

# +54%

increase in adjusted profit  
before tax at AER of £166.5m

# 143%

cash conversion – operating cash flow  
of £317m, 2.4 times that of last year

# £254m

reduction in net debt from  
£1.36bn to £1.11bn

# -2.2%

decline in revenue at CER  
+5% at AER

# £82m

cost savings of which  
£54m was from City Link

# 5

turnaround businesses  
making strong progress

## Strategy and performance

- 1 Statement by the Chairman and the Chief Executive
- 4 Strategy update
- 6 Key performance indicators

## Business review

- 8 Business overview
- 11 Textiles and Washroom Services
- 12 Pest Control
- 12 Asia Pacific
- 13 Ambius
- 14 City Link
- 14 Facilities Services
- 15 Central costs
- 15 Principal risks and uncertainties
- 16 Financial review

## Governance

- 20 Corporate responsibility
- 23 Directors and Secretary
- 24 Senior management
- 24 Statement of directors' responsibilities
- 25 Directors' report
- 28 Corporate governance
- 32 Directors' remuneration report

## Financial statements

- 39 Consolidated income statement
- 40 Consolidated statement of comprehensive income
- 41 Consolidated balance sheet
- 42 Consolidated statement of changes in equity
- 44 Consolidated cash flow statement
- 45 Accounting policies
- 53 Notes to the accounts
- 85 Principal operating subsidiary and associated undertakings
- 86 Five-year summary
- 87 Parent company balance sheet
- 88 Notes to the parent company accounts
- 94 Independent auditors' report to the members of Rentokil Initial plc

## Shareholder information

- 95 General shareholder information

## Financial highlights

	2009 £m	Increase/ (decrease) %	2008 £m
Revenue	<b>2,530.8</b>	5.0	2,409.9
Operating profit before amortisation of intangible assets <sup>1</sup>	<b>180.6</b>	22.4	147.6
Operating profit	<b>119.3</b>	45.3	82.1
Profit before income tax and amortisation of intangible assets <sup>1</sup> (PBTA)	<b>126.3</b>	43.0	88.3
Profit before income tax	<b>65.0</b>	185.1	22.8
Operating cash flow	<b>316.7</b>	144.6	129.5
Basic earnings per share – continuing operations	<b>2.63p</b>	246.1	0.76p
Dividends paid – pence per share	–	–	0.65p

<sup>1</sup> Excluding computer software.

## Statement by the Chairman and the Chief Executive

### Overview of performance in 2009

2009 has been a year of strong progress for Rentokil Initial. Although there has been no easing in the wider economic conditions our results exceeded our expectations and clearly demonstrated the effects of the operational strategy we began 18 months ago.

At actual exchange rates group revenue rose by 5% to £2.5 billion (although it declined by 2.2% at constant exchange rates) and adjusted profit before tax grew by 54% to £166.5 million. Our cash flow performance was outstanding at £317 million – 2.4 times greater than the £130 million recorded in 2008. Net debt was reduced from £1.36 billion to £1.11 billion.

We also exceeded our service and cost targets for the year. The group's "state of service" is 98.1%, a very respectable performance when compared to our peers and a strong improvement on 2008. Cost savings of £82 million were achieved, of which £54 million was delivered by the on-going City Link restructuring programme.

In last year's annual report we stated that improving the performance of our five turnaround businesses would be key to restoring profitability for the group. We are pleased to report that City Link, UK Washrooms, UK Pest Control, Australia Washrooms and Australia Pest Control have made strong progress through the year and are now focused for growth. City Link in particular reduced its losses from £43.5 million in 2008 to £5.6 million in 2009 and returned to profitability in the fourth quarter. Restoring City Link to previous levels of profitability is now the challenge ahead.

### Strategy update

In our 2008 statement to shareholders we outlined our key objectives for 2009. We were determined to deliver consistent and outstanding service to our customers while at the same time driving down the cost of running the business and achieving a high level of profit to cash conversion from our activities. The company's three-year plan continues to focus on the **five strategic thrusts** introduced last year, progress against which is shown below.

#### 1. Delivering outstanding customer service

We have made excellent progress in driving customer service during the year. Three sub-initiatives to this thrust are: driving basic service levels across our business; ensuring accountability for customer relationships across our 500,000 customers; and instilling shared values and behaviours across the group of **Service, Relationships and Teamwork**.

State of Service at the end of 2009 was 98.1%. Service has improved dramatically across the turnaround businesses of City Link, UK Washrooms, UK Pest Control, Australia Washrooms and Australia Pest Control, all of which have a State of Service at 96% or better.

Our new values of Service, Relationships and Teamwork were developed in close consultation with our front-line colleagues and we have been particularly encouraged by the way in which they have been adopted so enthusiastically across the business.

Customer retention continues to be a major focus for the group. While progress has been made in ensuring personal accountability for customer contact management, further improvement is required in responsiveness, proactive customer contact and in tailoring customer propositions.

Initiatives for 2010 include the introduction of Customer Care staff and further systems development to enable improvement in first-time query resolution. A "Welcome Pack" pilot for new customers and implementation of Account Management Cycles to ensure customer satisfaction and identify growth opportunities (i.e. cross selling) will also be implemented. Net Promoter Score surveys (a measure of customer satisfaction) will be cascaded across our countries of operation down to branch level and competitor benchmarking tools will be adopted.

#### 2. Developing the capability of our organisation and people

Strong progress was made in 2009 in driving HR initiatives, including upgrading functional and operational management, performance management and global grading.

Senior management was strengthened through the appointments of new managing directors and finance directors for Textiles and Washrooms, Asia Pacific and UK Pest Control, with good progress already visible. Senior management was strengthened further through the appointment of a new managing director for the Pest Control division. Gaps remain in sales leadership, procurement and innovation. We will strengthen these functions during 2010.

Performance Development Reviews (PDRs) were established and rolled out to 1,900 managers during the year. Global grading has been implemented across the group. A talent review was established for the top 120 managers and will be rolled out across the top 500 in the second quarter of 2010. Further HR process improvements are planned for 2010.

Development of service and sales capability has progressed in 2009 but requires on-going focus, particularly in sales. Maximising performance in this function will be a prerequisite for future growth. During the year a Technician Performance Assessment programme for Pest Control colleagues was launched in 39 countries, assessing service technicians on skills including communication, attitude and engagement with customers and other colleagues. Subsequent coaching was tailored to address areas of weakness. A similar programme for sales colleagues will be rolled out across the Pest Division in 2010.

### 3. Delivering operational excellence in all our processes and functions

Progress has been made in driving common systems across all businesses and geographies and in updating the group governance framework and standard operating procedures. The roll-out of standard hand-held terminals is now advanced in developed markets and adoption of the iCABS contract management system is driving improved control in Pest Control and Washrooms. Further global iCABS implementations in Pest Control and Washrooms are planned for 2010. The Navision finance system will be implemented across a number of businesses over the coming years.

During 2009 we entered into a landmark agreement with Google to deploy Google Apps™ Premier Edition across the group's international workforce. The new platform provides a single web-based communication and collaboration suite to replace the existing 180 e-mail domains and 40 mail systems across the company's six divisions. Roll-out will be completed by the end of 2010.

### 4. Operating at lowest possible cost consistent with our service objectives and delivering maximum cash

A total of £82 million cost savings were achieved during 2009, of which £54 million can be attributed to City Link's depot rationalisation programme and on-going reductions in vehicle fleet and headcount.

A review of the Textiles and Washroom division's processing footprint and its procurement strategy identified cost savings of around €30 million (of which €20 million is anticipated to come from procurement) by 2011. In Belgium two textiles plants and one hospitals services plant are due to be closed early in the second quarter of 2010 with annualised cost savings of £3.7 million from 2011. In France the closures of one textiles plant, one hospitals services plant and the flat linen operations have been agreed with annualised cost savings of £4.4 million in 2011. Other European streamlining initiatives are underway in Switzerland, Italy, Spain and the Nordics. Procurement savings in Washrooms have started well. A textiles supply chain project has begun to tackle the complex, resource intensive and large procurement opportunity in this division.

We anticipate a further £75 million of savings in 2010, over and above those delivered in 2009. These will be realised predominantly from the City Link and Textiles and Washrooms restructuring programmes.

The group generated operating cash flow of £317 million (2008: £130 million), representing 143% cash conversion, and well in excess of our full year target of 95%. This was achieved through reducing Days Sales Outstanding (DSO) from 61 days to 49 days and

by reducing capital expenditure from 116% of depreciation in 2008 to 83% in 2009. Our target DSO for 2010 is 47 days, cash conversion at 102% and capex at 95% of depreciation, excluding cash spent on restructuring.

### Programme Olympic

Programme Olympic, so named because our planned completion date is in 2012, is a programme of process-led change for our business support activities. Our goal is to deliver the desired organisational and technological requirements to drive a culture of **"Right First Time"** throughout the organisation. Our objectives are to dramatically improve both customer service – driving retention and revenue growth – and our financial performance – both the cost base and the balance sheet.

Olympic consists of six programmes. The first four are process focused; the remaining two – property and organisation development – are big drivers of administration and overhead costs.

The six goals of the programme are:

**Prospect to Cash** – development of best practice processes to drive the customer lifecycle from prospecting for new customers to cash collection

**Procure to Pay** – development of best practice processes to drive the supplier lifecycle

**Recruit to Reward** – development of best practice processes to drive the employee lifecycle

**Record to Report** – development of best practice processes to drive accounting processes

**Property** – optimise the use of our property portfolio through greater utilisation of facilities

**Organisation Development** – develop best practice and optimise our organisation structure

The high level design phase has been completed for most components of the process programmes with some pilot studies underway.

### 5. Delivering profitable growth through organic actions and bolt-on acquisitions

Our focus up until the first half of 2009 was directed at driving a customer service and operational excellence agenda. At the beginning of the second half we turned our attention to the growth agenda. Our growth strategy will focus on increasing market share in our established markets – through effective sales and marketing and service expansion – and by acquisition. In addition we will seek to develop our presence and capability in growth markets (including the Middle East, China and India).

In the third quarter we embarked on an important project to refine our markets and marketing propositions within the Washrooms and Pest Control businesses with the intention of differentiating ourselves more clearly from our competition. Historically we have left almost complete discretion to local sales teams over *how* they present our service offering and *where* they look for customers. Work is now underway to better segment our markets, refine our customer propositions and identify and develop prospects more effectively. By doing this we can match our offers to customer needs, identify the most attractive segments to be in and equip our sales teams with the tools necessary to increase sales conversion rates.

It has become clear to us over the year that our Facilities Services division would be strengthened by the addition of a manned guarding operation, given the continued move in the market towards bundled services.

### Goals

In last year's report we introduced 17 key performance indicators (KPIs) under three categories: **Colleagues, Customers and Shareholders**. These have been introduced across the organisation with all divisions reporting monthly to senior management on progress. Full details of our performance against these KPIs can be found on page 6.

### Funding and dividend

At 31 December 2009 the group had net debt of £1,108 million. Of this, £915 million is represented by capital market notes issued by the group and the earliest maturity of any of these instruments is 2013. The group has good headroom in its bank facilities in terms of funds available to withdraw and has good and improving headroom in relation to its covenant. Headroom at 26 March 2010 was £285 million.

Full details of the group's capital structure and financing are set out in the Financial Review on pages 16 to 19.

In view of the continuing economic uncertainty in the markets within which we operate and our desire to strengthen the group's balance sheet to increase our financial flexibility, the board has decided not to propose a final dividend to shareholders. We hope, however, that our shareholders will be encouraged by what we achieved in 2009. We and the board remain committed to restoring the dividend and this will be kept under review as we make further progress in both rebuilding the profitability and strengthening the balance sheet of Rentokil Initial.

### People

In October 2009 Andy Ransom, Executive Director, took on the role of Managing Director of Pest Control and has relinquished responsibility for the Asia Pacific division. As mentioned earlier, in 2009 there were a number of changes in the leadership of the group's divisions in key businesses to strengthen the capability of the organisation.

In March 2010 Michael Murray resigned as a director and Chief Financial Officer with effect from 31 March 2010. The company has announced the appointment of Jeremy Townsend as his successor and this appointment will take effect later in the year. The board thanks Michael Murray for his contribution during his time with the group.

### Outlook

In 2009 we delivered on our promises by substantially improving customer service, maximising cash flow and accelerating cost savings. We are now mobilising the group to create a platform for growth. Although we see no easing in economic conditions across most of our markets this year, our objectives are to deliver modest revenue growth, take out more costs and make further improvements in customer service and responsiveness. Above all in 2010 we intend to lay the foundations for profitable growth in 2011 and beyond.

To conclude, 2009 saw your company take many small steps on its three- to five-year journey to recovery. Our objective for 2010 is to continue along this path but the emphasis will be on laying the foundations for profitable growth in 2011 and beyond. Our shareholders, employees and customers continue to give strong support to Rentokil Initial and we thank them for their loyalty, commitment and trust.



**John McAdam**  
Chairman  
26 March 2010



**Alan Brown**  
Chief Executive

## Strategy update

### Strategic aim

### Key metrics

<p> <b>Outstanding Customer Service</b></p>	<ul style="list-style-type: none"> <li> Drive customer service across all our businesses</li> <li> Instil values and behaviours</li> <li> Ensure personal accountability for Customer Contact Management</li> <li> Measure customer satisfaction</li> </ul>
<p> <b>Developing Capability</b></p>	<ul style="list-style-type: none"> <li> Drive performance management, global grading and HR information systems</li> <li> Upgrade functional and operational management</li> <li> Develop service and sales capability</li> </ul>
<p> <b>Delivering Operational Excellence</b></p>	<ul style="list-style-type: none"> <li> Fix turnaround businesses</li> <li> Develop common information systems and processes</li> <li> Consistent KPIs across the organisation</li> <li> Update group governance framework</li> </ul>
<p> <b>Lowest Cost and Maximum Cash</b></p>	<ul style="list-style-type: none"> <li> Deliver £70 million cost savings in 2009</li> <li> Achieve 95% cash conversion target in 2009</li> <li> Drive down administration costs</li> <li> Increase textiles processing productivity</li> <li> Deliver procurement savings</li> </ul>
<p> <b>Profitable Growth</b></p>	<ul style="list-style-type: none"> <li> Market segmentation and brand development</li> <li> Sales effectiveness</li> <li> Service expansion</li> <li> Developing markets</li> <li> Acquisitions</li> </ul>

### How are we doing?

 Strong progress    Progress    Limited progress

## Progress in 2009

Service monitored and reported across company – State of Service 98.1%, +96% in turnaround businesses

Excellent adoption of “Service, Relationships and Teamwork” ethos

Personal accountability in place, outstanding customer queries falling rapidly

Net Promoter Scores (NPS) monitored across group operations

PDRs rolled out to top 1,900 managers, global grading of employees

New senior management teams in Pest Control, Textiles and Washrooms, Asia Pacific

Successful implementation of Technician Performance Assessment programme for Pest employees

City Link, Australia Pest, Australia Washrooms, UK Washrooms and UK Pest – off critical list and focused for growth

Good progress on driving common systems – inc. iCABS, PDAs and finance systems

KPIs now monitored across group

Central policy framework upgraded

Cost savings of £82 million (of which £54 million was from City Link)

143% cash conversion: DSO from 61 to 49 days, capex at 83% of depreciation at AER

Reduction in administration and overheads from 19% to 17.9% of revenue

Textiles restructuring underway in Belgium and France, further programmes on-going

Washrooms procurement savings proceeding well, a slower start to Textiles

Common industry and market segmentation being established across the group, services matched to customer needs through key brand propositions

Improvements in sales productivity (new customer targeting, greater focus on sales to existing customers) but overall productivity still unacceptably low

Developing markets – Libyan Pest Control contract operationally successful despite delayed payments

Acquisitions significantly curtailed in 2008/09 due to focus on operational excellence agenda

## What to expect from 2010

Proactive customer management to improve query resolution times and retention and identify growth opportunities

Implementation of Account Management Cycles for new and existing contracts

Cascade NPS objectives down to branch level, launch competitor benchmarking

Talent Review of top 500 employees

Further strengthening of group sales, procurement and innovation capability

Implementation of Sales Performance Assessment programme and technician induction and training programme for Pest employees

Develop City Link growth agenda, roll out brand and customer proposition strategy in UK Pest and Washrooms

Further roll-out of iCABS and PDAs, complete Navision implementation in US, develop common Textiles operating system

Reinforce governance and business conduct rules in Q1 2010

£75 million cost savings target for 2010 (City Link depot and hub consolidation, Textiles and Washrooms procurement and plant rationalisation, other group initiatives inc. £17 million indirect procurement savings)

Reduce administration and overheads from 17.9% to 16% by 2012

Further reduction in DSO from 49 to 47 days

Cash conversion 102%+, capex 95% of depreciation, 15% reduction in stock by end 2010

Three major pilots underway to improve sales effectiveness and improve retention, success to be determined within six to nine months, adoption of new procedures thereafter

Develop service expansion and innovation agenda

Develop manned guarding capability (organic and through potential acquisition)

Identify potential acquisition opportunities in existing and developing markets (North America, Middle East, China and India)

## Key performance indicators

Categories	Goals	Results		
		2009	2008 <sup>1</sup>	
Colleagues	Colleague engagement	71%	N/A	●
	Sales colleague retention	63.5%	54.6%	●
	Service colleague retention	74.4%	74.2%	●
	Health and safety (H&S) lost time through accidents (LTA) rate	1.53	1.82	●
Customers	Gross sales % of opening portfolio	15.2%	18.8%	●
	Customer retention %	79.6%	81.0%	●
	Net gain % of opening portfolio	-3.6%	2.8%	●
	Job revenue % of total revenue	24.0%	25.2%	●
	State of Service	98.1%	88.5%	●
	Customer satisfaction (Net Promoter Score)	21	N/A	●
Shareholders	Organic revenue growth	-3.1%	-1.7%	●
	Total revenue growth (inc. acquisitions)	-2.2%	2.5%	●
	APBITA margin (%)	8.3%	6.9%	●
	Debtors (days sales outstanding – DSO)	49	61	●
	Cost savings delivered in year	£82m	–	●
	Cash conversion targets as % of operating profit	143%	75.2%	●
	Gross capex as % of depreciation	83%	116%	●

## How are we doing?

● Strong progress   ● Progress   ● Limited progress

<sup>1</sup> Restated to conform with 2009 basis.

### Measuring achievement in 2009

The board uses 17 key performance indicators (KPIs) to judge progress towards strategic objectives. They are grouped within three categories, **Colleagues, Customers and Shareholders**. The group's progress against these KPIs and explanations of each one is shown opposite.

#### Explanation of 2009 KPIs

Colleague engagement – “Your Voice Counts” is an employee engagement survey and represents the aggregate engagement rating from these reports.

Colleague engagement was surveyed across the group for the first time in 2009. Previously only Rentokil (78% in 2008 to 81% in 2009) and Ambius (70% in 2008 to 73% in 2009) were surveyed.

Sales colleague retention is the reciprocal of total sales heads leaving in the year as a percentage of the sales head count at the beginning of the year. Service colleague retention is the reciprocal of total service heads leaving in the year as a percentage of the service head count at the beginning of the year.

H&S lost time through accidents (LTA) is defined as a work-related injury or illness to an employee which results in them being absent from work for one day/shift or more (this excludes the day/shift in which the accident occurred). The number of lost time accidents is expressed as a rate per 100,000 standard working hours.

Gross sales percentage of opening portfolio are additions to the portfolio (new business and additions to existing business but excluding price increases) expressed as a percentage of the opening portfolio. Customer retention percentage is the reciprocal of total terminations (reductions and terminations) expressed as a percentage of opening portfolio. Net gain percentage of opening portfolio is the movement in the portfolio expressed as a percentage of the opening portfolio.

Job revenue percentage is expressed as a percentage of total revenue.

State of Service is the total number of service visits performed divided by the total number of visits due. Customer satisfaction (Net Promoter Score) is measured by the average Net Promoter Score rating across all branches in the business.

Organic revenue growth is revenue growth excluding the effect of acquisitions. Total revenue growth (inc. acquisitions) is the year-on-year increase in total revenue expressed as a percentage of the previous year revenue. Both measures are at constant exchange rates.

APBITA margin (%) is the adjusted profit before interest, tax and amortisation (“APBITA”) expressed as a percentage of total revenue.

Debtors (days sales outstanding – DSO) are trade debtors gross of provisions calculated on the exhaust basis (i.e. going back over the relevant number of preceding days' invoicing until the debt balance is zero). The number of days this takes is the debtor days.

Cost savings delivered in year is expressed as a percentage of the total cost base (everything between revenue and APBITA gross of the identified savings) prior to the savings being achieved. Cash conversion targets as percentage of operating profit is operating cash flow expressed as a percentage of APBITA.

Gross capex as percentage of depreciation means cash capital additions (net of proceeds from disposals) expressed as a percentage of depreciation.

## Business overview

## Initial Textiles and Washroom Services

**£772.1m**  
2009 revenue

**2.5%**  
% change

**£115.1m**  
2009 APBITA

**(6.7%)**  
% change

**10,719**  
Employees

The Textiles and Washroom Services division comprises the washroom, linen hire, garment rental, floorcare, medical services and specialist hygiene activities in the UK and continental Europe. It provides services to customers in a diverse range of industries from manufacturing to retail and from banking to hospitality.

% Group revenue



Geographical spread



Activities



## Rentokil Pest Control

**£396.7m**  
2009 revenue

**3.3%**  
% change

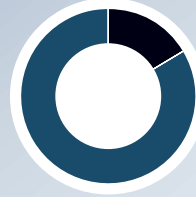
**£75.2m**  
2009 APBITA

**1.9%**  
% change

**6,733**  
Employees

Rentokil Pest Control seeks to be the finest provider of pest control services in all major international markets. It aims to satisfy the needs of both commercial and residential customers who seek protection from health and financial risks and the reassurance that comes from dealing with the industry's finest service provider. The division has leading market positions in the UK, continental Europe and North America.

% Group revenue



Geographical spread



Activities



## Asia Pacific

**£183.4m**  
2009 revenue

**(6.7%)**  
% change

**£19.8m**  
2009 APBITA

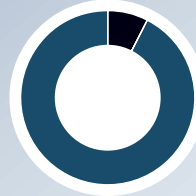
**(16.1%)**  
% change

**6,465**  
Employees

Asia Pacific covers all the group's activities in the region, principally washroom services, pest control and tropical plants.

*Excludes share of associate in Japan*

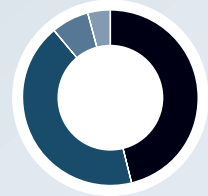
% Group revenue



Geographical spread



Activities



All numbers at 2008 average exchange rates.

### Ambius

**£106.8m**

2009 revenue

**(10.5%)**

% change

**£7.6m**

2009 APBITA

**(23.2%)**

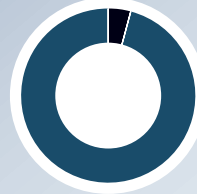
% change

**1,725**

Employees

The Ambius division (formerly referred to as Tropical Plants) provides interior landscaping, design installation and maintenance services in North America, the UK and continental Europe.

% Group revenue



Geographical spread



Activities



### City Link

**£353.1m**

2009 revenue

**(7.5%)**

% change

**£(5.6)m**

2009 APBITA

**87.1%**

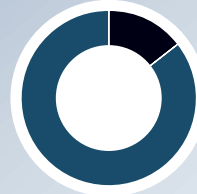
% change

**5,681**

Employees

City Link is a leading overnight parcel delivery service operating in the UK. In November 2006 it acquired Target Express.

% Group revenue



Geographical spread



Activities



### Initial Facilities Services

**£608.6m**

2009 revenue

**(6.8%)**

% change

**£26.3m**

2009 APBITA

**42.9%**

% change

**36,050**

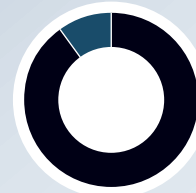
Employees

The Facilities Services division comprises a number of related businesses including Cleaning, Catering, Hospital Services and Specialist Hygiene Services in the UK.

% Group revenue



Geographical spread



Activities



All numbers at 2008 average exchange rates.

## Business review

10	Basis of preparation	12	Pest Control	14	Facilities Services
10	Full year financial overview	12	Asia Pacific	15	Central costs
11	Textiles and Washroom Services	13	Ambius	15	Principal risks and uncertainties
		14	City Link		

This review of performance takes a close look at each of our business areas – **Textiles and Washroom Services, Pest Control, Asia Pacific, Ambius, City Link, and Facilities Services**. In each case we report on market conditions, record our progress against key performance indicators and discuss the most important developments in 2009 and our expectations for 2010.

