

## Strategy and performance

Statement by the chairman and the chief executive	01
Measuring achievement in 2011	05
Strategy update	06

## Business review

Business overview	08
Textiles & Hygiene	10
Pest Control	11
Asia Pacific	12
Ambius	12
City Link	13
Initial Facilities	14
Central costs	14
Risks and uncertainties	15
Financial review	19

## Governance

Chairman's introduction	22
Corporate governance report	23
Board of directors	26
Relations with shareholders	32
Audit committee report	34
Nominations committee report	36
Other statutory disclosures	38
Statement of directors' responsibilities	41
Directors' remuneration report	42
Corporate responsibility	52

## Financial statements

Consolidated income statement	57
Consolidated statement of comprehensive income	58
Consolidated balance sheet	59
Consolidated statement of changes in equity	60
Consolidated cash flow statement	62
Accounting policies	63
Notes to the accounts	71
Principal operating subsidiary and associated undertakings	102
Five-year summary	103
Parent company balance sheet	104
Notes to the parent company accounts	105
Independent auditor's report to the members of Rentokil Initial plc	110

General shareholder information	111
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# Financial highlights

	2011 £m	Increase/ (decrease) %	2010 £m
Revenue	2,544.3	1.9%	2,496.5
Adjusted operating profit <sup>1</sup>	224.7	(6.1%)	239.3
Adjusted profit before tax <sup>1</sup>	184.4	(4.1%)	192.3
(Loss)/profit before tax	(50.5)	–	14.5
Operating cash flow <sup>2</sup>	154.7	(30.5%)	222.7
Basic adjusted EPS <sup>3</sup>	7.48p	(4.2%)	7.81p

<sup>1</sup> before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items

<sup>2</sup> cash flow before interest, tax, acquisitions, disposals and foreign exchange adjustments

<sup>3</sup> earnings per share before the after tax effects of amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items

## Description of business categories and activities

### Pest Control

Our Pest Control business provides 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 business has leading market positions in the UK, continental Europe and North America.

### Hygiene

The group's Hygiene business offers a dedicated and expert hygiene service in the UK, continental Europe and Asia Pacific. This includes the provision and maintenance of products including air fresheners, sanitisers, feminine hygiene units, hand dryers, paper and linen towel dispensers, soap dispensers, toilet paper dispensers and floor protection mats. It also provides disposal of dental and medical waste, and deep cleaning and water hygiene services.

### Textiles

In our Textiles activities in Europe we specialise in the supply and launder of work wear, uniforms, clean room uniforms and protective equipment. The business offers a linen service for hotels, restaurants and hospitals. The business's largest countries of operation are France, Germany and Benelux.

### Interior plants

The Ambius division provides interior plants landscaping, design installation and maintenance services in North America, the UK, Australia and continental Europe.

### Facilities Services

Facilities Services comprise a number of related businesses including catering, cleaning, security, buildings M&E and statutory compliance. The business provides fully integrated total facilities management to government and commercial sector organisations of all sizes across all business sectors. The business operates in the UK and Spain.

### Parcels Delivery

City Link is a UK leading premium express parcel delivery company providing high quality services across the UK and Ireland. City Link has been successfully delivering documents, parcels, pallets and freight throughout the world since 1969.

### Other

Represents a number of small businesses outside of the above categories.

# Statement by the chairman and the chief executive

## Overview of performance

Despite tough conditions in many of our markets in 2011, full year revenue of £2.54 billion grew by 1.9% on 2010 at actual exchange rates (1.2% at constant rates).

Textiles & Hygiene grew revenue by 2.7% in 2011, aided by a notably robust performance from Germany and significantly improved performance from Benelux. We are pleased with the turnaround in the Benelux after several challenging years in this territory. Market conditions remain difficult in Italy and Eastern Europe but our management teams are nevertheless coping well in these environments. The agenda for our three big businesses in this division in France, Germany and Benelux is gaining traction.

