

Notes to the accounts

1. Segment information

Revenue and profit

	Revenue 2009 £m	Revenue 2008 £m	Adjusted operating profit 2009 £m	Adjusted operating profit 2008 £m
Continuing operations (at constant exchange rates)				
Textiles and Washroom Services	772.1	753.6	115.1	123.3
Pest Control	396.7	384.1	75.2	73.8
Asia Pacific	183.4	196.5	19.8	23.6
Ambius	106.8	119.3	7.6	9.9
City Link	353.1	381.9	(5.6)	(43.5)
Facilities Services	608.6	653.0	26.3	18.4
Central items	–	–	(43.1)	(38.3)
Total segmental	2,420.7	2,488.4	195.3	167.2
Inter group revenue	(64.9)	(78.5)	–	–
	2,355.8	2,409.9	195.3	167.2
Exchange	175.0	–	25.5	–
Continuing operations (at actual exchange rates)	2,530.8	2,409.9	220.8	167.2
One-off items	–	–	(40.2)	(19.6)
Amortisation of intangible assets ¹	–	–	(57.0)	(51.1)
Impairment of goodwill	–	–	(4.3)	(14.4)
Operating profit	–	–	119.3	82.1
Interest payable and similar charges	–	–	(125.0)	(153.5)
Interest receivable	–	–	67.4	91.6
Share of profit from associates (net of tax)	–	–	–	–
– Textiles and Washroom Services	–	–	3.3	2.6
Profit before income tax	–	–	65.0	22.8
Income tax expense	–	–	(16.1)	(6.4)
Total for the year from continuing operations	2,530.8	2,409.9	48.9	16.4

¹ Other than computer software.

Revenue from external customers attributed to the United Kingdom amounted to £979.9 million (2008: £1,050.6 million). No major customer accounts for more than 10% of total revenue. Inter group revenue represents trading with other Rentokil Initial business units which is eliminated on consolidation.

	Inter group revenue ¹		One-off items ²		Amortisation and impairment of intangibles ²	
	2009	2008	2009	2008	2009	2008
Textiles and Washroom Services	37.8	45.2	29.4	0.5	7.3	13.8
Pest Control	0.7	1.0	–	–	17.2	13.7
Asia Pacific	0.4	0.6	0.1	2.7	19.8	19.8
Ambius	0.2	0.3	0.7	–	3.1	2.8
City Link	0.3	–	3.3	16.4	11.0	10.9
Facilities Services	25.5	31.4	3.9	–	2.6	4.2
Central items	–	–	2.8	–	0.3	0.3
Total	64.9	78.5	40.2	19.6	61.3	65.5

¹ At constant exchange rates.

² At actual exchange rates.

IFRS 8, “Operating Segments” is effective for all accounting periods beginning on or after 1 January 2009. It covers the publication of segmental information and is applicable to Rentokil Initial plc for the period ended 31 December 2009.

To comply with the new standard the group has aligned its segmental information, with effect from 1 January 2009, with the new operational organisation structure implemented on 1 July 2008. As a result the group has restated the 2008 comparative segmental information on the new basis.

Reported segments represent groups of businesses providing similar products and services and are headed by a divisional managing director. Businesses in Asia Pacific are grouped together under one segment and one divisional managing director. Central items represent corporate expenses that are not directly attributable to any reportable segment. A description of the segments is provided on pages 8 and 9.

The restated segmental information is not significantly different from the previous segmental information published on a “management basis”. The main changes result from a change in the internal organisational structure with certain business units now reporting through different divisional structures coupled with some minor changes to the allocation of divisional overheads. The principal changes are the relocation of the UK Washrooms business and the UK Shared Service Centre to the Facilities Services division, the transfer of the South African business to the Pest Control division and the transfer of the Medical and Specialist Hygiene businesses from Facilities Services to the Textiles and Washroom Services division.

In addition, revenues are now stated gross of inter group trading rather than net and revenues and profits are shown at constant exchange rates consistent with our internal reporting and review processes. Other segmental information is shown at actual exchange rates.

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

	Depreciation 2009 £m	Depreciation 2008 £m	Amortisation 2009 £m	Amortisation 2008 £m
Continuing operations				
Textiles and Washroom Services	138.9	117.6	9.4	8.5
Pest Control	16.4	13.9	17.8	14.3
Asia Pacific	17.0	15.2	16.6	14.6
Ambius	12.5	11.1	3.1	2.8
City Link	5.7	9.2	11.5	11.6
Facilities Services	19.0	18.5	3.0	2.6
Central items	1.1	1.1	0.9	0.9
Total for the year from continuing operations	210.6	186.6	62.3	55.3

Central items represent corporate expenses that are not directly attributable to any reportable segment.

The consolidated segment operating assets and liabilities at 31 December 2009 and 31 December 2008 and capital expenditure for the years then ended are as follows:

	Assets 2009 £m	Assets 2008 £m	Liabilities 2009 £m	Liabilities 2008 £m	Capital expenditure 2009 £m	Capital expenditure 2008 £m
Continuing operations						
Textiles and Washroom Services ¹	719.9	826.1	230.0	228.0	124.4	156.5
Pest Control	246.7	293.8	92.4	99.5	16.1	33.1
Asia Pacific	229.7	275.0	57.8	63.3	17.3	40.2
Ambius	69.7	87.4	18.0	20.8	9.7	14.4
City Link	341.2	365.7	89.2	91.7	3.3	13.7
Facilities Services	185.9	221.6	105.8	112.0	11.4	21.1
Central items	80.2	213.1	171.9	159.2	2.0	1.3
Total from continuing operations	1,873.3	2,282.7	765.1	774.5	184.2	280.3

¹ Includes associates

Non-current assets other than financial instruments, deferred tax assets, post-employment assets located in the UK amount to £385.8 million (2008: £418.5 million).

Reconciliation of segment assets/liabilities to total assets/liabilities

	Assets 2009 £m	Assets 2008 £m	Liabilities 2009 £m	Liabilities 2008 £m
Segment assets/liabilities as above	1,873.3	2,282.7	765.1	774.5
Deferred tax assets	26.0	10.1	–	–
Cash and cash equivalents	101.7	104.1	–	–
Current tax liabilities	–	–	102.4	90.5
Bank and other short-term borrowings	–	–	89.7	92.2
Bank and other long-term borrowings	–	–	1,120.1	1,374.1
Deferred tax liabilities	–	–	73.8	127.5
Total assets/liabilities	2,001.0	2,396.9	2,151.1	2,458.8

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 reportable segment. Assets and liabilities are allocated to reportable 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.

