

Notes to the accounts

For the year ended 31 December

1. Segment information

(a) Primary reporting format – business segments

At 31 December 2008, the group is organised on a worldwide basis into five main business segments: Textiles and Washroom Services, Pest Control, Ambius, City Link and Facilities Services. The segment results for the years ended 31 December 2008 and 31 December 2007 are shown below:

	Revenue ¹ 2008 £m	Revenue ¹ 2007 £m	Operating profit 2008 £m	Operating profit 2007 £m
Continuing operations				
Textiles and Washroom Services	797.3	693.2	110.6	124.0
Pest Control	465.7	377.2	55.9	66.9
Ambius	136.0	120.6	6.3	7.1
City Link	381.9	417.1	(70.9)	8.4
Facilities Services	629.0	595.3	27.2	38.0
Central items	–	–	(47.0)	(32.5)
	2,409.9	2,203.4	82.1	211.9
Interest payable and similar charges	–	–	(153.5)	(140.4)
Interest receivable	–	–	91.6	68.5
Share of profit from associates (net of tax) – Textiles and Washroom Services	–	–	2.6	2.0
Profit before income tax	–	–	22.8	142.0
Income tax expense	–	–	(6.4)	(30.3)
Total for the year from continuing operations	2,409.9	2,203.4	16.4	111.7
Discontinued operations (after income tax)				
Discontinued business segments ²	–	180.8	5.0	546.8
Total for the year from discontinued operations	–	180.8	5.0	546.8
Total for the year (including discontinued operations)	2,409.9	2,384.2	21.4	658.5

¹ The segmental revenue is presented net of inter segment trading. Inter segment trading amounts to £78.5m (2007: £68.7m). Of this £73.2m (2007: £62.2m) originates in the Facilities Services segment.

² Profit in 2008 represents the release of a provision no longer considered required in respect of a discontinued business. Profit in 2007 represents the profit after tax on the disposal of the Electronic Security business in 2007 together with the trading from 1 January 2007 to the date of disposal. Profit from the discontinued segment for the year to 31 December 2007 includes profit on disposal (after tax) of £528.6m.

Other segment items included in the consolidated income statement are as follows:

	Depreciation 2008 £m	Depreciation 2007 £m	Amortisation 2008 £m	Amortisation 2007 £m
Continuing operations				
Textiles and Washroom Services	136.2	109.4	11.3	10.5
Pest Control	17.0	13.4	22.9	12.9
Ambius	13.2	10.6	4.1	3.0
City Link	9.2	7.1	11.6	11.1
Facilities Services	9.6	9.9	4.5	3.4
Central items	1.4	1.4	0.9	0.8
Total for the year from continuing operations	186.6	151.8	55.3	41.7
Discontinued operations				
Discontinued business segment	–	1.9	–	1.8
Total for the year from discontinued operations	–	1.9	–	1.8
Total for the year (including discontinued)	186.6	153.7	55.3	43.5

Central items represent corporate expenses that are not directly attributable to any business or geographic segment.

The consolidated segment operating assets and liabilities at 31 December 2008 and 31 December 2007 and capital expenditure for the years then ended are as follows:

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m	Capital expenditure 2008 £m	Capital expenditure 2007 £m
Continuing operations						
Textiles and Washroom Services ¹	914.6	712.7	254.9	210.5	178.8	166.2
Pest Control	411.2	313.6	127.5	100.3	46.1	129.6
Ambius	104.4	81.8	24.3	20.4	19.0	22.2
City Link	365.7	388.9	91.7	73.8	13.7	39.5
Facilities Services	266.3	241.8	107.7	102.3	21.0	80.8
Central items	220.5	117.9	168.4	150.3	1.7	11.7
Total from continuing operations	2,282.7	1,856.7	774.5	657.6	280.3	450.0
Discontinued operations						
Discontinued business segment	–	–	–	–	–	9.2
Total from discontinued operations	–	–	–	–	–	9.2
Total (including discontinued)	2,282.7	1,856.7	774.5	657.6	280.3	459.2
¹ Includes associates						
– Continuing operations (associates)	15.1	7.8	–	–	–	–

Reconciliation of segment assets/liabilities to total assets/liabilities

	Assets 2008 £m	Assets 2007 £m	Liabilities 2008 £m	Liabilities 2007 £m
Segment assets/liabilities as above	2,282.7	1,856.7	774.5	657.6
Deferred tax assets	10.1	7.9	–	–
Cash and cash equivalents	104.1	95.7	–	–
Current tax liabilities	–	–	90.5	103.1
Bank and other short-term borrowings	–	–	92.2	380.4
Bank and other long-term borrowings	–	–	1,374.1	662.4
Deferred tax liabilities	–	–	127.5	98.5
Total assets/liabilities	2,396.9	1,960.3	2,458.8	1,902.0

Segment assets primarily consist of property, plant and equipment, investments, intangible assets, inventories and receivables. Segment liabilities primarily consist of payables and provisions for other liabilities and charges. Cash and cash equivalents and bank and other short-/long-term borrowings are managed by group treasury and therefore it is not considered appropriate to analyse these by business or geographic segment. Assets and liabilities are allocated to business and geographic segments on a specific basis.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

(b) Secondary reporting format – geographical segments

The group manages its business segments on a global basis. The operations are located in the five main geographical areas shown in the table below. The United Kingdom is the home country of the parent company.

The Asia Pacific segment comprises operations based mainly in Australia, New Zealand and Asia. The North American segment comprises the USA, Canada and Caribbean businesses.

The revenue analysis in the table below is based on the country where the order is received and would not be materially different if based on the country in which the customer (or total assets) is located.

	Revenue 2008 £m	Revenue 2007 £m	Total assets 2008 £m	Total assets 2007 £m	Capital expenditure 2008 £m	Capital expenditure 2007 £m
Continuing operations						
United Kingdom	1,050.5	1,085.0	607.6	647.7	39.1	102.9
Continental Europe	938.5	769.3	968.8	714.1	174.0	206.4
North America	193.1	162.3	195.6	143.6	20.5	27.7
Asia Pacific ¹	195.9	158.0	271.3	217.7	39.8	99.2
Africa	31.9	28.8	18.9	15.7	5.2	2.8
	2,409.9	2,203.4	2,062.2	1,738.8	278.6	439.0
Central items	–	–	220.5	117.9	1.7	11.7
Total from continuing operations	2,409.9	2,203.4	2,282.7	1,856.7	280.3	450.7
Discontinued operations						
United Kingdom	–	84.7	–	–	–	2.2
Continental Europe	–	86.8	–	–	–	6.8
North America	–	9.3	–	–	–	0.2
Total from discontinued operations	–	180.8	–	–	–	9.2
Total (including discontinued)	2,409.9	2,384.2	2,282.7	1,856.7	280.3	459.9

¹ Includes associates.

Analysis of revenue by category

	Continuing operations 2008 £m	Continuing operations 2007 £m	Discontinued operations 2008 £m	Discontinued operations 2007 £m
Contract service revenue (including rental income)	1,731.2	1,525.2	–	65.2
Non-contract service revenue	613.1	616.8	–	110.1
Franchise income	–	5.4	–	–
Sales of goods	65.6	56.0	–	5.5
	2,409.9	2,203.4	–	180.8

(c) Reconciliation of statutory segmental analysis to management divisional analysis

The commentary in the business review reflects the management divisional structure and not the segmental information presented above. For statutory purposes, the businesses within the geographic divisions of Asia Pacific and South Africa (Other) have been reallocated back to the relevant business segment in line with the requirements of IAS 14, "Segmental Reporting". In addition, the commentary in the business review is presented at constant exchange rates and before the amortisation of intangible assets* and impairment of goodwill. The tables that follow reconcile the segmental information presented above to the divisional performance referred to in the review of performance contained within the business review.

	Statutory basis 2008 £m	Asia Pacific and Other 2008 £m	Foreign exchange 2008 £m	Management basis 2008 £m	Management basis 2007 £m
Revenue from continuing operations					
Textiles and Washroom Services	797.3	(98.7)	(86.3)	612.3	605.5
Pest Control	465.7	(97.6)	(32.3)	335.8	302.7
Ambius	136.0	(17.1)	(10.2)	108.7	107.4
City Link	381.9	–	–	381.9	417.1
Facilities Services	629.0	(10.0)	(13.9)	605.1	586.2
Asia Pacific	–	195.9	(16.0)	179.9	158.0
Other	–	27.5	1.7	29.2	26.5
	2,409.9	–	(157.0)	2,252.9	2,203.4

	Statutory basis 2008 £m	Asia Pacific and Other 2008 £m	Amortisation and impairment of intangible assets* 2008 £m	Foreign exchange 2008 £m	Management basis 2008 £m	Management basis 2007 £m
Operating profit from continuing operations						
Textiles and Washroom Services	110.6	(21.5)	11.4	(14.5)	86.0	106.4
Pest Control	55.9	(11.2)	22.1	(7.1)	59.7	64.8
Ambius	6.3	(1.7)	4.0	(1.0)	7.6	8.7
City Link	(70.9)	–	11.0	–	(59.9)	19.4
Facilities Services	27.2	(2.8)	16.6	(0.8)	40.2	38.7
Asia Pacific	–	20.9	–	(1.2)	19.7	31.4
Other	–	8.8	–	0.5	9.3	10.2
Central items	(47.0)	7.5	0.4	0.1	(39.0)	(28.5)
	82.1	–	65.5	(24.0)	123.6	251.1

* Excluding computer software.

2. Operating expenses by nature

Operating expenses include the following items:

	Continuing operations 2008 £m	Continuing operations restated* 2007 £m	Discontinued operations 2008 £m	Discontinued operations 2007 £m	Total 2008 £m	Total 2007 £m
Employee costs (note 3)	1,137.2	1,017.3	–	65.0	1,137.2	1,082.3
Depreciation – owned assets	179.0	146.0	–	0.2	179.0	146.2
– under finance leases	7.6	5.8	–	1.7	7.6	7.5
Amortisation – intangible assets ¹	51.1	39.2	–	1.4	51.1	40.6
– computer software	4.2	2.6	–	0.3	4.2	2.9
Impairment of plant, property and equipment	–	1.3	–	–	–	1.3
Impairment of intangibles	14.4	–	–	–	14.4	–
Cost of inventories expensed	64.3	55.5	–	14.1	64.3	69.6
Loss/(profit) on disposal of PPE	0.8	(25.9)	–	(0.1)	0.8	(26.0)
Loss on disposal/retirement of intangible assets	1.8	9.6	–	–	1.8	9.6
Audit and non-audit services (note 4)	3.8	3.5	–	0.1	3.8	3.6
Hire of machinery and equipment	5.5	5.2	–	–	5.5	5.2
Other operating lease rentals	81.5	57.6	–	0.8	81.5	58.4
Net foreign exchange losses	0.8	1.6	–	–	0.8	1.6
Research and development costs (external)	1.7	1.7	–	–	1.7	1.7

¹ Excluding computer software.