Pest Control grew by 0.3% with strong growth in North America and the UK. The 11.3% growth (of which 6.7% is acquisitions) of our UK Pest business is significant, given its role as the test country for the Programme Olympic growth pilots. Overall revenue was however held back by disposals and the suspension of operations in Libya during Q1 2011. We have now re-commenced operations in Libya on a small scale and have a promising acquisition pipeline in place for bolt-on deals in North America and the Middle East.

Initial Facilities performed robustly, reporting revenue growth of 6.9%, of which 2.9% is attributable to the successful acquisition of the Fire and Water businesses of Santia Services in early 2011. 2012 has started well, with several promising wins of facilities management contracts in the UK.

Asia Pacific revenue grew 4.1% year on year, reflecting investment in capability and traction in sales and marketing and other growth initiatives. We are particularly pleased with the return to growth of our Australian Hygiene business after eight years of revenue decline.

Ambius revenue grew by 1.1%, attributable to good Christmas season sales in North America and the acquisition of Netherlands-based Westplant in Q3.

City Link's performance continues to disappoint, with revenue declining by 8.5%, largely due to loss of customers after very difficult trading conditions in Q4 2010. The capability of the business has improved very substantially, particularly in customer service and customer care, but management of operating costs has been poor throughout 2011 at a time when Revenue Per Consignment ("RPC") has come under pressure across the whole industry. Nevertheless revenue grew in Q4 2011 and we have recruited an excellent management team. The financial performance of the business will remain poor in H1 2012.

Contract portfolio, which accounts for 74.9% of revenue, grew by 1.6% year on year, of which 1.4% is due to the net effect of acquisitions and disposals.

Adjusted operating profit (before amortisation and impairment of intangible assets and one-off items) amounted to £221.0 million (at CER), a decrease of 7.6% on the prior year. Adjusted profit before tax (before amortisation and impairment of intangible assets, reorganisation costs and one-off items) declined by 6.1% to £180.5 million (at CER) and basic adjusted earnings per share (at AER) declined by 4.2% to 7.48p.

The good progress made in Textiles & Hygiene, Pest Control, Asia Pacific and Initial Facilities was not sufficient to offset the deterioration in City Link's financial performance, with progress on productivity savings being much slower than anticipated.

The unadjusted group after tax loss for the year was £67.1 million, reflecting an £145.8 million impairment of intangible assets in City Link.

## Funding

The group generated operating cash flows of £154.7 million in 2011 (2010: £222.7 million), representing 92% conversion from profit (after adjusting for one-off cash flows of £51.6 million) against a target of 100%. Cash flow was negatively impacted in H1 2011 by a very strong performance in Q4 2010 (attributable to the phasing of cash collections in Initial Facilities), lower profitability and higher capex levels.

Capex in 2011 was 103% of depreciation reflecting inflationary pressures, sales growth in Textiles & Hygiene and upweighted investment in systems to support Programme Olympic and improvements in customer care.

At 31 December 2011 the group had net debt of £919.0 million. Of this, £855.0 million is represented by capital market notes issued by the group and the earliest maturity of any of these instruments is 2013. In December 2011 the group entered into a new £270 million Revolving Credit Facility maturing in December 2016. The group has adequate headroom in its bank facilities in terms of funds available to withdraw and in relation to its interest cover and net debt covenants.

At the 2011 interim stage we announced we had reached a provisional agreement with the UK pension scheme trustees in relation to the 31 March 2010 triennial valuation of the company's UK pension scheme and its funding. Final agreement has now been reached with the trustees which assumes a funding deficit of £80 million at the valuation date and a funding arrangement by the company of £12.5 million per annum over an eight-year period commencing in January 2012. It is noted that the funding deficit agreed with the trustees was calculated on a different basis to the valuation of the pension scheme's assets and liabilities on the company's balance sheet, which were calculated using applicable accounting standards. At 31 December 2011 the UK scheme was valued at a surplus of £144 million on the company's balance sheet.