Analysis of revenue by category

	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 £m
Contract service revenue (including rental income)	1,873.2	1,751.1	–	–	1,873.2	1,751.1
Non-contract service revenue	577.6	584.6	–	–	577.6	584.6
Sales of goods	80.0	74.2	–	–	80.0	74.2
	2,530.8	2,409.9	–	–	2,530.8	2,409.9

2. Operating expenses by nature

Operating expenses include the following items:

	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 £m
Employee costs (note 3)	1,165.2	1,137.2	–	–	1,165.2	1,137.2
Depreciation – owned assets	202.9	179.0	–	–	202.9	179.0
– under finance leases	7.7	7.6	–	–	7.7	7.6
Amortisation – intangible assets ¹	57.0	51.1	–	–	57.0	51.1
– computer software	5.3	4.2	–	–	5.3	4.2
Impairment of intangibles	4.3	14.4	–	–	4.3	14.4
Cost of inventories expensed	64.9	64.3	–	–	64.9	64.3
Loss on disposal of PPE	3.5	0.8	–	–	3.5	0.8
Loss on disposal/retirement of intangible assets	0.7	2.0	–	–	0.7	2.0
Audit and non-audit services ² (note 4)	3.1	3.8	–	–	3.1	3.8
Hire of machinery and equipment	5.2	5.5	–	–	5.2	5.5
Other operating lease rentals	75.4	81.5	–	–	75.4	81.5
Net foreign exchange losses	0.1	0.8	–	–	0.1	0.8
Research and development costs (external)	1.7	1.7	–	–	1.7	1.7

¹ Excluding computer software.

² Includes amounts paid to both KPMG Audit Plc and its associates and PricewaterhouseCoopers LLP and its associates.

3. Employee benefit expense

	Continuing operations 2009 £m	Continuing operations 2008 £m	Discontinued operations 2009 £m	Discontinued operations 2008 £m	Total 2009 £m	Total 2008 £m
Wages and salaries	989.6	975.9	–	–	989.6	975.9
Social security costs	150.8	140.2	–	–	150.8	140.2
Share-based payments	5.1	2.6	–	–	5.1	2.6
Pension costs						
• defined contribution plans	18.4	16.8	–	–	18.4	16.8
Pension costs						
• defined benefit plans (note 24)	1.3	1.7	–	–	1.3	1.7
	1,165.2	1,137.2	–	–	1,165.2	1,137.2

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

	Number	Number	Number	Number	Number	Number
Processing and service delivery	58,168	67,649	–	–	58,168	67,649
Sales and marketing	3,351	3,502	–	–	3,351	3,502
Administration and overheads	5,996	6,105	–	–	5,996	6,105
	67,515	77,256	–	–	67,515	77,256

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 32 to 38.

4. Audit and non-audit services

	2009 £m	2008 £m
Fees payable to the company's auditors for the audit of the parent company and group accounts	0.4	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	2.1	1.9
Other services pursuant to legislation	–	0.4
Other services relating to taxation	–	0.4
Services relating to corporate finance transactions	–	0.1
All other services	0.1	0.5
Total audit and non-audit services (continuing operations)	2.6	3.8

KPMG Audit Plc were appointed as group auditors in September 2009. The amounts included in the above table for the year ended 31 December 2009 relate to fees payable to KPMG Audit Plc and its associates. Amounts shown for the year ended 31 December 2008 relate to fees payable to the previous group auditor, PricewaterhouseCoopers LLP and its associates.

Prior to the appointment of KPMG Audit Plc the group had paid its previous auditors, PricewaterhouseCoopers LLP and its associates, £0.2 million in respect of their review of the 2009 interim financial statements and £0.3 million in respect of other services for the year ended 31 December 2009.

Fees amounting to £0.1 million (2008: £0.1 million) were payable to auditors other than KPMG Audit Plc and its associates (2008: PricewaterhouseCoopers LLP and its associates) in respect of the audit of the company's subsidiaries, pursuant to legislation.

Included within "fees payable to the company's auditors for the audit of the company's subsidiaries, pursuant to legislation" are amounts payable to KPMG Audit Plc and its associates incurred in respect of the audit work undertaken on financial controls. This work may include an element which goes beyond that strictly required by relevant Auditing Standards. The amount is estimated not to exceed £0.2 million.

In addition to the above services, PricewaterhouseCoopers LLP act 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 PricewaterhouseCoopers LLP for audit services to the pension scheme during the year were £70,000 (2008: £73,000).

5. Interest payable and similar charges

	2009 £m	2008 £m
Interest payable on bank loans and overdrafts ²	17.5	32.4
Interest payable on medium-term notes issued ²	46.0	56.5
Net interest (receivable)/payable on interest rate swaps	(3.3)	5.8
Interest on defined benefit plan liabilities	55.3	54.1
Interest payable on finance leases	1.2	1.2
Foreign exchange (gain)/loss on translation of foreign denominated loans	(1.3)	0.1
Amortisation of discount on provisions	0.9	1.6
Net ineffectiveness of fair value hedges ³	(3.1)	3.4
Fair value loss/(gain) on other derivatives ^{1,3}	11.8	(1.6)
Total interest payable and similar charges (continuing operations)	125.0	153.5

¹ The fair value loss/(gain) on other derivatives includes fair value losses relating to forward rate agreements of £8.4 million (2008: £1.6 million gain) and interest rate swaps of £3.4 million (2008: £nil). The fair value loss on the forward rate agreements includes £4.2 million in respect of cash flow hedges previously recognised in reserves recycled to the income statement in the year.

² Interest expense on financial liabilities held at amortised cost.

³ (Gain)/loss on financial assets/liabilities at fair value through the income statement.

6. Interest receivable

	2009 £m	2008 £m
Bank interest ¹	6.2	29.9
Return on defined benefit plan assets	61.2	61.7
Total interest receivable (continuing operations)	67.4	91.6

¹ Interest income on loans and receivables.

7. Income tax expense

	2009 £m	2008 £m
Analysis of charge in the year		
UK Corporation tax at 28.0% (2008: 28.5%)	1.0	15.4
Double tax relief	(0.2)	(15.4)
	0.8	–
Overseas taxation	29.8	28.8
Adjustment in respect of previous periods	0.9	(16.4)
Total current tax	31.5	12.4
Deferred tax*	(15.4)	(6.0)
Total income tax expense (continuing operations)	16.1	6.4
*The deferred tax credit comprises:		
Accelerated tax depreciation	4.6	(1.6)
Deferred tax on retirement benefit obligations	3.2	24.4
Unremitted overseas profits	(6.8)	–
Other temporary differences	(16.4)	(28.8)
Deferred tax credit	(15.4)	(6.0)
Tax on items charged to equity		
Deferred tax (credit)/debit in respect of actuarial loss/gain on defined benefit pensions	(49.0)	12.8
Total tax (credited)/debited to equity	(49.0)	12.8

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:

	2009 £m	2008 £m
Profit before income tax (continuing operations)	65.0	22.8
Tax calculated at domestic tax rates applicable to profits in the respective countries	17.6	7.2
Adjustment in respect of previous periods	4.3	(13.0)
Expenses not deductible for tax purposes – other	4.8	3.3
Income not subject to tax	(2.0)	(0.4)
Goodwill deduction for which no deferred tax asset was recognised	(0.3)	(0.3)
Utilisation of previously unrecognised tax losses	(2.0)	(0.8)
Goodwill written off	1.0	4.4
Deferred tax on withdrawal of Industrial Building Allowances	–	4.4
Losses not relieved	3.2	1.3
Deferred tax on unremitted profits	(6.8)	–
Provisions utilised for which no deferred tax assets were recognised	(1.6)	–
Other	(2.1)	0.3
Total income tax expense (continuing operations)	16.1	6.4

Adjustments in respect of previous periods represent the creation or release of tax provisions in respect of previous periods. Tax provisions are released when 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 27.0% in 2009 and 31.6% in 2008. The increase is caused by a change in the profitability of the group's subsidiaries in the respective countries.