* The 2007 numbers have been restated to reflect costs previously disclosed in a different category.

3. Employee benefit expense

	Continuing operations 2008 £m	Continuing operations restated* 2007 £m	Discontinued operations 2008 £m	Discontinued operations 2007 £m	Total 2008 £m	Total 2007 £m
Wages and salaries	975.9	876.6	–	52.7	975.9	929.3
Social security costs	140.2	122.2	–	11.1	140.2	133.3
Share-based payments	2.6	2.2	–	–	2.6	2.2
Pension costs						
• defined contribution plans	16.8	14.3	–	1.2	16.8	15.5
Pension costs						
• defined benefit plans (note 24)	1.7	2.0	–	–	1.7	2.0
	1,137.2	1,017.3	–	65.0	1,137.2	1,082.3

* The 2007 numbers have been restated to reflect costs previously disclosed in a different category.

Average monthly numbers of people employed by the group during the year

	Number	Number	Number	Number	Number	Number
Service	68,835	64,099	–	1,372	68,835	65,471
Selling	3,551	3,492	–	278	3,551	3,770
Administration	5,856	6,668	–	503	5,856	7,171
	78,242	74,259	–	2,153	78,242	76,412

Emoluments of directors of Rentokil Initial plc are included in staff costs above and in the key management compensation table in note 34.

Further details are also given in the directors' remuneration report on pages 38 to 46.

4. Audit and non-audit services

	2008 £m	2007 £m
Fees payable to the company's auditors for the audit of the parent company and group accounts	0.5	0.5
Fees payable to the company's auditors and its associates for other services:		
The audit of the company's subsidiaries, pursuant to legislation	1.9	1.8
Other services pursuant to legislation	0.4	0.3
Tax services	0.4	0.4
Corporate finance transactions	0.1	0.4
All other services	0.5	0.2
	3.8	3.6

In addition to the above services, the group's auditors acted as auditors to the Rentokil Initial Pension Scheme. The appointment of auditors to the group's pension scheme and the fees paid in respect of the audit are agreed by the trustees of the scheme, who act independently from the management of the group. The aggregate fees paid to the group's auditors for audit services to the pension scheme during the year were £73,000 (2007: £71,000).

5. Interest payable and similar charges

	2008 £m	2007 £m
Interest payable on bank loans and overdrafts	32.4	26.2
Interest payable on medium term notes issued	56.5	55.3
Net interest payable on fair value hedges	5.8	3.8
Interest on defined benefit plan liabilities	54.1	51.5
Interest payable on finance leases	1.2	1.7
Foreign exchange loss/(gain) on translation of foreign denominated loans	0.1	(0.7)
Amortisation of discount on provisions	1.6	1.5
Net ineffectiveness of fair value hedges ¹	3.4	1.1
Fair value gain on derivatives not designated in a hedge relationship ²	(1.6)	–
Total interest payable and similar charges (continuing operations)	153.5	140.4

¹ Net ineffectiveness of fair value hedges consists of income of £30.9m (2007: £4.6m) offset by charges of £34.3m (2007: £5.7m).

² The fair value gain on derivatives not designated in a hedge relationship includes fair value gains relating to forward rate agreements of £1.6m (2007: £nil).

6. Interest receivable

	2008 £m	2007 £m
Bank interest	29.9	16.2
Return on defined benefit plan assets	61.7	52.3
Total interest receivable (continuing operations)	91.6	68.5

7. Income tax expense

	2008 £m	2007 £m
Analysis of charge in the year		
UK Corporation tax at 28.5% (2007: 30%)	15.4	8.5
Double tax relief	(15.4)	(13.0)
Overseas taxation	–	(4.5)
Adjustment in respect of previous periods	(16.4)	(6.2)
Total current tax	12.4	20.9
Deferred tax*	(6.0)	9.4
Total income tax expense (continuing operations)	6.4	30.3

	2008 £m	2007 £m
*The deferred tax charge comprises:		
Accelerated tax depreciation	(1.6)	6.8
Deferred tax on retirement benefit obligations	24.4	13.5
Unremitted overseas profits	–	0.7
Other temporary differences	(28.8)	(11.6)
Deferred tax charge	(6.0)	9.4
Tax on items charged to equity		
Deferred tax debit in respect of actuarial gain on defined benefit pensions	12.8	24.1
Total tax debited to equity	12.8	24.1

The tax on the group's profit before income tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated companies as follows:

	2008 £m	2007 £m
Profit before income tax (continuing operations)	22.8	142.0
Tax calculated at domestic tax rates applicable to profits in the respective countries	7.2	42.6
Adjustment in respect of previous periods	(13.0)	(9.8)
Expenses not deductible for tax purposes – other	3.3	5.0
Income not subject to tax	(0.4)	(1.3)
Goodwill deduction for which no deferred tax asset was recognised	(0.3)	(0.4)
Utilisation of previously unrecognised tax losses	(0.8)	(4.6)
Goodwill written off	4.4	–
Deferred tax on withdrawal of Industrial Building Allowances	4.4	–
Losses not relieved	1.3	–
Deferred tax on unremitted profits	–	0.7
Provisions utilised for which no deferred tax assets was recognised	–	(2.3)
Other	0.3	0.4
Total income tax expense (continuing operations)	6.4	30.3

Adjustments in respect of previous periods represent the release of tax provisions in respect of previous periods which are no longer required following agreement of the relevant liabilities with fiscal authorities.

As a substantial proportion of profits are generated outside the UK, the standard rate of tax has been determined as the weighted average of the standard rates of tax in each of the different countries where profits are generated. The relevant rates were 31.6% in 2008 and 30.0% in 2007. The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries.

8. Discontinued operations and disposals**Disposals**

Details of net assets disposed and disposal proceeds are as follows:

	Discontinued operations £m	Other disposals £m	2008 £m
Costs deferred from prior periods	(2.1)	–	(2.1)
Cash inflow from disposals of companies and businesses	(2.1)	–	(2.1)

Financial performance of discontinued operations

	2008 £m	2007 £m
Revenue	–	180.8
Operating expenses	5.0	(156.7)
Operating profit	5.0	24.1
Finance costs – net	–	(0.2)
Profit before income tax	5.0	23.9
Taxation	–	(5.7)
Profit after income tax from discontinued operations	5.0	18.2
Profit on disposal of subsidiary net assets	–	524.8
Cumulative translation exchange gain ¹	–	3.8
Profit after income tax on disposal of net assets of companies and businesses	–	528.6
Profit for the year from discontinued operations	5.0	546.8

The £5.0m profit after tax from discontinued operations in 2008 resulted from the release of a provision in respect of legal claims.

¹ The cumulative translation exchange gain in 2007 related to discontinued operations and was recycled out of exchange reserves to the consolidated income statement.

Net cash flows from discontinued operations

	2008 £m	2007 £m
Operating	(2.1)	13.5
Investing	–	(4.6)
Total net cash flows*	(2.1)	8.9

* 2007 excludes proceeds on disposal of discontinued operations of £589.5m.

9. Earnings per share

Basic

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company by the weighted average number of shares in issue during the year, excluding those held in the Rentokil Initial Employee Share Trust for UK employees (note 25), which are treated as cancelled.

	2008 £m	2007 £m
Profit from continuing operations attributable to equity holders of the company	13.8	109.5
Profit from discontinued operations attributable to equity holders of the company	5.0	546.8
Weighted average number of ordinary shares in issue	1,807.4	1,807.2
Basic earnings per share from continuing operations	0.76p	6.06p
Basic earnings per share from discontinued operations	0.28p	30.26p
Basic earnings per share from continuing and discontinued operations	1.04p	36.32p

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares in issue to assume conversion of all potential dilutive ordinary shares. The company has two categories of potential dilutive ordinary shares, being those share options granted to employees where the exercise price is less than the average market price of the company's shares during the year and long-term incentive awards granted to key executives and managers where performance conditions have not been met and the awards are still in their vesting period at the end of the year.

	2008 £m	2007 £m
Profit from continuing operations attributable to equity holders of the company	13.8	109.5
Profit from discontinued operations attributable to equity holders of the company	5.0	546.8
Weighted average number of ordinary shares in issue	1,807.4	1,807.2
Adjustment for share options and deferred shares	–	–
Weighted average number of ordinary shares for diluted earnings per share	1,807.4	1,807.2
Diluted earnings per share from continuing operations	0.76p	6.06p
Diluted earnings per share from discontinued operations	0.28p	30.26p
Diluted earnings per share from continuing and discontinued operations	1.04p	36.32p

10. Dividends

	2008 £m	2007 £m
2006 final dividend paid – 5.25p per share	–	94.9
2007 final dividend paid – 5.25p per share	94.9	–
2007 interim dividend paid – 2.13p per share	–	38.5
2008 interim dividend paid – 0.65p per share	11.8	–
	106.7	133.4

An interim dividend of 0.65p was paid on 17 October 2008 (total £11.8m). The board is not recommending a final dividend, leaving the full year dividend of 0.65p per share (total £11.8m).

