control, looking at the historic financials which have been revealed over the years, back in 2003 that was a 50% EBIT margin business. As we sit here today it's about a 20% EBIT margin business. I think you described UK Pest Control as being mainly a revenue issue but, for me, it sounds like there's perhaps a cost issue. And just your view on that pest control margin?

And then, secondly, from a bottom-up point of view, Parcels, I think you said you're baking in around a mid single-digit decline. I think you've stated in the press release that pricing is down in mid single digits in Q4. Should I therefore take it to a -- are you basically assuming that volumes are going to be pretty flat '09 versus '08, or are you saying there's going to be some price improvement as a result of mix or other factors?

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**Alan Brown** - *Rentokil Initial plc - CEO*

Well, on City Link I'll maybe leave Michael to comment on that but, certainly, there won't be a pricing improvement. There's been long-term decline in price per consignment across the whole industry forever and that's not going to change. But I'll leave Mike to comment on that, more on the volumes side in a second.

With regard to UK Pest, I say it's a revenue issue. That's not to say there aren't cost opportunities. Of course, there are cost opportunities. But I think the cost opportunities will only defer a seminal decline in the business unless we're able to sort out the top line. And that is uniquely, I have to say, almost in our operations, is something we on the revenue line haven't cracked. And there's no other part of the business that I feel like this.

But that GBP70m/GBP80m pest business has suffered a revenue decline over a long period of time. And the savior of that business, although it's very profitable, of course, is really in getting the revenue turned around. The costing will only defer a problem. The cost initiatives elsewhere I think are initiatives behind businesses which have growth potential. And City Link, in my view, has got great growth potential once the [vacuums] of ordinary economics conditions. So that's why I say it's a revenue issue we've got to sort out in UK Pest.

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**Unidentified Audience Member**

It's just that, in absolute terms, literally in 2003 that business did sales of GBP70m and profit of GBP35m. And now it's doing sales of GBP64m, which is only GBP6m lower, but the profit's come down by almost GBP20m over the course of that four, five-year period.

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**Alan Brown** - *Rentokil Initial plc - CEO*

Yes. 2003, clearly, the business was being raped.

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**Unidentified Audience Member**

No investment.

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**Alan Brown** - *Rentokil Initial plc - CEO*

I'm clear, obviously, and no service either. It was appalling. This was coming at the end of a very long period of time where the 20% earnings growth was still very much in the psyche of the management team, I have to say. So that is just not a sustainable position, it really isn't.

But I would -- again, I would differentiate very strongly, because I don't want you to read across the other parts of our Pest business. This is a unique problem to the UK. The Continental European businesses are better priced and better margined and have seen really good, in the circumstances, year-on-year top line development. This is a UK issue.

**Unidentified Audience Member**

And then volume assumptions in City Link, if pricing is going to be down mid to (multiple speakers)?

**Michael Murray** - *Rentokil Initial plc - CFO*

[Produced] -- sorry, going forward on volume assumptions, without touching the numbers, my experience, certainly within TNT, is this is exactly what the City Link team are doing. They are investing in service and that's what we do. We invest in service in terms of technology, in terms of trade and development, systems, integration the whole way through.

And we found it is, okay, you may get through a dip when the economy dips, of course; that's natural. But you can be damn sure when you come back out of that dip that if you provide the service that your volumes will certainly pick up. And in the longer term, I'm not saying this is back to the numbers. The longer term, if you do get that competitive edge, it does give you advantage also from a pricing differential.

**Unidentified Audience Member**

Okay, thanks.

**Alan Brown** - *Rentokil Initial plc - CEO*

And then we'll go to the back after this, I'm sorry.

**David Hancock** - *Morgan Stanley - Analyst*

Good morning. It's David Hancock from Morgan Stanley. Can I just ask you a couple of questions to start with on the longer-term cost saving agenda? You talked about GBP500m of spend on administration. Now, I'm sure we'd love you to give us a sense of how much of that you think you can take out. Maybe you're not going to do that precisely this morning, but can you just talk a bit about what the spend is on in that GBP500m? And you did talk about making those savings in 2010/2011. Do you have a sense at this stage of what the balance might be like between timing '10 and 2011?