### Basis of preparation

Segmental information has been presented in accordance with IFRS 8 “Operating Segments” which the group has implemented with effect from 1 January 2009. This review also reflects internal organisation changes made in the third quarter resulting in some businesses moving from Pest Control to Textiles and Washroom Services. Prior year comparisons and prior year periods have been restated. In all cases references to operating profit are for continuing businesses before amortisation and impairment of intangible assets (other than computer software). References to adjusted operating profit and adjusted profit before income tax also exclude items of a one-off nature, totalling a net cost of £37.1 million (2008: £19.6 million) that have had a significant impact on the results of the group. They relate directly to the group’s various performance improvement initiatives and consist mainly of redundancy and other reorganisation costs including consultancy, plant and office closure costs net of the profit on sale of certain properties, profit or loss on disposal of businesses not classified as discontinued and acquisition integration cost. They have been separately identified as they represent an investment in the future performance of the group and are not considered to be “business as usual” expenses and have a varying impact on different businesses and reporting periods. All comparisons are at constant 2008 full year average exchange rates.

### Full year financial overview

Full year revenue of £2,355.8 million (at constant exchange rates) declined by 2.2% on the same period last year, but grew 5.0% at actual exchange rates. Revenue performance was held back principally by City Link and Initial Facilities Services, both of which experienced particularly difficult market conditions in 2009. Despite the weakened economy, Textiles and Washroom Services and Pest Control reported revenue growth of 2.5% and 3.3% respectively with some notably robust country performances in both divisions. The contract portfolio decreased by 3.6% year-on-year reflecting customer terminations and a slowdown in new business which we attribute directly to the economic downturn. Group operating profit (before amortisation and impairment of intangible assets) increased by 7.2% to £158.2 million and adjusted operating profit (again before amortisation and impairment of intangible assets) amounted to £195.3 million, an increase of 16.8% on the prior year. Group full year adjusted profit before tax and amortisation grew by 29.8% to £140.1 million. Profit before income tax from continuing operations was £47.2 million (2008: £22.8 million), an increase of 107.0%. This profit reflects £55.8 million of amortisation and goodwill impairment charges (2008: £65.5 million) and is stated after charging one-off costs of £37.1 million (2008: £19.6 million). Full details of divisional performance can be found on pages 11 to 15.

## Textiles and Washroom Services

### Market conditions

Difficult trading conditions were experienced throughout 2009 in the textiles and washrooms market in Europe. These macro economic issues have been reflected in lower volumes and continuing price pressure. Some first signs of recovery began to emerge in late Q4 2009, with a slow improvement expected through 2010.

£m	Fourth quarter 2009	2008	Change	Full year 2009	2008	Change
<b>At 2008 constant exchange rates:</b>						
Revenue	<b>195.2</b>	191.3	2.0%	<b>772.1</b>	753.6	2.5%
APBITA*	<b>34.3</b>	32.4	5.9%	<b>115.1</b>	123.3	(6.7%)
<b>At actual exchange rates:</b>						
APBITA*	<b>38.5</b>	34.0	13.2%	<b>128.4</b>	123.3	4.1%

\*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Revenue increased by 2.5% primarily due to a robust performance from France (up 4.9%), modest growth in Germany (up 2.4%) and the benefit of the Raywerk acquisition in Austria at the end of 2008. Excluding Raywerk underlying growth was 1%. Performance was impacted by market declines and competitive pressure in the Benelux, where revenue was marginally below the prior year, and reflected strong price competition coupled with poor retention rates. Reduced demand and changes in the pricing structure in the UK manufacturing business also had an adverse impact on revenue. Divisional portfolio growth of 2% was encouraging given on-going market challenges.

Adjusted operating profit decreased by 6.7% on the prior year (up 5.9% in Q4) reflecting unusual items associated with reorganisation costs and post-acquisition integration costs for Raywerk. Excluding these and the contribution from Raywerk, underlying profit fell by 2.0%. Profits in France and Germany were ahead, driven by the above-mentioned revenue growth, but this was offset by reduced profits in the Benelux due to severe pricing competition and the inability to cover various cost increases such as wage inflation. Margins were under pressure during the year due to increases in depreciation costs due to new garment rental contracts and cost increases on longer-term energy contracts not fully covered by price increases.

Operating cash flow increased by 63% reflecting the division's drive on DSO, lower capital expenditure and tighter stock management.

A review of the division's processing footprint and its procurement strategy identified cost savings of around €30 million (of which €20 million is anticipated to come from procurement).

In Belgium two textiles and one hospitals services plant are due to be closed by the end of Q1 2010 with annualised cost savings of £3.7 million from 2011. In France the closures of one textiles plant, one hospitals services plant and flat linen operations have been agreed with annualised cost savings of £4.4 million in 2011. Union negotiations in both countries have proceeded in line with plan and associated capital expenditure and change programmes are largely on track.

Operating units in Italy, the Nordics and the UK manufacturing operations have been consolidated under single management teams. The Swiss Textiles and Washrooms unit is now managed as an integral part of our German operations. Further management structures and cost cutting initiatives have been approved in the French Hygiene operations, Spain and the Divisional Team.

One-off investments in these restructuring plans represent a £26.3 million charge in 2009, £6 million cash outflow in 2009, £26.4 million in 2010, to realise £12.4 million cost savings in 2011.

A divisional Executive Supply Chain organisation was created during the year to enable initiatives to be leveraged across the broader procurement, warehousing and distribution arena. However, the procurement and innovation agendas remain at an early stage of development.

The leadership of the division was significantly strengthened during the year with a number of key appointments including a new Managing Director and Finance Director.

### 2010 preview

A number of initiatives have been put in place to improve the competitiveness of the Textiles and Washrooms division during this period. Significant restructuring programmes are underway in Belgium and France, which should start to yield benefits in 2010. Extensive cost-savings programmes will also be on-going through the year across all businesses.

## Pest Control

### Market conditions

Most countries within the Pest Control division experienced difficult market conditions in 2009. The global recession affected South Africa later than the other geographies, the impact of which was felt from Q2 2009 onwards. Our operations in the Caribbean did not appear to be significantly affected.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
Revenue	<b>96.4</b>	94.2	2.3%	<b>396.7</b>	384.1	3.3%
APBITA*	<b>18.2</b>	15.3	19.0%	<b>75.2</b>	73.8	1.9%
<b>At actual exchange rates:</b>						
APBITA*	<b>20.6</b>	16.5	24.8%	<b>84.9</b>	73.8	15.0%

\*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Pest Control grew revenue by 3.3% in challenging market conditions, primarily the result of strong performances in North America, growth in the higher inflation economies of South Africa and the Caribbean, and the Libyan contract which commenced in December 2008. Revenue growth was held back by the UK (including the products business), Ireland and Spain. Contract sales were down 10.9% year on year. However, overall revenue has been supported by an increased mix of job sales, up 1% on the prior year. Divisional retention improved by 1.3% to 81.7%, reflecting a continued focus on customer service. Portfolio grew by 0.5%.

Divisional profit increased by 1.9%, with declines in the UK and Europe (principally Spain) being offset by strong growth in North America, the Caribbean and the Libyan contract.

Across Europe revenue was flat. Poor revenue performances from Spain and Portugal were offset by growth in the Netherlands, Switzerland and Austria.

New management appointed in the UK has made excellent progress in turning the business around. State of Service was 99.9% at the year end, customer retention improved H2 on H1 and cost savings of £2.1 million were delivered in line with plan. Full year revenue decline of 5.8% (0.9% growth in Q4) was a solid improvement on H1's decline of 10.2%, reflecting better retention and rising job sales in Q3 and Q4. The portfolio contracted by 7.2% in the year but showed marginal growth in November and December 2009. Debt over 90 days is at a record low and DSO improved by 13 days on 2008.

North America had an excellent year, growing profit and revenue by 16.5% and 4.0% respectively. Although contract sales declined by 14%, job sales grew by 5% and retention improved to a record high of 83% (up 6.2% on 2008). DSO improved by 10 days to 34 days.

The business's three-year contract with the Libyan government is proving to be very successful at an operational level and we have leveraged our technical expertise to create a customer-focused and responsive service. However, we are still experiencing delays in receiving payment with some £4 million remaining outstanding at the end of the year. There is some risk that payment will not be forthcoming. Separately, we have established a joint venture in Libya to explore the opportunity to develop a conventional commercial business.

Despite the delayed payments from Libya outlined above operating cash flow increased by 11.1% to £82.1 million in 2009, the result of increased profit, reduced accounts receivable and a tight control on capital expenditure.

### 2010 preview

We expect conditions to remain challenging in 2010 with improvement in the US and UK likely to be offset by deterioration in Europe.

## Asia Pacific

### Market conditions

The Asian pest control and washroom hygiene market had a difficult first half in 2009 in tightening economic conditions with a slowdown in Malaysia, Singapore, Hong Kong and Indonesia partially offset by strong performances in China and India. Growth in the Australian and Pacific pest and washroom hygiene markets was slow in 2009, especially in the first half, due to nervous economic backdrop. Some recovery was seen in the second half.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
Revenue	<b>44.5</b>	46.3	(3.9%)	<b>183.4</b>	196.5	(6.7%)
APBITA*	<b>1.9</b>	5.9	(67.8%)	<b>19.8</b>	23.6	(16.1%)
<b>At actual exchange rates:</b>						
APBITA*	<b>2.1</b>	5.8	(63.8%)	<b>21.1</b>	23.6	(10.6%)

\*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Revenue declined 6.7% year on year and adjusted operating profit decreased by 16.1% (£3.8 million).

## Asia

Revenue fell by 12.5%, the result of legacy issues including the cancellation of the Hong Kong government contract and weaker government business in China (including the non-repeat of the Olympics pest control contracts). Excluding these items revenue fell by 0.2%. There has also been a severe decline in the fumigation business in Singapore, the Philippines and Malaysia as a result of slower international trade in 2009. This decline was marginally offset by growth in Indonesia, India and Korea.

Profit declined by £4.7 million largely due to the impact of charges related to the clean up of prior year control and acquisition issues as well as lower revenue noted above.

## Pacific

In the Pacific region revenue was 1.7% below the prior year due to weaker residential jobbing in the Pest business and loss of portfolio in the Ambius business. Profit grew by 4.3%, led by a strong turnaround in Australian Pest, a steady Washrooms performance and aggressive cost-savings programmes.

Service levels in the Australian Pest Control business reached a record 98.9% during 2009. Contract turnover rose by 2.8%. However, job revenue declined due to reduced demand for pre-construction termite barriers due to a downturn in building construction. DSO improved by 10 days to 42 days.

Washrooms service has continued to improve and is now at 97.1% but contract portfolio declined by 7.1%, revenue by 1.3%. Service staff retention increased year on year from 14.3% to 53.3%. This has led to improved service levels which in turn have led to an improved contract retention rate of 78.8%.

Cash performance has been strong and debtor days have decreased from 55 days to 42 days year on year.

During the year the Asia Pacific management team was significantly strengthened by the appointments of a new Managing Director, Finance Director and other senior country heads.

## 2010 preview

Market conditions in some of our Asian and Pacific markets are expected to improve in 2010. Against this backdrop we expect to achieve a modest overall improvement across the region through improved retention, focusing on high levels of service and implementing a continuing series of cost reduction measures.

## Ambius

### Market conditions

Growth declined in 2009 as demand for products and services softened in the major markets, especially in the US, UK, France and Belgium and principally the result of challenging economic conditions. All markets are highly fragmented with a large number of small operators, although the larger companies have a competitive advantage in terms of route density and product offering. Ambius currently has approximately 55,000 customers over 13 countries.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
Revenue	<b>30.5</b>	35.2	(13.4%)	<b>106.8</b>	119.3	(10.5%)
APBITA*	<b>4.3</b>	4.9	(12.2%)	<b>7.6</b>	9.9	(23.2%)
<b>At actual exchange rates:</b>						
APBITA*	<b>4.9</b>	5.0	(2.0%)	<b>8.8</b>	9.9	(11.1%)

\*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Ambius has experienced exceptionally difficult market conditions in 2009. Revenue fell 10.5% as a result of increasing contract terminations and a 22.3% decline in job sales. Although overall customer retention fell from 81.9% in 2008 to 77.3%, it improved in the second half to 79.8% (H1 2009: 75.2%).

Adjusted operating profit fell 23.2%. In addition to adjusting service head count in line with portfolio movement, the business has been pursuing a number of cost savings initiatives to mitigate revenue decline.

North America has been weak with a 12.3% decline in revenue. Portfolio has been impacted by the difficult economy and customer retention fell by five percentage points to 75.0% but improved as the year progressed. Job sales declined 21.0% year on year, but showed greater resilience in Q4 with Holiday sales only falling by 11.2% year on year.

Revenue in Europe declined 8.1% with most countries experiencing difficult economic conditions. Customer retention declined from 83.8% in 2008 to 79.9% but, as with the US, improved towards the end of the year. Profit was adversely impacted by increased redundancy costs, an increase in bad debts and a 24.6% reduction in job sales year on year.

Sales of brand extension services, including ambient scenting and fresh fruit delivery, have continued to rise during the period and now account for 11.8% of total contract sales compared to 7.2% in 2008.

Operating cash flow has been a key focus for 2009 with conversion of 165% compared to 81% in 2008. This has been achieved through a focus on working capital and tight control over capital expenditure. DSO at 37 days improved by two days year on year.

### 2010 preview

Trading for Ambius in 2010 is anticipated to remain challenging in all markets, at least for the first half of the year. The implementation of cost savings initiatives in 2009 will show a full year impact in 2010 as we attempt to maintain our current levels of profitability.

## City Link

### Market conditions

2009 saw unprecedented declines within the domestic parcel market. In the 12 months to the end of Q4 2009 the value of the market fell by some 8% (£170 million) year on year. Severe pressure on price has accounted for almost all of this decline. Volumes in the final quarter of 2009 were 6% higher than in 2008, resulting in full year volumes remaining broadly similar to the previous year.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
Revenue	100.9	97.2	3.8%	353.1	381.9	(7.5%)
APBITA*	2.7	(4.0)	-	(5.6)	(43.5)	87.1%

\*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

City Link's operating loss of £5.6 million is £37.9 million better than the corresponding loss in 2008 despite a £28.8 million reduction in reported revenue to £353.1 million. The business returned to profitability in Q4 2009 posting a profit of £2.7 million – £6.7 million better than the corresponding period in 2008. Revenue declined by 7.5%, impacted by difficult economic conditions, pricing competition and the full year effect of poor service in 2008. Q4 revenue was £15.8 million (19%) higher than Q3 reflecting the seasonal sales uplift, and £3.7 million (3.8%) ahead of Q4 2008, with particularly strong growth in the B2C business.

Volumes were down 3.1% on 2008 and revenue per consignment (RPC) weakened by 4.5% on the prior year.

City Link's customer base has been broadly consistent throughout the year although many are trading at lower levels. The market has been extremely competitive during 2009 with severe price cutting by competitors in order to drive volumes through their networks.

City Link's improved loss performance has been driven by cost savings of £54 million in 2009. This was achieved through depot closures (97 to 84 by year end) and reductions in vehicles and headcount. Vehicle fleet numbers are a third lower than this time last year and total employee numbers have fallen below 5,500, a 16% reduction since December 2008. Plans to migrate from two hubs to one will be implemented by the end of H1 2010.

Apart from periods of heavy snow in early February and early December 2009, customer service has remained consistently above our 98.5% target. The restoration of customer call handling at depots was completed early in the year and has been met with very positive customer feedback.

The successful roll-out of new hand-held scanners and an upgraded route scheduling tool has underpinned improved productivity and customer service. The functionality of the new scanners has been expanded to allow delivery drivers to capture real-time customers' door and parcel images. This latter feature, which we believe is industry-leading, will further aid electronic, real-time proof of delivery. Additional improvements include the recently relaunched City Link website which has been very positively received by customers.

DSO at the end of the year was 34 days, an improvement of 10 days on 2008.

### 2010 preview

There have been signs of recovery within the market recently, with forecasts suggesting the parcel market will return to positive growth by the latter stages of 2010. Even so the market is expected to remain very competitive throughout the coming year as excess capacity in the industry still remains the predominant feature.

## Facilities Services

### Market conditions

Market conditions deteriorated during 2009 with customers continuing to look for cost reductions. However, the number of administrations/closures has slowed considerably.

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
Revenue	150.6	164.4	(8.4%)	608.6	653.0	(6.8%)
APBITA*	11.6	9.2	26.1%	26.3	18.4	42.9%
<b>At actual exchange rates:</b>						
APBITA*	11.6	9.2	26.1%	26.6	18.4	44.6%

\*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Market conditions have been challenging in both the UK and Spain with severe price cutting from competitors, site closures and reductions in service frequency. Revenue decreased 6.8%, of which 1.8% can be attributed to Retail. Adjusted operating profit rose 42.9% almost entirely due to improved profitability from UK Washrooms. The Division delivered an outstanding cash performance in 2009 with cash flow of £46.4 million (representing 176% conversion) and significant improvement in debtors in all business units.

Cleaning revenue fell by 7.2% on the prior year, largely reflecting retail contract losses as a result of pricing pressure. However, over 75% of the lost portfolio was recovered by contract wins in Q4 which will take effect in Q2 2010.

Catering revenue fell by 1.6% following the loss of a large schools contract in H1 2009. This was replaced with other contracts which commenced in Q4. Underlying profit performance was positive (after an exceptional VAT recovery in the prior year) due to the exit of unprofitable contracts and new profitable wins in the latter part of 2008 and H1 2009.

Hospital Services revenue fell by 8.2% due to the loss of two large hospitals contracts at the end of 2008. The business has focused on the innovation of its food offering and has been recently merged with the Catering business under a single management team in order to leverage its expertise in this area.

Market conditions have been challenging for the UK Washrooms business with revenue down 8.2% year on year. After adjusting for the £6 million bad debt provision taken in Q3 2008, profit grew by £3.1 million driven by various cost-savings initiatives and reduced service credits. 95%+ service levels are now being consistently maintained despite reductions in headcount and service centres. The business has had continued success in the collection of debt, with DSO down 39 days since December 2008 and 90-day debt reduced by over 70%.

#### 2010 preview

Our focus for 2010 is on growth and we have had an excellent start to the year with a major contract win in the transport sector. However, markets will continue to be difficult in 2010. As in 2009 we will continue to focus on on-going cost reductions and cash.

## Central costs

£m	Fourth quarter 2009	2008	change	Full year 2009	2008	change
<b>At 2008 constant exchange rates:</b>						
APBITA*	<b>(8.2)</b>	(9.6)	14.6%	<b>(43.1)</b>	(38.3)	(12.5%)
<b>At actual exchange rates:</b>						
APBITA*	<b>(8.4)</b>	(9.6)	12.5%	<b>(43.4)</b>	(38.3)	(13.3%)

\*Adjusted profit before interest, one-off items and amortisation and impairment of intangible assets, other than computer software.

Central costs for the full year were £4.8 million higher than 2008 primarily due to higher incentive scheme costs.

## Principal risks and uncertainties

The principal risks and uncertainties relating to our strategy are summarised below. While some of these risks remain just that, others are more likely to manifest themselves. The key operational risk to the company is further deterioration of the global economy. Should our markets weaken it may become difficult for our operational businesses to maintain volumes and pass on price increases to customers. Cash collection could potentially prove more difficult and bad debts may arise as customers suffer from the recession.

The principal risks are:

- A continuing weakening of the economies in which we operate; and
- The number, scope, complexity and interdependencies of many initiatives – risk of management stretch and overlapping priorities.

## Financial review

16	Overview	17	Tax	18	Interest rate risk
16	One-off items	17	IFRS 8	18	Foreign exchange risk
16	Net debt and cash flow	17	Financial risk management policies	19	Treasury risk
17	Funding	18	Capital structure and financing strategy (liquidity risk)	19	Credit risk
17	Cash generation and dividend	19	Acquisitions	19	Pensions
17	Interest	19	Accounting standards		

### Overview

Full year revenue of £2,355.8 million declined by 2.2% over last year, but grew 5.0% at actual exchange rates. Group operating profit (before amortisation and impairment of intangible assets) increased by 7.2% to £158.2 million and adjusted operating profit (again before amortisation and impairment of intangible assets) amounted to £195.3 million, an increase of 16.8% on the prior year. Group full year adjusted profit before tax and amortisation grew by 29.8% to £140.1 million. Profit before income tax from continuing operations was £47.2 million (2008: £22.8 million), an increase of 107.0%. This profit reflects £55.8 million of amortisation and goodwill impairment charges (2008: £65.5 million) and is stated after charging one-off costs of £37.1 million (2008: £19.6 million).

### One-off items

One-off costs relate directly to the group's various performance improvement initiatives and consist mainly of redundancy and other reorganisation costs including consultancy, plant and office closure costs net of the profit on sale of certain properties, profit or loss on disposal of businesses not classified as discontinued and acquisition integration cost. They have been separately identified as they represent an investment in the future performance of the group and are not considered to be "business as usual" expenses and have a varying impact on different businesses and reporting periods.

This year these have amounted to £37.1 million (2008: £19.6 million) and represent costs associated with the reorganisation of the Textiles and Washrooms division (primarily the closure of processing plants in Belgium and France), the costs associated with the closure and relocation of the London corporate office and redundancy costs and impairment of assets relating to the continued integration of the City Link and Target Express businesses.

### Net debt and cash flow

£m at actual exchange rates	Year to date		
	2009	2008	Change
Adjusted EBITA – continuing businesses	220.8	167.2	53.6
Adjusted EBITA – discontinuing businesses	–	5.0	(5.0)
One-off items	(40.2)	(19.6)	(20.6)
Depreciation	215.9	190.8	25.1
Other non-cash	7.7	4.9	2.8
<b>EBITDA</b>	<b>404.2</b>	<b>348.3</b>	<b>55.9</b>
Working capital	91.7	3.2	88.5
Capex – additions	(189.2)	(237.8)	48.6
Capex – disposals	10.0	15.8	(5.8)
<b>Operating cash flow</b>	<b>316.7</b>	<b>129.5</b>	<b>187.2</b>
Interest	(61.5)	(67.3)	5.8
Tax	(17.5)	(27.3)	9.8
Purchase of available-for-sale investments	(0.8)	–	(0.8)
<b>Free cash flow</b>	<b>236.9</b>	<b>34.9</b>	<b>202.0</b>
Dividends	–	(106.7)	106.7
Acquisitions/disposals	(6.8)	(43.0)	36.2
Special pension payment	–	(33.3)	33.3
FX and fair value adjustments	24.0	(267.0)	291.0
<b>Increase/(decrease) in net debt</b>	<b>254.1</b>	<b>(415.1)</b>	<b>669.2</b>
<b>Closing net debt</b>	<b>(1,108.1)</b>	<b>(1,362.2)</b>	<b>254.1</b>

Operating cash flow at actual rates of exchange was £187.2 million higher than 2008 due to higher EBITDA, better working capital movements and lower net capex. EBITDA was £55.9 million higher than last year due mainly to improved trading performance offsetting higher one-off costs. Inflows from working capital were £88.5 million higher than last year mainly as a result of lower debtors. Savings in net capex amounted to £42.8 million, with reductions being achieved in most divisions.

Tax and interest payments (including finance lease interest) were £15.6 million lower than last year following receipt of tax refunds in respect of prior periods. Free cash was therefore £202.0 million higher than last year at £236.9 million.

Deferred acquisition and disposal cash flows consumed £6.8 million and foreign exchange gains and fair value adjustments added a further £24.0 million, producing a total cash inflow of £254.1 million, leaving net debt at £1,108.1 million at 31 December 2009.

### Funding

At 31 December 2009 the group had net debt of £1,108 million. Of this, £915 million is represented by capital market notes issued by the group and the earliest maturity of any of these instruments is 2013. Of the balance, £32 million is held as cash and other borrowings in the businesses and £225 million is drawn under the group's £500 million bank facility, which matures in October 2012. This facility provides the group's principal source of day to day liquidity. The group's Letter of Credit facilities of c.£70 million equivalent require refinancing in October 2010. Negotiations have commenced and no difficulties in securing replacement facilities are anticipated.

The group has good headroom in its bank facilities in terms of funds available to withdraw and has good and improving headroom in relation to its covenant. The group's bank facilities contain a single financial ratio covenant which requires EBITDA to be no less than 4x interest payable (on the basis of the definitions and subject to the adjustments set out in the bank facility documentation). The covenant is tested on 30 June and 31 December for the previous 12 months. At 31 December 2009 the covenant ratio was 7.0x, equivalent to £185 million of EBITDA headroom.

Full details of the group's net debt and borrowing facilities are set out in note 21 to the financial statements.

### Cash generation and dividend

Cash generation has been a key priority during 2009. A number of measures have been pursued to achieve this including a continuation of the drive on working capital, optimisation of capital expenditure and the implementation of cost reduction programmes across the group. As a result we have made excellent progress during the year in operating cash flow, generating £317 million, representing 143% conversion from profit. This, coupled with our decision to pass the interim dividend, enabled us to retire our fully undrawn £125 million revolving credit facility 12 months early on 3 September 2009. Headroom at 26 March 2010 was £285 million.