11. Intangible assets

	Goodwill £m	Customer lists and relationships £m	Brands, patents and reacquired franchise rights £m	Computer software £m	Development costs £m	Total £m
Cost						
At 1 January 2007	336.4	322.6	29.4	35.0	0.8	724.2
Exchange differences	9.9	16.6	0.2	1.5	–	28.2
Additions	–	–	–	12.6	0.1	12.7
Disposals/retirements	–	–	–	(15.2)	–	(15.2)
Acquisition of companies and businesses	105.8	96.3	16.0	0.1	–	218.2
Disposal of companies and businesses	(22.4)	(59.3)	–	(8.3)	(0.8)	(90.8)
Reclassifications	1.1	–	(1.0)	–	(0.1)	–
At 31 December 2007	430.8	376.2	44.6	25.7	–	877.3
At 1 January 2008	430.8	376.2	44.6	25.7	–	877.3
Exchange differences	57.3	78.2	6.7	5.7	–	147.9
Additions	–	–	–	8.2	–	8.2
Disposals/retirements	–	–	(1.1)	(3.5)	–	(4.6)
Acquisition of companies and businesses	14.9	25.7	1.1	–	–	41.7
Reclassifications	0.3	(0.3)	–	–	–	–
At 31 December 2008	503.3	479.8	51.3	36.1	–	1,070.5
Accumulated amortisation and impairment						
At 1 January 2007	–	(141.7)	(2.4)	(20.8)	(0.2)	(165.1)
Exchange differences	–	(9.8)	–	(1.0)	–	(10.8)
Disposals	–	–	–	5.6	–	5.6
Disposal of companies and businesses	–	14.6	–	4.7	0.2	19.5
Amortisation charge	–	(32.2)	(8.4)	(2.9)	–	(43.5)
At 31 December 2007	–	(169.1)	(10.8)	(14.4)	–	(194.3)
At 1 January 2008	–	(169.1)	(10.8)	(14.4)	–	(194.3)
Exchange differences	(2.6)	(46.4)	(1.5)	(3.7)	–	(54.2)
Disposals	–	–	1.1	1.5	–	2.6
Impairment charge	(14.4)	–	–	–	–	(14.4)
Amortisation charge	–	(42.5)	(8.6)	(4.2)	–	(55.3)
At 31 December 2008	(17.0)	(258.0)	(19.8)	(20.8)	–	(315.6)
Net Book Value						
At 1 January 2007	336.4	180.9	27.0	14.2	0.6	559.1
At 31 December 2007	430.8	207.1	33.8	11.3	–	683.0
At 31 December 2008	486.3	221.8	31.5	15.3	–	754.9

Amortisation of £55.3m (2007: £43.5m) has been charged to operating expenses.

Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and business segment. A summary of the 2008 goodwill allocation by business segment is shown below:

	UK £m	Europe £m	North America £m	Asia Pacific £m	Africa £m	2008 Total £m	2007 Total £m
Textiles and Washroom Services	8.6	75.3	–	28.4	–	112.3	101.3
Pest Control	–	17.5	66.5	40.3	–	124.3	90.8
Ambius	–	3.1	14.2	4.5	0.2	22.0	16.2
City Link	203.1	–	–	–	–	203.1	201.3
Facilities Services	13.6	–	–	11.0	–	24.6	21.2
31 December 2008	225.3	95.9	80.7	84.2	0.2	486.3	
31 December 2007	224.3	81.2	57.1	68.0	0.2		430.8

The recoverable amount of a CGU is determined based on value-in-use calculations using cash flow projections based on financial budgets and long-range plans approved by management covering a five-year period which are prepared as part of the group's normal planning process. Cash flows beyond the five-year period are extrapolated using estimated growth rates. The key assumptions used by individual CGUs for value-in-use calculations were long-term growth rates of between 0% and 2% and pre-tax discount rates of between 12% and 18% (2007: 11% and 14%). The growth rates used by individual CGUs are based on the long-term growth rates predicted for the relevant sector and country in which a business operates. They do not exceed the long-term average growth rate for that industry or country. The pre-tax discount rates are based on the group's weighted average cost of capital adjusted for specific risks relating to the relevant sector and country.

During the year an impairment charge of £14.4m in respect of current and prior year's acquisitions was made in the year. The charge related to Technivap (£6.9m) and Delcol (£5.6m) in the Facilities Service segment and Envirofresh (£1.9m) in Textiles and Washrooms segment. The impairments arose due to deteriorating trading conditions within these businesses.

The remaining goodwill balance at 31 December 2008 amounts to £486.3m with £203.1m of this relating to the acquisition of the City Link Franchisees and Target Express in previous years. The most significant assumption surrounding the recoverability of this goodwill balance relates to the future cash flows of the enlarged City Link business and the extent of the success of the initiatives being implemented to return this business to profitability. The impairment test assumes operating cash inflows in 2013 of some £30m with future years growing at rates consistent with the longer-term growth rates disclosed above. These cash flows would need to be approximately 25% below these levels before goodwill is impaired. The remaining balance of £283.2m is spread across a number of CGUs and no reasonable change in the key assumptions above would give rise to a significant impairment in these businesses.

12. Property, plant and equipment

	Land and buildings £m	Equipment for rental £m	Other plant and equipment £m	Vehicles and office equipment £m	Total £m
Cost					
At 1 January 2007	168.0	386.2	252.9	264.3	1,071.4
Exchange differences	10.6	33.4	16.2	11.3	71.5
Additions	28.0	112.5	30.5	44.5	215.5
Disposals	(19.8)	(67.1)	(21.6)	(73.7)	(182.2)
Acquisition of companies and businesses ¹	2.7	1.4	2.5	6.9	13.5
Disposal of companies and businesses	(7.0)	(3.4)	(14.3)	(41.1)	(65.8)
At 31 December 2007	182.5	463.0	266.2	212.2	1,123.9
At 1 January 2008	182.5	463.0	266.2	212.2	1,123.9
Exchange differences	40.2	137.9	61.0	47.2	286.3
Additions	13.3	136.8	29.9	49.6	229.6
Disposals	(9.6)	(64.6)	(30.8)	(52.3)	(157.3)
Acquisition of companies and businesses ¹	(1.0)	0.1	0.5	1.2	0.8
Reclassifications	(4.1)	-	2.3	1.8	-
At 31 December 2008	221.3	673.2	329.1	259.7	1,483.3
Accumulated depreciation and impairment					
At 1 January 2007	(43.3)	(207.5)	(165.5)	(142.0)	(558.3)
Exchange differences	(3.0)	(18.5)	(9.9)	(6.1)	(37.5)
Disposals	11.7	65.4	18.7	54.5	150.3
Disposal of companies and businesses	3.4	3.2	9.2	22.0	37.8
Impairment charge	-	(0.1)	(1.2)	-	(1.3)
Depreciation charge	(4.3)	(93.9)	(18.1)	(37.4)	(153.7)
At 31 December 2007	(35.5)	(251.4)	(166.8)	(109.0)	(562.7)
At 1 January 2008	(35.5)	(251.4)	(166.8)	(109.0)	(562.7)
Exchange differences	(10.6)	(78.0)	(38.3)	(26.6)	(153.5)
Disposals	4.8	63.2	28.7	44.0	140.7
Reclassifications	0.1	-	-	(0.1)	-
Depreciation charge	(6.2)	(115.7)	(23.4)	(41.3)	(186.6)
At 31 December 2008	(47.4)	(381.9)	(199.8)	(133.0)	(762.1)
Net Book Value					
At 1 January 2007	124.7	178.7	87.4	122.3	513.1
At 31 December 2007	147.0	211.6	99.4	103.2	561.2
At 31 December 2008	173.9	291.3	129.3	126.7	721.2
The net carrying amounts of assets held under finance leases are as follows:					
At 31 December 2007	18.0	-	0.5	8.7	27.2
At 31 December 2008	10.2	-	0.3	15.2	25.7

¹ Included within acquisition of companies and businesses are fair value adjustments to prior periods of (£0.6m) (2007: £nil). Refer to note 30 for further details on fair value adjustments.

The category of equipment for rental consists of equipment leased by the group to third parties under operating leases.

13. Investments in associated undertakings

	2008 £m	2007 £m
At 1 January	5.7	8.6
Exchange differences	6.5	0.7
Share of profit ¹	2.6	2.0
Dividends	(1.1)	(5.6)
At 31 December	13.7	5.7

¹ Share of profit is after tax and minority interest of associates.

Investments in associates at 31 December 2008 includes goodwill of £nil (2007: £nil).

The group's interest in its principal associate, which is unlisted, was as follows:

Name	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Profit £m	Interest held
2008						
Nippon Calmic Ltd (49%)	Japan	25.0	(10.1)	24.1	2.6	49%
2007						
Nippon Calmic Ltd (49%)	Japan	13.3	(7.6)	17.8	2.0	49%

14. Other investments

	2008 £m	2007 £m
At 1 January	3.1	6.8
Disposals	(0.2)	(3.8)
Acquisition of companies and businesses	0.1	0.1
At 31 December	3.0	3.1
Less: non-current portion	3.0	3.1
Current portion	–	–
Available-for-sale financial assets include the following:		
• UK Government gilts and US Treasury bonds	2.8	2.6
• Unlisted equity securities – Continental Europe	0.2	0.3
• Unlisted equity securities – North America	–	0.2
	3.0	3.1

All other investments are classified as available-for-sale financial assets and are valued based on public price quotations as appropriate. All revaluations of investments have been taken to equity. Changes in fair values of available-for-sale financial assets are recorded directly in equity. Other investments were not impaired in 2008 or 2007.

Available-for-sale financial assets are denominated in the following currencies:		
• Pound sterling	2.5	2.4
• US dollar	0.3	0.4
• Euro	0.2	0.3
	3.0	3.1

None of the financial assets are either past due or impaired.

Investments

Fixed rate cash deposits include £2.8m (2007: £2.6m) invested in UK and US Government bonds which are held by the group's insurance operations in accordance with local insurance regulations and are used to meet insurance liabilities as they fall due. The weighted average effective interest rate earned is 4.4% (2007: 5.2%) and the weighted average rate is fixed for 1.0 years (2007: 0.8 years).

15. Trade and other receivables

	2008 £m	2007 £m
Trade receivables	492.9	417.4
Less: provision for impairment of receivables	(31.3)	(16.8)
Trade receivables – net	461.6	400.6
Other receivables	47.8	48.3
Prepayments	42.9	51.7
Total	552.3	500.6
Less non-current portion:		
Other receivables	26.9	24.2
	26.9	24.2
Current portion	525.4	476.4

Book value approximates fair value because of the short-term nature of the receivable and the low interest environment in which they are held.

There is limited concentration of credit risk with respect to trade receivables due to the group's customer base being large and diverse.

Analysis of the group's provision for impairment of trade receivables.

	2008 £m	2007 £m
At 1 January	16.8	12.5
Disposal of companies and businesses	–	(1.5)
Additional provision	17.0	10.6
Receivables written off as uncollectible	(5.5)	(5.1)
Unused amounts reversed	(0.6)	(0.4)
Exchange differences	3.6	0.7
At 31 December	31.3	16.8

Analysis of total trade receivables which are past due but not impaired.

