Notes to the Parent Company Accounts

1. Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivatives) and are in accordance with generally accepted accounting principles and standards in the United Kingdom and comply with the Companies Act 1985.

2. Principal accounting policies

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. In the opinion of the directors the value of such investments are not less than shown at the balance sheet date.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost (where hedge accounting is not applied); any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Where fair value hedge accounting is applied the borrowings are subsequently revalued at each balance sheet date and the difference is offset against the fair value movement of the derivative (the hedging instrument) in the income statement.

Borrowings are classified as current liabilities unless the company has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date under both its committed bank credit facility and Euro Medium Term Note programme.

Deferred income tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable profits which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold. Neither is deferred tax recognised on overseas profits where there is no commitment to remit those profits to the UK.

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension commitments

Rentokil Initial plc is the sponsoring company of a multi-employer defined benefit pension scheme, Rentokil Initial Pension Scheme (RIPS).

An actuarial valuation of the defined benefit scheme is carried out every three years. The most recent actuarial valuation was at 1 April 2005. It was carried out using the projected unit credit method and the principal assumptions made by the independent professional actuary are disclosed in the consolidated financial statements of Rentokil Initial plc.

As the company is unable to identify its share of the underlying assets and liabilities in RIPS, it treats the scheme on a defined contribution basis.

Financial instruments and risk management

The company and group's policy in respect of financial instruments and risk management are disclosed in the Accounting Policies section of the consolidated financial statements.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options, for the acquisition of a business, are included in the cost of the acquisition as part of the purchase consideration.

Where the company purchases the company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the company's equity holders.

Share-based compensation

The company operates a number of equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the profit and loss account equivalent to the fair value of the benefit awarded. The fair value of options over the company's shares awarded to employees of subsidiary companies is treated as a capital contribution, resulting in an increase in investments. The fair value is determined by reference to option pricing models, principally Monte Carlo and adjusted Black-Scholes models. The charge is recognised in the profit and loss account over the vesting period of the award. At each balance sheet date, the company revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimates is reflected in the profit and loss account with a corresponding adjustment to equity immediately to the extent it relates to past service and the remainder over the rest of the vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Dividend distribution

Dividend distribution to the company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the company's shareholders. Interim dividends are recognised when paid.

3. Company profit and loss account

Of the loss attributable to shareholders, a deficit of £35.5m (2005: £156.9m) is dealt with in the accounts of Rentokil Initial plc. The deficit includes a special pension contribution of £nil (2005: £200m), tax credits of £15.6m (2005: £63.4m), audit fees of £0.3m (2005: £0.4m) and a credit of £0.8m (2005: £1.2m) in respect of derivatives. Under section 230 of the Companies Act 1985, a profit and loss account for the company alone is not presented.

4. Investments

	2006 £m	2005 £m
At 15 March 2005		–
At 1 January 2006	**2,460.0**	
Acquisition of Rentokil Initial 1927 plc[1]	**–**	1,810.4
Transfer of medium term notes held in Rentokil Initial 1927 plc[2]	**–**	647.5
Share-based payments to employees of subsidiaries	**(1.8)**	2.1
At 31 December	**2,458.2**	2,460.0

1 With effect from 21 June 2005 the company acquired the entire share capital of Rentokil Initial 1927 plc by way of share exchange. One ordinary share of £1 in Rentokil Initial plc was exchanged for one ordinary share of 1p in Rentokil Initial 1927 plc. The mid-market price of Rentokil Initial plc shares on 21 June was 157.5p.

2 On 21 December 2005, the Medium Term Notes held in Rentokil Initial 1927 plc were transferred to Rentokil Initial plc by way of a capital contribution.

The company has no other direct subsidiary undertakings.

5. Other debtors

	2006 £m	2005 £m
Amounts owed by subsidiary undertakings	**463.3**	–
Other debtors	**1.3**	–
Corporation tax asset	**48.7**	18.4
Deferred tax asset*	**30.3**	45.0
	543.6	63.4

*The deferred tax comprises the timing difference on the 2005 special contribution to the Rentokil Initial Pension Scheme.