8. Discontinued operations and disposals

The group disposed of its electronic security businesses in the Asia Pacific region on 31 December 2009, the results of which are included within continuing operations.

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

	2009 £m
Non-current assets	
– Intangible assets	6.2
– Property, plant and equipment	0.5
Current assets	4.7
Current liabilities	(3.1)
Non-current liabilities	(1.5)
Net assets disposed	6.8
Loss on disposal	(1.1)
Consideration	5.7
Consideration deferred to future periods	(1.0)
Consideration deferred from prior periods	0.3
Costs deferred to future periods	0.1
Cash disposed	(0.7)
Cash inflow from disposals of companies and businesses	4.4

The loss on disposal above of £1.1 million excludes translation exchange gains of £2.0 million, which are recycled to the income statement, giving a total post-tax profit on disposal of companies and businesses of £0.9 million.

Financial performance of discontinued operations

	2009 £m	2008 £m
Revenue	-	-
Operating expenses	-	5.0
Operating profit	-	5.0
Finance costs – net	-	-
Profit before income tax	-	5.0
Income tax expense	-	-
Profit after income tax from discontinued operations	-	5.0

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

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 (see note at the bottom of the consolidated statement of changes in equity), which are treated as cancelled.

	2009 £m	2008 £m
Profit from continuing operations attributable to equity holders of the company	47.6	13.8
Profit from discontinued operations attributable to equity holders of the company	-	5.0
Weighted average number of ordinary shares in issue	1,807.4	1,807.4
Basic earnings per share from continuing operations	2.63p	0.76p
Basic earnings per share from discontinued operations	-	0.28p
Basic earnings per share from continuing and discontinued operations	2.63p	1.04p

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 with the exception of the 2009 awards where part of the vesting conditions have been met.

	2009 £m	2008 £m
Profit from continuing operations attributable to equity holders of the company	47.6	13.8
Profit from discontinued operations attributable to equity holders of the company	-	5.0
Weighted average number of ordinary shares in issue	1,807.4	1,807.4
Adjustment for share options and incentive awards	2.9	-
Weighted average number of ordinary shares for diluted earnings per share	1,810.3	1,807.4
Diluted earnings per share from continuing operations	2.63p	0.76p
Diluted earnings per share from discontinued operations	-	0.28p
Diluted earnings per share from continuing and discontinued operations	2.63p	1.04p

10. Dividends

	2009 £m	2008 £m
2007 final dividend paid – 5.25p per share	–	94.9
2008 interim dividend paid – 0.65p per share	–	11.8
	–	106.7

The board is not recommending the declaration of a final dividend for 2009.

11. Intangible assets

	Goodwill £m	Customer lists and relationships £m	Brands, patents and reacquired franchise rights £m	Computer software £m	Total £m
Cost					
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
Reclassification	0.3	(0.3)	–	–	–
At 31 December 2008	503.3	479.8	51.3	36.1	1,070.5
At 1 January 2009	503.3	479.8	51.3	36.1	1,070.5
Exchange differences	(11.4)	(16.9)	(1.2)	(1.1)	(30.6)
Consideration adjustment	(3.2)	–	–	–	(3.2)
Additions	–	–	–	6.3	6.3
Disposals/retirements	–	–	–	(2.6)	(2.6)
Acquisition of companies and businesses	1.3	0.8	–	–	2.1
Disposal of companies and businesses	(3.7)	(6.9)	(0.9)	(0.1)	(11.6)
At 31 December 2009	486.3	456.8	49.2	38.6	1,030.9
Accumulated amortisation and impairment					
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)
At 1 January 2009	(17.0)	(258.0)	(19.8)	(20.8)	(315.6)
Exchange differences	1.4	10.0	0.3	0.5	12.2
Disposals	–	–	–	1.9	1.9
Disposal of companies and businesses	3.6	1.4	0.3	0.1	5.4
Impairment charge	(4.3)	–	–	–	(4.3)
Amortisation charge	–	(48.1)	(8.9)	(5.3)	(62.3)
At 31 December 2009	(16.3)	(294.7)	(28.1)	(23.6)	(362.7)
Net Book Value					
At 1 January 2008	430.8	207.1	33.8	11.3	683.0
At 31 December 2008	486.3	221.8	31.5	15.3	754.9
At 31 December 2009	470.0	162.1	21.1	15.0	668.2

Amortisation of £62.3 million (2008: £55.3 million) 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 reportable segment. A summary of the 2009 goodwill allocation by reportable segment is shown below:

	UK £m	Europe £m	North America £m	Asia Pacific £m	Africa £m	2009 Total £m	2008 Total £m
Textiles and Washroom Services	3.9	73.1	–	–	–	77.0	80.0
Pest Control	–	15.5	60.2	–	0.2	75.9	83.4
Asia Pacific	–	–	–	79.9	–	79.9	84.2
Ambius	–	2.9	12.9	–	–	15.8	17.3
City Link	203.1	–	–	–	–	203.1	203.1
Facilities Services	18.3	–	–	–	–	18.3	18.3
31 December 2009	225.3	91.5	73.1	79.9	0.2	470.0	
31 December 2008	225.3	95.9	80.7	84.2	0.2		486.3

The recoverable amount of a CGU is determined based on the higher of 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 and fair value less costs to sell if appropriate. 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 10% and 13% (2008: 12% and 18%). 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 £4.3 million in respect of prior years acquisitions was made. The charge related to our electronic security businesses and three smaller pest control and washrooms businesses in Asia Pacific.

The remaining goodwill balance at 31 December 2009 amounts to £470.0 million with £203.1 million of this relating to the acquisition of the City Link franchises 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 implemented to return this business to profitability. The impairment test assumes operating cash inflows in 2014 of some £36 million with future years growing at rates consistent with the longer-term growth rates disclosed above. These cash flows would need to be approximately 33% below these levels before goodwill is impaired. The remaining balance of £266.9 million 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 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
At 1 January 2009	221.3	673.2	329.1	259.7	1,483.3
Exchange differences	(12.2)	(37.2)	(19.1)	(10.1)	(78.6)
Additions	4.1	122.1	16.4	33.0	175.6
Disposals	(6.5)	(93.4)	(17.5)	(43.4)	(160.8)
Acquisition of companies and businesses ¹	–	–	–	0.2	0.2
Disposal of companies and businesses	–	(3.4)	(0.4)	(1.1)	(4.9)
Reclassifications	(0.2)	–	–	0.2	–
At 31 December 2009	206.5	661.3	308.5	238.5	1,414.8
Accumulated depreciation and impairment					
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)
At 1 January 2009	(47.4)	(381.9)	(199.8)	(133.0)	(762.1)
Exchange differences	3.1	21.1	12.0	6.3	42.5
Disposals	2.8	91.6	14.9	38.0	147.3
Disposal of companies and businesses	–	3.2	0.4	0.8	4.4
Depreciation charge	(8.1)	(133.5)	(26.0)	(43.0)	(210.6)
At 31 December 2009	(49.6)	(399.5)	(198.5)	(130.9)	(778.5)
Net Book Value					
At 1 January 2008	147.0	211.6	99.4	103.2	561.2
At 31 December 2008	173.9	291.3	129.3	126.7	721.2
At 31 December 2009	156.9	261.8	110.0	107.6	636.3
The net carrying amounts of assets held under finance leases are as follows:					
At 31 December 2008	10.2	–	0.3	15.2	25.7
At 31 December 2009	3.9	0.4	0.4	14.1	18.8

