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 2006.

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 profit and loss account 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 profit and loss account.

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 2006.

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.

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 408 of the Companies Act 2006, a profit and loss account for the company alone is not presented. The profit attributable to shareholders in the year was £45.2 million (2008: £369.7 million loss) which includes a credit of £69.5 million (2008: £305.5 million debit) in respect of exchange adjustments and £0.4 million (2008: £0.4 million) in respect of audit fees.

4. Investments

	2009 £m	2008 £m
At 1 January	**2,460.7**	2,459.0
Additions	**250.7**	–
Disposals	**(2,457.9)**	–
Share-based payments to employees of subsidiaries	**2.5**	1.7
At 31 December	**256.0**	2,460.7

During the year the company sold its investment in Rentokil Initial 1927 plc to another subsidiary company for a consideration of £2,457.9 million.

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

5. Debtors

	2009 £m	2008 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**158.0**	91.1
Group relief	**–**	64.9
Other debtors	**0.6**	0.9
	158.6	156.9
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**2,457.9**	–

Amounts owed by subsidiary undertakings due within one year are made up of non-interest bearing loans and amounts owed by subsidiary undertakings due after more than one year are made up of an interest bearing loan with an effective interest rate of 6.45%.

6. 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	**12.7**	4.9	**(10.3)**	(48.5)
Foreign exchange forwards:				
• non-hedge	**–**	–	**(2.2)**	–
	40.0	33.0	**(17.7)**	(53.0)
Analysed as follows:				
Due within one year	**12.7**	4.9	**(13.3)**	(52.3)
Due after more than one year	**27.3**	28.1	**(4.4)**	(0.7)
	40.0	33.0	**(17.7)**	(53.0)

Fair value and cash flow hedge accounting has been applied to related derivatives (marked as “fair value hedge” and “cash flow hedge”) in accordance with FRS 26, “Financial Instruments: Measurement”. 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 profit and loss that arises from fair value hedges amounts to a gain of £3.1 million (2008: loss of £3.4 million). There was no ineffectiveness to be recorded from those derivatives in a cash flow hedge relationship.

The company 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 8. On 1 April 2009, the company 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 to hedge account, the fair value of the hedged bond at 1 April 2009 is being amortised on a straight-line basis over the remaining life of the bond.

The company 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 8. 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 company 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 profit and loss account 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).

7. Creditors – amounts falling due within one year

	2009 £m	2008 £m
Amounts due to subsidiary undertakings	**752.3**	530.7
Other creditors	**–**	1.4
	752.3	532.1

8. Bank and other borrowings

	2009 £m	2008 £m
Amounts falling due within one year	**340.4**	153.6
Amounts falling due after one year	**1,109.8**	1,356.8

Current and non-current loans include £30.0 million (2008: £31.3 million) and £810.0 million (2008: £8 5.8 million) respectively of notes issued under the company's 2.5 billion Euro Medium Term Note programme.

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

Currency/Amount	FRS 26 hedging	Interest coupon	Maturity date
£300 million	NH (2008:FV)	Fixed rate – 5.75% pa	03/16
£50 million	CFH (2008:NH)	Floating rate – 3 month LIBOR +3.25%	10/13
€500 million		Fixed rate – 4.625% pa	03/14

Key:
FV – Fair value hedge accounting applied
CFH – Cash flow hedge accounting applied
NH – Hedge accounting not applied

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

In June 2009, floating to fixed interest rate swaps were entered into on the £75 million and £50 million floating rate notes. The floating rate matches the rate payable on the notes, while the fixed rate is 7.844% and 7.196% respectively. These interest rate swaps became effective in November and December 2009 respectively.

Other borrowings of £535.0 million (2008: £557.1 million) represent bank loans and overdrafts and are held at amortised cost. Further details are provided in the consolidated financial statements.

9. Share capital

	2009 £m	2008 £m
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 of 1p each (2008: 1,814,831,011)	**18.1**	18.1

At 31 December 2009, the following options had been granted and remain outstanding in respect of the company's ordinary shares of 1p each under the company's share option schemes:

	Granted	Exercise period	Exercise price (p)	Number of shares
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**

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**

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

	2009 £m	2008 £m
At 1 January and 31 December	**6.8**	6.8

11. Profit and loss account

	2009 £m	2008 £m
At 1 January	**629.6**	1,107.6
Profit/(loss) for the financial period (note 3)	**45.2**	(369.7)
Dividend paid	**–**	(106.7)
Share-based payments charged to profit and loss	**2.6**	0.9
Share-based payments debited to investments	**2.5**	1.7
Movement on cash flow hedge	**(0.8)**	(4.2)
At 31 December	**679.1**	629.6

Treasury shares of £11.1 million (2008: £11.1 million) have been netted against retained earnings. Treasury shares represent 7.4 million (2008: 7.4 million) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2009 was £8.6 million (2008: £3.3 million). 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.

13. Employees

The company has seven employees (2008: seven 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 and recharged to the company.

14. Pension commitments

At 31 December 2009, the RIPS pension deficit under IAS 19, "Employee Benefits" amounted to £47.9 million (2008: £154.4 million asset). 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 £5.1 million (2008: £2.6 million) of which £2.6 million (2008: £0.9 million) was charged to the profit and loss account and £2.5 million (2008: £1.7 million) debited 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 wholly owned fellow members of Rentokil Initial plc. Such transactions are exempt from disclosure under FRS 8. There were no transactions with non-wholly owned fellow members of Rentokil Initial plc.

17. Post-balance sheet events

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