6. Derivative financial instruments

	Fair value assets		Fair value liabilities	
	2006 £m	2005 £m	2006 £m	2005 £m
Interest rate swaps:				
– fair value hedge	**6.9**	16.7	**(10.4)**	(0.8)
Forward rate agreements:				
– non-hedge	**1.0**	–	**–**	–
Cross-currency interest rate swaps:				
– non-hedge	**–**	0.2	**(0.5)**	–
– fair value hedge	**–**	–	**(2.7)**	(0.7)
Foreign exchange swaps:				
– non-hedge	**0.1**	–	**(0.9)**	–
– fair value hedge	**–**	–	**(0.5)**	–
	8.0	16.9	**(15.0)**	(1.5)
Analysed as follows:				
Due within one year	**8.0**	–	**(4.6)**	–
Due after more than one year	**–**	16.9	**(10.4)**	(1.5)
	8.0	16.9	**(15.0)**	(1.5)

Fair value hedge accounting has been applied to related derivatives (marked as "fair value hedge") in accordance with FRS 26, "Financial Instruments: Measurement". Where no hedge accounting has been applied, related derivatives have been marked as "non-hedge". The related derivative and the hedged notes are both marked-to-market and the ineffective portion of the hedge is taken directly to finance costs. Further details are provided in the consolidated financial statements.

7. Creditors – amounts falling due within one year

	2006 £m	2005 £m
Other creditors	**1.6**	–
Amounts due to subsidiary undertaking	**201.5**	232.4
	203.1	232.4

8. Bank and other borrowings

	2006 £m	2005 £m
Amounts falling due within one year	**546.1**	53.3
Amounts falling due after one year	**854.1**	640.7

Current and non-current loans include £383.3m (2005: £15.3m) and £603.1m (2005: £640.4m) respectively of notes issued under the company's ?2.5bn Euro Medium Term Note programme.

The company operated the following medium term notes under its ?2.5bn Euro Medium Term Note programme for the year ended 31 December 2006 and the period ended 31 December 2005:

Currency/Amount	FRS 26 hedging	Interest coupon	Maturity date
£15m	NH	Floating rate – 6 month GBP LIBOR +0.35%	matured
¥3,000m	FV	Fixed rate – 0.60% pa	13.04.07
$10m	NH	Floating rate – 3 month USD LIBOR +0.35%	17.05.07
?500m	FV, NIH	Fixed rate – 5.75% pa	21.05.07
?100m	NH	Floating rate – 3 month EURIBOR +0.28%	03.07.08
£250m	FV	Fixed rate – 6.125% pa	19.11.08
£300m	FV	Fixed rate – 5.75% pa	31.03.16

Key: FV – Fair value hedge accounting applied
NH – Hedge accounting not applied
NIH – Designated for Net Investment Hedging

The medium term notes detailed are subject to a deed of guarantee issued by Rentokil Initial 1927 plc on 9 December 2005.

The effective interest rate on the ?500m note is 5.9%. The effective interest rates on the £250m and £300m notes are 6.20% and 5.82% respectively. For all other bonds the effective interest rate approximates to the coupon. The floating rate bonds (and the related cross-currency swaps) that are not designated as hedges in accordance with FRS 26 are carried on the balance sheet at amortised cost and retranslated at the period end rate. The related swap (a derivative) is marked-to-market at the period end date. The exchange effect on the bond and the movement on the swap revaluation are both reported within finance costs and act as a natural hedge.

Other borrowings of £413.8m (2005: £38.3m) represent bank loans and overdrafts and are held at amortised cost. Further details are provided in the consolidated financial statements.

9. Share capital

	2006 £m	2005 £m
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid		
At 15 March 2005 – 2 shares of £1 each		–
At 1 January 2006 - 1,813,839,693 shares of 1p each	**18.1**	
Issue of new share capital – nil shares of £1 each (2005: 1,810,429,096)	**–**	1,810.4
Reduction in nominal value of shares from £1 to 1p	**–**	(1,792.3)
Share options exercised – 593,268 shares of 1p each (2005: 3,410,595)	**–**	–
At 31 December – 1,814,432,961 shares of 1p each (2005: 1,813,839,693)	**18.1**	18.1

The company was incorporated on 15 March 2005 with an authorised share capital of £4,100,050,000 comprising 4,100,000,000 ordinary shares of £1 each and 50,000 fixed rate redeemable preference shares of £1 each. Two ordinary shares were allotted for cash, and fully paid, on incorporation. By a special resolution passed on 22 March 2005, all 50,000 fixed redeemable preference shares were allotted for cash and were paid up as to one-quarter (by virtue of the holder giving an undertaking to pay up each share to such amount, pursuant to section 738(2) of the Companies Act 1985). The balance of the amounts due was paid up on 23 June 2005 and on the same day these fixed redeemable preference shares were redeemed at par and cancelled.