In view of the continuing economic uncertainty in the markets within which we operate and our desire to strengthen the group's balance sheet to increase our financial flexibility, the board has decided to not propose a final dividend to shareholders.

### Interest

Net interest payable of £57.6 million for the year was £4.3 million lower than in 2008. Favourable effective interest rates reduced the year-on-year charge by £7.1 million and mark to market moves by a further £4.3 million. These benefits were partly offset by higher interest charges of £4.6 million, due to higher average net debt, mainly as a result of 2008 translation differences, adverse net pension interest charges of £1.7 million and other smaller items amounting to £0.8 million.

### Tax

The blended headline rate of tax for 2009 was 27.0% (2008: 31.6%). This represents the weighted headline rates appropriate to the countries in which the group operates. The decrease in the blended rate was due to one-off restructuring costs within Belgium and France and a significant reduction in the UK loss position. The income statement tax charge for 2009 was 24.8% of profit before tax from continuing operations, compared with 28.1% for 2008. The principal factor that caused the effective tax rate to be lower than the blended rate is the reduction of the deferred tax provision in respect of overseas unremitted earnings, partially offset by various adjustments in respect of the prior period provisions for deferred taxation. The blended tax rate for 2010 is expected to be 28.6%. The actual tax rate for 2010 is expected to be broadly in line with 2009.

### IFRS 8

IFRS 8, "Operating Segments" has been adopted by the group from 1 January 2009. IFRS 8 requires us to amend our segmental reporting so that it aligns fully with our internal management structure, and comparative figures have been restated. The principal changes involve the reallocation 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, Supplies and Specialist Hygiene businesses from Facilities Services to the Textiles and Washrooms 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.

### Financial risk management policies

The board has approved the following financial risk management policies. These policies cover those financial risks that are material to the company's operations and financial results. The board has set appropriate delegated authorities, treasury financing parameters and reporting procedures to ensure compliance with such policies at all times. The effect of the company's treasury activities is reflected in the disclosures in notes 16, 21 and 22.

### Capital structure and financing strategy (liquidity risk)

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, in a timely manner as they present themselves, without the imposition of onerous financing terms and conditions. The company will target a minimum financing headroom of £200 million, when measured against its latest forecast/anticipated cash flows (adjusted for planned acquisitions and any maturing debt obligations) 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 should be 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.

In autumn 2005 the group's credit rating from Standard & Poor's was reduced from BBB+ with negative outlook to BBB. Following the publication of the group's interim results in August 2008, Standard & Poor's reduced the group's credit rating to its current level of BBB-. After the group's third quarter trading statement in November 2008, Standard & Poor's changed the outlook on this rating to negative outlook. We continue to target a stable BBB rating in the medium term as we believe that this strikes an appropriate balance between an efficient capital structure (as represented by a low weighted average cost of capital), liquid access to the capital markets and reasonable pricing.

At 31 December 2009 the group had approximately £275 million of undrawn committed bank credit facilities. The company 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.

### Market price risk

The company and its reported results are exposed to financial market price movements. These risks principally arise from the interest and foreign exchange rate markets. In addition, through its UK defined benefit pension scheme ("the scheme" – see note 24), the company also has exposure to equity market price movements, movements in interest rates used to discount liabilities for reporting purposes under IAS 19, changes over time to actuarial mortality assumptions, defaults on bonds and inflation. The trustee directors

are responsible for setting the risk management strategy for this scheme. In 2006 this scheme's exposure to equity market price movements was markedly reduced. In 2006 the scheme's assets were switched from being predominantly in equities (80%/20% equities/bonds) to being mostly in corporate bonds (20%/80% equities/bonds). A 10% movement in equity prices in any one year would give rise to a +/-£20.0 million movement in scheme assets and thus a corresponding movement in the underlying scheme surplus. Shortly after this asset switch, the scheme also undertook inflation and interest rate hedging actions. These actions, together with the closure of the scheme to future accrual for existing employees with effect from September 2006 were undertaken so as to increase the likelihood that the scheme's assets (together with the company's agreed future contributions) would be sufficient to meet its anticipated financial commitments to existing and future pensioners.

### Interest rate risk

The policy is to manage interest rate exposures on a 12-month rolling basis (measured quarterly). Unless otherwise agreed by the board, a minimum of 50% of the company's estimated future interest rate exposures should be fixed (or capped) for a minimum period of nine months forward. Additionally, in the event that the company's interest cover is forecast to fall below 4.75 times the board will be required to review a remedial action plan.

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.

### Foreign exchange risk

Foreign exchange risk can arise as follows:

1. from retranslation of overseas business profits into the sterling functional reporting currency of the company;
2. from retranslation of assets and liabilities of overseas companies into the functional currency of the company;
3. from cross-border trading transactions of group companies; and
4. from the use of currency denominated borrowings and financial instruments used to finance business operations.

The company has a policy of not hedging foreign exchange translation risks outlined in 1. and 2. above. Further, the company has a policy of not hedging foreign exchange risks arising from cross-border trading activities given that these are immaterial.

The company policy is to fund its business operations centrally with borrowings that are substantially denominated (90% or greater) in the same actual or effective currencies\*, and in the same proportion as the group's forecast cash flows generated by the business.

*\*Actual or effective currency. The use of either actual currency borrowings or currency swaps is permitted. Currency swaps economically change the actual currency of borrowing into an effective amount, borrowed in a different currency. Currency swaps will be used in preference to actual currency borrowings when the all-in cost is cheaper than the alternative currency borrowings and/or they enable a closer match to the company's debt maturity calendar.*

### Treasury risk

The company utilises financial instruments to manage financial risks that arise naturally from its business operations. Only group treasury personnel are authorised to deal such instruments on behalf of the company. The board has set strict policies for the use of such instruments. The company's policy is to ensure that their use shall be:

- strictly limited to the management of known or anticipated financial exposures which arise from the company's existing or planned commercial operations;
- only undertaken by suitably qualified or experienced group treasury staff;
- undertaken only after efforts have been taken to avoid the need for use of such derivative instruments to manage the group's financial exposures;
- limited to the management of interest rate or foreign exchange exposures (i.e. no equity related or commodity hedging shall be undertaken without specific board approval);
- undertaken only after the preparation of clear documentation which explains the purpose for the use of the specific derivative and its proposed financial accounting treatment;
- capped by the maximum approved counterparty limit for that transaction; and
- subject where relevant to detailed "hedge effectiveness" testing by group treasury, through to maturity of the transaction, if designated and documented as a "hedge" at the outset of the transaction.

### Credit risk

The company limits its exposure to credit risk on financial instruments by ensuring, where appropriate, that instruments used are subject to International Swaps and Derivatives Association market standard legal documentation.

The board also sets maximum counterparty approval limits for individual financial counterparties. These limits are reviewed and varied to take account of changes to the underlying credit rating of individual credit counterparties as required.

### Acquisitions

The group acquired businesses in the year for a net consideration of £2.7 million. Details of businesses acquired and revenue and operating profit therefrom are set out in note 30 to the accounts.

### Pensions

The group's total IAS 19 net deficit was £64.3 million at the end of 2009 compared with a net surplus of £134.9 million at December 2008. The group has a number of small defined benefit schemes outside the UK but the principal scheme ("the Scheme") is in the UK.

The UK scheme had a net deficit of £47.9 million at December 2009 compared with a net surplus of £154.4 million a year earlier. This represents an adverse movement of £202.3 million due primarily to an increase in liabilities.

The net deficit comprises the aggregate of the value of the Scheme assets and liabilities:

- the Scheme assets reduced by £50.0 million to £978.8 million driven by a reduction in value of our interest rate swap portfolio, partly offset by an increase in value of our equity portfolio – our Scheme comprises approximately 20% equities and 80% bonds and other financial instruments; and
- the Scheme liabilities increased by £152.3 million to £1,026.7 million driven by:
  - a reduction in yield on AA corporate bonds – the yield determines the discount factor used to calculate the net present value of the future scheme liabilities (the lower the yield, the greater the liabilities);
  - the longer-term outlook for increased inflation – inflation drives our view on future pension increases; and
  - favourable experience gains on liabilities due to pension and salary increases being lower than anticipated, in part offsetting the above.

Asset allocation is determined by the trustees in conjunction with the company. The next triennial valuation of the UK Scheme takes place during 2010.

Further details are shown in note 24 on pages 74 and 75.

### Accounting standards

The financial statements included in this annual report have been prepared and presented under IFRS as adopted by the EU. The group's accounting policies are set out in pages 45 to 52.

## Corporate responsibility

20 Governance	21 Health and Safety	22 Marketplace
20 Workplace	21 Environment	22 Community

During the past year we have focused on ensuring that our values are embedded worldwide. They have now been built into the performance development review programme and “Your Voice Counts”, the group’s colleague engagement survey. Embedding values is not an instantaneous process, but we are confident that it is well underway. Seventy-nine per cent of colleagues who responded said they had a “good understanding of our values” in the colleague survey undertaken in September 2009.

This is important because the company’s strategic plan is based on the “colleagues-customers-shareholders” value equation. By mobilising colleagues behind the core “service, relationships, teamwork” ethos we will enhance performance for the benefit of all stakeholders and ensure we work together more effectively and responsibly.

### Governance

The chief executive is the board director responsible for corporate social responsibility matters, which are reviewed at least once a year; executive authority lies with the Company Executive Board.

A major overhaul of corporate responsibility related policies was undertaken in 2009 and new policies, including a new Code of Conduct, are available on [www.rentokil-initial.com](http://www.rentokil-initial.com). In addition, training continued of managers and sales specialists in respect of competition/antitrust law. To date, almost 3,000 employees have completed this training which is now part of induction programmes.

In 2009 Rentokil Initial continued to be placed in Business in the Community’s “100 Companies that Count” corporate responsibility index and within the Dow Jones Sustainability Index. Its Carbon Disclosure Project submission also achieved an above sector average performance.

Key non-financial performance indicators reviewed by the board are as follows:

Key Performance Indicators	2009	2008
CO <sub>2</sub> emissions tonnes <sup>(i)</sup>	<b>293,574</b>	323,330
Emissions in tonnes per £m turnover on a total company basis	<b>116.04</b>	134.16
Water consumption units <sup>(ii)</sup>	<b>12.37</b>	14.02
Colleague engagement score	<b>71%</b>	n/a
Sales colleague retention	<b>63.5%</b>	54.6%
Service colleague retention	<b>74.4%</b>	74.2%
Lost Time Accident Rate (LTAR) <sup>(iii)</sup>	<b>1.53</b>	1.8

(i) Total CO<sub>2</sub> emissions reported on a total company basis.

(ii) Water consumed – litres per kilogramme of textiles processed in continental European plants.

(iii) LTA equals accidents per 100,000 hours worked. LTAR equals six-monthly moving average for LTAs.

### Workplace

In 2009 we continued implementing the group’s “OneHR” strategy to deliver greater consistency of approach, systems and sharing best practice across the group.

### Colleague engagement

In 2009, for the first time, the group undertook the colleague engagement survey “Your Voice Counts” across every division and country in which it operates. Over 30,000 colleagues responded – a 63% response rate. The overall colleague engagement score for the group of 71% puts Rentokil Initial on par with the respected General Industry Norm of Hay Group (the independent company which delivered the confidential survey). Action plans, flowing from this survey, are now in place across the group. Our colleague enablement score of 68% is 1% above the General Industry Norm and on par with the Hay’s High Performance Companies’ Norm. In the survey colleagues were asked to respond to a standard 30 questions or statements. The table below shows the survey results on issues relating particularly to corporate responsibility matters.

Question	% Favourable	% Neutral	% Unfavourable
I feel proud to work for the company	74	20	6
The company is customer focused	74	17	9
Finding better ways to meet customer needs is a high priority	78	16	6
Company places high priority on health and safety	75	15	10
Colleagues know what is expected of them	89	8	3
Poor performance is not accepted	74	17	9
Colleagues are treated with respect	72	16	12

The survey also showed a number of specific areas for improvement. These included; developing a breadth of “management styles” i.e. feedback, coaching, appropriate empowerment; greater focus on learning and development; and overall engagement levels in City Link and group functional roles.

### Skills development

The company’s commitment to skills development enhances the capability of colleagues and supports the delivery of customer service. For example, Initial Facilities Services’ (IFS) programmes deliver accredited training for its employees as part of Train to Gain across a wide range of training requirements. These include numeracy and literacy skills, customer service and administration as well as developing English language skills for Speakers of Other Languages (ESOL). These programmes are assessed by Ofsted, the UK’s education regulator. Its 2009 report said that the overall effectiveness of the provision is satisfactory, with key strengths being good development of work skills and personal effectiveness. The business has established a Learning Champions network, which focuses on building awareness and understanding of the business’s commitment to the UK government’s Skills Pledge initiative launched in 2008.

In 2009 IFS’s Learning and Development team delivered 4,661 days of training across the businesses, an increase of 55% on the previous year. Under the Train to Gain initiative, 419 employees achieved a National Vocational Qualification, an increase of 25% on the previous year.

The team has also been working with Asset Skills, the Sector Skills Council for facilities management, housing, property, planning, cleaning and parking. In 2009, one of Asset Skills’ projects was the Women and Work project, an initiative to help women across nine sectors secure better training to fulfil their potential. Over a two-year period this scheme aims to give up to 10,000 women across the sector the chance to train for a new job or progress within their company into higher-skilled, better paid jobs. IFS participated in this matched funding project to provide women in the business with

further development opportunities. This gave more women access to courses, for example its First Line Manager course, in order to develop the individual for potential promotion in the future.

Other businesses have also developed formal skills development frameworks. Rentokil has introduced its own Academy – a virtually based programme underpinning the business’s “Experts in Pest Control” positioning. Ambius has established its Ambius University, which has developed six major programmes, with training communications in nine languages.

### Health and safety

The company’s health and safety approach focuses on colleagues, customers and those individuals who may be affected by the company’s operational activities. During 2009 there were nine major incidents reported and, for the first time in several years, we have to regrettably report fatalities – two colleagues and one member of the public – for which we have conducted full investigations.

The company’s approach to health and safety is backed by internal health and safety management requirements, based around OHSAS 18001. The company also developed and communicated a new health and safety policy statement during the year. In common with the group’s drive to use a more standard approach to business processes, the group is developing measurable approaches to critical elements of workplace health and safety, such as over working at height and conducting risk assessments.

Health and safety is a regular item on the company’s board agenda. Businesses report to the main board on their lost time accident rate (LTA) against individual targets. LTA performance improved significantly in 2009 with European Textiles and Washrooms, Rentokil, Initial Facilities Services, Asia and the group all exceeding their 2009 LTA rate targets. The company also measures Working Days Lost Rate, a measure of severity. Our performance against these KPIs is shown below.

Health and Safety: Key Performance Indicators	2009	2009 Target	2008 performance
	Performance Improvement ▲ Deterioration ▼	✓ – achieved x – not achieved	
Number of Lost Time Accidents (injuries and illnesses)/100,000 hours worked	1.53▲	1.60 ✓	1.82
Working Days Lost because of Lost Time Accidents/100,000 hours worked	39.68▼	n/a	39.26

The company has identified the 21 priority businesses that accounted for approximately 75% of the total lost time accidents and working days lost across the group in 2008. These businesses have been included in the group and divisional health and safety plans and were targeted for improvements in 2009. As a result, LTA performance improved significantly in 2009 in the majority of the priority businesses with 17 of the 21 businesses achieving their 2009 LTA rate targets.

An alternative perspective is provided by the external health and safety awards gained in this area. Rentokil won the UK’s Royal Society for the Prevention of Accidents “RoSPA” Gold Award. City Link (two awards), Rentokil Specialist Hygiene and Initial Facilities Services were also RoSPA Gold Award winners.

In addition the “Success Is No Accident” programme, which originated in the UK, is now being rolled out in key overseas territories. In the UK it significantly improved the effectiveness of the accident reporting processes and led to significant reductions

in reportable accident rates. The programme provides an early reporting and management action process together with colleague rehabilitation programmes.

### Environment

In 2009 Rentokil Initial improved on its environmental performance showing reductions in water usage and CO<sub>2</sub> emissions. The company has improved its performance every year for the last six years.

As most service delivery takes place on customers’ premises our overall property environmental impact is relatively limited. Nevertheless, we are active in areas of significant potential environmental impact such as energy and water in washroom processing plants; energy consumed by vehicles; and chemicals used in our services.

In compiling this year’s environmental data the company has continued its use of an information system linked to its accounting system. This has continued the improvement of the quality of collection of energy usage data across the group. In 2009 the commitment to providing this data has increased significantly, and our total emissions data is based upon operations representing almost 100% of the company’s operations.

In addition, for this year, we have modified the normalised reporting of CO<sub>2</sub> emissions. Previously this was based on kilograms per employee. This has been changed to tonnes per £million of turnover, so that it is in line with the proposed Carbon Reduction Commitment Energy Efficiency Scheme that is being introduced by the UK government from April 2010, and with the normalised measures used in the Carbon Disclosure Project.

In addition we have updated our emissions conversion factors, in line with the latest guidance from DEFRA which includes all forms of greenhouse gases in the factor (previously only CO<sub>2</sub> in its own right was included). This has resulted in revised figures for 2008.

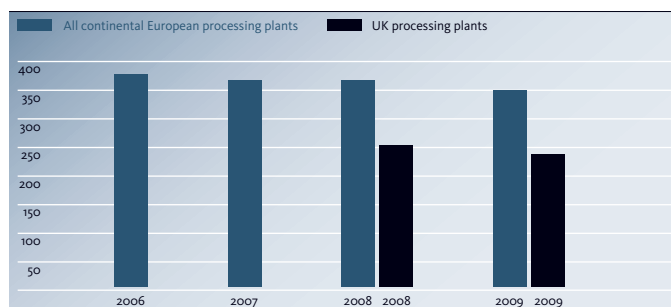
### Greenhouse gas emissions

In 2009 Rentokil Initial’s total CO<sub>2</sub> emissions were 293,574 tonnes compared with 323,330 tonnes in 2008, reported on a total company basis. In the previous years, the data had not covered 100% of the operations – for example, the 2007 data had covered about 82% of operations.

In 2009 Rentokil Initial decreased its emissions per £million turnover from 134.16 tonnes in 2008 to 116.04 tonnes in 2009 – an improvement of 13.5% year-on-year.

Our textiles laundry plants are responsible for 65% of the company’s CO<sub>2</sub> property and process emissions (2008 – 63%).

### UK and continental European processing plants

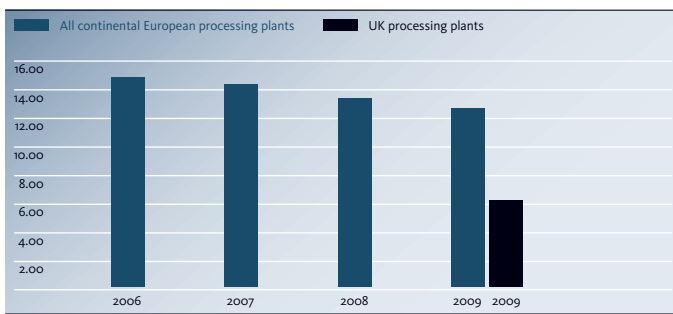


## Water consumption

Our main source of water consumption arises in our European textiles laundry businesses. In 2009 the water consumption, based on kilogrammes of product processed in all the company's continental European processing plants, fell by 5.9% to 12.93 litres (2008 – 13.74 litres).

The company has also introduced new processing plants into the UK Washrooms business for roller towels and mats which operates at a far higher level of efficiency for water consumption. In 2009, its first full year of operation, its performance indicator of tonnes per kilogramme of laundry washed was 6.32.

## Water consumed: litres per kilogramme of textiles processed in continental European and UK processing plants



## Reducing waste

Many of our businesses have proactive waste management procedures – both for themselves and for their customers. At an individual business level, there are several examples of our businesses taking initiatives that directly related to their operational environments.

The result of these initiatives has been a significant increase in the focus on waste recycling. Out of a total of 1,810 tonnes of waste generated by City Link in 2009, 17% was recycled, with the remainder being sent to landfill. This level is being steadily improved upon. Rentokil Pest Control in the UK generated 412 tonnes of waste, of which 32% was recycled, and Initial Facilities Services' waste recovery services on behalf of its client, Aviva, resulted in a recycling rate of 74% based on waste generated of 4,904 tonnes.

In 2009 the company launched “Be a Hero Waste Zero” across the group to promote good practice, including posters, stickers, leaflets, newsletters and a website to provide ideas for waste reduction and recycling.

On a larger scale, a ground-breaking waste picking facility, believed to be one of only two in operation in the UK, was introduced at Nissan's plant in Sunderland by Initial Industrial Services. Annual recyclable materials has increased by 30% and reduced waste disposal cost by £70,000 per year.

## Marketplace

Improving customer service remains a significant priority. In addition to other customer service measures the Net Promoter Score system was rolled out as a group measure of customer satisfaction across all divisions during 2009.

Direction and management of our marketplace activity is determined by individual businesses. Rentokil's and Initial Facilities Services' quality management systems are certified to ISO 9001.

Eden Services – one of the UK's largest school catering providers – working in partnership with Croydon Council, received the Food for Life catering mark for 96 primary and special schools within the Croydon area. More recently the catering business has received the Red Tractor award for local sustainable ingredient sourcing.

Future regulatory developments that may affect our services for customers are monitored by the company. One example relevant to Rentokil is the EU Biocidal Products Directive. In 2009 the company was the first in Europe to achieve a product registration under the Directive for its RADAR mouse control unit (which stands for Rodent Activated Detection and Riddance), after five years of effort. This ensures that across the EU customers can continue to have an effective regulated product to tackle rodent infestations.

## Product stewardship

Much of our work in this area is undertaken by Rentokil, developing new products to minimise potential impacts, such as the mouse monitoring unit, which helps reduce the amounts of pesticide to be applied. Similarly it undertakes comparative product evaluation, such as on fly killers which are tested against competitors' products to ensure they are maximising their effectiveness for customers.

Public health is an important customer issue for Rentokil around the world. Its contract to improve public health in Libya through control of the rat population involved placing 150,000 rodenticide bait boxes in three cities. To help further improve Libyan public health, the business has been working with national and local government to address key public health issues, as well as supporting a public awareness campaign. The local team also responded within hours to support the local population in Tobruk when an outbreak of bubonic plague, carried by rodents and insects, had been identified.

## Supply chain

Our procurement policies are developed at a divisional and local level. Where supply categories represent a high risk we adopt more stringent approaches to address key issues.

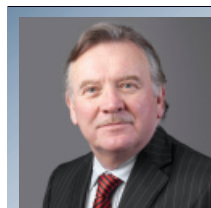
For instance, textiles purchased for our laundry business often emanate from “at risk” countries principally in Asia. The procurement department in our textile business in France and elsewhere in Europe ensure that their suppliers meet stringent ethical, environmental and labour standards. Procurement in European Textiles is an area of significant focus for the company in 2010.

The company also recognises that fragrances used in air fresheners and odour control can require close scrutiny. Suppliers are required to adhere to guidelines that were developed in conjunction with the company's toxicological consultants, specifying constituents for use in areas of short-term exposure and for those for continual or long-term exposure.

## Community

Rentokil Initial's community engagement consists of three separate approaches: charitable cash donations (often linked to employees' initiatives); community support; and community investment. Community support and investment is locally rather than centrally driven. Charitable cash donations amounted to £150,000 (£142,000 in 2008). This excludes value in kind donations or management time. A full breakdown of community initiatives can be found in the corporate responsibility report 2009.

## Directors and Secretary



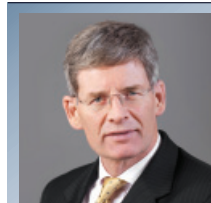
**John McAdam**  
Chairman

Aged 61. Appointed Chairman in May 2008. Chairman of United Utilities Group PLC and non-executive director of Rolls-Royce plc, J Sainsbury plc and Sara Lee Corporation (USA). Formerly Chief Executive of Imperial Chemical Industries plc ("ICI") from 2003 to 2008 and prior to joining ICI in 1997, held a number of positions at Unilever, from 1974, within its Birds Eye Walls, Quest International and Unichema International businesses.



**Peter Long**  
Non-Executive  
Director

Aged 57. Chartered Management Accountant. Appointed a director in October 2002. Chief Executive of TUI Travel PLC. Formerly non-executive director of Debenhams PLC and Chief Executive of Sunworld Limited. The senior independent non-executive director.



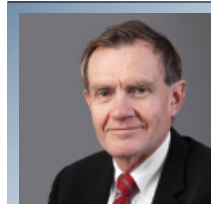
**Alan Brown**  
Chief Executive

Aged 53. Barrister and Chartered Management Accountant. Appointed Chief Executive in April 2008. Formerly Chief Financial Officer of ICI (2005-2008) prior to which he held various corporate and operational roles in the Unilever group (1980-2005) including Senior Vice President Finance, Unilever Food and Beverage Europe and latterly Executive Chairman, Unilever China.