	2008 £m	2007 £m
Not yet due	198.4	183.2
Past due less than 1 month	143.1	110.5
Between 1 and 3 months	84.7	80.1
Between 3 and 6 months	22.5	19.1
Between 6 and 12 months	8.3	5.4
Over 12 months	4.6	2.3
	461.6	400.6

The maximum amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet. Customer credit facilities for new customers are approved by designated managers at business level. Credit limits are set with reference to trading history and reports from credit rating agencies. Overdue accounts are regularly reviewed and impairment provisions are created where necessary. As a matter of policy, all outstanding trade balances greater than 12 months are fully provided except as approved by senior management and with due regard to the historical risk profile of the customer. There were no new customers in 2008 where the group considered there was a risk of significant credit default. There are no trade receivables that would otherwise be past due or impaired whose terms have been renegotiated.

The carrying amounts of the group's trade receivables are denominated in the following currencies:

	2008 £m	2007 £m
Pounds sterling	193.8	183.5
Euro	209.7	164.7
US dollar	25.3	19.0
Other currencies	64.1	50.2
	492.9	417.4

The creation and release of provision for impaired receivables have been included within operating expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other classes within trade and other receivables do not contain impaired assets.

Other receivables consist primarily of a South African loan note and deferred consideration received in respect of business disposals. The South African loan note of £17.8m, relating to the sale of a minority interest in a South African subsidiary, has been classified as available for sale. The loan note has been revalued at 31 December 2008, using a discounted cash flow model, and the revaluation gain of £1.7m (2007: £1.3m) has been taken directly to reserves and disclosed on the face of the statement of recognised income and expense. The South African loan note has an effective interest rate of 13%.

Other receivables include £17.8m of interest bearing (the South Africa loan note – see above) and £1.3m of non-interest bearing notes and deferred consideration received in respect of business disposals. The notes/deferred consideration have final maturities between 2009 and 2014, although earlier repayments may be precipitated under the terms of the respective disposal notes/sale agreements. Apart from the South African loan note (described above), deferred consideration/disposal notes are classified as loans and receivables.

16. Derivative financial instruments

	Fair value assets 2008 £m	Fair value assets 2007 £m	Fair value liabilities 2008 £m	Fair value liabilities 2007 £m
Interest rate swaps:				
• fair value hedge	28.1	–	–	(9.6)
Forward rate agreements:				
• non-hedge	–	0.4	(1.8)	(1.0)
• cash flow hedge	–	–	(2.7)	–
Foreign exchange swaps:				
• non-hedge	0.1	0.4	(47.6)	(4.8)
• net investment hedge	1.6	–	(1.3)	(0.8)
	29.8	0.8	(53.4)	(16.2)
Analysed as follows:				
Current portion	1.7	0.8	(52.7)	(14.4)
Non-current portion	28.1	–	(0.7)	(1.8)
	29.8	0.8	(53.4)	(16.2)

Fair value hedge accounting has been applied to derivatives (marked as “fair value hedge”) in accordance with IAS 39. Where no hedge accounting has been applied, related derivatives have been marked as “non-hedge”. The related derivative and the hedged notes (described in note 21) are both fair valued and the ineffective portion of the hedge is taken directly to finance costs. The ineffective portion recognised in the profit and loss that arises from fair value hedges amounts to a loss of £3.4m (2007: loss of £1.1m) (note 5). There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

The group has £300m fixed to floating (LIBOR plus spread) interest rate swaps for which hedge accounting is applied and whose critical terms match those of the bonds disclosed in note 21.

The group has outstanding forward rate agreements maturing in between 3 to 13 months with nominal values of £300m and \$240m attracting average fixed interest rate of 4.92% and 3.13% respectively. The GBP forward rate agreements are cash flow hedge accounted while the USD forward rate agreements are non hedge accounted. A charge of £4.2m (2007: £nil) has been recognised in reserves during the year in respect of the forward rate agreements which are cash flow hedge accounted.

The nominal value of forward rate agreements is £464.7m (2007: £447.1m). The effective nominal value of foreign exchange swaps is £1,009.0m (2007: £117.6m).

17. Inventories

	2008 £m	2007 £m
Raw materials	9.3	7.1
Work in progress	1.6	3.8
Finished goods	42.5	27.5
	53.4	38.4

There were no material inventory impairment charges in 2008 and 2007.

18. Cash and cash equivalents

	2008 £m	2007 £m
Cash at bank and in hand	103.0	95.7
Short-term bank deposits	1.1	–
	104.1	95.7
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
Cash and cash equivalents	104.1	95.7
Bank overdrafts (note 21)	(41.7)	(9.2)
	62.4	86.5

Included within cash at bank and in hand is £9.7m (2007: £6.9m) of restricted cash.

Interest is receivable and payable at rates of interest varying between 0.8% and 9.4%.

Cash

Floating rate cash earns interest at commercial rates in line with local market practice. Central treasury companies invest all significant cash surpluses in major currencies (£, US\$ and euro) at money market rates. Short-term deposits are placed with banks usually for maturities of up to six months and earn interest at market rates related to the currency and the sums invested.

19. Trade and other payables

	2008 £m	2007 £m
Trade payables	138.3	110.6
Social security and other taxes	77.3	71.4
Other payables	77.2	93.6
Accruals and deferred income	260.7	207.9
Deferred and contingent consideration on acquisitions	25.6	19.5
Total	579.1	503.0
Less non-current portion:		
Other payables	14.2	17.3
Deferred and contingent consideration on acquisitions	0.4	0.4
	14.6	17.7
Current portion	564.5	485.3

20. Provisions for other liabilities and charges

	Vacant properties £m	Environmental £m	Self- insurance £m	Other £m	Total £m
At 1 January 2007	36.3	35.9	46.0	32.7	150.9
Exchange differences	–	(0.1)	(0.2)	0.3	–
Additional provisions	21.4	4.0	13.2	5.5	44.1
Reclassifications	0.5	–	1.8	(2.3)	–
Acquisitions of companies and businesses	0.7	1.0	–	0.9	2.6
Unused amounts reversed	(6.5)	(13.0)	(4.9)	–	(24.4)
Unwinding of discount on provisions	0.6	0.9	–	–	1.5
Used during the year	(17.9)	(2.6)	(12.9)	(16.8)	(50.2)
At 31 December 2007	35.1	26.1	43.0	20.3	124.5
At 1 January 2008	35.1	26.1	43.0	20.3	124.5
Exchange differences	0.1	2.7	5.0	0.5	8.3
Additional provisions	–	1.2	10.3	19.0	30.5
Unused amounts reversed – continuing	–	(1.1)	–	(1.5)	(2.6)
Unused amounts reversed – discontinued	–	–	–	(5.0)	(5.0)
Unwinding of discount on provisions	0.3	1.3	–	–	1.6
Used during the year	(5.0)	(5.1)	(13.0)	(11.7)	(34.8)
At 31 December 2008	30.5	25.1	45.3	21.6	122.5

Provisions analysed as follows:

	2008 £m	2007 £m
Non-current	91.0	73.8
Current	31.5	50.7
	122.5	124.5

Vacant properties

The group has a number of vacant and partly sub-let leasehold properties, with the majority of the head leases expiring before 2020. Provision has been made for the residual lease commitments together with other outgoings, after taking into account existing sub-tenant arrangements and assumptions relating to later periods of vacancy.

Environmental

The group owns a number of properties in the UK, Europe and the USA where there is land contamination and provisions are held for the remediation of such contamination. These provisions are expected to be substantially utilised within the next ten years.

Self-insurance

The group purchases external insurance from a portfolio of international insurers for its key insurable risks in order to limit the maximum potential loss that could be suffered in any one year. Individual claims are met in full by the group up to agreed self-insured limits in order to limit volatility in claims. During the later part of 2008, the group purchased external insurance to replace some of the previously self-insured risks. Provision is still held for self-insured past cover. The calculated cost of self-insurance claims, based on an actuarial assessment of claims incurred at the balance sheet date, is accumulated as claims provisions.

Other

Other provisions principally comprise amounts required to cover obligations arising, warranties given and costs relating to disposed businesses together with amounts set aside to cover certain legal and regulatory claims. These provisions are expected to be substantially utilised within the next five years.

The above provisions have been discounted where appropriate using a discount rate of 3.0% (2007: 3.2%) for the UK and 2.1% (2007: 2.2%) for the USA.

21. Bank and other borrowings

	2008 £m	2007 £m
Non-current		
Bank borrowings	437.2	1.6
Other loans	921.3	651.3
Finance lease liabilities	15.6	9.5
	1,374.1	662.4
Current		
Bank overdrafts (note 18)	41.7	9.2
Bank borrowings	13.9	11.7
Other loans	32.0	351.4
Finance lease liabilities	4.6	8.1
	92.2	380.4
Total bank and other borrowings	1,466.3	1,042.8

The group's policy is to fund its businesses centrally with borrowings that are substantially denominated (90% or greater) in the same currency or effective currency as those operations, and in the same proportion as the group's forecast cash flows generated by those businesses. Due to the issues experienced at City Link in 2008 and the subsequent underperformance of sterling cash flows, there has been a switch away from sterling debt toward euro and dollar denominated debt. The mix of the group's debt and various notes are shown below. The £300m, £50m and €500m notes are held under the group's 2.5bn Euro Medium Term Note programme.

	Matures	IAS 39 hedging	Interest coupon	2008 £m	2007 £m
£300m Bond	03/16	FV	Fixed rate – 5.75% pa	(339.6)	(304.8)
£250m Bond	11/08	FV	Fixed rate – 6.125% pa	–	(250.1)
£75m Bond	09/13	NH	Floating rate – 3 month LIBOR +3.98%	(75.5)	–
£50m Bond	10/13	NH	Floating rate – 3 month LIBOR +3.25%	(49.8)	–
Sterling RCF bank drawings				(80.0)	–
Sterling legs of foreign exchange swaps		Mainly NIH		355.4	15.5
€500m Bond	03/14	NIH	Fixed rate – 4.625% pa	(487.7)	(373.3)
€100m Bond	07/08	NH	Floating rate – 3 month EURIBOR +0.28%	–	(74.5)
Euro RCF bank drawings				(191.5)	–
Euro foreign exchange swaps		Mainly NIH		(315.6)	45.6
US dollar RCF bank drawings				(164.7)	–
US dollar foreign exchange swaps				(39.8)	(61.1)
Finance leases in various currencies				(20.2)	(17.6)
Non-current bank borrowings				(1.0)	(0.9)
Notes issued by subsidiaries of Rentokil Initial plc				(0.7)	(0.7)
Current bank borrowings				(13.9)	(11.7)
Net cash and cash equivalents				62.4	86.5
Net debt				(1,362.2)	(947.1)

Key:

FV – Fair value hedge accounting applied

NH – Hedge accounting not applied

NIH – Designated for Net Investment Hedging

The group has two committed bank lines – a £500m revolving credit facility which expires in October 2012 and a £125m revolving credit facility which has an initial expiry date of December 2009 but which is extendable, at the group's sole option, to September 2010.