¹ Included within acquisition of companies and businesses are fair value adjustments to prior periods of (£0.1 million) (2008: £0.6 million). 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

	2009 £m	2008 £m
At 1 January	13.7	5.7
Exchange differences	(1.8)	6.5
Share of profit ¹	3.3	2.6
Dividends	(1.8)	(1.1)
At 31 December	13.4	13.7

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

Investments in associates at 31 December 2009 includes goodwill of £nil (2008: £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
2009						
Nippon Calmic Ltd (49%)	Japan	23.4	(8.6)	31.6	3.3	49%
2008						
Nippon Calmic Ltd (49%)	Japan	25.0	(10.1)	2.1	2.6	9%

14. Other investments

	2009 £m	2008 £m
At 1 January	3.0	3.1
Additions	0.8	–
Disposals	(0.1)	(0.2)
Acquisition of companies and businesses	–	0.1
At 31 December	3.7	3.0
Less: non-current portion	1.4	3.0
Current portion	2.3	–
Available-for-sale financial assets include the following:		
• UK Government gilts and US Treasury bonds	3.5	2.8
• Unlisted equity securities – Continental Europe	0.2	0.2
• Unlisted equity securities – North America	–	–
	3.7	3.0

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 2009 or 2008.

Available-for-sale financial assets are denominated in the following currencies:

• Pounds sterling	3.2	2.5
• US dollar	0.3	0.3
• Euro	0.2	0.2
	3.7	3.0

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

Investments

Fixed rate cash deposits include £3.5 million (2008: £2.8 million) 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 5.8% (2008: 4.4%) and the weighted average rate is fixed for 1.5 years (2008: 1.0 years).

15. Trade and other receivables

	2009 £m	2008 £m
Trade receivables	399.2	492.9
Less: provision for impairment of receivables	(23.0)	(31.3)
Trade receivables – net	376.2	461.6
Other receivables	47.1	47.8
Prepayments	40.7	42.9
Total	464.0	552.3
Less non-current portion:		
Other receivables	26.5	26.9
	26.5	26.9
Current portion	437.5	525.4

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:

	2009 £m	2008 £m
At 1 January	31.3	16.8
Acquisition of companies and businesses	0.2	–
Disposal of companies and businesses	(0.2)	–
Additional provision	9.0	17.0
Receivables written off as uncollectable	(12.6)	(5.5)
Unused amounts reversed	(3.8)	(0.6)
Exchange differences	(0.9)	3.6
At 31 December	23.0	31.3

Analysis of total trade receivables which are not impaired:

	2009 £m	2008 £m
Not yet due	121.6	198.4
Past due less than 1 month	148.8	143.1
Between 1 and 3 months	81.9	84.7
Between 3 and 6 months	17.4	22.5
Between 6 and 12 months	5.5	8.3
Over 12 months	1.0	4.6
	376.2	461.6

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 with due regard to the historical risk profile of the customer. There were no new customers in 2009 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:

	2009 £m	2008 £m
Pounds sterling	133.8	193.8
Euro	199.5	209.7
US dollar	17.8	25.3
Other currencies	48.1	64.1
	399.2	492.9

The creation and release of provisions 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 receivables and prepayments do not contain impaired assets.

Other receivables include £17.9 million of interest bearing and £2.0 million of non-interest bearing notes and deferred consideration received in respect of business disposals. The notes/deferred consideration have final maturities between 2010 and 2014, although earlier repayments may be precipitated under the terms of the respective disposal notes/sale agreements. The interest bearing notes relate to the part disposal of our business in South Africa and are classified as available-for-sale. The deferred consideration/disposal notes are classified as loans and receivables.

16. Derivative financial instruments

	Fair value assets 2009 £m	Fair value assets 2008 £m	Fair value liabilities 2009 £m	Fair value liabilities 2008 £m
Interest rate swaps:				
• fair value hedge	–	28.1	–	–
• non-hedge	27.3	–	(0.4)	–
• cash flow hedge	–	–	(4.0)	–
Forward rate agreements:				
• non-hedge	–	–	–	(1.8)
• cash flow hedge	–	–	(0.8)	(2.7)
Foreign exchange swaps:				
• non-hedge	13.1	0.1	(9.5)	(47.6)
• net investment hedge	–	1.6	(0.8)	(1.3)
Foreign exchange forwards:				
• non-hedge	–	–	(2.2)	–
	40.4	29.8	(17.7)	(53.4)
Analysed as follows:				
Current portion	13.1	1.7	(13.3)	(52.7)
Non-current portion	27.3	28.1	(4.4)	(0.7)
	40.4	29.8	(17.7)	(53.4)

Fair value and cash flow hedge accounting has been applied to derivatives (marked as "fair value hedge" and "cash flow hedge") in accordance with IAS 39. Where no hedge accounting has been applied, related derivatives have been marked as "non-hedge". Any ineffectiveness on the fair value and cash flow hedges are taken directly to finance costs. The ineffective portion recognised in the income statement that arises from fair value hedges amounts to a gain of £3.1 million (2008: loss of £3.4 million) (note 5). There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship.

The group has £300 million fixed to floating (LIBOR plus spread) interest rate swaps for which fair value hedge accounting was applied and whose critical terms match those of the bonds disclosed in note 21. On 1 April 2009, the group entered into a set of £300 million floating (LIBOR plus spread) to fixed interest rate swaps whose critical terms matched those of the original £300 million fixed to floating interest rate swap. At this date the fair value hedge was revoked and both interest rate swaps are non-hedge accounted. Upon ceasing hedge accounting, the fair value adjustment attributable to the risk being hedged is being amortised on a straight-line basis over the remaining life of the bond.

The group has £75 million and £50 million floating (LIBOR plus spread) to fixed interest rate swaps for which cash flow hedge accounting is applied and whose critical terms match those of the bonds disclosed in note 21. A charge of £3.6 million (2008: £nil) has been recognised in reserves during the year in respect of the interest rate swaps which are cash flow hedge accounted.

The group has outstanding forward rate agreements maturing in between three to six months with nominal values of £200 million (2008: £464.7 million) attracting an average fixed interest rate of 2.05%. These forward rate agreements are cash flow hedge accounted. A charge of £1.4 million (2008: £4.2 million) has been recognised in reserves during the year in respect of the forward rate agreements which are cash flow hedge accounted and a £4.2 million (2008: £nil) charge recognised in reserves in prior periods has been recycled to the income statement in the year.

The effective nominal value of foreign exchange swaps is £516.6 million (2008: £1,009.0 million) and foreign exchange forwards is £30.7 million (2008: £nil).

Fair value hierarchy of derivative financial instruments

For all financial instruments held by the group, those that are held at fair value are to be classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly as prices or indirectly through modelling based on prices;

Level 3 – inputs for the asset or liability that are not based on observable market data.