**Michael Murray**  
Chief Financial  
Officer

Aged 43. Chartered Management Accountant. Appointed a director and Chief Financial Officer in January 2009 and resigned with effect from 31 March 2010. Formerly Finance Director of GSL UK Limited (2006-2008), prior to which he held various finance roles within the TNT group, including Finance Director of TNT Asia Pacific and latterly as Chief Financial Officer of TNT Express.



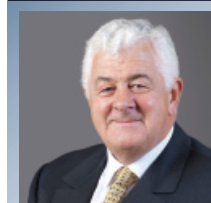
**Peter Bamford**  
Non-Executive  
Director

Aged 56. Appointed a director in July 2006. Chairman of MCPC-PRS Alliance Limited and SuperGroup plc. Formerly Chief Marketing Officer and director of Vodafone Group plc having held senior executive roles at Vodafone, including as Chief Executive of Northern Europe, Middle East and Africa operations and Chief Executive of Vodafone UK. An independent non-executive director.



**Andy Ransom**  
Executive Director

Aged 46. Solicitor. Appointed an executive director in May 2008. Responsible for the Pest Control division from October 2009 and for the Ambius division and the group legal function and for the Asia and Pacific businesses (January to September 2009). Formerly a senior executive at ICI (1987-2008) where he was responsible for a number of group functions and international businesses including ICI's regional and industrial divisions.



**Richard Burrows**  
Non-Executive  
Director

Aged 64. Chartered Accountant. Appointed a director in January 2008. Chairman of British American Tobacco plc. Non-executive director of Carlsberg A/S (Denmark). Formerly Governor of the Bank of Ireland and joint Chief Executive (and latterly a non-executive director) of Pernod Ricard SA (France) and Chairman and Chief Executive of Irish Distillers and a director of CityJet Limited (Ireland) and Mey İçki (Turkey). An independent non-executive director.



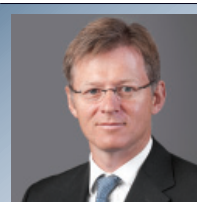
**William Rucker**  
Non-Executive  
Director

Aged 46. Chartered Accountant. Appointed a director in February 2008. Chief Executive of Lazard & Co. Ltd in the UK, Deputy Chief Executive of European Investment Banking, Deputy Chairman of Lazard LLC and Chairman of Quintain Estates and Development PLC. Joined Lazard in 1987 from Arthur Andersen. An independent non-executive director.



**Alan Giles**  
Non-Executive  
Director

Aged 55. Appointed a director in May 2006. Chairman of Fat Face World Ltd, a director of the Office of Fair Trading and of Book Tokens Limited. Formerly Chief Executive of HMV Group plc, Managing Director of Waterstone's, director of WH Smith PLC, non-executive director of Somerfield plc and Wilson Bowden plc. An independent non-executive director.



**Duncan  
Tatton-Brown**  
Non-Executive  
Director

Aged 45. Chartered Management Accountant. Appointed a director in July 2005. Chief Financial Officer of Fitness First Group Limited. Formerly Group Finance Director of Kingfisher plc, having been previously Finance Director of B&Q plc and Chief Financial Officer of Virgin Entertainment Group. An independent non-executive director.

**Paul Griffiths**  
Secretary

## Senior management

### Peter Slator

Divisional Managing Director, Textiles and Washroom Services

Aged 49. Appointed Divisional Managing Director in April 2009. Previously worked for 28 years with Unilever, having been Executive Chairman in Australasia and prior to that the Group Head of I.T. and before that Managing Director of the Foods business in Japan.

### Stuart Godman

Divisional Managing Director, City Link

Aged 37. Appointed in September 2009. Previously Sales and Marketing Director of City Link and formerly Target Express, which was acquired by Rentokil Initial plc in November 2006. Joined Target Express in 1997 after nine years with TNT Express.

### Xuemei Bennink-Bai

Divisional Managing Director, Asia Pacific

Aged 43. Appointed in October 2009. Formerly Managing Director of Unilever Food Solutions China and a member of the Unilever Food Solutions Board for Asia, Africa and the Middle East. Prior to this she held a wide range of positions with Unilever in general management, sales, project management and research in China, Vietnam, the Netherlands and the UK.

### Bryan Kinsella

Chief Information Officer

Aged 53. Joined in 2007. Formerly Senior Vice President and Chief Information Officer of the Society of International Telecommunications and Aeronautics having previously held board positions at Vertex (part of United Utilities), the Computer Science Corporation and executive roles at ASDA and International Computers.

### Peter Lloyd

Divisional Managing Director, Facilities Services

Aged 59. Joined in 1986 having sold his retail cleaning company to the group in 1985. Prior to this current role, appointed Managing Director of UK Cleaning in 2002.

### Martin Sawkins

Group HR Director

Aged 54. Joined in November 2008. Previously held positions as Group HR Director HomeServe plc, Group HR Director The AA Limited and HR Director Centrica Home and Road Services. Prior to this held a number of senior positions in HR and operations in British Aerospace and United Biscuits.

## Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRSs as adopted by the EU and applicable law and have elected to prepare the parent company financial statements in accordance with UK Accounting Standards and applicable law (UK Generally Accepted Accounting Practice).

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and parent company and of their profit or loss for that period.

In preparing each of the group and parent company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- for the group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- for the parent company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the parent company financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the parent company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the group and to prevent and detect fraud and other irregularities.

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose names and functions are listed on page 23 confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and
- the directors' report contained in the Governance section includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

## Directors' report

25	Principal activities	26	Interests of directors in contracts	26	Communities and charitable donations
25	Business review	26	Related party transactions	26	Key contracts
25	Results and dividend	26	Employees	27	Research and development
25	Substantial interests and share capital	26	Auditors	27	Financial instruments
25	Electronic communications	26	Post balance sheet events	27	Takeovers Directive
25	Board	26	Policy in relation to payment of suppliers	27	Annual general meeting
25	Directors' interests	26	Other performance areas 2009		
25	Directors' indemnity and insurance				

### Principal activities

The company is the holding company of a group which through its operating businesses in some 50 countries provides a range of, principally, business to business support services. A summary description of the group's activities is given on pages 8 and 9. The principal subsidiary undertakings and joint ventures of the company are shown on page 85.

### Business review

The strategy update and KPIs, on pages 4 to 7 and the business review, on pages 10 to 15 form part of this report and report on the group's activities during the year and on likely future developments. They also describe the key performance indicators used by the board to monitor progress against strategy and list the principal risks and uncertainties affecting the business.

### Results and dividend

The consolidated profit before income tax for 2009 was £65.0 million (the tax on this was £16.1 million). Net consolidated capital employed is £(150.1) million compared to £(61.9) million last year.

The company did not pay a final dividend on 2008 profits, or an interim dividend in respect of 2009 profits. The board continues to believe that it is in the best interest of the company to conserve its cash resources and accordingly has not recommended a final dividend in respect of 2009.

### Substantial interests and share capital

The company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements in operation which may at a subsequent date result in a change in control of the company. As at 26 March 2010 the following shareholders had indicated that they were interested in 3% or more of the company's issued share capital. There were no movements in the company's ordinary shares during the period.

Substantial shareholding	%	No. of ordinary shares	Nature of holding
Schroders plc	13.97	253,544,833	Indirect
Lloyds Banking Group plc	5.077	92,143,711	Indirect
Invesco Ltd	5.01	90,991,468	Direct
Aviva plc (and subsidiaries)	5.05	91,572,527	Direct
Ameriprise Financial Inc	5.003	90,790,221	Indirect
Legal and General Group plc	3.99	72,494,739	Indirect
Orbis Holdings Ltd	3.10	56,278,825	Indirect

*Ameriprise Financial includes Threadneedle Asset Management Holdings Ltd.*

*Silchester International Investors no longer holds a disclosable interest in the company.*

Authority for the company to make purchases of its own shares of up to 181,483,101 million was obtained at the annual general meeting on 14 May 2009. No purchases of its shares were made by the company in 2009.

The authority is normally renewable annually and approval will be sought from shareholders at the 2010 annual general meeting to renew the authority for a further year.

### Electronic communications

In accordance with the Companies Act 2006, the company will distribute its printed annual report only to shareholders who have indicated to the company that they wish to receive it in that form. The company will periodically canvas new shareholders on how they wish to receive their shareholder communications. Further information on shareholder services is available on pages 95 and 96.

### Board

Biographical information on the current directors of the company, including their ages and their dates of appointment, is shown on page 23.

The directors retiring by rotation will be Richard Burrows, Duncan Tatton-Brown and William Rucker, who are eligible and offer themselves for re-election at the 2010 annual general meeting. None of the directors retiring by rotation has a service contract with the company. Biographical information of the directors seeking election is set out in the notes accompanying the notice of the annual general meeting.

Michael Murray resigned as a director with effect from 31 March 2010 and the company has announced the appointment of Jeremy Townsend as a director and chief financial officer. He is currently Finance Director at Mitchells & Butlers, a role he has held since 2008, having joined in 2005 as Deputy Finance Director. He previously held various financial roles at J Sainsbury plc, including Group Financial Controller, Corporate Finance Director and Strategy Director. He will join the board later in the year.

### Directors' interests

The interests of the directors and their families in the share capital of the company on 1 January 2009, or their date of appointment if later, and 31 December 2009 are set out on pages 36 and 38. Details of incentive awards to directors are shown in the remuneration report on page 38. No director had any beneficial interest in the shares of any of the company's subsidiaries on those dates. Any changes in the interests of the directors and their families in the company and its subsidiary companies during the period from the end of the financial year to 26 March 2010 are shown in the directors' remuneration report.

### Directors' indemnity and insurance

The company has granted indemnities in favour of its directors as is permitted by the Companies (Audit Investigations and Community Enterprise) Act 2004. It has also purchased insurance cover for the directors against liabilities arising in relation to the company, as permitted by the Companies Act 2006. This insurance does not cover fraudulent activity.

### Interests of directors in contracts

The board has a formal process for considering and, if appropriate, authorising potential conflicts of interest which is reviewed annually by the nominations committee.

During 2009 no director had any material interest in any significant contract to which the company or any subsidiary was a party.

### Related party transactions

Other than in respect of arrangements relating to employment of directors, details of which are provided in the remuneration report or as set out in note 34, there is no material indebtedness owed to or by the company to any employee or any other person considered to be a related party.

### Employees

The company attaches considerable importance to communicating with colleagues. Internal communications take place at a group, divisional, business and team level in order to ensure that colleagues receive accurate information in a timely manner and a variety of structures exist for two-way communications at all levels. At a corporate level the group intranet is used to announce company news with the support of direct e-mail communication from the executive team. This is supplemented by a periodic electronic magazine called "Horizons" which features interviews with senior executives about major initiatives and performance.

In Europe the company meets its European Forum (European Works Council) usually twice a year to communicate with colleagues' representatives from across the continent. It maintains an open dialogue with the Forum at times of business change. Divisional communications use a wide range of channels such as e-mail, divisional intranets, electronic newsletters and quarterly magazines to communicate business issues including financial and economic factors affecting the operations. Great importance is placed on face-to-face team meetings.

Applications for employment by disabled persons are always fully considered, taking into account the aptitudes of the applicants. In the event of members of staff becoming disabled, every effort is made to ensure that their employment with Rentokil Initial continues and that appropriate re-training is made available. It is the policy of Rentokil Initial that the training, career development and promotion of disabled persons should, as far as possible, be identical with those of other employees.

### Auditors

In September 2009 the company appointed KPMG Audit Plc as auditors and PricewaterhouseCoopers LLP resigned. Information on the change of auditors is set out in the Audit Committee report on pages 28 and 29. A resolution to reappoint KPMG Audit Plc as auditors will be put to the annual general meeting on Friday 14 May 2010.

### Post balance sheet events

Since the end of the year the group has announced the closure of the City Link hub at Wednesbury in the West Midlands. See note 35.

### Policy in relation to payment of suppliers

Rentokil Initial has a variety of payment terms with its suppliers in various countries. These are either negotiated along with other contract terms or conform to standard terms applied either by the relevant group company or by the supplier. It is the company's policy to pay suppliers in accordance with either negotiated or standard terms, provided that the relevant invoice is properly presented in a timely manner and is not the subject of dispute. At 31 December 2009 the trade creditors of the group represented 52 days of annual purchases and the UK businesses' trade creditors represented 36 days of purchases; UK trade debtors represented 40 days of turnover. During the year the parent company did not have any trade creditors.

### Other performance areas 2009

As a means of helping shareholders to assess the success of our strategies, the company uses non-financial performance indicators, which are shown in the table on page 6 and further information on these and on other performance areas is set out in the Corporate Responsibility review on pages 20 to 22.

### Communities and charitable donations

The company's approach to the community consists of three separate elements – charitable cash donations (often linked to employees' initiatives), community support, and community investment. Community support and investment is locally rather than centrally driven. Charitable donations amounted to £150,000 (£142,000 in 2008). This amount excludes value in kind donations or colleagues' time.

Donations for UK charitable purposes in 2009 amount to £61,000 and a further £89,000 was donated in other countries. There were no payments to political organisations. Payments are made to a wide range of charitable organisations both in the UK and overseas. The company operates a matched giving scheme whereby the company matches donations raised by employee fundraising.

Further details of the company's non-financial indicators can be found in the company's web-based Corporate Responsibility Report 2009, which is available at [www.rentokil-initial.com](http://www.rentokil-initial.com).

### Key contracts

The group does not have any dominant customer or supplier relationships.

## Research and development

The company invests in an active programme of research and development in support of its major international business streams. This programme includes the conception, design, testing and manufacture of new products to enhance the quality, effectiveness and safety of the company's services and minimise their environmental impact. Where appropriate, work may be sponsored at universities with expertise in relevant areas. The company's total research and development expenditure in 2009 was £1.7 million (2008: £1.7 million).

## Financial instruments

The company's financial risk management objectives and policies are set out within the financial review on pages 16 to 19, which includes the policy for hedging certain forecast financial transactions. The review and notes 16, 21 and 22 to the accounts also detail the company's exposure to price, credit and liquidity risks. The company is not materially exposed to foreign exchange risks arising from cross-border trading transactions, although it is significantly exposed to foreign exchange investment risks.

## Takeovers Directive

Pursuant to section 992 of the Companies Act 2006, which implements the EU Takeovers Directive, the company is required to disclose certain additional information. Those further disclosures, which are not made elsewhere in this annual report, are as follows:

The company's articles of association give power to the board to appoint directors, but also require directors to retire and submit themselves for re-election at the first annual general meeting following the appointment and for re-election by rotation. The articles themselves may be amended by special resolution of the shareholders.

The board is responsible for the management of the business of the company and may exercise all the powers of the company subject to the provisions of relevant statutes and the company's memorandum and articles of association. For example, the articles contain specific provisions and restrictions regarding the company's power to borrow money.

Powers relating to the issuing and buying back of shares are also included in the articles of association and such authorities are renewed by shareholders each year at the annual general meeting. A copy of the articles of association is available to view on the company's website.

The company's Euro Medium Term Note Programme contains conditions that in general terms allow the Notes in issue by the company to be put back to the company in the event of a change of control of the company coupled with either a credit rating downgrade below "investment grade" or where the company's credit rating is already below "investment grade".

The company's main central committed bank facilities require mandatory prepayment and cancellation in the event of a change of control of the company.

There are a number of other agreements that take effect, alter or terminate upon a change of control of the company, such as some commercial agreements, financing arrangements and employee share plans. None of these are deemed to be significant in terms of their potential impact on the group as a whole. The remuneration and contractual arrangements for the executive directors and senior management do not contain any matters that are required to be disclosed under The Takeovers Directive. Copies of executive directors' service contracts are available for inspection by shareholders at the company's registered office and at the annual general meeting.

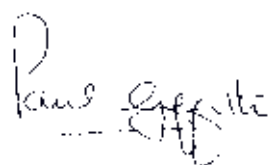
## Annual general meeting

The annual general meeting of the company will be held at No. 4 Hamilton Place, London W1J 7BQ on Friday 14 May 2010 at 11 a.m.

In addition to the adoption of the 2009 report and accounts, resolutions dealing with re-election of directors and the resolution dealing with the approval of the directors' remuneration report, there are resolutions on the following matters: the appointment and remuneration of the auditors, a routine authority to repurchase the company's shares, authorities to allot shares and disapply pre-emption rights and a general authority to make donations to EU political organisations.

A separate letter to shareholders containing the notice of the annual general meeting and explanatory information on the resolutions to be proposed as special business accompanies this annual report. This annual report and the notice of the annual general meeting can be found on the company's website, [www.rentokil-initial.com](http://www.rentokil-initial.com).

By order of the board,



**Paul Griffiths**  
**Secretary**  
26 March 2010

## Corporate governance

28	The board	30	Performance evaluation	31	Auditors' and auditor independence
28	Composition of the board	30	Dialogue with major shareholders	31	Disclosure of information to auditors
28	Board committees	30	Accountability and audit	31	Internal controls
30	Independent non-executive directors	30	Going concern		
30	Chairman				

The Combined Code on Corporate Governance 2008 (“the Combined Code”) sets out guidance in the form of principles and provisions on how companies should be directed and controlled to follow good governance practice. The Financial Services Authority requires companies listed in the UK to disclose in relation to Section 1 of the Combined Code, how they have applied its principles and how they have complied with the provisions throughout the accounting year. This is provided below.

### 1. The board

The board is responsible to shareholders for the overall direction and control of the company and specifically reserves certain matters for its consideration (such as the approval of financial statements, major capital expenditure and major acquisitions and disposals) as set out in the board governance procedures and practices manual, which is reviewed annually. The chief executive has delegated authority from the board to manage the company, subject to the strategic direction of the board. He is also responsible for the achievement of the objectives set by the board and preparing an overall strategy for the company to achieve such objectives and the implementation of the overall strategy decided by the board.

The board meets routinely nine times a year and additionally when necessary and follows an agreed formal schedule of matters which are considered at individual meetings. In 2009, the board met on nine occasions. Details of directors' attendance at board and principal committee meetings are set out on page 30. The limited number of directors' absences from meetings was principally due to conflicting business commitments.

The board has formal procedures over the identification and authorisation of potential conflicts of interest which are in line with current best practice. The nomination committee reviewed these procedures in December 2009 and reported to the board that the procedures remained appropriate and effective.

### 2. Composition of the board

The board currently comprises the chairman, six independent non-executive directors and three executive directors. Each non-executive director serves for a fixed term not exceeding three years that may be renewed by mutual agreement for a further two terms of three years, subject to the board being satisfied with a director's performance, independence and commitment. Each director is required to be elected by shareholders at the annual general meeting following his/her appointment and be re-elected by shareholders at least once every three years. The board's policy is to appoint and retain non-executive directors who can apply their wider knowledge and experience to their understanding of the company's affairs. Appointments to the board are made on the recommendation of the nomination committee following a rigorous selection process. Information on the current directors is set out on page 23. New members of the board receive appropriate training and induction which includes spending time in the company's operations.

### 3. Board committees

The board reviewed the terms of reference of the principal board committees as part of its annual review of governance procedures and practices. Agendas, papers and minutes of committee meetings are generally provided to all board members. Membership of the principal board committees below has not changed during the year. The committees' terms of reference are available on the company's website, [www.rentokil-initial.com](http://www.rentokil-initial.com).

#### Audit committee

The principal oversight responsibilities of the committee cover financial reporting, internal controls and risk management, various matters concerning the external auditors including their appointment, the scope of their duties, their independence and monitoring and receiving reports from the internal audit function. The terms of reference of the committee reflect the Financial Reporting Council's guidance which is intended to assist listed companies in complying with the provisions applicable to audit committees set out in the Combined Code. The committee reviewed its terms of reference towards the end of 2009 and concluded that they remained appropriate. The audit committee has also reviewed its effectiveness and concluded that it continues to operate effectively.

The members of the committee at the end of the year were Duncan Tatton-Brown (chairman), chartered management accountant, William Rucker, chartered accountant and Peter Bamford all of whom are non-executive directors. Of the members of the committee, both Duncan Tatton-Brown and William Rucker have recent and relevant financial experience. The committee reviews, challenges and approves, as the case may be, presentations or reports from senior management, consulting as necessary with the external auditors, internal auditors and company executives. The committee did not find it necessary to seek external advice during the year, other than through its dialogue with the external auditors.

The committee invites the chairman, the chief executive, the chief financial officer, the director of corporate accounting and control, the director of internal audit and representatives of the external auditors to attend its meetings. The company secretary attends meetings in his role as secretary of the committee. The committee has had a dialogue with the external auditors without executives present during the year.

During the year the committee met on four occasions and considered a range of matters in fulfilment of its terms of reference.

During 2009, the committee reviewed the provision of overall assurance within the group, with the aim of improving the efficiency and effectiveness of the assurance process. This included reviewing audit arrangements, which had hitherto been provided, in part, by a combination of in-house internal audit, outsourced internal audit and external audit. Of particular relevance was the extent of the group's operations in many overseas territories where a large proportion of historic internal audit processes had focused on basic financial controls which replicated the work undertaken by the auditors as a necessary part of their external audit.

The committee considered proposals submitted by its then auditors, PricewaterhouseCoopers LLP, and KPMG Audit Plc. These proposals identified areas of duplication in the work performed by its internal and external auditors which could be removed to improve the efficiency of the processes and reduce overall assurance costs without compromising audit quality. Both firms demonstrated that they would be able to deliver the services on broadly similar economic terms.

The committee, jointly with the board, concluded on balance that the proposal from KPMG should be accepted and at the beginning of September 2009, PricewaterhouseCoopers submitted their resignation and formally confirmed that there were no matters concerning their resignation that needed to be brought to shareholders' attention. KPMG were appointed by the board as auditors to the company with effect from the date of PwC's resignation to hold office until the conclusion of the 2010 annual general meeting.

Other matters considered by the committee during the year are described below:

- The effectiveness of the group's systems of internal control and reports over individual incidents of control weaknesses related to individual businesses reported either through line management or the internal audit process which neither individually nor collectively were material to the company. The control issues at City Link reported on in 2008 were effectively dealt with in 2008. The committee reviewed control issues which had occurred in the Spanish pest control business and the Malaysian business in the previous year and actions taken by management to deal with the identified weaknesses. Previously identified weaknesses in project management have received significant management attention and a new project management framework is being embedded across the group.
- The committee considered the group assurance framework covering the financial and non-financial control processes. This framework was prepared by reviewing the most significant business risks and current sources and levels of assurance related to those risks in order to consider whether changes should be made in the level of assurance. The committee continued to be satisfied that a reasonable level of assurance had been provided in respect of key areas of business risk.
- The committee considered a report setting out the findings of an internal evaluation of the 2008 external audit process.
- The committee reviewed the actions which the chief executive had initiated to establish a new operating framework for the group's businesses that would create greater consistency and a more standard approach towards business processes and remove a significant amount of administration cost as well as adding to the effectiveness of control processes.
- Various reports and written and oral updates on a number of control and reporting issues as part of its oversight of the internal control framework.
- Financial statements relating to the company's annual report, interim report and quarterly trading updates were reviewed as well as reports from the external auditors.

- Activities of the internal audit department including resource plans, activity levels and objectives, the overall objective being to provide assurance as to the adequacy, effectiveness and quality of the company's system of internal control, risk management and corporate governance. A new head of internal audit was appointed at the end of 2008.
- Routine reports on whistle blowing which did not contain any material matters of concern.
- The committee reviewed an analysis and related assumptions from the chief financial officer supporting the statement to be contained in its annual report that the business is a going concern.
- The fees for the 2009 audit and the external audit plan for 2009.
- Auditor independence is reviewed routinely.

In 2008 the company established a risk committee, chaired by the chief financial officer, comprising senior financial and other functional heads which through the chief financial officer provides support to the chief executive and to the audit committee in support of its oversight responsibility for the management of business risk.

To avoid actual or perceived conflicts of interest, the company has a policy concerning the provision of non-audit services by the company's auditors under which non-audit services provided by the external auditors are pre-approved by the audit committee within certain pre-defined parameters. In addition, the auditors are prohibited from providing certain services set out in the policy.

The expenditure on audit and non-audit services in 2009 is set out in note 4.

#### Nomination committee

The main purpose of the nomination committee is to assist the board by keeping its composition under review and conducting a rigorous and transparent process when making or renewing appointments of directors to the board. In the previous year, the committee took on the additional responsibility of advising the board over directors' conflicts of interest and independence.

Membership has not changed during the year and comprises: the chairman, John McAdam, the senior independent director, Peter Long and the next two longest serving non-executive directors, Duncan Tatton-Brown and Alan Giles. The nomination committee met on two occasions in 2009 to deal with changes in executive responsibilities at the level below the chief executive and to review the company's conflict authorisation process. The committee reviewed and was content with its effectiveness.