## Dividend

Although the board is not satisfied with the current financial performance of City Link, good progress has been made with the turnaround of Textiles & Hygiene Benelux and the rest of the group's businesses are performing well in difficult conditions. Further, through strong operating cash flow performance, the company has reduced significantly its debt levels over the last three years and has recently resolved its medium-term pension funding and borrowing arrangements. Taking this into consideration, the board proposes to resume the payment of

dividends to shareholders and is recommending a final dividend in respect of 2011 of 1.33p per share, payable to shareholders on the register at the close of business on 10 April 2012 to be paid on 15 May 2012. This equates to a full year dividend of 2p per share, on a one third/two thirds interim/final basis. The board intends to pursue a progressive dividend policy going forward.

## People

In 2011 our colleagues have faced challenges from the economic environment as well as from operational issues and on behalf of the board we would like to thank them for their continued contribution.

Angela Seymour-Jackson will be joining the board as a non-executive director on 5 March 2012. Angela has, until recently, been the Chief Executive of the RAC and we look forward to the contribution she will bring to Rentokil Initial from her extensive service industry experience.

## Outlook for 2012

Our Operational Excellence strategy – which focuses on capability development across all functions – is delivering increasing rates of revenue growth in the Pest Control, Hygiene, Textiles and Facilities Services categories despite tough market challenges. We are particularly pleased with the rates of growth achieved towards the end of Q4, which have continued into the early part of 2012. The investment in rollout of the Olympic sales growth initiatives is likely however to limit profit growth in these categories to mid-single digits for the time being.

City Link continues to disappoint. While Q4 volumes grew 8% and revenue by 0.5%, losses were £3.1 million greater than Q4 2010 due to low productivity, driven in part by conservative resource planning for the Christmas period. The financial performance of the business will remain poor in H1 2012, however, we remain committed to resolving the key revenue and cost control issues facing this business. We are encouraged by the immediate impact of the new City Link CEO and CFO and by the quality of the improvement plan currently being implemented.

Progress made across the rest of the group and continued strong operating cash flows have given the board sufficient confidence to recommence dividend payments with a final dividend of 1.33p per share. The board is appreciative of the continued support of shareholders as we work to turn around Rentokil Initial.



John McAdam  
Chairman  
1 March 2012



Alan Brown  
Chief Executive

## Progress on key objectives in 2011

Our four key objectives for 2011 were:

1. The **turnarounds** of City Link and Textiles & Hygiene Benelux;
2. The delivery of immediate, effective and surprising **customer care**;
3. The delivery of **consistent and profitable growth** through excellent customer retention and greatly improved marketing, sales and innovation capability; and
4. **Cost savings**.

### 1a. City Link

Considerable progress has been made in City Link in 2011 in the areas of sales & marketing, operations, customer care and contingency plans for key trading. As a consequence, service levels have been strong throughout the year, in contrast to Q4 2010. We have however been disappointed by the financial performance of the business with lower revenue per consignment and poor productivity resulting in increased losses.

Given the poor performance of the business in 2011 we have written off intangible assets at the 2011 year end relating to City Link. The total write down amounted to £146 million of which £108 million related to goodwill and £38 million related to customer lists.

The new City Link leadership team brings a great deal of successful UK Parcels industry experience to the business. They have begun to implement a comprehensive recovery plan which we expect to show material results by Q3 2012. The plan targets productivity savings in excess of £20 million primarily through driver productivity, supported by route and round optimisation and a move to variable pay for subcontractors. There are also initiatives to reduce trunking, warehouse operations and back office costs.

### 1b. Textiles & Hygiene Benelux

The business performed consistently in line with plan, both in revenue (up 1.2% to £179.3 million) and profit (up 16.6% to £29.0 million). Market conditions notwithstanding, we expect the business to continue to perform well in 2012.

In the Netherlands an extensive review of pricing was completed during H1 enabling the business to win a number of Government accounts. Having taken some significant price reductions in 2009 and 2010 in order to get our pricing back in line with the market, during 2011 we have been able to pass on a number of price increases to customers, reflecting significant cost inflation and a more benign pricing environment.

In Belgium the primary focus has been on improving the performance of the Hospital unit. Management has been streamlined, plant productivity has increased and cost control measures have been implemented.

## 2. Customer care – immediate, effective, surprising

The group's focus on customer service has been extended to customer care. Our aim is to be pro-active in contacting, listening to and responding to all our customers (in City Link also our customers' customers), not just the very large.