The group holds all derivatives at fair value using discounted cash flow valuation models based on market rates which are observable. Therefore all derivative financial instruments held at fair value by the group fall into Level 2. No financial instruments have moved between levels in the year.

17. Inventories

	2009 £m	2008 £m
Raw materials	7.4	9.3
Work in progress	0.8	1.6
Finished goods	39.1	42.5
	47.3	53.4

There were no material inventory impairment charges in 2009 and 2008.

18. Cash and cash equivalents

	2009 £m	2008 £m
Cash at bank and in hand	88.5	103.0
Short-term bank deposits	13.2	1.1
	101.7	104.1
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
Cash and cash equivalents	101.7	104.1
Bank overdrafts (note 21)	(42.0)	(41.7)
	59.7	62.4

Included within cash at bank and in hand is £11.1 million (2008: £9.7 million) of restricted cash.

Interest is receivable and payable at rates of interest varying between 0.6% and 5.6%.

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 three months and earn interest at market rates related to the currency and the sums invested.

19. Trade and other payables

	2009 £m	2008 £m
Trade payables	124.5	138.3
Social security and other taxes	83.8	77.3
Other payables	68.3	77.2
Accruals and deferred income	268.5	260.7
Deferred and contingent consideration on acquisitions	12.2	25.6
Total	557.3	579.1
Less non-current portion:		
Other payables	13.2	14.2
Deferred and contingent consideration on acquisitions	0.8	0.4
	14.0	14.6
Current portion	543.3	564.5

20. Provisions for other liabilities and charges

	Vacant properties £m	Environmental £m	Self- insurance £m	Other £m	Total £m
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
At 1 January 2009	30.5	25.1	45.3	21.6	122.5
Exchange differences	(0.1)	0.4	(1.9)	(0.3)	(1.9)
Additional provisions	3.0	2.3	3.0	24.8	33.1
Unused amounts reversed – continuing	(0.3)	(0.6)	(0.3)	(1.6)	(2.8)
Unwinding of discount on provisions	0.3	0.6	–	–	0.9
Used during the year	(4.6)	(4.2)	(11.6)	(5.6)	(26.0)
At 31 December 2009	28.8	23.6	34.5	38.9	125.8

Provisions analysed as follows:

	2009 £m	2008 £m
Non-current	69.0	91.0
Current	56.8	31.5
	125.8	122.5

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. The group has historically self-insured its risks but during the latter part of 2008, other than for third party motor liability and workers compensation in the USA and the global property damage/business interruption, this practice was stopped and these became fully covered in the insurance market. Provision is still held for self-insured past cover. For the continuing self-insured programmes, individual claims are met in full by the group up to agreed self-insured limits in order to limit volatility in claims. 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 1.9% (2008: 3.0%) for the UK, 3.0% (2008: 3.0%) for Europe and 3.8% (2008: 2.1%) for the USA.

21. Bank and other borrowings

	2009 £m	2008 £m
Non-current		
Bank borrowings	226.0	437.2
Other loans	885.5	921.3
Finance lease liabilities	8.6	15.6
	1,120.1	1,374.1
Current		
Bank overdrafts (note 18)	42.0	41.7
Bank borrowings	9.7	13.9
Other loans	30.4	32.0
Finance lease liabilities	7.6	4.6
	89.7	92.2
Total bank and other borrowings	1,209.8	1,466.3

The group's policy is to fund its businesses centrally with borrowings that are substantially denominated (75% 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. The mix of the group's debt and various notes are shown below. The £300 million, £50 million and €500 million notes are held under the group's 2.5 billion Euro Medium Term Note programme.

	Matures	IAS 39 hedging	Interest coupon	2009 £m	2008 £m
£300 million Bond	03/16	NH (2008:FV)	Fixed rate – 5.75% pa	(336.9)	(339.6)
£75 million Bond	09/13	CFH (2008:NH)	Floating rate – 3 month LIBOR +3.98%	(75.2)	(75.5)
£50 million Bond	10/13	CFH (2008:NH)	Floating rate – 3 month LIBOR +3.25%	(49.8)	(49.8)
Sterling RCF bank drawings				(225.0)	(80.0)
Sterling legs of foreign exchange swaps		Mainly NIH		414.6	355.4
€500 million Bond	03/14	NIH	Fixed rate – 4.625% pa	(453.3)	(487.7)
Euro RCF bank drawings				–	(191.5)
Euro foreign exchange swaps		Mainly NIH		(289.3)	(315.6)
US dollar RCF bank drawings				–	(164.7)
US dollar foreign exchange swaps				(125.3)	(39.8)
Finance leases in various currencies				(16.2)	(20.2)
Non-current bank borrowings				(1.0)	(1.0)
Notes issued by subsidiaries of Rentokil Initial plc				(0.7)	(0.7)
Current bank borrowings				(9.7)	(13.9)
Net cash and cash equivalents				59.7	62.4
Net debt				(1,108.1)	(1,362.2)

Key:

FV – Fair value hedge accounting applied

CFH – Cash flow hedge accounting applied

NH – Hedge accounting not applied

NIH – Designated for Net Investment Hedging

The group has a committed £500 million revolving credit facility which expires in October 2012.

In September 2008, £75 million was raised through the issue of 25-year Floating Rate Reset Notes. From the date of the 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.

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

In June 2009, floating to fixed interest rate swaps were entered into on the £75 million and £50 million floating rate notes that are designated in a cash flow hedge.

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 twelve months.

Floating rate exposure is managed using forward rate agreements which all mature within one year as disclosed in note 16.

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

Any ineffectiveness on the fair value and cash flow hedges 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 and carrying amount of non-current bank and other borrowings are shown in the table below.

	Carrying amount 2009 £m	Carrying amount 2008 £m	Fair value 2009 £m	Fair value 2008 £m
Bank borrowings	226.0	437.2	226.0	437.2
Other loans	885.5	921.3	915.3	641.6
Finance lease liabilities	8.6	15.6	8.6	15.6
	1,120.1	1,374.1	1,149.9	1,094.4

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 a portion of the €500 million bond as a hedging instrument in a net investment hedge of its subsidiaries in the eurozone along with foreign currency swaps with a notional value of €200 million. The carrying value of the euro note at 31 December 2009 was £453.3 million (2008: £487.7 million). The group has foreign currency swaps which were entered into in 2008 to manage currency debt exposure. These swaps achieve hedge accounting and are accounted for as net investment hedges. They had a fair value loss as at 31 December 2009 of £0.8 million (2008: £0.3 million gain) with a maturity of between one and four months.

The foreign exchange gain of £30.6 million (2008: £103.2 million 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:

	2009 £m	2008 £m
Not later than one year	8.0	5.0
Between:		
• one and two years	4.7	8.1
• two and three years	2.8	4.1
• three and four years	1.7	2.6
• four and five years	0.2	1.9
• over five years	-	-
	17.4	21.7
Future finance charges on finance leases	(1.2)	(1.5)
Present value of finance lease liabilities	16.2	20.2

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.