And, secondly, on cost savings. Again, on Continental European Textile and Washroom Services, again, I'm sure you're not going to give us a sense of magnitude. But, again, can you talk about timing, so, when you'll be looking at the other 60 plants and when you might hope to get some of these savings, please?

**Alan Brown** - *Rentokil Initial plc - CEO*

On administration, GBP500m, it does -- I have to say, it does include property costs which are about GBP70m across the Group. We have over 1,000 leased properties across the business. Pretty well every lease in the business now comes to me for authorization and, surprise, surprise, we seem to be needing a lot less leases than we used to. So we're making some progress in that area. Albeit counterbalanced a bit by the need to invest in City Link to improve -- reduce the number of depots but improve the size somewhat in some [places].

The vast majority of the rest of the expenditure is on people costs. Really, it's predominantly about people costs. And that then comes back to the inefficiencies of the way in which we work and of the rework we're having to do. Again, I've previously indicated to you that we have 583 people working purely on credit control across our organization. In our shared services center in Dudley, I think we've got 27 people on what we call cash allocation, which is basically the task of opening an envelope, getting out a check and deciding who's paid you, to try and get it against the right point in the sales ledger. And the inefficiency there has been obscene. So we're making progress.

We've very recently introduced a computer system which predicts, based on previous payment records, who the check is from. And we've found that has made an enormous difference to the speed of cash allocation across the business, then only leaving about 10% of those checks requiring manual intervention to decide who they come through. You might think, well, surely people send in a receipt with -- or send in the invoice with their payment. They don't; it's quite inefficient.

Of course, the big solution is to go to direct debit and then you avoid the whole thing completely. The whole thing's automatically matched up. So it's all of the detail. That's the challenge about this, David. You've got umpteen processes going on. You've got what we call the prospect to contract bit, which is about the sales guy getting the details right. I have a particular insight on the problems we have there.

We've got one customer in Northern Ireland, who happens to be my brother, and he decided to take on Washing Service. They obviously didn't check his credit readiness, otherwise they wouldn't have gone anywhere near him. But, anyway, they did. And basically, rightly, he was signed up for direct debit.

It took the business four months to actually get any money out of him. And that wasn't his fault, I have to say. It was because when they took down the details of the direct debit, they took down details of his wife and, yet, took down the bank account number of the company. And, surprise, surprise, the bank wouldn't pay it because the details didn't match up. So it was just this absolutely irritating admin errors that are going on across our business that we've got to sort out. That requires rigorous processes to be put in place across the organization. (Multiple speakers) doing it.

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**Michael Murray** - *Rentokil Initial plc - CFO*

I think the issue which is rather ironic is that there is too many people actually providing less quality than less people would. Because there are either no processes, or processes that don't connect, or poorly-defined processes and that's at a people level. So, as Alan said, this issue of rework, so going back and re-invoicing again costs more money. If you're obviously not satisfying your customer, they don't pay.

My experience, again, is if you actually do invest in standardized processes and best practice processes [for] the sum investment involved, but you actually -- in the long run it's cheaper because you've got less people performing the same process. You've got systems in place of manual intervention. So, overall, you provide better quality and it's actually cheaper to do so.

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**Alan Brown** - *Rentokil Initial plc - CEO*

So it's lots of bits and pieces of opportunity. Let me try and move on to some of the other questions you raised.

On the European Textiles side, we will know the capacity utilization within a month or thereabouts, no doubt about that. The much more difficult thing, of course, is what action you then take as a result of that. I think it will become pretty obvious what we have to do. But the implementation timescales require a lot of thought. And I've consistently said this is not a quick turnaround in most areas. And this will take the four years we've got in my view to see serious improvement in the capacity utilization, given the intractability of some of the market conditions we're working in in Europe.

I think those are the -- did I miss anything in particular?

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**David Hancock** - *Morgan Stanley - Analyst*

No, that's great. And then just one more on cash flow. So, if we look at the comments you made about headroom on your available facilities February 18 compared to the end of the year 2008, it looks like cash generation was pretty decent in the first six weeks of the year. Is there anything unusual in that?