In City Link a Customer Care Director was appointed to lead this programme which became operational in November. The business has made significant progress in both quality and speed of response to customer and consignee enquiries, though there remains much to do. The analytic data systematically collected by the new technology will lead over time to a step change in service and care. In May the 'My City Link' initiative was launched affording most customers real-time and detailed access on their parcel delivery. This service offers a competitive advantage over other market participants and has met with great success.

## 3. Growth – consistent and profitable

The group aims to deliver consistent and profitable organic growth through excellent customer retention, greatly improved marketing, sales and innovation capability, and through acquisition. Excluding City Link and Libya (where we had to cease our activities due to civil war) group organic growth was 0.9%, driven by Asia Pacific (up 3.7%), Pest Control (excluding Libya) up 1.7%, and Textiles & Hygiene (up 1.4%).

Despite challenges in many of our markets, retention remained stable during the year at 83.9%.

Good progress has been made in shaping the foundations and frameworks on which we will build our future growth agenda. The global sales agenda has focused on key elements of sales force capabilities, including training and development modules, operating frameworks and system tools. In addition work is underway to introduce improved recruitment criteria. Additional supply chain and innovation capability has been brought into the textiles and hygiene categories to ensure that segmented offers are supported by modernised product ranges.

### Growth pilots

Programme Olympic is a programme of process-led change for our business support activities. The objective of the programme is to dramatically improve customer service and financial performance. There are seven growth initiatives within the programme which have been piloted during 2011 in the UK. The impact of the initiatives has contributed to organic growth in the UK Pest Control business of 8.3% in H2 2011.

### Acquisitions

**Pest Control** – continues to expand its geographic footprint by acquisition. In February 2011 the business acquired the pest business of Santia Group. In July 2011 the group entered the Turkish pest control market through the acquisition of commercial pest business National Britannia Turkey ("NB Turkey"). The business operates nationally with branches in Turkey's seven largest cities. In the same month we acquired Sydney-based pest control company Ant-Eater, which will provide further density to our Sydney operations. The company also established a first-time presence in Mexico through the acquisition of Tetengo in September. Tetengo is headquartered in Monterrey and operates from a network of 15 branches across the country.

**Textiles & Hygiene** – in 2011 the division acquired a business in France which designs, develops and sources workwear garments.

**Initial Facilities** – in May 2011 Initial Facilities acquired the 25% minority shareholding of Initial Catering Ltd from Rezayat Group (High Seas Investments (Bermuda) Ltd). More recently, in November, we announced the acquisition of building services business, MSS Facilities Management, from Managed Support Services plc. The business, which has 200 employees, operates from two principal trading sites in Manchester and London and provides excellent synergies with Initial Facilities' existing mechanical and electrical engineering building services business. The acquisitions of Knightsbridge Guarding (acquired June 2010) and the Services Division of Santia Group (acquired February 2011) have been integrated successfully into the division and both are performing ahead of expectations.

**Ambius** – In September Ambius acquired Netherlands-based business Westplant, which specialises in the rental of interior and exterior plants, fresh flower delivery and Christmas displays. The acquisition cements Ambius' market position in the Netherlands.

## 4. Cost savings

The group achieved £44 million of cost savings in 2011 through a combination of restructuring, procurement, service productivity and back office rationalisation. Savings were £16 million below target primarily reflecting slower than expected progress on service productivity in City Link. Cost savings are targeted at £50 million in 2012.

Textiles & Hygiene delivered £17 million savings in the year through restructuring, overheads and indirect procurement. Further opportunities exist in 2012 in direct materials procurement and service productivity.

Pest Control achieved £10 million savings in the year through service productivity and back office rationalisation. Further opportunities exist in these areas, especially in North America.

City Link delivered £7 million of savings during the year, primarily in restructuring. As noted above, progress has been slower than expected in productivity. Cost savings of £20 million are targeted in 2012 in collections and delivery productivity, as well as hub and trunking, depot and warehouse costs and back office efficiencies.

Savings in the rest of the group amounted to £10 million in the year, through a combination of restructuring, procurement and back office rationalisation initiatives. Further savings are planned in 2012, particularly in Initial Facilities through the application of LEAN cost saving initiatives to improve gross margin levels.