	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 2009					
Borrowings	96.5	44.7	923.5	334.9	1,399.6
Derivative financial instruments	0.8	–	4.4	–	5.2
Trade and other payables	346.7	13.2	–	–	359.9
Finance leases	6.9	5.0	5.5	–	17.4
Other	18.7	6.1	8.1	10.7	43.6
	469.6	69.0	941.5	345.6	1,825.7
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

Other includes £31.4 million (2008: £42.4 million) in respect of provisions related to underlying onerous lease contracts and £12.2 million (2008: £25.6 million) in respect of deferred consideration.

Reconciliation of total financial instruments

The table below reconciles the group's accounting categorisation of financial assets and liabilities (based on initial recognition) to the classes of assets and liabilities as shown on the face of the balance sheet.

	Fair value through income statement £m	Loans and receivables £m	Available for sale £m	Financial liabilities held at amortised cost £m	Not categorised as a financial instrument £m	Total £m	Non-current £m	Current £m
At 31 December 2009								
Assets								
Other investments	–	–	3.7	–	–	3.7	1.4	2.3
Trade and other receivables	–	405.4	17.9	–	40.7	464.0	26.5	437.5
Derivative financial instruments	40.4	–	–	–	–	40.4	27.3	13.1
Cash and cash equivalents	–	101.7	–	–	–	101.7	–	101.7
Liabilities								
Derivative financial instruments	(17.7)	–	–	–	–	(17.7)	(4.4)	(13.3)
Trade and other payables	–	–	–	(372.1)	(185.2)	(557.3)	(14.0)	(543.3)
Borrowings	–	–	–	(1,209.8)	–	(1,209.8)	(1,120.1)	(89.7)
Finance leases	–	–	–	(17.4)	–	(17.4)	(6.9)	(10.5)
At 31 December 2008								
Assets								
Other investments	–	–	3.0	–	–	3.0	3.0	–
Trade and other receivables	–	491.6	17.8	–	42.9	552.3	26.9	525.4
Derivative financial instruments	29.8	–	–	–	–	29.8	28.1	1.7
Cash and cash equivalents	–	104.1	–	–	–	104.1	–	104.1
Liabilities								
Derivative financial instruments	(53.4)	–	–	–	–	(53.4)	(0.7)	(52.7)
Trade and other payables	–	–	–	(389.6)	(189.5)	(579.1)	(14.6)	(564.5)
Borrowings	–	–	–	(1,466.3)	–	(1,466.3)	(1,374.1)	(92.2)
Finance leases	–	–	–	(21.7)	–	(21.7)	(8.9)	(12.8)

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 2009					
Foreign exchange swaps					
• Outflow	1,101.1	–	–	–	1,101.1
• Inflow	1,104.2	–	–	–	1,104.2
Foreign exchange forwards					
• Outflow	33.4	–	–	–	33.4
• Inflow	31.2	–	–	–	31.2
Net inflow	0.9	–	–	–	0.9
At 31 December 2008					
Foreign exchange swaps					
• Outflow	1,982.2	877.6	–	–	2,859.8
• Inflow	1,960.3	8 9.6	–	–	2,809.9
Net outflow	(21.9)	(28.0)	–	–	(49.9)

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

	Borrowings 2009 £m	Borrowings 2008 £m	Trade payables and other 2009 £m	Trade payables and other 2008 £m	Total 2009 £m	Total 2008 £m
Pounds sterling	703.9	570.3	189.7	192.5	893.6	762.8
Euro	489.0	703.6	132.3	155.2	621.3	858.8
US dollar	3.1	166.8	26.4	28.1	29.5	194.9
Other currencies	13.8	25.6	52.5	54.0	66.3	79.6
	1,209.8	1,466.3	400.9	429.8	1,610.7	1,896.1

All financial liabilities are held at amortised cost.

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 swap 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 £22.6 million (2008: £45.7 million)) available at 31 December 2009 and 31 December 2008 in respect of which all continuing conditions precedent had been met at that date.

	2009 £m	2008 £m
Expiring within		
• one year, or on demand	22.6	–
• one and two years	–	170.7
• two and three years	275.0	–
• three and four years	–	63.8
• four and five years	–	–
• over five years	–	–
	297.6	234.5

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 risk 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 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. The group calculates the impact on equity of a defined shift in foreign exchange rates. The same shift in foreign exchange rates is used for all currencies. The simulation is run for major foreign exchange positions held in equity. Based on the simulations performed, the impact on equity of a 1% shift would be a maximum increase/decrease of £3.9 million (2008: 1%, £0.9 million). This increase/decrease would be offset by the translation of group foreign currency net assets.

(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.

At the end of December 2009, approximately 97% of the group's debt was at a fixed rate of interest. During 2010 this proportion will reduce slightly to approximately 87%. Accordingly, the group is not materially exposed to rising interest rates.

The group calculates the impact on profit and loss and equity of a defined interest rate shift. The same interest rate shift is used for all currencies. The simulation is run only for liabilities or items in equity 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 £4.5 million (2008: 1.0%, £6.0 million) before forward rate agreements and caps entered into as hedges. The simulation is done on a monthly basis. The impact on equity would be a maximum increase/decrease of £4.1 million (2008: £nil). The simulation is performed on the position as at 31 December 2009.

(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 headroom of £200 million, 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 refinancing 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 2009, 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:

	2009 £m	2008 £m
At 1 January	(117.4)	(90.6)
Exchange differences	4.5	(17.1)
Acquisition of companies and businesses	(0.2)	(2.9)
Disposal of companies and businesses	1.5	–
Transfers to current taxation	(0.6)	–
Credited to the income statement	15.4	6.0
Credited/(charged) to equity	49.0	(12.8)
At 31 December	(47.8)	(117.4)
Deferred taxation has been presented on the balance sheet as follows:		
Deferred tax asset within non-current assets	26.0	10.1
Deferred tax liability within non-current liabilities	(73.8)	(127.5)
	(47.8)	(117.4)

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) are 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 2008	54.0	54.3	27.4	11.2	(11.4)	(18.1)	117.4
At 31 December 2009	39.1	55.0	(18.4)	4.4	(17.2)	(15.1)	47.8

Unprovided deferred tax assets in respect of unutilised tax losses amount to £66.6 million (2008: £52.3 million). Of the losses, £16.1 million will expire at various dates between 2010 and 2029. Capital losses carried forward amount to £80.5 million (2008: £79.7 million). Other deferred tax assets amounting to £13.1 million (2008: £28.7 million) 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 £nil (2008: £83.3 million) would be payable. The reduction in this unprovided amount is due to the UK exemption from tax on most overseas dividends introduced during the year.

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.

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.

	2009	2008
Weighted average %		
Discount rate	5.7%	6.4%
Expected return on plan assets	6.0%	6.0%
Future salary increases	4.5%	3.7%
Future pension increases	3.5%	2.9%

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 2009, less an appropriate allowance for the cost of maintaining the swap portfolio.

Mortality assumptions

At 31 December 2009, 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 20.1 years if he is a "non-executive" member and for a further 23.6 years if he is an "executive" member. The corresponding figures for a woman are 22.2 and 25.5 years respectively.

The same assumptions were adopted at 31 December 2008.