On 21 June the company issued 1,810,429,096 shares of £1 each in exchange for 1,810,429,096 ordinary shares in Rentokil Initial 1927 plc. On 23 June 2005, the nominal value of the ordinary shares was reduced from £1 each to 1p each by way of a Court approved capital reduction scheme in accordance with section 135 of the Companies Act 1985.

At 31 December 2006 the following options had been granted and remain outstanding in respect of the company's ordinary shares of 1p each under the company's share option schemes:

	Granted	Exercise period	Exercise price (p)	Number of shares
Savings-related scheme (UK)	2001	2004 - 2007	204.000	105,345
Executive schemes	1997	2000 – 2007	204.634	1,789,786
	1998	2001 – 2008	371.670	2,176,001
	1999	2002 – 2009	270.000	2,665,800
	2000	2003 – 2010	156.500	4,015,968
	2001	2004 – 2011	205.250	3,911,313
	2002	2005 – 2012	266.750	3,121,423
	2003	2006 – 2013	204.500	3,491,654
	2004	2007 – 2014	152.000	5,151,915
	2005	2008 – 2015	160.500	5,591,390
				32,020,595

The company received total consideration of £0.9m (2005: £5.3m) during 2006 on the exercise of share options.

Performance Share Plan

The company introduced a new share-based Performance Plan in 2006 and granted 9,521,516 shares on 31 May 2006. See note 28 of the group financial statements for more information regarding the company's share option schemes and performance plans.

Year of Grant	Exercise Period	Number 31 December 2005	Granted	Lapsed	Number 31 December 2006
2006	2009-2016	–	9,521,516	6,910	9,514,606

For more information regarding the company's share option schemes and Performance Share Plan, see note 28 of the group consolidated financial statements.

10. Share premium

	2006 £m	2005 £m
At 15 March 2005		–
At 1 January 2006	5.3	
Premium on shares issued during the year under the share option schemes	0.9	5.3
At 31 December	6.2	5.3

11. Profit and loss account

	2006 £m	2005 £m
At 15 March 2005		–
At 1 January 2006	1,589.0	
Reduction in nominal value of shares	–	1,792.3
Own shares transferred from Rentokil Initial 1927 plc	–	(11.1)
Loss for the financial period (note 3)	(35.5)	(156.9)
Dividend paid	(133.3)	(38.5)
Deferred shares issued	(1.9)	–
Share-based payments charged to profit and loss	1.8	1.1
Share-based payments (credited)/charged to investments	(1.8)	2.1
Exchange adjustments	8.8	–
At 31 December	1,427.1	1,589.0

Treasury shares of £11.1m (2005: £11.1m) have been netted against retained earnings. Treasury shares represent 7.4m (2005: 7.4m) shares held by the Rentokil Initial Employee Share Trust. The market value of those shares at 31 December 2006 was £12.3m (2005: £12.1m). Dividend income from, and voting rights on, the shares held by the Trust have been waived. There are a further 0.7m (2005: nil) shares held in trust for the benefit of the chief executive. See the remuneration report on pages 46 to 53. The market value of these shares at 31 December 2006 was £1.2m (2005: £nil).

12. Contingent liabilities

The company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings.

In addition, there are contingent liabilities in respect of litigation, none of which are expected to give rise to any material loss.

13. Pension commitments

At 31 December 2006, the RIPS pension deficit under IAS 19, "Employee Benefits" amounted to £108.3m (2005: £169.8m). The directors are of the opinion that there is no material difference between an FRS 17, "Retirement Benefits" and an IAS 19 valuation. As sponsoring company, Rentokil Initial plc reached an agreement with the pension Trustees and made a special contribution of £200m in December 2005 to reduce the pension deficit and a further £30m was contributed in January 2007. The remaining deficit will be met by a series of payments ending no later than January 2012.

14. Share-based payments

Share-based payments for the financial period were £nil (2005: £3.2m) of which £1.8m (2005: £1.1m) was charged to the profit and loss account and £1.8m credited to investments. Share options relating to the board are disclosed in the directors' remuneration report and detailed share-based payment disclosures are shown in note 28 of the consolidated financial statements.

15. Related party transactions

The company has not undertaken any transactions with related parties during the year, other than transactions with fellow members of Rentokil Initial plc. Such transactions are exempt from disclosure under FRS 8.

16. Post-balance sheet events

A final dividend of 5.25p (2005: 5.25p) has been recommended by the board of directors.

On 31 January 2007, the parent company made a further contribution of £30m to the UK pension scheme.