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**Michael Murray** - *Rentokil Initial plc - CFO*

There's nothing unusual. Bear in mind we're stating the cash flow at certain points of time. And cash, throughout the month, it goes up and it goes down due to various things like payroll, whatever else. So we've given you two points in time. What we're saying is that both points are pretty comfortable points, I think. And if plans go accordingly that we can at least maintain that headroom, obviously, dependent on the economic barriers. But we've got comfortable headroom at the moment and our plans tell us that it will remain so.

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**David Hancock** - *Morgan Stanley - Analyst*

Thank you.

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**Karl Green** - *American Securities - Analyst*

Thanks. It's [Karl Green] from [American Securities]. I've got three questions, if I may. The first one is on pricing trends over the last two to three months. You did note some of the, I think you called it, crazy pricing in the Parcels business. Are there any other areas across the Group where you've seen a notable change in pricing activity from competitors or approaches from customers that's worth drawing out?

My second question is about bad debt provisioning. If you strip out the UK Washrooms exceptional GBP6m hit, where did bad -- or where do bad debt provisions as a percentage of sales currently stand? And what was the bad debt charge you took in the P&L in 2008? And maybe some sort of comment about how you see that progressing in 2009?

And then my final question is quite specific on Facility Services. I'm not sure that the narrative is apples and apples. But if I look at the implied organic growth in Cleaning in fourth quarter, I think you have been flagging contracts falling away. But it does look like that really did take quite a bash in the fourth quarter. Can you identify what the specific Q4 organic growth was in Cleaning? And, again, how you see that panning out through 2009, if possible? Thank you.

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**Alan Brown** - *Rentokil Initial plc - CEO*

Yes, I'll leave Michael to see if he can find what the growth was in Facility Service and Cleaning. He may struggle a bit with that. I don't know the answer to that.

I should, by the way, tell you I'm wearing a bit of a hair shirt on Facility Services. The business -- the great thing about it, of course, is if you lose a business, the [2P] arrangements mean you also lose the costs very quickly. And the business has focused very well on margin for a number of years. And we've also actually had some quite good new business wins, to be honest with you. But we had a couple of chunky losses, particularly Marks and Spencer's, over the course of 2008.

On pricing, no, City Link is the area where the real battle front is. We're seeing people -- pricing consignments roundabout GBP3.50 which, by industry standards, is just, in our view, suicidal. For our particular quality of service, I have to say, which we often find the customer doesn't like very much, but that's where we are. I don't see that prevalent elsewhere. You might argue UK Pest there is some variation in pricing as well, which is quite competitive.

On bad debt, the provisions have gone up substantially. I think we're about GBP18m bad debt provisions at the end of 2007. We're GBP30m provisions at the end of 2008. There is a currency impact in there, so that's partly because of the change in currency.

And we've introduced a guide -- strong guideline across the organization where we take a provision of 50% on any debt more than six months from the date of invoice. And we take 100% on any debt more than 365 days from date of invoice. We don't regiment that policy, but it's the guideline policy and if any company -- business unit varies from that, then we want to know why. We want to have a justification for that? So that also, in part, then, has led to the increase in bad debt provisions. I think we've been much more conservative about it and I'm reasonably comfortable where we are on that.

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**Michael Murray** - *Rentokil Initial plc - CFO*

Yes, could you please clarify the question again? I suspect we may come back -- what was the question?

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**Alan Brown** - *Rentokil Initial plc - CEO*

Growth in quarter four.

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**Karl Green** - *American Securities - Analyst*

It is just the Q4 Cleaning (inaudible).

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**Michael Murray** - *Rentokil Initial plc - CFO*

Yes, we'll come back to that one later.

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**Hector Forsythe** - *Oriel Securities - Analyst*

Hello, Hector Forsythe from Oriel Securities. A quick one for you. Can you just break out where you expect your CapEx to go this year, and the nature of that?

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**Alan Brown** - *Rentokil Initial plc - CEO*

Yes. Well, [Trevor] asked me the same question yesterday at the Board meeting. It's -- in general terms, yes, of course the bulk of the CapEx is related to the Textiles and Washrooms business in Europe, and that is 60%. And, of that, quite a chunk goes on what we call equipment for rental, which is about replacing the garments and the towel rolls, etc., etc., and there's a chunk which goes on the [plant].