Pension benefits

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

	2009 UK RIPS £m	2009 Other ¹ £m	2009 Total £m	2008 UK RIPS £m	2008 Other ¹ £m	2008 Total £m
Present value of funded obligations	(1,026.7)	(27.5)	(1,054.2)	(874.4)	(27.3)	(901.7)
Fair value of plan assets	978.8	22.3	1,001.1	1,028.8	20.5	1,049.3
Present value of unfunded obligations	(47.9)	(5.2)	(53.1)	154.4	(6.8)	147.6
	–	(11.2)	(11.2)	–	(12.7)	(12.7)
(Liability)/Asset in the balance sheet	(47.9)	(16.4)	(64.3)	154.4	(19.5)	134.9
Presented on the balance sheet as:						
Retirement benefit assets	–	–	–	154.4	–	154.4
Retirement benefit obligations	(47.9)	(16.4)	(64.3)	–	(19.5)	(19.5)
	(47.9)	(16.4)	(64.3)	154.4	(19.5)	134.9

The amounts recognised in the income statement are as follows:

	2009 UK RIPS £m	2009 Other ¹ £m	2009 Total £m	2008 UK RIPS £m	2008 Other ¹ £m	2008 Total £m
Current service cost ²	0.2	1.1	1.3	0.5	1.2	1.7
Interest cost ²	54.5	0.8	55.3	53.2	0.9	54.1
Amount charged to pension liability	54.7	1.9	56.6	53.7	2.1	55.8
Expected return on plan assets ²	(60.4)	(0.8)	(61.2)	(60.8)	(0.9)	(61.7)
Total pension (income)/cost	(5.7)	1.1	(4.6)	(7.1)	1.2	(5.9)

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:

	2009 UK RIPS £m	2009 Other £m	2009 Total £m	2008 UK RIPS £m	2008 Other £m	2008 Total £m
At 1 January	1,028.8	20.5	1,049.3	974.0	18.9	992.9
Exchange differences	–	(0.7)	(0.7)	–	5.3	5.3
Expected return on plan assets	60.4	0.8	61.2	60.8	0.9	61.7
Actuarial gain/(loss) during the year	(66.5)	1.5	(65.0)	6.1	(3.1)	3.0
Contributions received from employees	0.1	0.1	0.2	0.1	0.2	0.3
Contributions received from employer	0.3	1.2	1.5	33.9	1.1	35.0
Benefits paid	(44.3)	(1.1)	(45.4)	(46.1)	(2.8)	(48.9)
At 31 December	978.8	22.3	1,001.1	1,028.8	20.5	1,049.3

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

	2009 UK RIPS £m	2009 Other £m	2009 Total £m	2008 UK RIPS £m	2008 Other £m	2008 Total £m
Equity instruments	165.8	7.7	173.5	134.4	6.0	140.4
Debt instruments	475.3	13.5	488.8	584.8	13.8	598.6
Property	–	0.6	0.6	–	0.5	0.5
Other	115.5	0.5	116.0	48.0	0.2	48.2
Swaps	222.2	–	222.2	261.6	–	261.6
Total plan assets	978.8	22.3	1,001.1	1,028.8	20.5	1,049.3

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 £33.3 million of cash paid into an escrow account by the company during 2008 and has been included as an asset of the pension scheme as it is considered unlikely that these funds will return to the company. This amount was paid to the pension scheme in January 2010.

Pension plan assets include the company's ordinary shares with a fair value of £0.2 million (2008: £0.1 million).

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

	2009 UK RIPS £m	2009 Other £m	2009 Total £m	2008 UK RIPS £m	2008 Other £m	2008 Total £m
At 1 January	874.4	40.0	914.4	910.1	32.8	942.9
Exchange differences	–	(1.4)	(1.4)	–	8.2	8.2
Total expense charged in the income statement	54.7	1.9	56.6	53.7	2.1	55.8
Actuarial (gain)/loss during the year	143.8	2.6	146.4	(43.4)	(0.5)	(43.9)
Contributions received from employees	0.1	0.1	0.2	0.1	0.2	0.3
Expenses paid by employer	(2.0)	–	(2.0)	(2.0)	–	(2.0)
Benefits paid	(44.3)	(4.5)	(48.8)	(44.1)	(2.8)	(46.9)
At 31 December	1,026.7	38.7	1,065.4	874.4	40.0	914.4

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

	2009 £m	2008 £m	2007 £m	2006 £m	2005 £m
Present value of defined benefit plan liabilities	(1,065.4)	(914.4)	(942.9)	(1,039.9)	(1,057.1)
Fair value of plan assets	1,001.1	1,049.3	992.9	921.1	874.8
Net surplus/(deficit)	(64.3)	134.9	50.0	(118.8)	(182.3)
Experience adjustments on plan liabilities	29.5	(9.6)	14.0	(16.2)	21.2
Experience adjustments on plan assets	(65.0)	3.0	(13.3)	20.1	73.1

The group made a contribution of £0.3 million to the UK defined benefit scheme in 2009 (2008: £33.9 million). 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 negative £3.8 million (2008: £64.7 million).

The cumulative actuarial loss recognised in the consolidated statement of comprehensive income was £195.5 million (2008: £15.9 million gain). An actuarial loss of £211.4 million (2008: £46.9 million gain) was recognised during the year.

25. Share Capital

	2009 £m	2008 £m
Share capital		
Authorised		
4,100,000,000 ordinary shares of 1p each	41.0	41.0
Issued and fully paid		
At 1 January and 31 December – 1,814,831,011 shares (2008: 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 two 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 the group of support services companies.

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 2008	202.825	24,825
Expired	216.409	12,018
Outstanding at 31 December 2008	190.078	12,807
Expired	189.407	5,565
Outstanding at 31 December 2009	190.593	7,242

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	2000	2003–2010	156.500	1,439,901
	2001	2004–2011	205.250	1,312,777
	2002	2005–2012	266.750	1,211,438
	2003	2006–2013	204.500	1,221,063
	2004	2007–2014	152.000	2,057,154
				7,242,333

The share options granted in 2005 lapsed on 23 March 2009 following the expiry of the three-year performance period and a further one year re-testing period permitted under the rules of the plan.

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, 10,245,358 at various dates throughout 2008 and 11,703,753 at various dates throughout 2009. The 2006 grants lapsed at the end of 2009 with the performance criteria not being met.

Year of Grant	Vesting Year	Number 31 December 2008	Granted	Lapsed	Number 31 December 2009
2006	2009	8,195,193	–	8,195,193	–
2007	2010	8,423,712	–	2,247,288	6,176,424
2008	2011	10,245,358	–	2,717,869	7,527,489
2009	2012	–	11,703,753	–	11,703,753

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 2006 grants lapsed at the end of 2009.