#### Remuneration committee

The members of the remuneration committee are Peter Long (chairman), Richard Burrows and Alan Giles, all of whom are independent non-executive directors. The remuneration committee has reviewed its effectiveness during the year and concluded that it has continued to operate effectively. The directors' remuneration report is set out on pages 32 to 38.

## Attendance at meetings

Directors	Board	Audit Committee	Remuneration Committee	Nomination Committee
John McAdam	9/9	–	–	2/2
Alan Brown	9/9	–	–	–
Michael Murray	9/9	–	–	–
Andy Ransom	9/9	–	–	–
Duncan Tatton-Brown	9/9	4/4	–	2/2
Richard Burrows	8/9	–	6/6	–
William Rucker	8/9	3/4	–	–
Peter Long	6/9	–	6/6	2/2
Peter Bamford	9/9	4/4	–	–
Alan Giles	9/9	–	6/6	2/2
Total number of meetings	9	4	6	2

The terms of reference of the principal board committees are available on the company's website, [www.rentokil-initial.com](http://www.rentokil-initial.com), or from the company secretary.

### 4. Independent non-executive directors

The board has appointed Peter Long to act as senior independent director whose main responsibility is to be available to shareholders should they have concerns that they are unable to resolve through normal channels and for leading the performance review process in respect of the chairman.

The board regards Peter Long, Peter Bamford, Richard Burrows, Alan Giles, William Rucker and Duncan Tatton-Brown as independent non-executive directors within the tests set out in the Combined Code.

### 5. Chairman

The role of the chairman, John McAdam, is set out in the board's governance procedures which are reviewed annually by the board as well as in his letter of appointment. The chairman's priority is the management of the board whereas the chief executive's priority is the management of the company. The chairman's main interests outside the company are set out in his biographical details on page 23.

The chairman received an award under the 2008 Share Incentive Plan, which was formally approved by shareholders at the time of his appointment. As a consequence of this one-off award, he is not regarded as independent under the provisions of the Combined Code.

### 6. Performance evaluation

The board has undertaken a formal evaluation of its own performance and that of its principal committees and individual directors, including the chairman. Directors completed appraisals on matters relevant to board, committee and director performance.

A report was presented to and reviewed by the board. The board concluded that the evaluation exercise had confirmed that the directors had the appropriate range of skills and experience and constituted an effective and unified board. The review was led

internally by the chairman with the assistance of the company secretary, utilising a framework provided by external specialists which covers the establishment and role of the board, its membership, skills, experience, training, meeting arrangements, leadership, procedures and communications.

Individual director evaluation showed that each director (including those seeking re-election at the annual general meeting in 2010) continued to demonstrate commitment to the role. The non-executive directors, led by the senior independent director, carried out a performance evaluation of the chairman after taking account of the views of the executive directors. The board intends to carry out further performance evaluations and will keep under review revisions in the UK corporate governance code when deciding the method and frequency.

### 7. Dialogue with major shareholders

The chief executive and chief financial officer hold regular meetings with analysts and institutional shareholders to discuss the company's strategy and financial performance. The board is regularly provided with an analysis of the company's shareholder base and with commentary on market views and sentiment. The chairman, the senior independent director and other non-executive directors make themselves available for discussions with shareholders as required by circumstances or as requested by shareholders.

### 8. Accountability and audit

The audit committee assists the board on matters concerning accountability and audit, information on which is contained within the audit committee report above.

### 9. Going concern

At 31 December 2009, the group had net debt of £1,108 million. Of this, £915 million had been issued under the group's debt capital market programme and the earliest maturity of any of these instruments is 2013. Of the balance, £32 million is held as net cash and other borrowings in the businesses and £225 million is drawn under the group's bank facility, which matures in October 2012. This facility provides the group's principal source of day-to-day liquidity.

The group's practice is to reforecast the expected full-year outcome in terms of profit and cash every month and current and prospective performance are reviewed formally with each of the group's divisions monthly. These forecasts, together with supplementary short-term cash forecasts which are provided by the divisions to group treasury allow the group's cash and debt position to be managed actively.

At 31 December 2009 and 26 March 2010 the group had undrawn headroom in its committed bank facilities of £275 million and £285 million respectively. After reviewing group and company cash balances, borrowing facilities and projected cash flows, the directors believe that the group and company have adequate resources to continue operations for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the accounts.

In reaching this conclusion, the directors have considered carefully the risks to the group's trading performance and cash flows as a result of the difficult global economic environment and the shortage of credit available in the bank finance market in particular. The directors have also had regard to the group's operating plan and budget for 2010 and have considered a number of risk factors. The group's budget shows improved profitability and strong cash flows. The group has a good level of headroom in its bank facilities in terms of both the amount of funds available to withdraw and the financial covenants.

The group's bank facilities contain a single financial ratio covenant which requires EBITDA to be no less than 4x interest payable (on the basis of the definitions and subject to the adjustments set out in the bank facility documentation). The covenant is tested on 30 June and 31 December for the previous 12 months. At 31 December 2009 the covenant ratio was 7x, equivalent to £185 million of EBITDA headroom.

Full details of the group's net debt and borrowing facilities are set out in note 21 to the financial statements.

#### 10. Auditors' and auditor independence

As described earlier in this report, KPMG Audit Plc replaced PricewaterhouseCoopers LLP as the company's auditors in September 2009. In concluding that KPMG Audit Plc should be appointed as auditors, the board and the audit committee took into account the need to ensure that auditor independence was safeguarded.

The company considers that there are sufficient controls and processes in place to ensure that the required level of independence is maintained. The company has a formal policy on the provision of non-audit services provided by the company's auditors under which any such proposed expenditure of up to £250,000 must be approved in advance by the chief financial officer and above that level the approval of the audit committee is required. The committee does not consider that there is any material risk of the company's auditors withdrawing from the market.

A resolution to re-appoint KPMG Audit Plc as auditors of the company will be proposed at the annual general meeting to be held on 14 May 2010.

#### Disclosure of information to auditors

Insofar as each of the directors is aware, there is no relevant audit information (as defined by section 418 of the Companies Act 2006) of which the company's auditors are unaware; and each of the directors has taken all of the steps that he should have taken as a director to make himself aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

#### Internal controls

The annual report provides information on and an assessment of the company's business, operations, financial position and prospects. The board is responsible for maintaining a sound system of internal controls, including financial, operational and compliance

controls and risk management, and reviews the effectiveness of the system at least annually. In doing so the group has taken note of the guidance for directors as set out in the Turnbull Guidance. The system is designed to manage, rather than eliminate, risk and can only provide reasonable and not absolute assurance against material misstatement or loss.

The audit committee assists the board in the performance of its responsibilities by reviewing the board procedures as they relate to internal controls and they consider internal and external auditors' reports on internal control issues and reports on internal controls and risk management systems. The risk identification and management process has been in place during the whole of 2009 (and up to 26 March 2010, the date of the approval of the audited 2009 accounts) and during that time the board, with the assistance of the committee, has reviewed the process.

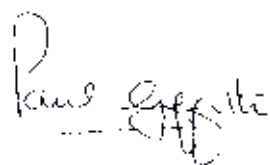
A report on the activities of the committee in 2009 is reported in section 3 above and further information on the risk management and internal control processes in the business can be found in the financial review on pages 16 to 19.

As indicated in the last annual report the company is currently engaged in a process of introducing a standard operating framework which will tend to mitigate risks associated with the geographic spread of operations and non-standard business processes. In addition the company is introducing a standard framework for the management of projects which will mitigate risks associated with the management of change which has been a particular exposure for the company in the past. These enhancements in the company's processes, which are taking place over the next three years, will deliver a greater understanding of the required standards for operations and the related performance metrics which will, in turn, lead to an improved control environment. In addition, the capability of financial management has been strengthened during the year.

In 2008 delegated authority limits in the group were revised. As a result the corporate centre increased its level of involvement in operating business decision-making. During 2009 the audit committee initiated a review of the sources of assurance provided to the board over the adequacy of the control and other processes. The review is on-going and is proving to be a useful additional oversight process.

Refining the internal control framework is iterative and improvement measures are continually under review.

By order of the board,



**Paul Griffiths**  
**Secretary**  
26 March 2010

## Directors' remuneration report

32	Introduction	36	External appointments	37	TSR performance graph
32	Remuneration committee	37	Executive shareholding requirements	37	Rentokil Initial versus FTSE 100 and FTSE 250 indices
32	Remuneration policy	37	Pensions	38	Total pay and benefits for executive directors
35	Chairman and non-executive directors	37	Bonus	38	Share incentive awards
36	Executive directors' contracts	37	Interests in shares		

### Introduction

This remuneration report sets out the company's policy on the remuneration of executive and non-executive directors together with details of directors' pay, employment agreements, letters of appointment and interests in shares. The remuneration committee aims to comply with best practice guidelines, including guidance produced by the Association of British Insurers and the National Association of Pension Funds, in producing this report. All information disclosed in the directors' remuneration report is unaudited save where it is stated that the information is audited. An ordinary resolution to approve the directors' remuneration report will be put to the annual general meeting on Friday 14 May 2010.

The directors' remuneration report has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ("the Regulations") and to comply with the provisions of the Combined Code. The company's auditors, KPMG Audit Plc, are required to report to the company's members on the matters set out in the Regulations, and the elements of the report which have been audited are highlighted.

### Remuneration committee

The duties of the committee cover the following key areas:

- establishing the framework of broad policy for the remuneration of the chairman, the executive directors, the divisional managing directors and the functional heads reporting to the chief executive;
- setting the targets for performance-related pay schemes for executive directors and senior executives;
- determining the policy and scope of pension arrangements for each executive director and other direct reports of the chief executive;
- approving the contractual terms for departing executive directors and senior executives and ensuring that payments made are fair to the individual and the company and that failure is not rewarded and that any duty to mitigate loss is fully recognised;
- setting the total remuneration package of each executive director including, where appropriate, benefits, the structure and payment of bonuses and share incentive awards; and
- approving material changes in reward structures across the group.

The terms of reference of the committee are available on the company's website or from the company secretary.

The committee comprises Peter Long (chairman), Alan Giles and Richard Burrows, all of whom are independent non-executive

directors. The committee met six times in 2009 and in addition was consulted on various remuneration issues between formal meetings. The company secretary, Paul Griffiths, is secretary to the committee and the group human resources director, Martin Sawkins, is invited to attend meetings of the committee to provide advice on remuneration matters, other than when his own remuneration is under consideration. The chairman, chief executive and chief financial officer attend by invitation when appropriate but no individual is present during any discussion relating to their own remuneration.

Deloitte LLP has been retained by the committee to provide advice on executive remuneration and on the Performance Share Plan approved by shareholders in 2006 and over incentive arrangements relating to John McAdam, Alan Brown and Andy Ransom, approved by shareholders in May 2008 (details of which are provided in this report). During the year Deloitte advised the company on tax matters and have provided some resources to support the internal audit function. Towers Watson advise the company on its UK pension arrangements.

During the year the committee considered the following matters:

- 2008 bonus arrangements and 2009 salaries for executive directors and senior managers;
- the company's remuneration report for the financial year 2008;
- awards under the performance share plan and related policy issues concerning the level of participation in the scheme;
- bonus arrangements for 2009 relating to executive directors and senior executives;
- arrangements in connection with the appointment or departure of a number of executives reporting to the chief executive;
- review of the likely impact of the economic and financial environment on salary inflation and directors and senior executive remuneration for 2010 following which the committee concurred with the executive's recommendation that there should be no general salary increases at management and executive levels for 2010;
- a preliminary review of alternative structures for performance criteria to apply to awards to be made under the performance share plan in 2010; and
- a review of the effectiveness of the committee.

### Remuneration policy

Following a review of remuneration policy in 2008 by the new leadership of the company, a new remuneration structure/framework was established which:

- enables the company to attract and retain the leadership talent necessary to reinvigorate and grow the business;
- rewards individual contributions for improving financial performance and implementing the organisation and process changes identified in the 2008 strategic review; and
- fully aligns each executive's interests with those of the shareholders.

This policy is reflected in the PSP awards made during 2008 and 2009 which are subject to performance conditions relating to both financial performance and shareholder value creation (described further below).

The company regularly reviews the effectiveness and competitiveness of the total remuneration and benefit packages of executive directors and senior executives, with assistance from Deloitte and respected market surveys prepared by Towers Watson.

The following summarises the company's current policy in relation to the main elements of the executive remuneration package.

Components of remuneration	Commentary
Base salary	Set at a competitive level by reference to the market median, taking into account individual skills and experience within the roles.
Annual bonus	Set at a competitive level assuming financial and operational targets are met. Links pay to the achievement of financial, strategic and operational goals.
Long-term incentive	Senior executives participate in a performance share plan designed to deliver a market competitive contribution to total remuneration relative to companies of comparable size and complexity. Performance conditions attached to these awards are intended to reward achievements against budget related targets and the creation of shareholder value. A one-off equity incentive award was approved by shareholders for the leadership team appointed in 2008, based on achieving stretching absolute share price performance targets.
Pension	Executive director pension arrangements are by way of a defined contribution arrangement with the value of contributions set at market level or through a cash alternative of a similar value.

The table below shows the approximate mix between fixed and variable pay for executive directors based on the achievement of "on-target" and "maximum" performance. The company's policy is that a significant proportion of total remuneration should be performance related.

2009	"On-target" performance	"Maximum" performance
Base salary	50%	20%
Pension	10%	5%
Annual cash incentive	25%	25%
Long-term incentive	15%	50%

This illustrates the current pay policy and therefore does not take into account the one-off awards which were made in 2008 under the 2008 Share Incentive Plan to facilitate the appointment of the chief executive and executive director, corporate development (further details relating to these awards are provided below).

### Base salaries

Executive directors and senior management salaries are reviewed with effect from 1 January each year. The committee takes into account company performance, experience and the contribution of individuals. Deloitte provides the committee with market analysis using data for companies of comparable size, complexity and market sector. Base salaries and total remuneration for executive directors have been set in line with the Deloitte data. When setting compensation arrangements the committee derives base salary and other data for senior executives from the Towers Perrin 250 "TopExec" survey.

The committee has concurred with the executive's recommendation that in the background of the general economic environment there should be no increase in base salaries for executive directors for 2010 (as was also the case in 2009), and supported the executive's plan that there should be no general salary increases at management levels in 2010 other than in exceptional cases.

The company has continued the implementation of a global grading programme to deliver a simple, understandable and consistent framework across all businesses to provide a clear and transparent structure for conducting HR processes across the group.

### Annual cash incentive

At the start of a typical year the committee sets the performance measures and targets that must be met if a bonus is to be paid under the Senior Executives' Bonus Scheme ("the Scheme"). In 2009, the performance measures for the chief executive, Alan Brown, the chief financial officer, Michael Murray, and Andy Ransom, the executive director, corporate development, focused on group profit, cash flow and performance targets necessary to turn around the financial and operational performance of the group businesses and were designed to focus on the business priorities and align their interests with those of shareholders. The executive directors have potential cash bonus entitlements of 100% base salary (120% in the case of the chief executive).

Over 500 senior executives participated in the Scheme. The performance measures for 2009 related to group, divisional and business profit and cash performance as well as non-financial personal objectives. Bonuses are typically awarded in March following the end of the financial year to which they relate and specific information on 2009 bonus outcomes are set out below. In 2010, participants in the Scheme will be measured against profit, operational cash, revenue and meeting strategic operational targets and personal performance measures. The weighting given to financial measures will vary by individual and be between 60 and 100% of the total bonus opportunity.

### Long-term share incentive plans

In 2008, shareholders approved a new share scheme under which one-off share awards were made to the new senior leadership team. Details of the awards are set out below.

The performance share plan introduced during 2006 was developed in keeping with the remuneration policy as applied at that time. Awards were made to some 500 senior managers in over 40 countries around the world in 2006 and 2007. In 2008, the committee refocused the plan on 120 of the most senior management on the basis that awards would only vest for the achievement of performance conditions relating to share price growth, with an underpin relating to individual contribution to business financial performance (described in more detail below). In 2009 the performance conditions reverted to a more conventional focus on total shareholder return but with the underpin on individual performance retained as a key feature of the performance condition.

### The 2008 Share Incentive Plan

The Rentokil Initial 2008 Share Incentive Plan ("the 2008 Plan") approved by shareholders in 2008 was designed to facilitate the appointment in 2008 of John McAdam, chairman, Alan Brown, chief executive, and Andy Ransom, executive director, corporate development and to motivate them over a sufficient period to

deliver a turnaround in corporate performance. The key features of the Plan are as follows:

- an award to each of John McAdam, Alan Brown and Andy Ransom of 7.5 million shares, with vesting of the awards based on absolute share price performance targets;
- until a minimum share price of £1.20 has been met over a sustained period, no shares will be earned. At £1.20, 20% of the award would be earned, rising on a straight-line basis to full vesting at a share price of £1.80;
- for achieving growth in market value between a share price of £1.80 and £2.80 further shares may be earned on a straight-line basis up to a maximum of a further 50% of the original award;
- the performance condition 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;
- up to one-third of the award may vest following the end of the third year, two-thirds following the end of the fourth year and the final third following the end of the fifth year, based on the extent to which performance targets have been achieved; and
- any unvested portion of the award following the end of the fifth year will lapse.

No further awards may be made under this plan.

#### The Performance Share Plan ("the PSP plan")

In 2006, shareholders approved the PSP plan which was designed to enable participants selected on a discretionary basis to earn shares in the company based on achieving stretching performance targets. The principal features of the plan are as follows:

- awards are made over shares with a face value set by reference to a multiple of base salary, which vest subject to the achievement of performance conditions over a three-year period;
- under normal circumstances, awards will be granted annually with the face value of awards ranging between 25% and 200% of base salary depending on seniority. In exceptional circumstances, a grant of up to 250% of base salary may be made to a participant in any year;
- the performance conditions that applied in 2006 and 2007 related to Rentokil Initial's relative total shareholder return (TSR) performance (50% of the award) and earnings per share (EPS) growth (50% of the award);
- following the appointment of the company's new leadership early in 2008, the committee considered that for 2008 only it would be appropriate to align the performance criteria for awards under the performance share plan with the share price appreciation targets contained in the 2008 plan, as well as the achievement of budget related financial performance conditions used to manage the business. The performance condition for the 2008 award is described in more detail below;

- for awards made in 2009 the committee reintroduced a relative TSR measure (replacing absolute share price targets), to reflect market practice and shareholder preferences. The financial performance underpin introduced in 2008 continues to operate as the committee considers this to be helpful in aligning the plan with shareholders' wider interests; and
- the committee considers that this combination of performance conditions continues to be an effective basis for incentivising the senior management group on an on-going basis, and the committee currently intends to maintain this approach for awards made in 2010.

PSP Plan performance conditions are summarised as follows:

#### 2006 Awards

Awards made under the PSP in 2006 failed to meet the TSR or EPS performance condition on their maturity in 2009 and accordingly awards made under it in 2006 have lapsed.

#### TSR (2007 awards)

Rentokil Initial's TSR performance is compared against two different groups of companies established at the date of the award:

- 75% of the TSR part of the award is based on a comparison against the constituents of the FTSE 100, excluding financial services and resources companies;
- 25% of the TSR part is based on a comparison with a selected group of international support services companies. For awards made in 2007, these companies were: Brambles Industries, The Capita Group, Compass Group, The Davis Service Group, Group 4 Securicor, Hays, MITIE Group, Prosegur Compañía de Seguridad SA, Rexam, Serco Group, Securitas AB, SGS SA and Sodexo Alliance SA; and
- TSR will be calculated in accordance with the rules of the plan by the committee's advisers and approved by the committee.

The TSR part of an award is subject to the following vesting schedule:

TSR against relevant comparator group	% vesting of relevant part of award
TSR performance at or above upper quartile	100%
Pro-rating between these points	
TSR performance at median	25%
TSR performance below median	0%

#### EPS (2007 awards)

The EPS part of the award will vest depending on the cumulative annual growth in EPS over a three-year period as follows:

Cumulative EPS growth over performance period	% vesting of relevant part of award
8% per annum	100%
Pro-rating between these points	
5% per annum	33.3%
Below 5% per annum	0%

EPS will be calculated on a normalised, pre-exceptional earnings per share basis, as determined by the committee, to ensure consistency for comparative purposes, and may be adjusted to take account of matters such as material acquisitions and disposals to reflect the business structure appropriately.

### Share price growth (2008 awards)

For 2008 only, the committee considered that it was appropriate to use a share price target performance condition which mirrored the share price targets contained within the 2008 plan for the senior leadership team appointed in 2008. These targets are based on the highest average share price achieved over any 60 consecutive dealing days during the period from 1 April 2008 to 61 dealing days following the announcement of the company's results for the financial year ended 31 December 2010. The table below shows the percentage of an award that could be released based on different levels of absolute share price performance:

Highest average market value	Applicable percentage
Less than £1.20	0%
£1.20	20%
£1.80	100%

Awards will vest on a straight-line basis between each point above.

The committee believes that delivering strong and consistent financial and operational performance on a year-by-year basis is key to creating long-term shareholder value. For this reason, an individual performance modifier (based on annual bonus outcomes), has been introduced to provide additional motivation for every individual who participates in the PSP to work towards delivering the business plan.

The effect of the individual performance modifier would be to reduce the level of award that would otherwise vest to zero if an individual fails to reach threshold performance under the annual bonus in each of the three years following grant. If "target" bonus outcomes are achieved in each year, there will be no impact on the vesting of the PSP award. If an individual's performance is such that they achieve maximum levels of award under the bonus plan in each of the three years, the level of vesting based on the share price appreciation targets above would be doubled. This modifier also has the benefit across the group of ensuring that exceptional performance in individual cases is rewarded, while individuals who have not made an equitable contribution to the overall performance of the group do not benefit disproportionately.

The performance multiplier will be based on achievement of annual bonus targets in respect of each financial year.

Achievement against annual bonus targets in respect of each financial year (average over performance period)	Below threshold	Threshold bonus	Target	Maximum
	Individual Performance Multiplier	0%	20%	100%

Awards will vest on a straight-line basis between each point above.

### TSR (2009 awards)

For awards made in 2009 the committee replaced the share price target used in 2008 with a relative TSR measure, reflecting market practice and shareholder preferences. TSR performance will be measured relative to the constituents of the FTSE 350 index, excluding financial services and primary resources sectors. The FTSE 350 is recognised as a broad index, and was considered to be an appropriate benchmark for measuring performance given the company's membership of the FTSE 250, the scope and scale of the company's international operations, and the diverse nature of companies in the business services sector.

The performance modifier introduced in respect of 2008 awards will continue to operate as the committee considers this to be helpful in aligning the plan with shareholders' wider interests. Accordingly, there is the possibility that awards could vest at two times the target number of shares, if the business achieves upper quartile TSR performance over the performance period and financial performance that leads to maximum bonus outcomes in each of the three consecutive financial years for the relevant business unit. The committee considers this to be an appropriately ambitious goal that will not be easily achieved. The performance modifier challenges the executive group, and all participants in the PSP, to deliver strong and consistent financial performance in each year. If bonus targets are not met, awards under this plan will be proportionately scaled back; and awards will lapse completely if a threshold financial performance level is not achieved.

### Forward looking policy (2010 onwards)

The committee considered that the level of awards and nature of the performance conditions for the awards in 2009 continues to be an effective basis for incentivising the senior management group of some 120 individuals and the committee currently intends to maintain the current approach to long-term incentive arrangements in 2010, but is proposing to extend participation to approximately a further 150 senior colleagues albeit at a lower level of award.

### Chairman and non-executive directors

The chairman and non-executive directors have letters of appointment which set out their duties and responsibilities.

John McAdam has a letter of appointment setting out his responsibilities for the management of the board under which he receives fees of £350,000 per annum. He received an award on appointment under the 2008 plan, approved by shareholders in connection with his appointment in May 2008, details of which are described above and in the schedule of interests in shares shown below. He is not eligible to participate in the company's annual cash bonus plan or in the company's other incentive arrangements. His appointment is for an initial three-year term, terminable by 12 months' notice (company) and six months' notice (chairman) and is subject to appropriate post termination restrictive covenants.

The appointment policy for non-executive directors is that they should be appointed for an initial period of three years, which would be extended for two further periods of three years by mutual consent. Non-executive directors do not have service contracts and

they do not participate in any of the company's incentive schemes nor are they eligible to join the company's pension scheme. There are no provisions for notice periods or compensation in the event of termination of the appointment of a non-executive director and no element of their remuneration is performance related. No non-executive director has any personal interest (other than as a shareholder) in the matters under consideration, nor any conflicts of interest arising from other directorships or any day-to-day involvement in running the business. No director plays a part in any discussion about his own remuneration. Expenses reasonably incurred on travel and in the performance of their duties are reimbursed.