## Key objectives for 2012

Over the last four years, the group has invested in the capability of its people and systems. 2012 will be focused on delivering the benefits of this investment. Our four key objectives for 2012 are:

1. To turnaround the financial performance of [City Link](#);
2. To drive greater customer satisfaction and retention through [customer care](#) and Customer Voice Counts ("CVC") initiatives;
3. To deliver £50 million [cost savings](#) from productivity, procurement and back office rationalisation initiatives; and
4. To achieve [growth](#) through marketing and innovation, Programme Olympic and acquisitions.

### 1. City Link

The new City Link leadership team brings a great deal of successful UK Parcels industry experience to the business. They have begun to implement a comprehensive recovery plan which we expect to show material results by Q3 2012. The plan targets productivity savings in excess of £20 million primarily through driver productivity, supported by route and round optimisation and a move to variable pay for subcontractors. There are also initiatives to reduce trunking, warehouse operations and back office costs.

### 2. Customer care

Following the successful introduction of customer care initiatives in City Link, the company will begin to roll out best practice initiatives across the group in 2012, including call centre technology and organisation. The group will also roll out proactive customer account management processes following successful trials conducted within the UK Pest and Hygiene businesses in 2011. Further, Customer Voice Counts (the group's survey of customer satisfaction) will be bonusable across most of the organisation in order to drive competitive advantage.

### 3. Cost savings

Cost savings are targeted at £50 million in 2012. We aim to achieve this through direct materials procurement, back office rationalisation and efficiencies and service productivity, particularly within City Link.

### 4. Growth

The group anticipates further revenue growth in 2012 through organic and acquisitive actions. While progress has been made in sales capability, the coming year will be another important year of implementation.

Marketing and Innovation will be a major focus for 2012 given the progress made on delivering the essentials across the group. For Pest and Hygiene this will come under the leadership of a single management team led by Xuemei Bennink-Bei, currently MD of Asia Pacific, and now appointed Group Marketing and Innovation Director. The new initiative will involve a number of senior management changes: while Xuemei will continue to run Asia, Peter Slator, MD of THS, will assume additional responsibility for the Pacific region. Italy will report to Andy Ransom, Managing Director of the Pest Control division.

Work is also now underway to develop the Programme Olympic growth pilot initiatives as appropriate for other group categories (i.e. Textiles and Hygiene) and to deploy these initiatives in key geographies outside the UK. We anticipate these pilots will underpin our plans for organic growth in the Pest Control division in 2012 and elsewhere in the business in 2013. Finally, the group will continue to target bolt-on acquisitions, primarily in the Pest Control category, with an emphasis on North America, MENAT, Latin America and other high growth markets.



# Measuring achievement in 2011

The CEO uses 16 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 is shown below.

Categories	Goals	Results	
		2011	2010
<b>Colleagues</b>	Engagement/Enablement	<b>72%/69%</b>	<b>70%/68%</b>
	Sales colleague retention	<b>65%</b>	<b>64%</b>
	Service colleague retention	<b>72%</b>	<b>76%</b>
	Health and safety (H&S) lost time through accidents (LTA) rate	<b>1.44</b>	<b>1.72</b>
<b>Customers</b>	Gross sales % of opening portfolio	<b>15%</b>	<b>16%</b>
	Customer retention	<b>83.9%</b>	<b>83.9%</b>
	Net gain % of opening portfolio	<b>1.6%</b>	<b>1.8%</b>
	State of Service	<b>98%</b>	<b>97%</b>
	Customer satisfaction (Customer Voice Counts)	<b>6%</b>	<b>19%</b>
<b>Shareholders</b>	Organic revenue growth	<b>-0.5%</b>	<b>-2.1%</b>
	Total revenue growth (incl. acquisitions)	<b>1.2%</b>	<b>-1.2%</b>
	APBITA margin	<b>8.8%</b>	<b>9.6%</b>
	Debtors (days sales outstanding – DSO)	<b>45</b>	<b>47</b>
	Cost savings delivered in year	<b>£44m</b>	<b>£60m</b>
	Cash conversion as % of operating profit	<b>92%</b>	<b>114%</b>
	Gross capex as % of depreciation	<b>103%</b>	<b>87%</b>

## Explanation of 2011 KPIs

**Colleague engagement** – “Your Voice Counts” – an employee engagement survey representing aggregate engagement rating from these reports.