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 60 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 61 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 maximum 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 performance conditions for the 2009 awards are total shareholder return (“TSR”) and the financial performance (“bonus multiplier”) of the group, division or business whichever is applicable to the award holder. The TSR condition is measured relative to the TSR achieved by constituents of a comparator group, made up of the FTSE 350 companies at the date of grant but excluding financial services and basic resources companies. The performance period for the share price element of the award began on 1 April 2009 to 31 March 2012. The TSR performance is measured using a three-month average with the start period average being 1 January 2009 to 31 March 2009 and the end period average being 1 January 2012 to 31 March 2012. 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 2009 awards in the above table assume a TSR performance in the upper quartile or above 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 median TSR performance at the end of the vesting period and 200% will vest if the TSR performance is above the upper quartile and all participants attain maximum 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 2009 awards made under the 2006 Performance Share Plan is charged to the income statement over the vesting period based on values derived from a model developed by Deloitte LLP. This is a closed-form solution (similar to a Monte Carlo simulation) which takes account of the correlation between share price performance and the likelihood of a TSR performance condition being met. The significant inputs into the model were a share price of 88.5p, an expected share price volatility of 31.2%, a share price correlation of the companies in the comparator group of 28% and an expected life commensurate with the performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices. Given the significant volatility of share prices observed over an historic period, an average three-year volatility figure over the three years to the date of grant has been used to determine the historic long-term trend, and this has been taken as a benchmark for the expected share price volatility over the term of the awards. 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. Similarly, as dividend equivalents are paid on the vesting portion of awards, the fair value of these awards is not reduced to reflect dividends paid during the vesting period.

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 shares during the year.

Year of Grant	Exercise period	Number 31 December 2008	Granted	Lapsed	Number 31 December 2009
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 1/3 following the end of the fourth year and a further 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 32 to 38 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 £5.1 million (2008: £2.6 million).

27. Cash generated from operating activities

	2009 £m	2008 £m
Profit for the year	48.9	21.4
Adjustments for:		
• Tax	16.1	6.4
• Share of profit from associates	(3.3)	(2.6)
• Interest income	(67.4)	(91.6)
• Interest expense	125.0	153.5
• Depreciation	210.6	186.6
• Amortisation and impairment of intangible assets*	61.3	65.5
• Amortisation of computer software	5.3	4.2
• LTIP charges	5.1	2.6
• Loss on sale of property, plant and equipment	3.5	0.8
• Loss on disposal/retirement of intangible assets	0.7	2.0
• Loss on disposal of companies and businesses (included within continuing operations)	1.1	–
• Cumulative translation exchange gain recycled on continuing operations	(2.0)	–
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
• Inventories	3.2	(5.3)
• Trade and other receivables	64.4	33.4
• Trade and other payables and provisions	24.1	(24.9)
Cash generated from operating activities before special pension contribution	496.6	352.0
Special pension contribution	–	(33.3)
Cash generated from operating activities	496.6	318.7
<i>* Excluding computer software.</i>		
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount	13.5	16.6
Loss on sale of property, plant and equipment	(3.5)	(0.8)
Proceeds from sale of property, plant and equipment	10.0	15.8

28. Reconciliation of net increase in cash and bank overdrafts to net debt

	2009 £m	2008 £m
Net increase in cash and bank overdrafts	11.5	79.1
Movement on finance leases	2.6	1.6
Movement on loans	216.0	(228.8)
Decrease/(increase) in debt resulting from cash flows	230.1	(148.1)
Revaluation of net debt	(2.3)	(39.5)
Net debt translation differences	26.3	(227.5)
Movement on net debt in the year	254.1	(415.1)
Opening net debt	(1,362.2)	(947.1)
Closing net debt	(1,108.1)	(1,362.2)
Closing net debt comprises:		
Cash and cash equivalents	101.7	104.1
Bank and other short-term borrowings	(89.7)	(92.2)
Bank and other long-term borrowings	(1,120.1)	(1,374.1)
Total net debt	(1,108.1)	(1,362.2)

29. Free cash flow

	2009 £m	2008 £m
Net cash flows generated from operating activities	418.7	225.3
Add back: special pension contribution	-	33.3
	418.7	258.6
Purchase of property, plant and equipment (PPE)	(176.2)	(222.6)
Purchase of intangible fixed assets	(6.3)	(8.2)
Leased property, plant and equipment	(6.7)	(7.0)
Proceeds from sale of PPE	10.0	15.8
Purchase of available-for-sale investments	(0.8)	-
Dividends received from associates	1.8	1.1
Dividends paid to minority interests	(2.5)	(1.6)
Interest element of finance lease payments	(1.1)	(1.2)
Free cash flow	236.9	34.9

30. Business combinations

The total consideration for all acquisitions during the year was £2.7 million (Pest Control £0.8 million, Asia Pacific £1.7 million and Ambius £0.2 million).

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

	2009 £m
Purchase consideration:	
• Cash paid	1.0
• Consideration deferred to future periods	1.7
Total purchase consideration	2.7
Fair value of net assets acquired	(1.4)
Goodwill	1.3

In common with the majority of the previous acquisitions made by the group, goodwill of £1.3 million represents synergies, both in increased revenues and reduced costs, expected to be realised in all current year acquisitions.

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

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

	2009 £m
Non-current assets	
• Property, plant and equipment	0.2
Current assets	0.1
Current liabilities	(0.2)
Minority interest	0.7
Net assets acquired	0.8

The provisional fair value adjustments to the book value of assets and liabilities arising from acquisitions during the year and adjustments made to prior period acquisitions are as follows:

	2009 £m
Non-current assets	
• Intangible assets	0.8
Non-current liabilities	(0.2)
Net assets acquired	0.6

The fair value adjustments above include a reduction of £0.3 million 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 value¹ of assets and liabilities arising from acquisitions are as follows:

	2009 £m
Non-current assets	
• Intangible assets	0.8
• Property, plant and equipment	0.2
Current assets	0.1
Current liabilities	(0.2)
Non-current liabilities	(0.2)
Minority interest	0.7
Net assets acquired	1.4

¹ The provisional fair values will be finalised in the 2010 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.

	2009 £m
Consideration and cash outflow on current year acquisitions	1.0
Deferred consideration from prior periods paid	10.1
Acquisition costs from prior periods paid	0.1
Cash outflow on current and past acquisitions	11.2

From the dates of acquisition to 31 December 2009 these acquisitions contributed £0.6 million to revenue and £0.1 million to operating profit.

If the acquisitions had occurred on 1 January 2009, these acquisitions would have contributed £0.9 million to revenue and £0.2 million 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:

	2009 £m	2008 £m
Property, plant and equipment	20.7	11.6
Intangible assets	2.2	2.1
	22.9	13.7

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:

	2009 £m	2008 restated £m
Not later than one year	58.8	61.4
Later than one year and not later than five years	152.4	150.3
Later than five years	83.2	110.4
	294.4	322.1

34. Related party transactions

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

	2009 £m	2008 £m
Salaries and other short-term employee benefits	5.7	4.5
Post-employment benefits	0.7	1.0
Termination benefits	1.1	3.2
Share-based payments	2.6	2.6
	10.1	11.3

Initial Catering Services Ltd (75%), Rentokil Initial (Pty) Ltd (7.9%), Yu Yu Calmic Co Ltd (50%), 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 2009 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 2009 was £2.0 million (2008: £2.0 million).

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 £17.9 million (2008: £17.8 million) at the end of the year. The loan is due for repayment in 2014. The repayment of the loan will be dependent upon the future dividends generated by the business.

35. Post-balance sheet events

Since the end of the year the group has announced the closure of the Wednesbury City Link Hub. This is expected to lead to an impairment charge of £10 million in 2010.

There were no other significant post-balance sheet events affecting the group since 31 December 2009.