In September 2008, £75m was raised through the issue of 25-year Floating Rate Reset Notes. From issue until August 2013 the Reset Notes will bear interest at three-month LIBOR +3.98%. Thereafter the interest rate will be 4.55% plus a credit spread which will be reset every two years by auction. Noteholders may put the Reset Notes back to the issuer, at par, in August 2013 and on each biennial interest reset date thereafter. The group may call the Reset Notes at fair market value on interest payment dates from August 2011. If not put or called, the Reset Notes will mature in August 2033.

In October 2008, £50m was raised through the issue of Floating Rate Notes due 2013.

The effective interest rates on the £300m, £75m, £50m and €500m notes are 5.82%, 8.13%, 6.33% and 5.00% respectively. The floating rate bonds are not designated as hedges in accordance with IAS 39 and are carried on the balance sheet at amortised cost. The interest rate swap (a derivative) related to the £300m note is fair valued at the period end date.

Floating rate loans bear interest at rates, based on the relevant national borrowing rate benchmark equivalents (e.g. – £ LIBOR), which are fixed in advance usually for periods of between one and 12 months.

The group has no significant fixed rate debt except for the fixed rate bonds disclosed above. The £300m bond is designated in a fair value hedge which converts the bond to floating interest rates. The €500m bond is designated for net investment hedging. The floating rate exposure is managed using forward rate agreements which all mature within one year, except for a contract with a nominal value of \$240m which matures within 13 months.

Other borrowings represent bank loans and overdrafts and are held at amortised cost.

Fair value hedge accounting has been applied to all the notes and related derivatives marked as "FV" ("fair value hedge") in accordance with IAS 39. The related derivative and the hedged note are both fair valued and the ineffective portion of the hedge is taken directly to finance costs. Where no hedge accounting has been applied, all the notes and related derivatives have been marked as "NH" ("non-hedge") and any changes are taken to finance costs.

The fair value of current bank and other borrowings equals their carrying amount as the impact of discounting is not significant. The fair value and carrying amount of non-current bank and other borrowings are shown in the table below.

	Carrying amount 2008 £m	Carrying amount 2007 £m	Fair value 2008 £m	Fair value 2007 £m
Bank borrowings	437.2	1.6	437.2	1.6
Other loans	921.3	651.3	641.6	635.1
Finance lease liabilities	15.6	9.5	15.6	9.5
	1,374.1	662.4	1,094.4	646.2

The fair values are based on cash flows discounted using a rate based on the associated borrowing rate.

Net investment hedging

The group has designated the €500m note as a hedge of the net investment in its subsidiaries in the eurozone. The fair value of the euro note at 31 December 2008 was £487.7m (2007: £359.6m). The group has entered into foreign currency swaps to convert Euro and USD debt into synthetic GBP debt. These swaps achieve hedge accounting and are accounted for as net investment hedges. They had a fair value as at 31 December 2008 of £0.3m with a maturity of between one and sixteen months.

The foreign exchange loss of £103.2m (2007: £2.5m loss) on translation of the borrowings into sterling has been recognised in exchange reserves. Where net investment hedging has been applied to the medium term notes, the related note has been marked with a "NIH".

Finance leases

Finance lease payments fall due as follows:

	2008 £m	2007 £m
Not later than one year	8.9	7.7
Between		
• one and two years	6.3	5.9
• two and three years	3.6	3.1
• three and four years	1.7	1.2
• four and five years	1.2	0.4
• over five years	–	0.5
Future finance charges on finance leases	(1.5)	(1.2)
Present value of finance lease liabilities	20.2	17.6

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

22. Maturity profile of financial liabilities

The table below analyses the group's financial liabilities, which will be settled on a net basis into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. Balances due within 12 months equal their carrying value as the impact of discounting is not significant.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2008					
Borrowings	104.1	48.7	706.6	854.1	1,713.5
Derivative financial instruments	4.0	0.5	–	–	4.5
Trade and other payables	349.8	14.2	–	–	364.0
Finance leases	8.9	6.3	6.5	–	21.7
Other	40.0	4.0	11.6	12.4	68.0
	506.8	73.7	724.7	866.5	2,171.7
At 31 December 2007					
Borrowings	395.9	34.4	102.8	772.2	1,305.3
Derivative financial instruments	1.0	–	–	–	1.0
Trade and other payables	300.6	17.3	–	–	317.9
Finance leases	7.7	5.9	4.7	0.5	18.8
Other	41.9	5.1	1.7	8.1	56.8
	747.1	62.7	109.2	780.8	1,699.8

Other include £42.4m (2007: £37.3m) in respect of provisions related to underlying onerous lease contracts and £25.6m (2007: £19.5m) in respect of deferred consideration.

The table below analyses the group's derivative financial instruments, which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2008					
Foreign exchange swaps					
• Outflow	1,982.2	877.6	–	–	2,859.8
• Inflow	1,960.3	849.6	–	–	2,809.9
Net outflow	(21.9)	(28.0)	–	–	(49.9)
At 31 December 2007					
Interest rate swaps					
• Outflow	44.3	18.1	54.1	63.4	179.9
• Inflow	32.6	17.3	51.8	69.0	170.7
Foreign exchange swaps					
• Outflow	164.1	–	–	–	164.1
• Inflow	158.5	–	–	–	158.5
Net (outflow)/inflow	(17.3)	(0.8)	(2.3)	5.6	(14.8)

The carrying amounts of the group's financial liabilities are denominated in the following currencies:

	Borrowings 2008 £m	Borrowings 2007 £m	Trade payables and other 2008 £m	Trade payables and other 2007 £m	Total 2008 £m	Total 2007 £m
Pound sterling	570.3	562.3	192.5	183.7	762.8	746.0
Euro	703.6	464.2	155.2	120.4	858.8	584.6
US dollar	166.8	3.7	28.1	22.5	194.9	26.2
Other currencies	25.6	12.6	54.0	45.9	79.6	58.5
	1,466.3	1,042.8	429.8	372.5	1,896.1	1,415.3

All financial liabilities are held at amortised cost except for derivatives which are held for trading.

Foreign currency risk

The group uses debt denominated in foreign currencies to provide either a natural offset in the income statement of the translation of foreign currency assets or to designate borrowings and foreign exchange forward agreements as net investment hedges of the foreign currency assets of subsidiaries, with translation gains or losses taken to equity.

Similarly, the group's businesses do not undertake significant cross border trade and therefore are not subject to significant foreign currency transaction risk.

Undrawn committed borrowing facilities

The group had the following undrawn committed borrowing facilities (including letters of credit of £45.7m (2007: £44.9m)) available at 31 December 2008 and 31 December 2007 in respect of which all continuing conditions precedent had been met at that date.

	2008 £m	2007 £m
Expiring within		
• one year, or on demand	–	44.9
• one and two years	170.7	–
• two and three years	–	–
• three and four years	63.8	–
• four and five years	–	500.0
• over five years	–	–
	234.5	544.9

The committed borrowing facilities in the above table are subject to guarantees by Rentokil Initial 1927 plc.

Risk management**(i) Financial risk factors**

The group's activities expose it to market risk, credit risk, liquidity and cash flow interest rate risk.

(a) Market risk

The group is exposed to market risk, primarily related to foreign exchange and interest rate risk. The group's objective is to reduce, where it is deemed appropriate to do so, fluctuations in earnings and cash flows associated with changes in interest rates, foreign currency rates and of the currency exposure of certain net investments in foreign subsidiaries. To achieve this, management actively monitors these exposures and the group enters into currency and interest rate swaps, forward rate agreements and forward foreign exchange contracts to manage the volatility relating to these exposures. The group enters into derivative financial instruments solely for hedging purposes.

The group targets forecast currency cash flows to determine a foreign exchange overlay structure that results in the currency split of the group's borrowings reflecting that of the forecast currency cash flows. In addition, the group runs an active net investment hedging programme that in turn results in relatively small revaluation foreign exchange gains and losses recognised in the income statement. No sensitivity analysis has been disclosed for foreign exchange risk as the amounts involved are not significant.

(b) Credit risk

The group has no significant concentrations of credit risk. It has policies in place to ensure that sales of goods and services are made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions. The maximum credit risk exposure of the group's financial assets at the end of the period is represented by the amounts reported under the corresponding balance sheet headings. No foreign exchange sensitivities have been disclosed as the amounts involved are insignificant.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, the group aims to maintain flexibility in funding by keeping committed credit lines available.

(d) Cash flow interest rate risk

The group's interest rate risk arises from its Medium Term Note borrowings and bank facilities. Borrowings issued at variable rates expose the group to cash flow interest rate risk. Borrowings issued at fixed rates expose the group to fair value interest rate risk.

The group normally manages its interest rate exposure by converting fixed rate debt into floating rate debt in the currency required to fund the group's activities through the use of interest rate and cross-currency swaps. Fair value hedge accounting is sought for these relationships.

The group's floating interest rate profile is then managed through the use of forward rate agreements and caps which are cash flow hedge accounted or non hedge accounted as deemed appropriate.

The group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the group calculates the impact on profit and loss of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies. The scenarios are run only for liabilities that represent the major interest-bearing positions. Based on the simulations performed, the impact on profit or loss of a 1% shift would be a maximum increase/decrease of £6m (2007: 0.1%, £1.1m) before forward rate agreements and caps entered into as hedges. The simulation is done on a monthly basis.

(ii) Capital risk management

The group's objectives when managing capital are to safeguard the group's ability to continue as a going concern in order to provide benefits for shareholders and other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The group is in compliance with the financial and other covenants within its committed bank credit facilities as well as all obligations relating to the notes issued under the Euro Medium Term Note (EMTN) programme.

The board has set the following policies so as to minimise the company's exposure to liquidity risk and thus ensure that the company is able to meet its liabilities as they fall due.

The company is committed to maintaining a debt/equity capital structure that is sufficiently robust so as to ensure the continued access to a broad range of financing sources and thus be able to maintain sufficient flexibility to pursue commercial opportunities. The company will target a minimum financing head room of £200m, when measured against its latest forecast/anticipated cash flows over a rolling 12-month time horizon. The company's sources of finance should be structured in a manner so as to minimise potential re-financing risk particularly arising from a bunching of debt/note facility maturities.