I smile wryly because it has become quite clear to me, as we've been pushing on the CapEx issue over the last few weeks, that the business has not really had a strong focus on this ever before. And we're introducing a level of challenge to CapEx which the business is not familiar with. So what I would certainly believe strongly is that, for 2009, the CapEx will be obviously maybe below the GBP230m odd we spent in 2008.

And I don't think for a moment we're going to damage the business by doing that. I think it will just be much more efficient and rational where we're spending money. As I said before, we're going to have to make some choices about what plants we do not spend in if we don't see a longer-term future in them. But I wouldn't want to give any forecast at this stage about where that number, which can be south of GBP230m, will go at this stage.

**Michael Murray** - *Rentokil Initial plc - CFO*

The CapEx in 2008, as you can see, was GBP238m. I probably should have answered this question, but anyway. One thing I can say, whilst I'm not obviously part of the history, is my focus will be very much, as Alan has been talking about, on the cash front, with one exception, and that's not at the cost of service. Service must remain or improve.

So it will be on issues such as CapEx, rigorous control, rigorous review. And we've already implemented that process I think over the last two or three weeks in terms of most things come through to us at the center of a material nature, and the same for other aspects in terms of looking at the costs, looking at the administration, looking at procurement. So there will be absolute focus from me and from the Finance Directors on that area.

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**Hector Forsythe** - *Oriel Securities - Analyst*

If I may, then, just moving on, one more question, [as you've] left the microphone with me. You've got GBP50m of cost savings coming out of the business. Can you give some indication of the cost of delivering those cost savings? And are you expecting any exceptional costs during the course of this year?

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**Alan Brown** - *Rentokil Initial plc - CEO*

We have already taken provisions, as you see, in quarter four on City Link. The costs related to the delivery of the GBP6m are predominantly book write-offs rather than cash costs. So, for example, the City Link provisions are related to the current book value of the trailers and the cages. Now, of course, some of the trailers are leased so we will incur some costs in termination of those leases. But the costs, such as they are, will be predominantly asset write-offs. The cash costs are not so significant.

I can tell you that the rates of return on the big City Link investments, in terms of internal rate of return, are in excess of 40%. So you've got a payback of roundabout two years.

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**Hector Forsythe** - *Oriel Securities - Analyst*

Are there likely to be exceptional costs during the course of this year?

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**Alan Brown** - *Rentokil Initial plc - CEO*

There may be some small exceptional costs, unless we identify bigger opportunities. For example, if we were to see that there was an opportunity for more immediate plant rationalization in Europe, we might take some exceptional costs. I'll have to think about that, because we're fortunate in a way that we own most of our plants in Europe.

We own the property on the majority of those 61 plants. So in normal markets of course, you have an opportunity then to dispose of the property, which often indeed defrays quite a lot of the restructuring costs. But these are special times so I wouldn't want to be too particular. I'm not saying we are going to take a big restructuring provision for Europe in 2009, but it is possible we will have an opportunity to do so down the line.

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**Hector Forsythe** - *Oriel Securities - Analyst*

Thank you.

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**John McAdam** - *Rentokil Initial plc - Chairman*

Maybe we'll take two more questions, perhaps, and then we'll finish up.

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**Maria Gantua** - *Merrill Lynch - Analyst*

Hi, good morning. This is [Maria Gantua] from Merrill. A quick question on your financial strategy going forward. Your leverage obviously has increased substantially year on year, and you are implementing quite a few strategies to deliver cash. Are you committed to de-lever going forward? And also are you committed into your investment grade rating? Thank you.

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**Michael Murray** - *Rentokil Initial plc - CFO*

Obviously, we're committed to our investment grade rating for reasons that, I guess, should be clear. In terms of the cash going forward, yes, again we've talked about one of our main focus areas is to maintain and have more comfortable headroom. We've talked about the areas through which that will come, through the operations but also identified costs areas through looking at cash, through looking at the collection of debtors so and so forth. So aim number one is to get the cash through the operations, and two is to increase our headroom as much as we possibly can. So, did I answer your question?

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**John McAdam** - *Rentokil Initial plc - Chairman*

Any more questions? Good. Thank you very much indeed.

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