In addition to the arrangements concerning the chairman described above, all other non-executive directors have specific terms of engagement and their remuneration is determined by the board on the recommendation of the non-executive directors' fees committee of the board (comprising the chairman, the chief executive and the chief financial officer) within the limits set by the articles of association and based on independent surveys of fees paid to non-executive directors of similar companies. The level of fees was reviewed during the year by the committee based on external data. This showed that for companies of similar size and complexity, base fees should be increased from the level set in 2005 of £45,000 to £55,000 and the change took effect in October 2009. The chairmen of the remuneration and audit committees were each paid an additional £10,000 per annum. On the basis of external comparative data, these amounts were also increased to £15,000 per annum from 1 October 2009. The senior independent director receives a further £5,000 per annum for acting in that capacity.

The fees paid to the chairman and non-executive directors in the year are set out in the following table which has been audited:

	2009 £000	2008 £000
John McAdam (from 14 May 2008)	350	221
Peter Bamford	48	45
Richard Burrows (from 14 January 2008)	48	43
Alan Giles	48	45
Peter Long (remuneration committee chairman and senior independent director)	64	60
William Rucker (i) (from 15 February 2008)	48	41
Duncan Tatton-Brown (audit committee chairman)	59	55
Former directors	–	76
<b>Total</b>	<b>665</b>	<b>586</b>

(i) William Rucker's fees are paid to Lazard & Co. Ltd.

Set out below are the interests in shares of non-executive directors who were directors at 31 December 2009. The following table has been audited:

Rentokil Initial plc ordinary shares of 1p each	31 December 2009 Beneficial Interests	1 January 2009 Beneficial Interests
John McAdam (i)	20,800	–
Peter Bamford	38,000	38,000
Richard Burrows	25,000	25,000
Alan Giles	12,000	12,000
Peter Long	2,000	2,000
William Rucker	100,000	100,000
Duncan Tatton-Brown	12,000	12,000

(i) On 19 March 2009, John McAdam purchased 20,800 shares in the company at 48.0969p per share.

### Executive directors' contracts

It is the company's policy that executive directors should have rolling contracts subject to one year's notice by the company. The current executive directors have rolling contracts which are subject to one year's notice by the company and six months' notice by the director. Alan Brown's and Andy Ransom's service agreements are dated 7 October 2008.

Michael Murray was appointed a director and chief financial officer on 5 January 2009 and has a service agreement dated 4 December 2008, under which he is entitled to a basic salary of £400,000 and other usual benefits. On appointment he became entitled to an award under the company's performance share plan for 2008 at the rate of 150% of basic salary and was entitled to participate in future awards under the plan. Michael Murray resigned as a director with effect from 31 March 2010.

The company's policy in respect of the notice periods for the termination of executive directors' contracts conforms to the Combined Code. The committee is fully aware that under the Combined Code and acting within the contractual framework it should take a robust line over payments to departing directors. On termination without notice, executive directors are entitled to a payment equal only to base pay and the value of benefits for the duration of the notice period.

### External appointments

Executive directors are entitled, subject to board approval of the specific appointment, to accept one non-executive directorship or similar appointment outside the company, and to retain the fees in connection with such appointment. No executive director held any external appointments during the year or at the date of this report.

### Executive shareholding requirements

Recognising investors' preferences for executive shareholding requirements, the company introduced shareholding guidelines in 2006. Executive directors will be expected to build (if necessary, over a period of up to five years from appointment) and subsequently maintain a holding of company shares with a market value equivalent to their annual salary. The committee may take into account directors' compliance with the shareholding guidelines (acknowledging any special circumstances that might apply) when considering future long-term incentive awards.

### Pensions

Executive directors are entitled to participate in defined contribution pension arrangements or receive additional gross salary in lieu of pension contributions from the company at the rate of 25% of base salary which is in line with the contribution rate for other senior executives participating in the company's UK defined contribution pension scheme. Alan Brown and Andy Ransom received a salary supplement in lieu of a pension contribution. A salary supplement in lieu of pension contribution is not counted as salary for bonus purposes.

### Bonus

In respect of Alan Brown, Michael Murray and Andy Ransom, the committee approved a bonus plan for 2009 under which they could earn 100% of salary (before the application of the modifier – see below) with the following features: 50% of bonus earning potential related to group profit performance and 50% to the achievement of cash conversion targets. The plan provided that any earned bonus is subject to a modifier which is based on personal performance achievements which at an exceptional level would increase the bonus payment by up to a further 10% for executive directors and by up to 20% for the chief executive.

The committee reviewed the 2009 bonus plan outcome for the group's senior management population based on the targets set at the start of the financial year. The bonus outcomes reflect strong performance across the range of performance measures: excellent cash conversion and generally good outcomes across the group on performance against businesses' annual operating plans. The committee approved the payment of bonuses under the plan to the chief executive, Alan Brown, chief financial officer, Michael Murray, and executive director, Andy Ransom, which after the application of the personal performance modifier described above were in the amounts set out in the table below.

For 2010 the committee has approved a bonus plan for the group's senior management, which is similar in structure to the 2009 bonus plan but with the introduction of an additional revenue measure to encourage a focus on top-line growth, which for the chief executive will represent 25% of this potential award. Cash conversion will represent 25% of the award with profit 50%. For other executive directors, the percentage relating to the three measures will vary depending on specific operational priorities. The overall bonus remains unchanged from 2009.

### Interests in shares

The following table sets out the interests of executive directors, who were directors on 31 December 2009, in the shares of the company – the table has been audited:

Rentokil Initial plc ordinary shares of 1p each	31 December 2009 Beneficial Interests number	1 January 2009 Beneficial Interests number
Alan Brown <sup>(i)</sup>	20,800	–
Michael Murray <sup>(ii)</sup>	52,000	–
Andy Ransom <sup>(iii)</sup>	52,000	–

(i) On 19 March 2009, Alan Brown purchased 20,800 shares in the company at 48.0969p per share.

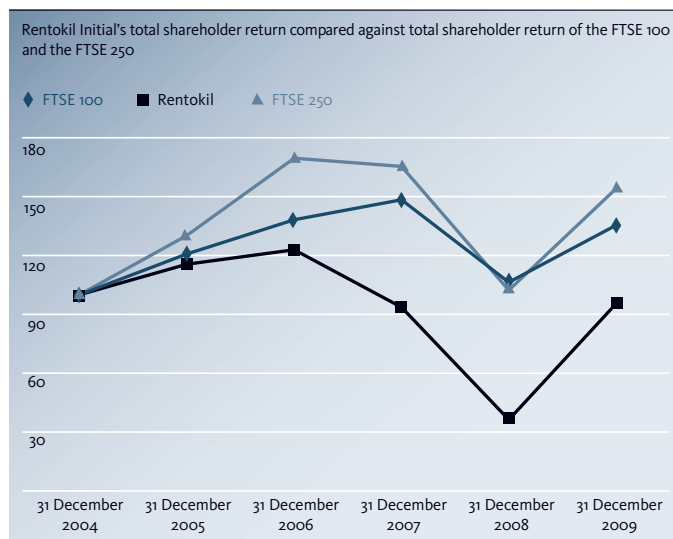
(ii) On 19 March 2009, Michael Murray purchased 52,000 shares in the company at 48.0969p per share.

(iii) On 19 March 2009, Andy Ransom purchased 52,000 shares in the company at 48.0969p per share.

### TSR performance graph

The following graph shows the company's total shareholder return (TSR) performance relative to the FTSE 100 Index and FTSE 250 Index, on a consistent basis with the graph shown last year. The company has been a constituent of both these indices over the five-year period that is shown.

### Rentokil Initial versus FTSE 100 and FTSE 250 Indices



**Total pay and benefits for executive directors**

The table below sets out the pay and benefits of executive directors. The following table has been audited:

	Salary £000	Termination payments £000	Pension provision £000	Bonus £000	Allowances/ benefits £000	Total £000	2008 £000
Alan Brown	775	–	194	665	22	1,656	597
Michael Murray	397	–	99	312	16	824	–
Andy Ransom	450	–	113	351	20	934	312
<b>2009</b>	<b>1,622</b>	<b>–</b>	<b>406</b>	<b>1,328</b>	<b>58</b>	<b>3,414</b>	
2008	1,596	1,669	399	–	77	3,741	3,741

(i) Executive directors are provided with life insurance, private health cover and a company car or a car allowance. The value of the benefits is included under "Allowances/benefits" in the above table.

(ii) Alan Brown, Michael Murray and Andy Ransom had a maximum bonus opportunity for 2009 of 100%, subject to an additional 10% modifier (20% for Alan Brown) based on personal performance, and actual payments earned in respect of the year are shown above.

(iii) Details of long-term incentives for executive directors are shown in the table below.

**Share incentive awards**

Share incentive awards have been made to the chairman and executive directors as follows – the table has been audited:

	Date of award	Plan	Market price at award	At 1 January 2009	Shares awarded during 2009	Vesting date	At 31 December 2009
John McAdam	26/06/08	2008 Plan <sup>(i)</sup>	100.50p	7,500,000	–	2011 <sup>(i)</sup>	7,500,000
Alan Brown	26/06/08	2008 Plan <sup>(i)</sup>	100.50p	7,500,000	–	2011 <sup>(i)</sup>	7,500,000
Andy Ransom	26/06/08	2008 Plan <sup>(i)</sup>	100.50p	7,500,000	–	2011 <sup>(i)</sup>	7,500,000
Alan Brown	12/06/09	2009 PSP	88.25p	–	2,144,092 <sup>(iii)</sup>	31/12/12	2,144,092
Andy Ransom	12/06/09	2009 PSP	88.25p	–	1,037,464 <sup>(iii)</sup>	31/12/12	1,037,464
Michael Murray <sup>(ii)</sup>	05/01/09	2008 PSP	45.50p	–	1,318,681 <sup>(iii)</sup>	31/12/11	1,318,681
Michael Murray <sup>(ii)</sup>	12/06/09	2009 PSP	88.25p	–	922,190 <sup>(iii)</sup>	31/12/12	922,190

(i) The awards under the 2008 Plan to John McAdam, Alan Brown and Andy Ransom can be increased from the initial award of 7.5 million shares by 50% to 11.25 million shares in the event that the share price performance condition reaches £2.80 per share (subject to the rules of the plan). Awards under the Plan are subject to a performance condition determined at the date of grant of the awards which relate to share price performance between 1 April 2008 and three specified vesting dates in 2011, 2012 and 2013. These vesting dates will be 61 dealing days after the announcement of the company's financial results for years ending 31 December 2010 ("first vesting date"), 31 December 2011 ("second vesting date") and 31 December 2012 ("third vesting date").

(ii) Michael Murray received an award under the PSP plan following his appointment on 5 January 2009 and both awards will lapse on his leaving the group on 31 March 2010.

(iii) 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 maximum 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 or if threshold financial performance conditions are not met.

Approved by the board of directors on 26 March 2010.



**Peter Long**  
Chairman, Remuneration Committee

## Consolidated income statement

For the year ended 31 December

	Notes	2009 £m	2008 £m
<b>Continuing operations:</b>			
Revenue	1	<b>2,530.8</b>	2,409.9
Operating expenses	2	<b>(2,411.5)</b>	(2,327.8)
<b>Operating profit</b>		<b>119.3</b>	82.1
Analysed as:			
Operating profit before amortisation and impairment of intangible assets <sup>1</sup>		<b>180.6</b>	147.6
Amortisation and impairment of intangible assets <sup>1</sup>		<b>(61.3)</b>	(65.5)
<b>Operating profit</b>		<b>119.3</b>	82.1
Interest payable and similar charges	5	<b>(125.0)</b>	(153.5)
Interest receivable	6	<b>67.4</b>	91.6
Share of profit from associates, net of tax of £2.6 million (2008: £2.0 million)	13	<b>3.3</b>	2.6
<b>Profit before income tax</b>		<b>65.0</b>	22.8
Income tax expense <sup>2</sup>	7	<b>(16.1)</b>	(6.4)
<b>Profit for the year from continuing operations</b>		<b>48.9</b>	16.4
<b>Discontinued operations:</b>			
Profit for the year from discontinued operations	8	–	5.0
<b>Profit for the year (including discontinued operations)</b>		<b>48.9</b>	21.4
<b>Attributable to:</b>			
Minority interest		<b>1.3</b>	2.6
Equity holders of the company		<b>47.6</b>	18.8
		<b>48.9</b>	21.4
<b>Basic earnings per share</b>			
• Continuing operations	9	<b>2.63p</b>	0.76p
• Discontinued operations	9	–	0.28p
• Continuing and discontinued operations	9	<b>2.63p</b>	1.04p
<b>Diluted earnings per share</b>			
• Continuing operations	9	<b>2.63p</b>	0.76p
• Discontinued operations	9	–	0.28p
• Continuing and discontinued operations	9	<b>2.63p</b>	1.04p

<sup>1</sup> Other than computer software.

<sup>2</sup> Taxation includes £14.8 million (2008: £19.0 million) in respect of overseas taxation.

## Consolidated statement of comprehensive income

For the year ended 31 December

	Notes	2009 £m	2008 £m
Profit for the year (including discontinued operations)		<b>48.9</b>	21.4
<b>Other comprehensive income:</b>			
Net exchange adjustments offset in reserves		<b>28.7</b>	(67.5)
Actuarial (loss)/gain on defined benefit pension plans	24	<b>(211.4)</b>	46.9
Revaluation of available-for-sale investments		<b>(2.5)</b>	1.7
Movement on cash flow hedge reserve		<b>(0.8)</b>	(4.2)
Tax on items taken directly to reserves		<b>49.0</b>	(12.8)
Cumulative exchange recycled to income statement on disposal of foreign operations		<b>(2.0)</b>	-
Net loss not recognised in income statement		<b>(139.0)</b>	(35.9)
Total comprehensive expense for the year		<b>(90.1)</b>	(14.5)
<b>Attributable to:</b>			
Minority interest		<b>3.5</b>	3.2
Equity holders of the company		<b>(93.6)</b>	(17.7)
		<b>(90.1)</b>	(14.5)

## Consolidated balance sheet

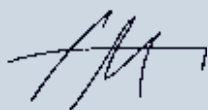
At 31 December

	Notes	2009 £m	2008 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	11	668.2	754.9
Property, plant and equipment	12	636.3	721.2
Investments in associated undertakings	13	13.4	13.7
Other investments	14	1.4	3.0
Deferred tax assets	23	26.0	10.1
Retirement benefit assets	24	-	154.4
Other receivables	15	26.5	26.9
Derivative financial instruments	16	27.3	28.1
		<b>1,399.1</b>	<b>1,712.3</b>
<b>Current assets</b>			
Other investments	14	2.3	-
Inventories	17	47.3	53.4
Trade and other receivables	15	437.5	525.4
Derivative financial instruments	16	13.1	1.7
Cash and cash equivalents	18	101.7	104.1
		<b>601.9</b>	<b>684.6</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	19	(543.3)	(564.5)
Current tax liabilities		(102.4)	(90.5)
Provisions for other liabilities and charges	20	(56.8)	(31.5)
Bank and other short-term borrowings	21	(89.7)	(92.2)
Derivative financial instruments	16	(13.3)	(52.7)
		<b>(805.5)</b>	<b>(831.4)</b>
<b>Net current liabilities</b>			
		<b>(203.6)</b>	<b>(146.8)</b>
<b>Non-current liabilities</b>			
Other payables	19	(14.0)	(14.6)
Bank and other long-term borrowings	21	(1,120.1)	(1,374.1)
Deferred tax liabilities	23	(73.8)	(127.5)
Retirement benefit obligations	24	(64.3)	(19.5)
Provisions for other liabilities and charges	20	(69.0)	(91.0)
Derivative financial instruments	16	(4.4)	(0.7)
		<b>(1,345.6)</b>	<b>(1,627.4)</b>
<b>Net liabilities</b>			
		<b>(150.1)</b>	<b>(61.9)</b>
<b>Equity</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Called up share capital	25	18.1	18.1
Share premium account		6.8	6.8
Other reserves		(1,777.3)	(1,798.5)
Retained profits		1,593.0	1,702.7
		<b>(159.4)</b>	<b>(70.9)</b>
Minority interest		9.3	9.0
<b>Total equity</b>			
		<b>(150.1)</b>	<b>(61.9)</b>

The financial statements on pages 39 to 84 were approved by the board of directors on 26 March 2010 and were signed on its behalf by:



**Alan Brown**  
Chief Executive



**Michael Murray**  
Chief Financial Officer

## Consolidated statement of changes in equity

For the year ended 31 December

	Attributable to equity holders of the company					Total equity £m
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Minority interest £m	
At 1 January 2008	18.1	6.8	(1,727.9)	1,753.9	7.4	58.3
Profit for the year (including discontinued operations)	–	–	–	18.8	2.6	21.4
Other comprehensive income:						
Net exchange adjustments offset in reserves	–	–	(68.1)	–	0.6	(67.5)
Actuarial gain on defined benefit pension plans	–	–	–	46.9	–	46.9
Revaluation of available-for-sale investments	–	–	1.7	–	–	1.7
Movement on cash flow hedge reserve	–	–	(4.2)	–	–	(4.2)
Tax on items taken directly to reserves	–	–	–	(12.8)	–	(12.8)
Total comprehensive expense for the year	–	–	(70.6)	52.9	3.2	(14.5)
Transactions with owners:						
Dividends paid to ordinary shareholders	–	–	–	(106.7)	–	(106.7)
Cost of share options and long-term incentive plan	–	–	–	2.6	–	2.6
Transactions with minority interests:						
Dividends paid to minority interests	–	–	–	–	(1.6)	(1.6)
At 31 December 2008	18.1	6.8	(1,798.5)	1,702.7	9.0	(61.9)
At 1 January 2009	<b>18.1</b>	<b>6.8</b>	<b>(1,798.5)</b>	<b>1,702.7</b>	<b>9.0</b>	<b>(61.9)</b>
Profit for the year (including discontinued operations)	–	–	–	47.6	1.3	48.9
Other comprehensive income:						
Net exchange adjustments offset in reserves	–	–	26.5	–	2.2	28.7
Actuarial loss on defined benefit pension plans	–	–	–	(211.4)	–	(211.4)
Revaluation of available-for-sale investments	–	–	(2.5)	–	–	(2.5)
Movement on cash flow hedge reserve	–	–	(0.8)	–	–	(0.8)
Tax on items taken directly to reserves	–	–	–	49.0	–	49.0
Cumulative exchange recycled to income statement on disposal of foreign operations	–	–	(2.0)	–	–	(2.0)
Total comprehensive expense for the year	–	–	21.2	(114.8)	3.5	(90.1)
Transactions with owners:						
Cost of share options and long-term incentive plan	–	–	–	5.1	–	5.1
Transactions with minority interests:						
Acquisition of minority interests	–	–	–	–	(0.7)	(0.7)
Dividends paid to minority interests	–	–	–	–	(2.5)	(2.5)
At 31 December 2009	<b>18.1</b>	<b>6.8</b>	<b>(1,777.3)</b>	<b>1,593.0</b>	<b>9.3</b>	<b>(150.1)</b>

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.

### Analysis of other reserves

	Capital reduction reserve £m	Legal £m	Cash flow hedge reserve £m	Translation reserve £m	Available for sale £m	Total £m
At 1 January 2008	(1,722.7)	10.4	–	(16.2)	0.6	(1,727.9)
Net exchange adjustments offset in reserves	–	–	–	(68.1)	–	(68.1)
Revaluation of available-for-sale investments	–	–	–	–	1.7	1.7
Movement in cash flow hedge reserve	–	–	(4.2)	–	–	(4.2)
Total comprehensive expense for the year	–	–	(4.2)	(68.1)	1.7	(70.6)
At 31 December 2008	(1,722.7)	10.4	(4.2)	(84.3)	2.3	(1,798.5)
At 1 January 2009	<b>(1,722.7)</b>	<b>10.4</b>	<b>(4.2)</b>	<b>(84.3)</b>	<b>2.3</b>	<b>(1,798.5)</b>
Net exchange adjustments offset in reserves	–	–	–	26.5	–	26.5
Revaluation of available-for-sale investments	–	–	–	–	(2.5)	(2.5)
Movement in cash flow hedge reserve	–	–	(0.8)	–	–	(0.8)
Cumulative exchange recycled to income statement on disposal of foreign operations	–	–	–	(2.0)	–	(2.0)
Total comprehensive expense for the year	–	–	(0.8)	24.5	(2.5)	21.2
At 31 December 2009	<b>(1,722.7)</b>	<b>10.4</b>	<b>(5.0)</b>	<b>(59.8)</b>	<b>(0.2)</b>	<b>(1,777.3)</b>

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

## Consolidated cash flow statement

For the year ended 31 December

	Notes	2009 £m	2008 £m
<b>Cash flows from operating activities</b>			
Cash generated from operating activities before special pension contribution	27	496.6	352.0
Special pension contribution		-	(33.3)
Cash generated from operating activities		496.6	318.7
Interest received		5.5	30.1
Interest paid		(65.9)	(96.2)
Income tax paid		(17.5)	(27.3)
Net cash generated from operating activities		418.7	225.3
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment (PPE)		(176.2)	(222.6)
Purchase of intangible fixed assets		(6.3)	(8.2)
Proceeds from sale of PPE		10.0	15.8
Acquisition of companies and businesses, net of cash acquired	30	(11.2)	(40.9)
Disposal of companies and businesses	8	4.4	(2.1)
Purchase of available-for-sale investments		(0.8)	-
Dividends received from associates		1.8	1.1
Net cash flows from investing activities		(178.3)	(256.9)
<b>Cash flows from financing activities</b>			
Dividends paid to equity shareholders	10	-	(106.7)
Dividends paid to minority interests		(2.5)	(1.6)
Interest element of finance lease payments		(1.1)	(1.2)
Capital element of finance lease payments		(9.3)	(8.6)
(Repayments)/new loans		(216.0)	228.8
Net cash flows from financing activities		(228.9)	110.7
Net increase in cash and bank overdrafts	28	11.5	79.1
Cash and bank overdrafts at beginning of year	18	62.4	86.5
Exchange losses on cash and bank overdrafts		(14.2)	(103.2)
<b>Cash and bank overdrafts at end of the financial year</b>	18	<b>59.7</b>	62.4

## Accounting policies

### Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRSs”) and International Financial Reporting Interpretations Committee (“IFRIC”) interpretations as adopted by the European Union as at 31 December 2009.

The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale investments and certain financial assets and liabilities (including derivative instruments).

### Consolidation

#### (a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the group. They are de-consolidated from the date that control ceases.

The group uses the purchase method of accounting to account for the acquisition of subsidiaries. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the group’s share of the identifiable net assets acquired is recorded as goodwill. If the cost of the acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Inter-company transactions, balances and unrealised gains and losses on transactions between group companies are eliminated.

Any change in the parent’s controlling interest in a subsidiary that does not result in a loss of control (in buying or selling shares to the minority) is treated as a transaction with equity shareholders and is shown as a movement in the consolidated statement of changes in equity.

#### (b) Associates

Associates are all entities over which the group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The group’s investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition.

The group’s share of its associates’ post-acquisition profits or losses is recognised in the income statement and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

Unrealised gains and losses on transactions between the group and its associates are eliminated to the extent of the group’s interest in the associates.

### Segment reporting

Reporting segments reflect the internal management organisation and reporting structures. Each segment is headed by a divisional managing director who reports directly to the chief executive officer and is a member of the company executive board responsible for the review of group performance. Operating businesses within each segment report to segment divisional managing directors.

Segmental revenue represents the total revenue of each individual business unit within a reporting segment and includes inter segment revenues. Segmental profit is the profit measure used to measure performance internally and is calculated as profit before tax, interest, amortisation and impairment of intangibles (other than computer software) and items of a one-off nature (adjusted operating profit “APBITA”).

Segmental revenues and profits are shown at constant exchange rates consistent with our internal reporting and review processes. Other segmental information is stated at actual exchange rates.

### Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the group’s entities are measured using the currency of the primary economic environment in which the entity operates (“the functional currency”). The consolidated financial statements are presented in sterling, which is the company’s functional and presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at reporting period end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement except when deferred in equity as qualifying net investment hedges. Foreign exchange differences for financing of investments which are considered “quasi equity” are reported in reserves. Other foreign exchange differences are taken to the income statement.

#### (c) Group companies

The results and financial position of all the group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;
- (ii) income and expenses for each income statement are translated at average exchange rates; and
- (iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at period end exchange rates.

### Property, plant and equipment

Land and buildings comprise mainly factories and offices. Provision for depreciation of freehold buildings is made in equal annual instalments of 1% to 2% of cost. Leasehold buildings classified as finance leases are depreciated in equal annual instalments over the shorter of the lease term or estimated useful life of the leased asset. No depreciation is charged on freehold land or fixed assets under construction. When properties are sold, the difference between sale proceeds and net book value is dealt with in the income statement.