The company's financing sources are diversified, across the international banking and capital markets, so as to avoid the over-reliance upon a single source, or disproportionately large source, of funds from an individual capital market note issue or bank finance provider. At 31 December 2008, the group's credit rating was BBB- with a negative outlook.

We continue to target a stable BBB+ rating in the medium term. The board believes that a key priority must be to retain sufficient financing flexibility to fund its business turnaround strategy.

23. Deferred income tax

The movement on the deferred income tax account is as follows:

	2008 £m	2007 £m
At 1 January	(90.6)	(37.9)
Exchange differences	(17.1)	(5.2)
Acquisition of companies and businesses	(2.9)	(25.9)
Disposal of companies and businesses	–	10.9
Transfers to current taxation	–	0.1
Charged to the income statement*	6.0	(8.5)
Charged to equity	(12.8)	(24.1)
At 31 December	(117.4)	(90.6)

* Includes deferred tax credit of £nil (2007: £0.9m credit) in respect of discontinued operations.

Deferred taxation has been presented on the balance sheet as follows:

Deferred tax asset within non-current assets	10.1	7.9
Deferred tax liability within non-current liabilities	(127.5)	(98.5)
	(117.4)	(90.6)

The major components of deferred tax assets and liabilities at the year end (without taking into consideration the offsetting of balances within the same tax jurisdiction) is as follows:

	Customer lists/ intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Tax losses £m	Other £m	Total £m
At 31 December 2007	63.3	43.1	(9.4)	11.2	–	(17.6)	90.6
At 31 December 2008	54.0	54.3	27.4	11.2	(11.4)	(18.1)	117.4

Unprovided deferred tax assets in respect of unutilised tax losses amount to £52.3m (2007: £33.0m). Of the losses, £15.0m will expire at various dates between 2009 and 2027. Capital losses carried forward amount to £79.7m (2007: £77.6m). Other deferred tax assets amounting to £28.7m (2007: £10.4m) have not been recognised due to the uncertainty regarding their utilisation.

Deferred tax liabilities have not been recognised in respect of withholding tax and other taxes that would be payable on unremitted earnings of certain subsidiaries as such amounts are permanently reinvested. If these earnings were remitted, tax of £83.3m (2007: £69.4m) would be payable.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

Of the £117.4m (2007: £90.6m) deferred tax liability, £7.2m (2007: £6.2m) will reverse in the next 12 months.

24. Retirement benefit obligations

Apart from the legally required social security state schemes, the group operates a number of pension schemes around the world covering many of its employees. The major schemes are of the defined benefit type with assets held in separate trustee administered funds.

The principal scheme in the group is the Rentokil Initial Pension Scheme ("RIPS") in the United Kingdom, which has a number of defined benefit sections which are now closed to new entrants (other than the Initial No 2 Section, accounting for 0.5% of the total schemes liabilities, which remains open). Actuarial valuations of the UK scheme are usually carried out every three years. The most recent full valuation was at 31 March 2007.

These defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19 requirements. The principal assumptions used for the UK RIPS scheme are shown below.

	2008	2007
Weighted average %		
Discount rate	6.4%	6.0%
Expected return on plan assets	6.0%	6.1%
Future salary increases	3.7%	4.1%
Future pension increases	2.9%	3.4%

The expected return on plan assets in the above table is a long-term rate of return. Assets with higher historic volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is a weighted average of the expected return for each asset class over the benchmark asset allocation for the scheme at 31 December 2008, less an appropriate allowance for the cost of maintaining the swap portfolio.

Mortality assumptions

At 31 December 2008, standard tables PNMA00 and PNFA00 projected based on the year of the member's birth using the PA92 series Medium Cohort projection factors (incorporating underpins to annual improvements in mortality rates of 1.0% for males and 0.5% for females). The mortality rates are scaled by a factor of 130% for "non-executive" members and by 85% for "executive" members. This equates to a man aged 65 living for a further 20.0 years if he is a "non-executive" member and for a further 23.5 years if he is an "executive" member. The corresponding figures for a woman are 22.1 and 26.0 years respectively.

At 31 December 2007, standard tables PMA92 and PFA92 projected using the Medium Cohort projection factors to calendar year 2016 for current pensioners and calendar year 2026 for future pensioners. The mortality rates are scaled by a factor of 125% for "non-executive" members. This equates to a man aged 65 living a further 20.7 years if he is a "non-executive" member, or 22.3 years if he is an "executive" member. The corresponding figures for women were 23.4 and 25.1 years respectively.

Pension benefits

The amounts recognised in the balance sheet are determined as follows:

	2008 UK RIPS £m	2008 Other ¹ £m	2008 Total £m	2007 UK RIPS £m	2007 Other ¹ £m	2007 Total £m
Present value of funded obligations	(874.4)	(27.3)	(901.7)	(910.1)	(21.8)	(931.9)
Fair value of plan assets	1,028.8	20.5	1,049.3	974.0	18.9	992.9
Present value of unfunded obligations	154.4	(6.8)	147.6	63.9	(2.9)	61.0
	-	(12.7)	(12.7)	-	(11.0)	(11.0)
Asset/(liability) in the balance sheet	154.4	(19.5)	134.9	63.9	(13.9)	50.0
Presented on the balance sheet as:						
Retirement benefit assets	154.4	-	154.4	63.9	-	63.9
Retirement benefit obligations	-	(19.5)	(19.5)	-	(13.9)	(13.9)
	154.4	(19.5)	134.9	63.9	(13.9)	50.0

The amounts recognised in the income statement are as follows:

	2008 UK RIPS £m	2008 Other ¹ £m	2008 Total £m	2007 UK RIPS £m	2007 Other ¹ £m	2007 Total £m
Current service cost ²	0.5	1.2	1.7	0.7	1.3	2.0
Interest cost ²	53.2	0.9	54.1	50.4	1.1	51.5
Amount charged to pension liability	53.7	2.1	55.8	51.1	2.4	53.5
Expected return on plan assets ²	(60.8)	(0.9)	(61.7)	(51.0)	(1.3)	(52.3)
Total pension (income)/cost	(7.1)	1.2	(5.9)	0.1	1.1	1.2

¹ Other retirement benefit plans are predominantly made up of defined benefit plans situated in Ireland, Germany, Australia, Belgium, Norway and France.

² Service costs are charged to operating expenses and interest cost and return on plan assets to interest payable and receivable respectively.

The movement in the fair value of pension plan assets recognised in the balance sheet is as follows:

	2008 UK RIPS £m	2008 Other £m	2008 Total £m	2007 UK RIPS £m	2007 Other £m	2007 Total £m
At 1 January	974.0	18.9	992.9	903.9	17.2	921.1
Exchange differences	–	5.3	5.3	–	1.6	1.6
Expected return on plan assets	60.8	0.9	61.7	51.0	1.3	52.3
Actuarial gain/(loss) during the year	6.1	(3.1)	3.0	(11.9)	(1.4)	(13.3)
Contributions received from employees	0.1	0.2	0.3	0.2	0.1	0.3
Contributions received from employer	33.9	1.1	35.0	80.6	1.0	81.6
Benefits paid	(46.1)	(2.8)	(48.9)	(49.8)	(0.9)	(50.7)
At 31 December	1,028.8	20.5	1,049.3	974.0	18.9	992.9

The fair value of plan assets at the balance sheet date is analysed as follows:

	2008 UK RIPS £m	2008 Other £m	2008 Total £m	2007 UK RIPS £m	2007 Other £m	2007 Total £m
Equity instruments	134.4	6.0	140.4	175.0	6.7	181.7
Debt instruments	584.8	13.8	598.6	703.5	10.7	714.2
Property	–	0.5	0.5	–	0.8	0.8
Other	48.0	0.2	48.2	55.5	0.7	56.2
Swaps	261.6	–	261.6	40.0	–	40.0
Total plan assets	1,028.8	20.5	1,049.3	974.0	18.9	992.9

Where available, the bid value of assets has been used. In other cases, the market value as provided by the investment managers has been used. Other includes £33.3m of cash paid into an escrow account by the company during the year and has been included as an asset of the pension scheme as it is considered unlikely that these funds will return to the company.

Pension plan assets include the company's ordinary shares with a fair value of £0.1m (2007: £0.1m).

The movement in the present value of the defined benefit obligation recognised in the balance sheet is as follows:

	2008 UK RIPS £m	2008 Other £m	2008 Total £m	2007 UK RIPS £m	2007 Other £m	2007 Total £m
At 1 January	910.1	32.8	942.9	1,012.2	27.7	1,039.9
Exchange differences	–	8.2	8.2	–	2.0	2.0
Total expense charged in the income statement	53.7	2.1	55.8	51.1	2.4	53.5
Actuarial (gain)/loss during the year	(43.4)	(0.5)	(43.9)	(103.6)	1.5	(102.1)
Contributions received from employees	0.1	0.2	0.3	0.2	0.1	0.3
Benefits paid	(46.1)	(2.8)	(48.9)	(49.8)	(0.9)	(50.7)
At 31 December	874.4	40.0	914.4	910.1	32.8	942.9

The history of the plan for the current and prior periods is as follows:

	2008 £m	2007 £m	2006 £m	2005 £m	2004 £m
Present value of defined benefit plan liabilities	(914.4)	(942.9)	(1,039.9)	(1,057.1)	(896.7)
Fair value of plan assets	1,049.3	992.9	921.1	874.8	584.9
Net surplus/(deficit)	134.9	50.0	(118.8)	(182.3)	(311.8)
Experience adjustments on plan liabilities	(15.6)	(14.0)	16.2	18.9	8.8
Experience adjustments on plan assets	6.1	(13.3)	20.1	73.1	11.6

The group made a contribution of £33.3m to the UK defined benefit scheme in 2008 (2007: £80.0m). As the UK defined benefit scheme is in surplus, there are no contributions planned until the finalisation of the next valuation which is due in March 2010.

The expected return on plan assets is based on market expectations at the beginning of the year. The actual return on plan assets was £64.7m (2007: £39.0m).

The cumulative actuarial gain recognised in the statement of recognised income and expense was £15.9m (2007: £31.0m loss). An actuarial gain of £46.9m (2007: £88.8m) was recognised during the year.

