
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 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 31 March 2007. 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, in accordance with FRS 17, "Retirement Benefits".

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. Disclosures have been made on financial instruments as required by the Companies Act 1985.

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. See note 10 of the consolidated financial statements for details of dividends paid in the year.

3. Company profit and loss account

Under section 230 of the Companies Act 2005, a profit and loss account for the company alone is not presented. The loss attributable to shareholders in the year was £369.7m (2007: £188.1m) which includes £305.5m (2007: £49.1m) of exchange adjustments and £0.4m (2007: £0.3m) in respect of audit fees.

4. Investments

	2008 £m	2007 £m
At 1 January	2,459.0	2,458.2
Share-based payments to employees of subsidiaries	1.7	0.8
At 31 December	2,460.7	2,459.0

The company's sole subsidiary undertaking is Rentokil Initial 1927 plc. It has no other direct subsidiary undertakings.

5. Other debtors

	2008 £m	2007 £m
Amounts owed by subsidiary undertakings	91.1	353.1
Group relief	64.9	105.6
Deferred tax asset*	-	21.4
Other debtors	0.9	1.0
	156.9	481.1

* The movement in the deferred tax asset in the year represents the write-off of the non-recoverable asset.

6. 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	3.3	0.4	(47.2)	(4.5)
• net investment hedge	1.6	–	(1.3)	(0.8)
	33.0	0.8	(53.0)	(15.9)
Analysed as follows:				
Due within one year	4.9	0.8	(52.3)	(14.1)
Due after more than one year	28.1	–	(0.7)	(1.8)
	33.0	0.8	(53.0)	(15.9)

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 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 amount to a loss of £3.4m (2007: loss of £1.1m). There was no ineffectiveness to be recorded from net investment in foreign entity hedges.

The company 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 8.

The company 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 £1,008.6m (2007: £103.9m).

7. Creditors – amounts falling due within one year

	2008 £m	2007 £m
Amounts due to subsidiary undertakings	530.7	676.1
Other creditors	1.4	–
	532.1	676.1

8. Bank and other borrowings

	2008 £m	2007 £m
Amounts falling due within one year	153.6	547.0
Amounts falling due after one year	1,356.8	651.3

Current and non-current loans include £31.3m (2007: £351.4m) and £845.8m (2007: £651.3m) respectively of notes issued under the company's £2.5bn Euro Medium Term Note programme.

The various notes held under its 2.5bn Euro Medium Term Note programme are shown below:

Currency/Amount	FRS 26 hedging	Interest coupon	Maturity date
£300m	FV	Fixed rate – 5.75% pa	03/16
£250m	FV	Fixed rate – 6.125% pa	11/08
£50m	NH	Floating rate – 3 month LIBOR +3.25%	10/13
€500m	NIH	Fixed rate – 4.625% pa	03/14
€100m	NH	Floating rate – 3 month EURIBOR +0.28%	07/08

Key:

FV – Fair value hedge accounting applied

NH – Hedge accounting not applied

NIH – Designated for Net Investment Hedging

A £75m note is held outside of the 2.5bn Euro Medium Term Note programme. See note 21 of the consolidated financial statements for the terms of this note.

The effective interest rates on the £50m, £75m, £300m and €500m notes are 6.33%, 8.13%, 5.82% and 5.00% respectively. The floating rate bonds 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 interest rate swap (a derivative) related to the £300m note is fair valued at the period end date.

Other borrowings of £557.1m (2007: £195.6m) represent bank loans and overdrafts and are held at amortised cost. Further details are provided in the consolidated financial statements.

9. Share capital

	2008 £m	2007 £m
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 of 1p each (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 of 1p each (2007: 1,814,831,011)	18.1	18.1

At 31 December 2008, the following options had been granted and remain outstanding in respect of the of 1p each under the company's share option schemes:

	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

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

For more information regarding the company's share option schemes, Performance Share Plan and Executive Share Plan see note 26 of the consolidated financial statements.

10. Share premium

	2008 £m	2007 £m
At 1 January	6.8	6.2
Premium on shares issued during the year under the share option schemes	–	0.6
At 31 December	6.8	6.8

11. Profit and loss account

	2008 £m	2007 £m
At 1 January	1,107.6	1,427.1
Loss for the financial period (note 3)	(369.7)	(188.1)
Dividend paid	(106.7)	(133.4)
Share-based payments charged to profit and loss	0.9	1.2
Share-based payments charged to investments	1.7	0.8
Movement on cash flow hedge	(4.2)	–
At 31 December	629.6	1,107.6

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: £9.0m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

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. For more information on contingent liabilities, see note 31 of the consolidated financial statements.

13. Employees

The company has seven employees (2007: five employees). For information on employee costs, see note 34 of the consolidated financial statements. Services for finance, taxation, treasury, legal, HR and IT are provided by Rentokil Initial 1927 plc.

14. Pension commitments

At 31 December 2008, the RIPS pension asset under IAS 19, "Employee Benefits" amounted to £154.4m (2007: £63.9m). The directors are of the opinion that there is no material difference between an FRS 17, "Retirement Benefits" and an IAS 19 valuation. For more information on pension commitments, see note 24 of the consolidated financial statements.

15. Share-based payments

Share-based payments for the financial period were £2.6m (2007: £2.0m) of which £0.9m (2007: £1.2m) was charged to the profit and loss account and £1.7m (2007: £0.8m) charged 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 26 of the consolidated financial statements.

16. 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.

17. Post-balance sheet events

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