All other property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Depreciation on other assets is calculated using the straight-line method to allocate the difference between their cost and their residual values over their estimated useful lives, as follows:

- 4 to 5 years – Vehicles
- 3 to 10 years – Plant, equipment (including equipment for rental), tropical plants and their containers on rental
- 3 to 10 years – Office equipment, furniture and fittings

Assets' residual values and useful lives are reviewed annually and amended as necessary. Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the fixed asset may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount exceeds the higher of the asset's fair value less cost to sell or value-in-use.

For the purposes of assessing value-in-use, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units) and cash flow forecasts are made using assumptions consistent with the most up-to-date budgets and plans that have been formally approved by management. These cash flows are discounted using a pre-tax discount rate based on the weighted average cost of capital for the group, adjusted for the particular risks of the cash-generating unit being reviewed for impairment.

### Business combinations

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method ("acquisition accounting"). The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, equity instruments issued by the acquirer and any costs directly attributable to the business combination. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. An intangible asset, such as customer relationships, brands, patents and royalties, is recognised if it meets the definition of an intangible asset in IAS 38, "Intangible Assets" and its fair value can be measured reliably. The intangible assets identified in all acquisitions made since 1 January 1998 are goodwill, customer lists and relationships, reacquired franchise rights and contract portfolios. Consideration in excess of net identifiable assets acquired in respect of minority interests in existing subsidiary undertakings is taken directly to reserves.

### Intangible assets

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses, where applicable. The main categories of intangible assets are as follows:

#### Intangible assets – indefinite useful lives

##### Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill in respect of business combinations made since 1 January 1998 is included in intangible assets. Goodwill on the acquisition of associates is included in investments in associates. Goodwill in respect of the acquisition of subsidiaries made prior to January 1998 remains eliminated against reserves.

Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses previously recognised are not reversed. Goodwill is allocated to cash-generating units for the purpose of impairment testing. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

#### Intangible assets – finite useful lives

Intangible assets with finite useful lives are initially measured at either cost or fair value and amortised on a straight-line basis over their useful economic lives, which are reviewed on an annual basis. The fair value attributable to intangible assets acquired through a business combination is determined by discounting the expected future cash flows to be generated from that asset at the risk adjusted weighted average cost of capital for the group. The residual values of intangible assets are assumed to be nil.

The estimated useful economic lives of intangible assets are as follows:

Customer lists and relationships:	5 to 16 years
Brands and patents:	2 to 15 years
Reacquired franchise rights:	3 to 5 years
Computer software:	3 to 5 years

The following are the main categories of intangible assets:

#### (a) Customer lists and relationships

Customer lists and portfolios acquired as part of a business combination are initially measured at fair value and amortised on a straight-line basis over their useful economic lives. Separate values are not attributed to internally generated customer lists or relationships.

#### (b) Brands and patents

Brands and patents acquired as part of a business combination are initially measured at fair value and amortised on a straight-line basis over their useful economic lives. Expenditure incurred to develop, maintain and renew brands and patents internally is recognised as an expense in the period incurred. Separate values are not attributed to internally generated brands and patents.

#### (c) Reacquired franchise rights

Reacquired franchise rights acquired as part of a business combination in City Link represents the benefit to the group from the right to operate in certain geographical regions. These are initially measured at fair value and amortised on a straight-line basis over the remaining contractual period of the franchise agreements which terminate on 25 October 2010.

#### (d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into use the specific software and are amortised over their estimated useful lives.

Costs associated with maintaining computer software programs are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development, employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

#### (e) Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when it is probable that the project will be a success considering its commercial and technological feasibility and only if the cost can be measured reliably.

Other development expenditure is recognised as an expense as incurred.

Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Development costs that have been capitalised are amortised from the date the product is available for use on a straight-line basis over the period of its expected benefit.

### Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

### Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the group will not be able to collect all amounts due according to the original terms of the receivables. The amount of the provision is recognised in the income statement.

### Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less (and subject to insignificant changes in value). In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

### 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 any group 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.

### Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Where fair value hedge accounting is applied, the carrying value is adjusted for any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

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

## Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither the accounting nor the taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted (or substantively enacted) by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the group and it is probable that the temporary difference will not reverse in the foreseeable future.

Tax is recognised in the income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

## Employee benefits

### (a) Defined benefit pension obligations

The group operates a number of pension schemes throughout the world. The principal scheme is the UK scheme, 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 scheme's liabilities, which remains open) and a defined contribution section. The defined benefit scheme is funded through payments to a trustee-administered fund, determined by periodic actuarial calculations. A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee-administered funds or insurance companies. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

The asset or liability recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the balance sheet date less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating to the terms of the related pension liability. The group will recognise a pension surplus as an asset where there is an unconditional right to a refund or where the group has sufficient scope to reduce future pension contributions.

Current and past service costs, to the extent they have vested, and curtailments are recognised as charges or credits against operating profit in the income statement. Interest costs on plan liabilities and the expected return on plan assets are recognised in finance costs. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to the consolidated statement of comprehensive income.

### (b) Defined contribution pension plans

The group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

### (c) Other post-employment obligations

Some group companies provide post-employment healthcare benefits to their retirees. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment using an accounting methodology similar to that used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments, and changes in actuarial assumptions, are charged or credited to the consolidated statement of comprehensive income.

### (d) Share-based compensation

The group 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 income statement equivalent to the fair value of the benefit awarded. 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 income statement over the vesting period of the award. At each balance sheet date, the group revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimates is reflected in the income statement 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.

### (e) Termination benefits

Termination benefits are payable when an employment is terminated before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the balance sheet date are discounted to present value.

#### (f) Profit-sharing and bonus plans

The group recognises a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the probability of certain performance criteria being achieved. A provision is recognised where a contractual obligation exists or where past practice indicates that there is a constructive obligation to make such payments in the future.

#### (g) Holiday pay

Paid holidays are regarded as an employee benefit and as such are charged to the income statement as the benefits are earned. An accrual is made at the balance sheet date to reflect the fair value of holidays earned but not yet taken.

#### Provisions

Vacant property, environmental, self-insurance and other provisions are recognised when the group has a present legal or constructive obligation as a result of past events and it is probable that an outflow of resources will be required to settle the obligation; and if this amount is capable of being reliably estimated. If such an obligation is not capable of being reliably estimated it is classified as a contingent liability.

Vacant property provision is made in respect of vacant and partly sub-let leasehold properties to the extent that future rental payments are expected to exceed future rental income. Environmental provision is made for all known liabilities to remediate contaminated land on the basis of management's best estimate of the costs of these liabilities. Self-insurance provision is made for all claims incurred as at the balance sheet date (whether notified or not) based on actuarial assessments of the likely amounts of these liabilities. Other provisions are made for all other known liabilities that exist at the year end based on management's best estimate as to the cost of settling these liabilities. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When the effect of the time value of money is material, provision amounts are calculated on the present value of the expenditures expected to be required to settle the obligation. The present value is calculated using forward market interest rates, as measured at the balance sheet reporting date, which have been adjusted for risks already reflected in future cash flow estimates.

#### Revenue recognition

Revenue comprises the fair value for the rendering of services, net of value-added tax and other similar sales-based taxes, rebates and discounts and after eliminating sales within the group. Revenue is recognised as follows:

##### (a) Service revenue

Revenue excludes VAT and other similar sales-based taxes, rebates and discounts and represents the amounts receivable for services rendered and goods sold outside the group.

For non-contract-based business, revenue represents the value of goods delivered or services performed. For contract-based business, revenue represents the sales value of work carried out for customers during the period. Contract income is recognised in accounting periods on a straight-line basis over the life of the contract. For long-term contracts involving the installation of equipment, revenue is recognised using the percentage completion method and represents the sales value of work executed during the period.

##### (b) Rental income

Rental assets such as tropical plants, washroom equipment, garments, linen, security equipment, etc which are owned by group entities or where at least substantially all the risks and rewards of ownership of such equipment are retained by group entities are capitalised as fixed assets and depreciated over their estimated useful lives.

All rental income received or receivable in respect of rental assets is accounted for on an operating lease basis. Income from the rental of these assets is credited to revenue on a strict time-apportioned basis.

##### (c) Franchise income

Franchise income is recognised as services are provided or continuing rights granted by the agreement are used.

##### (d) Interest income

Interest income is recognised on a time-apportioned basis using the effective interest method. When a receivable is impaired, the group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost-recovery basis as conditions warrant.

#### Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### Leases

Leases of property, plant and equipment where the group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding.

The corresponding rental obligations, net of finance charges, are included in other payables. The interest element of the finance cost is charged to the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

#### **Dividend distribution**

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

#### **Financial instruments**

Financial assets and financial liabilities are recognised when the group becomes a party to the contractual provisions of the relevant instrument and derecognised when it ceases to be a party to such provisions.

#### **Financial assets**

The group classifies its investments in the following categories: financial assets at fair value through the income statement, loans and receivables, held-to-maturity investments and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date. The group assesses at each balance sheet date whether there is objective evidence that financial assets are impaired.

All financial assets are held at amortised cost except for derivatives, which are classified as held for trading unless in a hedging relationship and certain assets classified as available-for-sale, which are held at fair value.

#### **(a) Financial assets at fair value through the income statement**

Derivatives are categorised as held for trading unless they are designated as hedges. Assets are classified as current if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

#### **(b) Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months from the balance sheet date. These are classified as non-current assets. Loans and receivables include trade and other receivables and cash and other equivalents.

#### **(c) Available-for-sale financial assets**

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Available-for-sale investments are fair valued and changes to market values are recognised in equity. On subsequent disposal or impairment, the accumulated gains and losses, previously recognised in equity, are recognised in the income statement as "gains and losses from investment securities". Loans and receivables and held-to-maturity investments are measured at amortised cost using the effective interest rate method, subject to impairment.

The group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

#### **Financial liabilities**

All financial liabilities are stated at amortised cost using the effective interest rate method except for derivatives, which are classified as held for trading (except where they qualify for hedge accounting) and are held at fair value.

Financial liabilities held at amortised cost include trade payables, accruals, vacant property provisions, deferred consideration and borrowings.

#### **Accounting for derivative financial instruments and hedging activities**

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value at the balance sheet date. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The group designates certain derivatives as either (1) hedges of the fair value of recognised assets or liabilities, (2) hedges of net investments in foreign operations or (3) cash flow hedges.

The group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The group also documents its assessment, both at hedge inception and on an on-going basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

#### (a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

#### (b) Net investment hedge

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity; the gain or loss relating to the ineffective portion is recognised immediately in the income statement. Gains and losses accumulated in equity are included in the income statement when the foreign operation is disposed of.

#### (c) Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

#### (d) Cash flow hedge

The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. Any ineffective portion is recognised in the income statement. The gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement.

#### Discontinued operations

A discontinued operation is a component of an entity that has either been disposed of, or that is classified as held for sale, which represents a separate major line of business or geographical area of operations and is part of a single coordinated plan to dispose of a separate line of business or geographical area of operations.

#### Fair value estimation

The fair value of any financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The quoted market price used for financial assets held by the group is the current bid price; the appropriate quoted market price for financial liabilities is the current ask price.

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate and currency swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

The nominal value less estimated credit adjustments of trade receivables and payables are assumed to approximate to their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the group for similar financial instruments.

#### Critical accounting estimates and assumptions

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

#### (a) Estimated impairment of goodwill

The group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated earlier under intangible assets – goodwill. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates and assumptions consistent with the most up-to-date budgets and plans that have been formally approved by management.

#### (b) Valuation of acquired intangible assets

Acquisitions may result in customer relationships, brands and reacquired franchise rights being recognised. These are valued using the excess earnings and relief from royalty methods. In applying these methodologies certain key judgements and estimates are required to be made in respect of future cash flows.

#### (c) Provision for impairment of trade receivables

Provision is made against accounts that in the estimation of management may be impaired. Within each of the businesses, assessment is made locally of the recoverability of accounts receivable and the creditworthiness of the customer. Determining the recoverability of an account involves estimation as to the likely financial condition of the customer and their ability to subsequently make payment.

#### (d) Income taxes

The group is subject to income taxes in numerous jurisdictions. Significant judgement is required in determining the worldwide provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

#### (e) Provision for vacant property and environmental restoration

Significant judgement is required in determining the worldwide provision for vacant property and environmental restoration. Vacant property and environmental restoration tend to be long-term in nature and the required use of an appropriate market discount rate and forecast future utilisation based upon management's best estimate determines the level of provision required at the balance sheet date. The phasing and actual cash spend may be different from the original forecast utilisation spend.

**(f) Retirement benefits**

Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions. Significant judgement is required in determining these actuarial assumptions. Refer to note 24 for the principal assumptions used for the Rentokil Initial Pension Scheme in the United Kingdom.

**(g) Self-insurance**

The group operates captive insurance companies in the UK and US. These companies provide reinsurance exclusively to certain companies within the group. Provision is made based on actuarial assessment of the liabilities arising from the insurance coverage provided. The actuarial assessment of the reserve for future claims necessarily includes estimates as to the likely trend of future claims costs and as to the emergence of further claims subsequent to the year end. An actuarial review of claims is performed annually. To the extent that actual claims differ from those projected, the provisions could vary significantly.

**Standards, amendments and interpretations to published standards that are not yet effective**

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

IFRS 3 (revised), "Business combinations" and consequential amendments to IAS 27, "Consolidated and separate financial statements", IAS 28, "Investments in associates" and IAS 31, "Interests in joint ventures", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. The revised standard continues to apply the acquisition method to business combinations, with some significant changes. The group will apply IFRS 3 (revised) to all business combinations from 1 January 2010.

A number of other standards and interpretations have been issued, but are not yet effective and have not been early adopted. These are not expected to have a significant impact on the group.

## 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
<b>Continuing operations (at constant exchange rates)</b>				
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)
<b>Total segmental</b>	<b>2,420.7</b>	<b>2,488.4</b>	<b>195.3</b>	<b>167.2</b>
Inter group revenue	(64.9)	(78.5)	–	–
	<b>2,355.8</b>	2,409.9	<b>195.3</b>	167.2
Exchange	175.0	–	25.5	–
<b>Continuing operations (at actual exchange rates)</b>				
One-off items	–	–	(40.2)	(19.6)
Amortisation of intangible assets <sup>1</sup>	–	–	(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)
<b>Total for the year from continuing operations</b>	<b>2,530.8</b>	<b>2,409.9</b>	<b>48.9</b>	<b>16.4</b>

<sup>1</sup> 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 <sup>1</sup>		One-off items <sup>2</sup>		Amortisation and impairment of intangibles <sup>2</sup>	
	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
<b>Total</b>	<b>64.9</b>	<b>78.5</b>	<b>40.2</b>	<b>19.6</b>	<b>61.3</b>	<b>65.5</b>

<sup>1</sup> At constant exchange rates.

<sup>2</sup> 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
<b>Continuing operations</b>				
Textiles and Washroom Services	<b>138.9</b>	117.6	<b>9.4</b>	8.5
Pest Control	<b>16.4</b>	13.9	<b>17.8</b>	14.3
Asia Pacific	<b>17.0</b>	15.2	<b>16.6</b>	14.6
Ambius	<b>12.5</b>	11.1	<b>3.1</b>	2.8
City Link	<b>5.7</b>	9.2	<b>11.5</b>	11.6
Facilities Services	<b>19.0</b>	18.5	<b>3.0</b>	2.6
Central items	<b>1.1</b>	1.1	<b>0.9</b>	0.9
<b>Total for the year from continuing operations</b>	<b>210.6</b>	186.6	<b>62.3</b>	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
<b>Continuing operations</b>						
Textiles and Washroom Services <sup>1</sup>	<b>719.9</b>	826.1	<b>230.0</b>	228.0	<b>124.4</b>	156.5
Pest Control	<b>246.7</b>	293.8	<b>92.4</b>	99.5	<b>16.1</b>	33.1
Asia Pacific	<b>229.7</b>	275.0	<b>57.8</b>	63.3	<b>17.3</b>	40.2
Ambius	<b>69.7</b>	87.4	<b>18.0</b>	20.8	<b>9.7</b>	14.4
City Link	<b>341.2</b>	365.7	<b>89.2</b>	91.7	<b>3.3</b>	13.7
Facilities Services	<b>185.9</b>	221.6	<b>105.8</b>	112.0	<b>11.4</b>	21.1
Central items	<b>80.2</b>	213.1	<b>171.9</b>	159.2	<b>2.0</b>	1.3
<b>Total from continuing operations</b>	<b>1,873.3</b>	2,282.7	<b>765.1</b>	774.5	<b>184.2</b>	280.3

<sup>1</sup> 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	<b>1,873.3</b>	2,282.7	<b>765.1</b>	774.5
Deferred tax assets	<b>26.0</b>	10.1	–	–
Cash and cash equivalents	<b>101.7</b>	104.1	–	–
Current tax liabilities	–	–	<b>102.4</b>	90.5
Bank and other short-term borrowings	–	–	<b>89.7</b>	92.2
Bank and other long-term borrowings	–	–	<b>1,120.1</b>	1,374.1
Deferred tax liabilities	–	–	<b>73.8</b>	127.5
<b>Total assets/liabilities</b>	<b>2,001.0</b>	2,396.9	<b>2,151.1</b>	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)	<b>1,873.2</b>	1,751.1	–	–	<b>1,873.2</b>	1,751.1
Non-contract service revenue	<b>577.6</b>	584.6	–	–	<b>577.6</b>	584.6
Sales of goods	<b>80.0</b>	74.2	–	–	<b>80.0</b>	74.2
	<b>2,530.8</b>	2,409.9	–	–	<b>2,530.8</b>	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)	<b>1,165.2</b>	1,137.2	–	–	<b>1,165.2</b>	1,137.2
Depreciation – owned assets	<b>202.9</b>	179.0	–	–	<b>202.9</b>	179.0
– under finance leases	<b>7.7</b>	7.6	–	–	<b>7.7</b>	7.6
Amortisation – intangible assets <sup>1</sup>	<b>57.0</b>	51.1	–	–	<b>57.0</b>	51.1
– computer software	<b>5.3</b>	4.2	–	–	<b>5.3</b>	4.2
Impairment of intangibles	<b>4.3</b>	14.4	–	–	<b>4.3</b>	14.4
Cost of inventories expensed	<b>64.9</b>	64.3	–	–	<b>64.9</b>	64.3
Loss on disposal of PPE	<b>3.5</b>	0.8	–	–	<b>3.5</b>	0.8
Loss on disposal/retirement of intangible assets	<b>0.7</b>	2.0	–	–	<b>0.7</b>	2.0
Audit and non-audit services <sup>2</sup> (note 4)	<b>3.1</b>	3.8	–	–	<b>3.1</b>	3.8
Hire of machinery and equipment	<b>5.2</b>	5.5	–	–	<b>5.2</b>	5.5
Other operating lease rentals	<b>75.4</b>	81.5	–	–	<b>75.4</b>	81.5
Net foreign exchange losses	<b>0.1</b>	0.8	–	–	<b>0.1</b>	0.8
Research and development costs (external)	<b>1.7</b>	1.7	–	–	<b>1.7</b>	1.7

<sup>1</sup> Excluding computer software.

<sup>2</sup> 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	<b>989.6</b>	975.9	–	–	<b>989.6</b>	975.9
Social security costs	<b>150.8</b>	140.2	–	–	<b>150.8</b>	140.2
Share-based payments	<b>5.1</b>	2.6	–	–	<b>5.1</b>	2.6
Pension costs						
• defined contribution plans	<b>18.4</b>	16.8	–	–	<b>18.4</b>	16.8
Pension costs						
• defined benefit plans (note 24)	<b>1.3</b>	1.7	–	–	<b>1.3</b>	1.7
	<b>1,165.2</b>	1,137.2	–	–	<b>1,165.2</b>	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	<b>58,168</b>	67,649	–	–	<b>58,168</b>	67,649
Sales and marketing	<b>3,351</b>	3,502	–	–	<b>3,351</b>	3,502
Administration and overheads	<b>5,996</b>	6,105	–	–	<b>5,996</b>	6,105
	<b>67,515</b>	77,256	–	–	<b>67,515</b>	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	<b>0.4</b>	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	<b>2.1</b>	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	<b>0.1</b>	0.5
<b>Total audit and non-audit services (continuing operations)</b>	<b>2.6</b>	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 <sup>2</sup>	17.5	32.4
Interest payable on medium-term notes issued <sup>2</sup>	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 <sup>3</sup>	(3.1)	3.4
Fair value loss/(gain) on other derivatives <sup>1,3</sup>	11.8	(1.6)
<b>Total interest payable and similar charges (continuing operations)</b>	<b>125.0</b>	<b>153.5</b>

<sup>1</sup> 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.

<sup>2</sup> Interest expense on financial liabilities held at amortised cost.

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

## 6. Interest receivable

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

<sup>1</sup> Interest income on loans and receivables.

## 7. Income tax expense

	2009 £m	2008 £m
<b>Analysis of charge in the year</b>		
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)
<b>Total income tax expense (continuing operations)</b>	<b>16.1</b>	<b>6.4</b>
*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)
<b>Deferred tax credit</b>	<b>(15.4)</b>	<b>(6.0)</b>
<b>Tax on items charged to equity</b>		
Deferred tax (credit)/debit in respect of actuarial loss/gain on defined benefit pensions	(49.0)	12.8
<b>Total tax (credited)/debited to equity</b>	<b>(49.0)</b>	<b>12.8</b>

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
<b>Total income tax expense (continuing operations)</b>	<b>16.1</b>	<b>6.4</b>

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)
<b>Cash inflow from disposals of companies and businesses</b>	<b>4.4</b>

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
<b>Operating profit</b>	<b>–</b>	<b>5.0</b>
Finance costs – net	–	–
<b>Profit before income tax</b>	<b>–</b>	<b>5.0</b>
Income tax expense	–	–
<b>Profit after income tax from discontinued operations</b>	<b>–</b>	<b>5.0</b>

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	<b>47.6</b>	13.8
Profit from discontinued operations attributable to equity holders of the company	–	5.0
Weighted average number of ordinary shares in issue	<b>1,807.4</b>	1,807.4
Basic earnings per share from continuing operations	<b>2.63p</b>	0.76p
Basic earnings per share from discontinued operations	–	0.28p
Basic earnings per share from continuing and discontinued operations	<b>2.63p</b>	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	<b>47.6</b>	13.8
Profit from discontinued operations attributable to equity holders of the company	–	5.0
Weighted average number of ordinary shares in issue	<b>1,807.4</b>	1,807.4
Adjustment for share options and incentive awards	<b>2.9</b>	–
Weighted average number of ordinary shares for diluted earnings per share	<b>1,810.3</b>	1,807.4
Diluted earnings per share from continuing operations	<b>2.63p</b>	0.76p
Diluted earnings per share from discontinued operations	–	0.28p
Diluted earnings per share from continuing and discontinued operations	<b>2.63p</b>	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
<b>Cost</b>					
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
<b>Accumulated amortisation and impairment</b>					
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)
<b>Net Book Value</b>					
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
<b>31 December 2009</b>	<b>225.3</b>	<b>91.5</b>	<b>73.1</b>	<b>79.9</b>	<b>0.2</b>	<b>470.0</b>	
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
<b>Cost</b>					
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 <sup>1</sup>	(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	<b>221.3</b>	<b>673.2</b>	<b>329.1</b>	<b>259.7</b>	<b>1,483.3</b>
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 <sup>1</sup>	–	–	–	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	<b>206.5</b>	<b>661.3</b>	<b>308.5</b>	<b>238.5</b>	<b>1,414.8</b>
<b>Accumulated depreciation and impairment</b>					
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	<b>(47.4)</b>	<b>(381.9)</b>	<b>(199.8)</b>	<b>(133.0)</b>	<b>(762.1)</b>
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	<b>(49.6)</b>	<b>(399.5)</b>	<b>(198.5)</b>	<b>(130.9)</b>	<b>(778.5)</b>
<b>Net Book Value</b>					
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	<b>156.9</b>	<b>261.8</b>	<b>110.0</b>	<b>107.6</b>	<b>636.3</b>
<b>The net carrying amounts of assets held under finance leases are as follows:</b>					
At 31 December 2008	10.2	–	0.3	15.2	25.7
At 31 December 2009	<b>3.9</b>	<b>0.4</b>	<b>0.4</b>	<b>14.1</b>	<b>18.8</b>

<sup>1</sup> 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 <sup>1</sup>	3.3	2.6
Dividends	(1.8)	(1.1)
At 31 December	13.4	13.7