**Sales colleague retention** – the reciprocal of total sales heads leaving in year as percentage of sales head count at start of year.

**Service colleague retention** – the reciprocal of total service heads leaving in year as percentage of service head count at start of year.

**H&S lost time through accidents (LTA)** – defined as work-related injury/illness resulting in employee absenteeism for one day/shift or more (excluding day/shift in which the accident occurred). Number of lost time accidents expressed as rate per 100,000 standard working hours.

**Gross sales percentage of opening portfolio** – additions to portfolio (new business and additions to existing business but excluding price increases) expressed as percentage of opening portfolio.

**Customer retention percentage** – the reciprocal of total terminations (reductions and terminations) expressed as percentage of opening portfolio.

**Net gain percentage of opening portfolio** – movement in portfolio expressed as percentage of opening portfolio.

**State of Service** – total number of service visits performed divided by total number of visits due.

**“Customer Voice Counts” (“CVC” i.e. net promoter score)** – measured by average net promoter score rating across all branches. The CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting. CVC score for 2011 is based on a more extended measurement (incl. City Link and Initial Facilities) than for 2010.

**Organic revenue growth** – revenue growth (excl. acquisitions and disposals).

**Total revenue growth** (incl. acquisitions) – year on year increase in total revenue expressed as percentage of prior year revenue (at CER).

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

**Debtors days sales outstanding (DSO)** – trade debtors gross of provisions calculated on the exhaust basis (i.e. going back over relevant number of preceding days’ invoicing until debt balance is zero). Number of days taken = debtor days.

**Cost savings** – savings delivered in year related to permanent cost reductions.

**Cash conversion targets as percentage of operating profit** – operating cash flow expressed as a percentage of APBITA.

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

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# Strategy update

## Strategic aim

## Objectives for 2011

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### Outstanding Customer Service

Deliver immediate, effective and surprising customer care

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### Developing Capability

Develop further sales and service capability, upgrade functional management, improve administrative processes through Programme Olympic

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### Delivering Operational Excellence

Turnaround City Link and Textiles & Hygiene Benelux

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### Lowest Cost and Maximum Cash

Deliver £60 million cost savings through productivity, procurement and back office rationalisation initiatives

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### Profitable Growth

Deliver consistent and profitable growth through excellent customer retention and greatly improved marketing, sales and innovation capability and through acquisition

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## Progress in 2011

- 98% service target achieved; customer experience developed across group
- Customer Tiers 2 and 3 receiving greater care and attention; improvements to lifecycle management
- Appointment of City Link Customer Care Director
- Significant progress in quality and speed of response to customer enquiries
- Launch of “My City Link” giving customers real-time, detailed access on parcel delivery

- Focus on customer care and lead generation, roll-out of route optimisation across businesses (City Link, Textiles & Hygiene)
- Appointment of new MD and FD in City Link
- Programme Olympic driving improvements in retention, customer complaints, cross-selling and bids and tenders

- Progress in City Link turnaround: operations, contingency planning, customer care and sales and marketing; service levels strong throughout year, and during peak Christmas trading
- Turnaround of Benelux complete; return to growth in Q4 2011
- Further development of common systems and processes across group

- £44 million cost savings (vs. target £60 million) through service productivity, procurement (product rationalisation and indirects) and reduction in overheads; However, £16 million below target reflecting slower progress on service productivity in City Link
- Two-day reduction in DSO from 47 to 45
- Cash conversion at 92% (vs. target 100%)
- Capital expenditure at 103% of depreciation (vs. 95% target)

- Increasing traction from growth pilots evidenced by improvements in retention, new contract sales and reduced customer complaints
- Ongoing development of sales and marketing and service expansion
- Acquisitions in existing and developing markets (UK, Netherlands, Turkey, Mexico, Sydney, North America and France)