25. Statement of changes in equity

	Attributable to equity holders of the company					
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Minority interests £m	Total equity £m
At 1 January 2007	18.1	6.2	(1,728.6)	1,164.3	6.4	(533.6)
Total recognised income for the year	-	-	4.5	723.2	-	727.7
Dividends paid to ordinary shareholders	-	-	-	(133.4)	-	(133.4)
New share capital issued	-	0.6	-	-	-	0.6
Cost of share options and long-term incentive plan	-	-	-	2.0	-	2.0
Minority interest share of profit	-	-	-	(2.2)	2.2	-
Minority interest acquired	-	-	-	-	0.7	0.7
Cumulative exchange recycled to income statement on disposal of foreign subsidiary	-	-	(3.8)	-	-	(3.8)
Currency translation difference on minority interest	-	-	-	-	0.1	0.1
Dividends paid to minority interests	-	-	-	-	(2.0)	(2.0)
At 31 December 2007	18.1	6.8	(1,727.9)	1,753.9	7.4	58.3
At 1 January 2008	18.1	6.8	(1,727.9)	1,753.9	7.4	58.3
Total recognised (expense)/income for the year	-	-	(70.6)	55.5	-	(15.1)
Dividends paid to ordinary shareholders	-	-	-	(106.7)	-	(106.7)
Cost of share options and long-term incentive plan	-	-	-	2.6	-	2.6
Minority interest share of profit	-	-	-	(2.6)	2.6	-
Currency translation difference on minority interest	-	-	-	-	0.6	0.6
Dividends paid to minority interests	-	-	-	-	(1.6)	(1.6)
At 31 December 2008	18.1	6.8	(1,798.5)	1,702.7	9.0	(61.9)

Treasury shares of £11.1m (2007: £11.1m) have been netted against retained earnings. Treasury shares represent 7.4m (2007: 7.4m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2008 was £3.3m (2007: £8.9m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

	Other reserves					Total £m
	Capital reduction reserve £m	Legal £m	Cash flow hedge reserve £m	Translation reserve £m	Available for sale £m	
At 1 January 2007	(1,722.7)	10.4	–	(15.6)	(0.7)	(1,728.6)
Net exchange adjustments offset in reserves	–	–	–	3.2	–	3.2
Available-for-sale investments marked to market	–	–	–	–	1.3	1.3
Total recognised income for the year	–	–	–	3.2	1.3	4.5
Cumulative exchange recycled on disposal of foreign subsidiary	–	–	–	(3.8)	–	(3.8)
At 31 December 2007	(1,722.7)	10.4	–	(16.2)	0.6	(1,727.9)
At 1 January 2008	(1,722.7)	10.4	–	(16.2)	0.6	(1,727.9)
Net exchange adjustments offset in reserves	–	–	–	(68.1)	–	(68.1)
Movement in cash flow hedge reserve	–	–	(4.2)	–	–	(4.2)
Available-for-sale investments marked to market	–	–	–	–	1.7	1.7
Total recognised (expense)/income for the year	–	–	(4.2)	(68.1)	1.7	(70.6)
At 31 December 2008	(1,722.7)	10.4	(4.2)	(84.3)	2.3	(1,798.5)

The capital reduction reserve arose in 2005 as a result of the scheme of arrangement of Rentokil Initial 1927 plc under section 425 of the Companies Act 1982 to introduce a new holding company, Rentokil Initial plc and the subsequent reduction in capital approved by the High Court whereby the nominal value of each ordinary share was reduced from 100p to 1p. The effect of this capital reorganisation transaction, which was treated as a reverse acquisition in the group financial statements, was to increase distributable reserves by £1,792.3m.

	2008 £m	2007 £m
Share capital		
Authorised		
4,100,000,000 ordinary shares of 1p each	41.0	41.0
Issued and fully paid		
At 1 January – 1,814,831,011 shares (2007: 1,814,432,961)	18.1	18.1
Share options exercised – nil shares (2007: 398,050)	–	–
At 31 December – 1,814,831,011 shares (2007: 1,814,831,011)	18.1	18.1

26. Share-based payments

The company has share option schemes for approximately 500 senior executives worldwide. The exercise price for share options is the mid-market closing price immediately preceding the date of grant. Share options are equity settled.

Grants of share options under the Discretionary Approved and Discretionary Schemes (the “Discretionary Schemes”) are calculated by reference to base salaries and management grade in the company. There are three levels of qualification under the Discretionary Schemes. Level 1 applies to all senior executives (including executive directors), Level 2 and deferred share schemes apply to executive directors and sector managing directors. They are summarised as follows:

Level 1:

Before the exercise of an option under Level 1, the company's annual growth in earnings per share on average over the first three consecutive calendar years, commencing in the year in which the option is granted, is at least 4% per annum in excess of the UK rate of inflation. Failing this, the company's annual growth in earnings per share on average over a greater period (up to a maximum of ten years) is at least 4% in excess of the UK rate of inflation.

Level 2:

The exercise condition under Level 2 is by reference to total shareholder return, i.e. the appreciation of the share price (including reinvested dividends) in comparison with the performance of the FTSE 100 index and a defined group of support services companies being used as comparators, during three consecutive calendar years commencing in the year in which the option is granted, on the following basis:

If the company achieves a median performance in relation to the FTSE 100 index, then 25% of the Level 2 share options will vest, rising pro rata to 50% if the company achieves a performance in the upper quartile of the FTSE 100 and, in addition, if the company achieves a median performance in the group of support services companies, then 25% of the Level 2 share options will vest, rising pro rata to 50% if the company achieves a performance in the upper quartile in a group of support services companies.

Deferred share schemes: shares have been offered to executive directors and divisional managing directors to compensate for loss of bonuses or share options in their previous employment on joining the group during 2005. Deferred shares are awarded to members based upon being in continued employment at the time of meeting the various grant dates in the future.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Weighted average exercise price p per share	Number of share options ooo
Outstanding at 1 January 2007	205.333	31,915
Exercised	155.448	398
Expired	217.602	6,692
Outstanding at 31 December 2007	202.825	24,825
Expired	216.409	12,018
Outstanding at 31 December 2008	190.078	12,807

Out of the 12.8m outstanding options, 2,639,812 options were exercisable at a weighted average price of 231.181p per share. No options were exercised during the period.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Granted	Exercise period	Exercise price (p)	Number of shares
Executive schemes	1999	2002–2009	270.000	1,057,175
	2000	2003–2010	156.500	1,763,851
	2001	2004–2011	205.250	1,582,637
	2002	2005–2012	266.750	1,443,626
	2003	2006–2013	204.500	1,541,286
	2004	2007–2014	152.000	2,581,293
	2005	2008–2015	160.500	2,836,730
				12,806,598

Performance Share Plan

The company introduced a new share based Performance Plan in 2006 and granted 9,521,516 shares in May 2006, 10,173,589 at various dates throughout 2007 and a further 10,245,358 in 2008.

Year of Grant	Vesting Year	Number 31 December 2007	Granted	Lapsed	Number 31 December 2008
2006	2009	8,527,251	–	332,058	8,195,193
2007	2010	9,707,074	–	1,283,362	8,423,712
2008	2011	–	10,245,358	–	10,245,358

The performance conditions for the 2006 and 2007 awards are earnings per share (“EPS”) growth for 50% of an award and total shareholder return (“TSR”) for the remaining 50% of an award. For 75% of the TSR portion of an award, performance is measured by comparing the company’s relative TSR performance to that of constituents of the FTSE 100 (excluding financial services companies). For the remaining 25% of the TSR portion of an award, the company’s TSR performance is measured against the constituents of an international group of support services companies. Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period.

The performance conditions for the 2008 awards are share price and the financial performance (“bonus multiplier”) of the group, division or business whichever is applicable to the award holder. The share price condition is based on the highest average share price of Rentokil Initial plc over any sixty consecutive dealing days during the initial three-year period. The performance period for the share price element of the award began on 1 April 2008 and ends sixty-one dealing days following the announcement of the company’s results for the financial year ending 31 December 2010. The annual bonus multiplier measures the extent to which the annual bonus targets have been achieved in respect of each financial year during the performance period. The 2008 awards in the above table assume an on target share price of 180p per share is reached at the end of the vesting period and that participants achieve their target bonus in each of the three years over the vesting period. No shares will vest if the share price does not reach 120p per share at the end of the vesting period and 200% will vest if the share price reaches 180p per share and all participants attain 110% of their bonus targets. Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period.

The fair value of the 2008 awards made under 2006 Performance Share Plan is charged to the income statement over the vesting period based on values derived from a bespoke Monte Carlo simulation model. The significant inputs into the model were a share price of 102p, an expected share price volatility of 21%, an expected dividend yield of 5% per annum and an expected life commensurate with the performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices measured until October 2007 (therefore excluding the significant volatility during the last months of 2007, which the company would not expect going forward). As the awards are nil-cost (i.e. there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards.

Executive Share Plan

In 2008, the company also introduced a long-term incentive plan for the chairman, chief executive and one other executive director and granted 22,500,000 during the year.

Year of Grant	Exercise period	Number 31 December 2007	Granted	Lapsed	Number 31 December 2008
2008	2011 – 2013	–	22,500,000	–	22,500,000

The performance condition for the award is share price and will only be satisfied if the share price target is achieved over a sustained period, demonstrating realisable value creation for shareholders. This will be measured on the basis of an average share price over any 60 consecutive trading days during the performance measurement period. Until a minimum share price of 120p per share has been met over a sustained period, no shares will be earned. At 120p per share, 20% of the award would be earned, rising on a straight-line basis to full vesting at a share price of 180p per share. For achieving growth in market value between a share price of 180p per share and 280p per share further shares may be earned up to a maximum of a further 50% of the original award. The 2008 awards in the same table assume an on target share price of 180p per share is reached at the end of the vesting period. Up to 1/3 of the award

may vest following the end of the third year, another $\frac{1}{3}$ following the end of the fourth year and a further $\frac{1}{3}$ following the end of the fifth year, based on the extent to which performance targets are achieved. Any unvested portion of the award following the end of the fifth year will lapse. Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period. See the Remuneration report on pages 38 to 46 for further details.

The fair value of the 2008 awards made under the Rentokil Initial 2008 Share Incentive Plan is charged to the income statement over the vesting period based on values derived from a bespoke Monte Carlo simulation model. The significant inputs into the model were a share price of 102p, an expected share price volatility of 21%, an expected dividend yield of 5% per annum and an expected life commensurate with the performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices measured until October 2007 (therefore excluding the significant volatility during the last months of 2007, which the company would not expect going forward). As the awards are nil-cost (i.e. there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards.

The total net charge for the year relating to equity-settled share-based payment plans was £2.6m (2007: £2.2m).