<sup>1</sup> 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)	24.1	2.6	49%

### 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	<b>399.2</b>	492.9
Less: provision for impairment of receivables	<b>(23.0)</b>	(31.3)
Trade receivables – net	<b>376.2</b>	461.6
Other receivables	<b>47.1</b>	47.8
Prepayments	<b>40.7</b>	42.9
<b>Total</b>	<b>464.0</b>	552.3
Less non-current portion:		
Other receivables	<b>26.5</b>	26.9
	<b>26.5</b>	26.9
<b>Current portion</b>	<b>437.5</b>	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	<b>31.3</b>	16.8
Acquisition of companies and businesses	<b>0.2</b>	–
Disposal of companies and businesses	<b>(0.2)</b>	–
Additional provision	<b>9.0</b>	17.0
Receivables written off as uncollectable	<b>(12.6)</b>	(5.5)
Unused amounts reversed	<b>(3.8)</b>	(0.6)
Exchange differences	<b>(0.9)</b>	3.6
<b>At 31 December</b>	<b>23.0</b>	31.3

Analysis of total trade receivables which are not impaired:

	2009 £m	2008 £m
Not yet due	<b>121.6</b>	198.4
Past due less than 1 month	<b>148.8</b>	143.1
Between 1 and 3 months	<b>81.9</b>	84.7
Between 3 and 6 months	<b>17.4</b>	22.5
Between 6 and 12 months	<b>5.5</b>	8.3
Over 12 months	<b>1.0</b>	4.6
	<b>376.2</b>	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
	<b>399.2</b>	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)	–
	<b>40.4</b>	29.8	<b>(17.7)</b>	(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)
	<b>40.4</b>	29.8	<b>(17.7)</b>	(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
	<b>47.3</b>	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	<b>88.5</b>	103.0
Short-term bank deposits	<b>13.2</b>	1.1
	<b>101.7</b>	104.1
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
Cash and cash equivalents	<b>101.7</b>	104.1
Bank overdrafts (note 21)	<b>(42.0)</b>	(41.7)
	<b>59.7</b>	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	<b>124.5</b>	138.3
Social security and other taxes	<b>83.8</b>	77.3
Other payables	<b>68.3</b>	77.2
Accruals and deferred income	<b>268.5</b>	260.7
Deferred and contingent consideration on acquisitions	<b>12.2</b>	25.6
Total	<b>557.3</b>	579.1
Less non-current portion:		
Other payables	<b>13.2</b>	14.2
Deferred and contingent consideration on acquisitions	<b>0.8</b>	0.4
	<b>14.0</b>	14.6
Current portion	<b>543.3</b>	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	<b>30.5</b>	<b>25.1</b>	<b>45.3</b>	<b>21.6</b>	<b>122.5</b>
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	<b>28.8</b>	<b>23.6</b>	<b>34.5</b>	<b>38.9</b>	<b>125.8</b>

Provisions analysed as follows:

	2009 £m	2008 £m
Non-current	69.0	91.0
Current	56.8	31.5
	<b>125.8</b>	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
<b>Non-current</b>		
Bank borrowings	226.0	437.2
Other loans	885.5	921.3
Finance lease liabilities	8.6	15.6
	<b>1,120.1</b>	1,374.1
<b>Current</b>		
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
	<b>89.7</b>	92.2
<b>Total bank and other borrowings</b>	<b>1,209.8</b>	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
<b>Net debt</b>				<b>(1,108.1)</b>	(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	<b>226.0</b>	437.2	<b>226.0</b>	437.2
Other loans	<b>885.5</b>	921.3	<b>915.3</b>	641.6
Finance lease liabilities	<b>8.6</b>	15.6	<b>8.6</b>	15.6
	<b>1,120.1</b>	1,374.1	<b>1,149.9</b>	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	<b>8.0</b>	5.0
Between:		
• one and two years	<b>4.7</b>	8.1
• two and three years	<b>2.8</b>	4.1
• three and four years	<b>1.7</b>	2.6
• four and five years	<b>0.2</b>	1.9
• over five years	<b>-</b>	-
	<b>17.4</b>	21.7
Future finance charges on finance leases	<b>(1.2)</b>	(1.5)
Present value of finance lease liabilities	<b>16.2</b>	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
<b>At 31 December 2009</b>					
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
	<b>469.6</b>	<b>69.0</b>	<b>941.5</b>	<b>345.6</b>	<b>1,825.7</b>
<b>At 31 December 2008</b>					
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
	<b>506.8</b>	<b>73.7</b>	<b>724.7</b>	<b>866.5</b>	<b>2,171.7</b>

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
<b>At 31 December 2009</b>								
<b>Assets</b>								
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
<b>Liabilities</b>								
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)
<b>At 31 December 2008</b>								
<b>Assets</b>								
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
<b>Liabilities</b>								
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	849.6	–	–	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
<b>Weighted average %</b>		
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 <sup>1</sup> £m	2009 Total £m	2008 UK RIPS £m	2008 Other <sup>1</sup> £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 <sup>1</sup> £m	2009 Total £m	2008 UK RIPS £m	2008 Other <sup>1</sup> £m	2008 Total £m
Current service cost <sup>2</sup>	0.2	1.1	1.3	0.5	1.2	1.7
Interest cost <sup>2</sup>	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 <sup>2</sup>	(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)

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

<sup>2</sup> 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
<b>Total plan assets</b>	<b>978.8</b>	<b>22.3</b>	<b>1,001.1</b>	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)
<b>At 31 December</b>	<b>1,026.7</b>	<b>38.7</b>	<b>1,065.4</b>	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
<b>Net surplus/(deficit)</b>	<b>(64.3)</b>	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
<b>Share capital</b>		
<b>Authorised</b>		
4,100,000,000 ordinary shares of 1p each	41.0	41.0
<b>Issued and fully paid</b>		
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	<b>190.078</b>	<b>12,807</b>
Expired	<b>189.407</b>	<b>5,565</b>
Outstanding at 31 December 2009	<b>190.593</b>	<b>7,242</b>

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	<b>2012</b>	<b>–</b>	<b>11,703,753</b>	<b>–</b>	<b>11,703,753</b>

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	<b>48.9</b>	21.4
Adjustments for:		
• Tax	<b>16.1</b>	6.4
• Share of profit from associates	<b>(3.3)</b>	(2.6)
• Interest income	<b>(67.4)</b>	(91.6)
• Interest expense	<b>125.0</b>	153.5
• Depreciation	<b>210.6</b>	186.6
• Amortisation and impairment of intangible assets*	<b>61.3</b>	65.5
• Amortisation of computer software	<b>5.3</b>	4.2
• LTIP charges	<b>5.1</b>	2.6
• Loss on sale of property, plant and equipment	<b>3.5</b>	0.8
• Loss on disposal/retirement of intangible assets	<b>0.7</b>	2.0
• Loss on disposal of companies and businesses (included within continuing operations)	<b>1.1</b>	–
• Cumulative translation exchange gain recycled on continuing operations	<b>(2.0)</b>	–
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
• Inventories	<b>3.2</b>	(5.3)
• Trade and other receivables	<b>64.4</b>	33.4
• Trade and other payables and provisions	<b>24.1</b>	(24.9)
Cash generated from operating activities before special pension contribution	<b>496.6</b>	352.0
Special pension contribution	<b>–</b>	(33.3)
Cash generated from operating activities	<b>496.6</b>	318.7
<i>* Excluding computer software.</i>		
In the cash flow statement, proceeds from sale of property, plant and equipment comprise:		
Net book amount	<b>13.5</b>	16.6
Loss on sale of property, plant and equipment	<b>(3.5)</b>	(0.8)
Proceeds from sale of property, plant and equipment	<b>10.0</b>	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)
<b>Closing net debt</b>	<b>(1,108.1)</b>	<b>(1,362.2)</b>
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)
<b>Total net debt</b>	<b>(1,108.1)</b>	<b>(1,362.2)</b>

## 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
<b>Purchase consideration:</b>	
• 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 value<sup>1</sup> of assets and liabilities arising from acquisitions are as follows:

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

<sup>1</sup> 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	<b>1.0</b>
Deferred consideration from prior periods paid	<b>10.1</b>
Acquisition costs from prior periods paid	<b>0.1</b>
<b>Cash outflow on current and past acquisitions</b>	<b>11.2</b>

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	<b>20.7</b>	11.6
Intangible assets	<b>2.2</b>	2.1
	<b>22.9</b>	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
	<b>294.4</b>	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
	<b>10.1</b>	11.3

Initial Catering Services Ltd (75%), Rentokil Initial (Pty) Ltd (74.9%), 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.

## Principal operating subsidiary and associated undertakings

At 31 December

### Subsidiary undertakings

#### United Kingdom

Dudley Industries Ltd  
Initial Building Services Ltd  
Initial Catering Services Ltd (75%)  
City Link Ltd  
Initial Facilities Management Ltd  
Initial Hospital Services Ltd  
Rentokil Initial Holdings Ltd  
Rentokil Initial Services Ltd  
Rentokil Initial UK Ltd  
Rentokil Initial Facilities Services (UK) Ltd  
Rentokil Insurance Ltd  
Insitu Cleaning Ltd  
Lancaster Office Cleaning Company Ltd  
Initial Medical Services Ltd

#### Australia

Rentokil Initial Pty Ltd

#### Austria

Rentokil Initial GmbH  
Initial Austria GmbH  
Initial Hygiene Austria GmbH

#### Bahamas

Rentokil Initial (Bahamas) Ltd

#### Barbados

Rentokil Initial (Barbados) Ltd

#### Belgium

Initial Textiles NV  
Rentokil NV  
Ambius NV

#### Brunei

Rentokil Initial (B)  
Sdn Bhd (70%)

#### Canada

Rentokil Pest Control  
Canada Ltd  
Ambius Inc

#### Czech Republic

Initial Ecotex sro

#### Denmark

Rentokil Initial A/S  
Initial A/S

#### Estonia

Rentokil Oü

#### Fiji

Rentokil Initial Ltd

#### Finland

Oy Rentokil Ambius AB  
Oy Initial AB

#### France

Initial BTB SA  
Rentokil Initial SAS  
Ambius SAS  
Technivap SAS

#### Germany

Initial Textile Service GmbH and  
Co KG  
Rentokil Initial GmbH  
Medentex GmbH  
Initial Waschraumservice GmbH

#### Greece

Rentokil Initial Hellas EPE

#### Guadeloupe

Rentokil Initial Guadeloupe Sarl

#### Guernsey, C.I.

Felcourt Insurance  
Company Ltd

#### Guyana

Rentokil Initial Guyana Ltd

#### Hong Kong

Rentokil Initial  
Hong Kong Ltd  
Po Hong Services Ltd

#### Hungary

Initial Textil Szolgaltato Kft

#### India

Rentokil India Pte Ltd

#### Indonesia

PT Calmic Indonesia  
PT Rentokil Indonesia

#### Italy

Rentokil Italia Srl  
Initial Italia Srl

#### Jamaica

Rentokil Initial (Jamaica) Ltd

#### Kenya

Rentokil Initial Kenya Ltd

#### Lithuania

UAB Dezinfa

#### Luxembourg

Initial Textile Luxembourg Sarl  
Rentokil Luxembourg Sarl  
R-Control Desinfections SA

#### Libya

Rentokil Initial UK Ltd – Branch

#### Malaysia

Rentokil Initial (M) Sdn Bhd

#### Martinique

Rentokil Initial  
Martinique Sarl

#### Netherlands

Initial Hokatex BV  
Rentokil Initial BV  
Ambius BV  
Holland Herstel Groep Ureco BV

#### New Zealand

Rentokil Initial Ltd

#### Norway

Rentokil Initial Norge AS

#### People's Republic of China

Rentokil Initial  
(Shanghai) Ltd  
Rentokil Tai Ming China  
Co Ltd

#### Philippines

Rentokil Initial (Philippines) Inc

#### Poland

Initial Matador Sp z.o.o.

#### Portugal

Rentokil Portugal –  
Serviços de Proteção  
Ambiental Lda  
Initial Portugal – Serviços  
de Proteção Ambiental Lda

#### Republic of Ireland

Rentokil Initial Ltd  
Integrated Pest  
Management Ltd  
Initial Medical Services (Ireland) Ltd

#### Singapore

One Stop Habitat-Care Pte Ltd  
Initial Hygiene Services Pte Ltd  
Rentokil Initial Singapore Pte Ltd

#### Slovak Republic

Initial Textile Services Sro

#### South Africa

Rentokil Initial (Pty) Ltd (74.9%)

#### South Korea

Yu Yu Calmic Co Ltd (50%)  
Rentokil Initial Korea Ltd  
Rentokil Enguard Ltd (70%)

#### Spain

Initial Gaviota SAU  
Initial Facility Services SAU  
Rentokil Initial España SA  
Initial Textiles e Higiene SLU

#### Sweden

Initial Sverige AB  
Rentokil AB  
Ambius AB

#### Switzerland

Rentokil Schweiz AG  
Initial Schweiz AG

#### Taiwan

Initial Hygiene Co Ltd  
Rentokil Ding Sharn Co Ltd

#### Thailand

Rentokil Initial (Thailand) Ltd

#### Trinidad

Rentokil Initial (Trinidad) Ltd

#### USA

Ambius Inc  
Presto-X LLC  
J.C. Ehrlich & Co Inc

#### Vietnam

Initial Services Co Ltd  
RI Services Co Ltd

### Associated undertakings

#### Japan

Nippon Calmic Ltd (49%)

The activities of the major subsidiaries are referred to in the business review on pages 8 to 15.

### Notes:

1. Rentokil Initial plc owns directly 100% of the shares of Rentokil Initial Holdings Ltd and indirectly 100% of the shares in all subsidiaries except where a lower percentage is shown.
2. Undertakings operate and are incorporated in the country underneath which each is shown.
3. The group's 50% interest in Yu Yu Calmic Co Ltd is consolidated as a subsidiary to reflect the group's control over this company because of its shareholding and its involvement in the management and because the business is conducted under licence from the group.

## Five-year summary


	2005 £m	2006 £m	2007 £m	2008 £m	2009 £m
Revenue from continuing operations	2,301.2	2,124.7	2,203.4	2,409.9	<b>2,530.8</b>
Operating profit from continuing operations	243.3	249.1	211.9	82.1	<b>119.3</b>
Profit before income tax from continuing operations	190.1	199.1	142.0	22.8	<b>65.0</b>
Profit for the year from continuing operations	138.6	154.3	111.7	16.4	<b>48.9</b>
Profit for the year from discontinued operations	185.8	92.8	546.8	5.0	<b>–</b>
Profit for the year (including discontinued)	324.4	247.1	658.5	21.4	<b>48.9</b>
Profit attributable to equity holders of the company	321.5	245.1	656.3	18.8	<b>47.6</b>
Profit attributable to minority interest	2.9	2.0	2.2	2.6	<b>1.3</b>
	324.4	247.1	658.5	21.4	<b>48.9</b>
Basic earnings per share:					
Continuing operations	7.52p	8.43p	6.06p	0.76p	<b>2.63p</b>
Continuing and discontinued operations	17.82p	13.57p	36.32p	1.04p	<b>2.63p</b>
Dividends per 1p share	7.38p	7.38p	7.38p	0.65p	<b>–</b>
Gross assets	1,558.0	1,792.0	1,960.3	2,396.9	<b>2,001.0</b>
Gross liabilities	(2,217.6)	(2,325.6)	(1,902.0)	(2,458.8)	<b>(2,151.1)</b>
Net (liabilities)/assets	(659.6)	(533.6)	58.3	(61.9)	<b>(150.1)</b>
Share capital	18.1	18.1	18.1	18.1	<b>18.1</b>
Reserves	(684.7)	(558.1)	32.8	(89.0)	<b>(177.5)</b>
Minority interest	7.0	6.4	7.4	9.0	<b>9.3</b>
Capital employed	(659.6)	(533.6)	58.3	(61.9)	<b>(150.1)</b>

## Parent company balance sheet

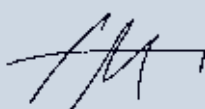
At 31 December

	Notes	2009 £m	2008 £m
<b>Fixed assets</b>			
Investments	4	256.0	2,460.7
Derivative financial instruments (due after more than one year)	6	27.3	28.1
		<b>283.3</b>	2,488.8
<b>Current assets</b>			
Debtors – amounts falling due within one year	5	158.6	156.9
Debtors – amounts falling due after more than one year	5	2,457.9	–
Derivative financial instruments (due within one year)	6	12.7	4.9
Short-term deposits and cash		11.7	99.4
		<b>2,640.9</b>	261.2
<b>Creditors – amounts falling due within one year</b>			
Creditors	7	(752.3)	(532.1)
Bank and other borrowings	8	(340.4)	(153.6)
Derivative financial instruments	6	(13.3)	(52.3)
		<b>(1,106.0)</b>	(738.0)
<b>Net current assets/(liabilities)</b>			
		<b>1,534.9</b>	(476.8)
<b>Creditors – amounts falling due after more than one year</b>			
Bank and other borrowings	8	(1,109.8)	(1,356.8)
Derivative financial instruments	6	(4.4)	(0.7)
		<b>(1,114.2)</b>	(1,357.5)
<b>Net assets</b>			
		<b>704.0</b>	654.5
<b>Equity capital and reserves</b>			
Share capital	9	18.1	18.1
Share premium	10	6.8	6.8
Profit and loss account	11	679.1	629.6
<b>Capital employed</b>			
		<b>704.0</b>	654.5

The financial statements on pages 87 to 93 were approved by the board on 26 March 2010 and were signed on its behalf by:



**Alan Brown**  
Chief Executive



**Michael Murray**  
Chief Financial Officer

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## Notes to the parent company accounts

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### 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
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	158.0	91.1
Group relief	–	64.9
Other debtors	0.6	0.9
	<b>158.6</b>	156.9
<b>Amounts falling due after more than one year:</b>		
Amounts owed by subsidiary undertakings	<b>2,457.9</b>	–

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)	–
	<b>40.0</b>	33.0	<b>(17.7)</b>	(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)
	<b>40.0</b>	33.0	<b>(17.7)</b>	(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
	<b>752.3</b>	<b>532.1</b>

## 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: £845.8 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
<b>Authorised</b>		
4,100,000,000 ordinary shares of 1p each	41.0	41.0
<b>Issued and fully paid</b>		
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.

## Independent auditors' report to the members of Rentokil Initial plc

We have audited the financial statements of Rentokil Initial plc for the year ended 31 December 2009 set out on pages 39 to 84 and 87 to 93. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with sections 495, 496 and 497 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditors' report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of directors and auditors

As explained more fully in the Statement of Directors' Responsibilities set out on page 24, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

### Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at [www.frc.org.uk/apb/scope/UKP](http://www.frc.org.uk/apb/scope/UKP).

### Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the parent company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

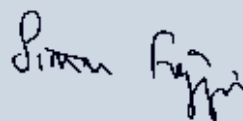
We have nothing to report in respect of the following:

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 30, in relation to going concern; and
- the part of the Corporate Governance Statement relating to the company's compliance with the nine provisions of the June 2008 Combined Code specified for our review.



**Simon Figgis** (Senior Statutory Auditor)  
**for and on behalf of KPMG Audit Plc, Statutory Auditor**  
**Chartered Accountants**

8 Salisbury Square  
London  
EC4Y 8BB  
26 March 2010

## General shareholder information

### Registrars and transfer office

All enquiries relating to the administration of shareholdings should be directed to: Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA.

Telephone (From the UK): 0871 664 0300

Telephone (From overseas): +44 (0) 20 8639 3399

Fax: +44 (0) 1484 600 911

E-mail: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

(Calls cost 10p per minute plus network extras, lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday)

### Secure share portal

#### [www.capitashareportal.com](http://www.capitashareportal.com)

The Share Portal is an on-line facility provided by our registrars, Capita Registrars, for shareholders to manage their holding securely on-line, reducing the need for paperwork. By registering for a free portal account, shareholders are able to access a full range of on-line facilities 24 hours a day including those described below.

### Electronic communications

Allows shareholders to elect to receive shareholder communications such as annual and interim reports via the internet rather than through the post.

### View account holding details

Allows shareholders to access their personal account, shareholding balance, share transaction history, indicative share valuation and dividend payment history. It also enables shareholders to buy and sell shares.

### Change of address, bank mandates, downloadable forms

Allows shareholders to update their postal address and complete, change or delete bank mandate instructions for dividends. A wide range of shareholder information including downloadable forms such as stock transfer forms is also available.

### On-line proxy voting

Provides shareholders with an on-line proxy voting mechanism to cast proxy votes, reducing administrative costs and paperwork.

### Dedicated helpline

Capita Registrars also have a dedicated helpline team of fully trained staff who have vast experience in helping users with all aspects of the service.

Telephone (From the UK): 0871 664 0391

(Calls cost 10p per minute plus network extras, lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday)

Telephone (Outside the UK): +44 (0) 20 8639 3367

E-mail: [shareportal@capita.co.uk](mailto:shareportal@capita.co.uk)

### Share dealing services

Capita Registrars provides a low cost on-line and telephone share dealing facility for buying or selling shares. There is no need for shareholders to pre-register and there are no complicated forms to complete. These services allow you to trade "real time" at a known

price, given to you at the time of your instruction. You will need your full name, investor code, full postcode and date of birth. Your investor code can be found on your latest share certificate or tax voucher. Please have the appropriate documents to hand when you log on or call, so that Capita can verify your identity.

For full terms and conditions of this service and the risks that apply, or to buy and sell Rentokil Initial shares, please log on to [www.capitadeal.com](http://www.capitadeal.com) (on-line dealing) or call 0871 664 0454.

(Calls cost 10p per minute plus network extras, lines are open 8.00 a.m. to 4.30 p.m. Monday to Friday)

### ShareGift

You may donate your shares to charity free of charge through ShareGift, a charity share donation scheme for shareholders who may wish to dispose of a small quantity of shares when the market value makes it uneconomical to sell on a commission basis. Further details are available at [www.sharegift.org](http://www.sharegift.org) or by calling +44 (0) 20 7930 3737.

### Announcement dates

2009 Half year – 31 July 2009

2009 Full year – 19 February 2010

2010 Half year – 30 July 2010

### Annual general meeting

To be held at No. 4 Hamilton Place, London, W1J 7BQ on Friday 14 May 2010 at 11.00 am. Website: [www.4hp.org.uk](http://www.4hp.org.uk)

The notice of the annual general meeting is contained in a separate letter to shareholders accompanying these accounts and on the company's website: [www.rentokil-initial.com](http://www.rentokil-initial.com)

### Dividends

2008 Interim 0.65p (2007: 2.13p) – Paid on 17 October 2008

2008 Final: No dividend

2009 Interim: No dividend

2009 Final: No dividend

### Dividend Reinvestment Plan

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the company. If you would prefer to receive shares for your next dividend instead of cash please complete an application on-line at [www.capitashareportal.com](http://www.capitashareportal.com). Or call the Capita IRG Trustees on 0871 664 0381 from the UK or +44(0)20 8639 3402 from overseas. (Calls cost 10p per minute plus network extras, lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday)

### Capital history

Mid market price 31 March 1982 – 7.5375p\*

Mid market price 31 December 2009 – 115.60p

2009 high/low – 118.60p/39.50p

\* adjusted for the 1983 bonus issue and the 1990, 1992, and 1997 share splits.

### Share price information

The current price of the company's shares is available on the company's website at [www.rentokil-initial.com](http://www.rentokil-initial.com)

**Registered office and headquarters**

Rentokil Initial plc  
2 City Place  
Beehive Ring Road  
Gatwick Airport  
West Sussex  
RH6 0HA  
Telephone: +44 (0) 1293 858 000  
Fax: +44 (0) 1293 858 300  
Website: [www.rentokil-initial.com](http://www.rentokil-initial.com)  
Contact: [investor@rentokil-initial.com](mailto:investor@rentokil-initial.com)  
Registered in England and Wales  
Registered number 5393279

**Indirect owners of shares with “information rights”**

Please note that beneficial owners of shares who have been nominated by the registered holder of those shares to receive information rights under section 146 of the Companies Act 2006 are required to direct all communications to the registered holder of their shares rather than to the company’s registrar, Capita Registrars, or to the company directly.

**Warning about unsolicited investment contacts (boiler room scams)**

Many companies have become aware that their shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based “brokers” who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as “boiler rooms”. These “brokers” can be very persistent and extremely persuasive. If these calls persist, hang up. A 2006 survey by the Financial Services Authority (FSA) reported that the average amount lost by investors is around £20,000. The FSA receives and deals with an average of 6,500 consumer enquiries a year on such scams. More detailed information on this or similar activity can be found on the FSA website [www.moneymadeclear.fsa.gov.uk](http://www.moneymadeclear.fsa.gov.uk) or call the FSA on 0300 500 5000.

**Unsolicited mail**

The company is legally obliged to make its Register of Members available, subject to a proper purpose test, to the public. As a consequence of this, some shareholders may receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service (MPS) at:  
FREEPOST 29 LON20771  
London W1 0ZT  
or call on 0845 703 4599  
or on-line at [www.mpsonline.org.uk](http://www.mpsonline.org.uk).

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Absolute White



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[www.rentokil-initial.com/annualreport2009](http://www.rentokil-initial.com/annualreport2009)