27. Cash generated from operating activities

	2008 £m	2007 £m
Profit for the year	21.4	658.5
Adjustments for:		
• Profit on sale of discontinued operations	–	(524.8)
• Cumulative translation exchange gain recycled on discontinued operations	–	(3.8)
• Profit on sale of continuing operations	–	(0.3)
• Discontinued operations tax and interest	–	5.9
• Tax	6.4	30.3
• Share of profit from associates	(2.6)	(2.0)
• Interest income	(91.6)	(68.5)
• Interest expense	153.5	140.4
• Depreciation	186.6	153.7
• Amortisation and impairment of intangible assets*	65.5	40.6
• Amortisation of computer software	4.2	2.9
• LTIP charges	2.6	2.2
• Loss/(profit) on sale of property, plant and equipment	0.8	(26.0)
• Impairment of property, plant and equipment	–	1.3
• Loss on disposal/retirement of intangible assets	2.0	9.6
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
• Inventories	(5.3)	0.8
• Trade and other receivables	33.4	(27.5)
• Trade and other payables and provisions	(24.9)	(41.4)
Cash generated from operating activities before special pension contribution	352.0	351.9
Special pension contribution	(33.3)	(80.0)
Cash generated from operating activities	318.7	271.9
<i>* Excluding computer software.</i>		
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount	16.6	31.9
(Loss)/profit on sale of property, plant and equipment	(0.8)	26.0
Proceeds from sale of property, plant and equipment	15.8	57.9

28. Reconciliation of net increase/(decrease) in cash and bank overdrafts to net debt

	2008 £m	2007 £m
Net increase/(decrease) in cash and bank overdrafts	79.1	(32.6)
Movement on finance leases	1.6	11.9
Movement on loans	(228.8)	304.7
(Increase)/decrease in debt resulting from cash flows	(148.1)	284.0
Acquisition of companies and businesses	-	(4.4)
Disposal of companies and businesses	-	9.1
Revaluation of net debt	(39.5)	(5.5)
Net debt translation differences	(227.5)	(42.1)
Movement on net debt in the year	(415.1)	241.1
Opening net debt	(947.1)	(1,188.2)
Closing net debt	(1,362.2)	(947.1)
Closing net debt comprises:		
Cash and cash equivalents	104.1	95.7
Bank and other short-term borrowings	(92.2)	(380.4)
Bank and other long-term borrowings	(1,374.1)	(662.4)
Total net debt	(1,362.2)	(947.1)

29. Free cash flow

	2008 £m	2007 £m
Net cash flows generated from operating activities	225.3	187.9
Add back: special pension contribution	33.3	80.0
	258.6	267.9
Purchase of property, plant and equipment (PPE)	(222.6)	(206.6)
Purchase of intangible fixed assets	(8.2)	(12.7)
Leased property, plant and equipment	(7.0)	(9.4)
Proceeds from sale of PPE and intangible assets	15.8	57.9
Proceeds from sale of available-for-sale investments	-	3.4
Dividends received from associates	1.1	5.6
Dividends paid to minority interests	(1.6)	(2.0)
Interest element of finance lease payments	(1.2)	(2.0)
Free cash flow	34.9	102.1

30. Business combinations

The group purchased 100% of the share capital of Ray Werk, an Austrian Textiles company on 31 December 2008. The group also made asset purchases of Delcol, a company based in Malaysia supplying bottled water, on 8 January 2008 and Watch All, a pest control business in the USA, on 1 March 2008. The group also purchased 100% of the share capital and trade and assets of a number of smaller companies and businesses. The total consideration for all acquisitions during the year was £42.0m.

Details of goodwill and the fair value of net assets acquired are as follows:

Acquisition consideration by management division	2008 £m
Textiles and Washroom Services	6.4
Pest Control	17.0
Ambius	1.2
City Link	2.2
Facilities Services	0.5
Asia	14.7
Other	–
	42.0

Details of goodwill and the fair value of net assets acquired are as follows:

	Ray Werk £m	Delcol £m	Watch All £m	Other £m	2008 £m
Purchase consideration:					
• Cash paid	0.6	4.6	4.2	18.3	27.7
• Direct costs relating to the acquisition	0.4	–	0.2	3.7	4.3
• Consideration deferred to future periods	5.1	–	0.5	4.2	9.8
• Direct costs deferred to future periods	0.1	–	–	0.1	0.2
Total purchase consideration	6.2	4.6	4.9	26.3	42.0
Fair value of net assets acquired	(3.7)	1.0	(2.2)	(22.2)	(27.1)
Goodwill	2.5	5.6	2.7	4.1	14.9

In common with the majority of the previous acquisitions made by the group, goodwill of £14.9m represents synergies, both in increased revenues and reduced costs, expected to be realised in all current year acquisitions.

In addition to the synergies above, the goodwill arising from the premium paid for Ray Werk represents the potential benefits and synergies available to the group from introducing its existing services to the Ray Werk customer base and geographic markets.

The goodwill attributable to the Watch All acquisition represents the premium paid to establish a presence in a geographic segment of the US market and to benefit from further integration synergies available to the group.

The goodwill attributable to the acquisition of Delcol represented the premium paid by the group to enter a new market segment in Asia. This decision was subsequently reversed resulting in the withdrawal from this market and the impairment of the associated goodwill in 2008.

Further goodwill is attributable to the work force in all of the acquired businesses.

The book value of assets and liabilities arising from acquisitions are as follows:

	Ray Werk £m	Delcol £m	Watch All £m	Other £m	2008 £m
Non-current assets					
• Property, plant and equipment	0.4	1.1	–	0.4	1.9
• Other investments	0.1	–	–	–	0.1
Current assets	2.5	1.2	0.3	4.1	8.1
Current liabilities	(1.0)	–	(0.1)	(1.8)	(2.9)
Non-current liabilities	–	–	–	(0.8)	(0.8)
Net assets acquired	2.0	2.3	0.2	1.9	6.4

The provisional fair value adjustments to the book value of assets and liabilities arising from acquisitions are as follows:

	Ray Werk £m	Delcol £m	Watch All £m	Other £m	2008 £m
Non-current assets					
• Intangible assets ¹	2.3	–	2.0	22.5	26.8
• Property, plant and equipment	–	(1.1)	–	–	(1.1)
Current assets	–	(1.2)	–	–	(1.2)
Current liabilities	–	(1.0)	–	–	(1.0)
Non-current liabilities	(0.6)	–	–	(2.2)	(2.8)
Net assets acquired	1.7	(3.3)	2.0	20.3	20.7

The fair value adjustments above include £0.6m in respect of prior year acquisitions following the finalisation of the acquisition accounting.

The prior year numbers have not been adjusted on the grounds of materiality.

The provisional fair value² of assets and liabilities arising from acquisitions are as follows:

	Ray Werk £m	Delcol £m	Watch All £m	Other £m	2008 £m
Non-current assets					
• Intangible assets ¹	2.3	–	2.0	22.5	26.8
• Property, plant and equipment	0.4	–	–	0.4	0.8
• Other investments	0.1	–	–	–	0.1
Current assets	2.5	–	0.3	4.1	6.9
Current liabilities	(1.0)	(1.0)	(0.1)	(1.8)	(3.9)
Non-current liabilities	(0.6)	–	–	(3.0)	(3.6)
Net assets acquired	3.7	(1.0)	2.2	22.2	27.1

¹ Excluding computer software.

² The provisional fair values will be finalised in the 2009 financial statements. The fair values are provisional since the acquisition accounting has not yet been finalised and as a result of the proximity of many acquisitions to the year end.

	Ray Werk £m	Delcol £m	Watch All £m	Other £m	2008 £m
Total purchase consideration	6.2	4.6	4.9	26.3	42.0
Consideration payable in future periods	(5.1)	–	(0.5)	(4.2)	(9.8)
Direct costs deferred to future periods	(0.1)	–	–	(0.1)	(0.2)
Purchase consideration (paid in cash)	1.0	4.6	4.4	22.0	32.0
Cash and cash equivalents in acquired companies and businesses	(0.6)	–	–	(0.1)	(0.7)
Cash outflow on current year acquisitions	0.4	4.6	4.4	21.9	31.3
Deferred consideration from prior periods paid	–	–	–	9.6	9.6
Cash outflow on current and past acquisitions	0.4	4.6	4.4	31.5	40.9

From the dates of acquisition to 31 December 2008 these acquisitions contributed £33.2m to revenue and £1.0m to operating profit.

If the acquisitions had occurred on 1 January 2008, these acquisitions would have contributed £42.6m to revenue and £1.1m to operating profit.

31. Contingent liabilities

The group has contingent liabilities relating to guarantees in respect of third parties, environmental issues and tax and litigation, none of which are expected to give rise to any significant loss.

32. Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	2008 £m	2007 £m
Property, plant and equipment	11.6	14.9
Intangible assets	2.1	0.4
	13.7	15.3

33. Operating leases

The group leases properties, vehicles, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement during the year is disclosed in note 2.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2008 £m	2007 £m
Not later than one year	10.8	11.0
Later than one year and not later than five years	38.9	43.7
Later than five years	23.6	25.1
	73.3	79.8

34. Related party transactions

The group's strategy and policy are managed by the executive board. Their compensation is shown below:

	2008 £m	2007 £m
Salaries and other short-term employee benefits	4.5	4.8
Post-employment benefits	1.0	0.8
Termination benefits	3.2	–
Share-based payments	2.6	1.4
	11.3	7.0

Initial Catering Services Ltd (75%), Retail Cleaning Services Ltd (51%), Rentokil Initial (Pty) Ltd (74.9%), Yu Yu Calmic Co Ltd (50%), Rentokil Tai Ming China Co Ltd (65%), Rentokil Enguard Ltd (70%) and Rentokil Initial (B) Sdn Bhd (70%) are non-wholly owned subsidiaries of Rentokil Initial plc. All transactions between these entities and the group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation.

Nippon Calmic Ltd (49%) was an associate during 2008 and its balances are disclosed in note 13. There are no significant transactions between Nippon Calmic Ltd and other group companies.

The group recharges the Rentokil Initial Pension Scheme with costs of administration and independent pension advice borne by the group. The total amount of recharges in the year ended 31 December 2008 was £nil (2007: £0.3m).

The group has made a loan to a consortium of private investors which enabled them to purchase a 25.1% stake in the South African business. The group has a receivable from this consortium of £17.8m (2007: £15.0m) at the end of the year. It is anticipated that the loan will be repaid over a ten-year period. The repayment of the loan will be dependent upon the future dividends generated by the business.

35. Post-balance sheet events

There were no significant post-balance sheet events affecting the group since 31 December 2008.