## Objectives for 2012

- Begin group roll-out of customer care initiatives piloted in City Link during 2011, including call centre technology and organisation
- Roll-out proactive customer account management processes following successful UK Pest and Hygiene pilots
- Incentivisation for relevant employees based on customer satisfaction, gauged through Customer Voice Counts surveys

- Focus on Marketing and Innovation (following creation of new management team), particularly in Pest, Textiles & Hygiene categories, to drive pace of innovation and implementation
- Launch of “U+”, the group’s new training and development body in Q2, offering combination of physical and web-based learning and development programmes

- Turnaround financial performance of City Link through focus on operational excellence and cost management and delivery of sales pipeline
- Roll-out of Programme Olympic shared service centres across group

- Deliver £50 million cost savings through direct materials procurement, back office rationalisation and efficiencies and service productivity, particularly in City Link
- City Link savings target £20 million, through driver productivity, supported by hub and trunking, warehouse and back office cost reductions

- Continued development of group sales capability
- Focus on Marketing and Innovation (following creation of new management team), particularly in Pest and Hygiene categories, to drive pace of innovation and implementation
- Development of Programme Olympic pilots across other group categories; deployment in key geographies outside UK
- Bolt-on acquisitions, primarily Pest, with emphasis on US, MENAT, Latin America and other high-growth markets

## Business overview

The tables below and opposite represent revenue and adjusted operating profit\* (APBITA) by segment, as disclosed in note 1 to the accounts, split across the main groups of business category and activity, as described on the inside of the front cover: Pest Control, Hygiene, Textiles, Interior Plants, Facilities Services and Parcel Delivery. "Other" represents a number of small businesses outside of the other categories. The segment information disclosed in note 1 to the accounts is presented in accordance with IFRS 8 "Operating Segments". This additional information is designed to provide further details split by category and activity given that a number of our segments include businesses from different categories.

\* before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items

### 2011 revenue by category

£m	Pest Control	Hygiene	Textiles	Interior Plants	Facilities Services	Parcel Delivery	Other	Total
Textiles & Hygiene	6	258	438	–	–	–	70	772
Pest Control	435	128	–	5	–	–	13	581
Asia Pacific	100	111	–	15	–	–	1	227
Ambius	–	–	–	119	–	–	–	119
City Link	–	–	–	–	–	307	–	307
Initial Facilities	–	25	–	–	567	–	–	592
<b>Total</b>	<b>541</b>	<b>522</b>	<b>438</b>	<b>139</b>	<b>567</b>	<b>307</b>	<b>84</b>	<b>2,598</b>

### 2011 revenue by geography

£m	Pest Control	Hygiene	Textiles	Interior Plants	Facilities Services	Parcel Delivery	Other	Total
Europe	172	280	438	44	58	–	36	1,028
UK & Ireland	79	103	–	10	509	307	48	1,056
North America	164	–	–	65	–	–	–	229
Pacific	59	62	–	14	–	–	–	135
Asia	41	50	–	1	–	–	–	92
Africa/Caribbean	26	27	–	5	–	–	–	58
<b>Total</b>	<b>541</b>	<b>522</b>	<b>438</b>	<b>139</b>	<b>567</b>	<b>307</b>	<b>84</b>	<b>2,598</b>

### 2011 APBITA by category

£m	Pest Control	Hygiene	Textiles	Interior Plants	Facilities Services	Parcel Delivery	Other	Total
Textiles & Hygiene	–	60	62	–	–	–	(7)	115
Pest Control	90	20	–	1	–	–	1	112
Asia Pacific	13	23	–	1	–	–	(5)	32
Ambius	–	–	–	9	–	–	–	9
City Link	–	–	–	–	–	(31)	–	(31)
Initial Facilities	–	4	–	–	25	–	–	29
Central Costs	–	–	–	–	–	–	(45)	(45)
<b>Total</b>	<b>103</b>	<b>107</b>	<b>62</b>	<b>11</b>	<b>25</b>	<b>(31)</b>	<b>(56)</b>	<b>221</b>

## 2010 revenue by category

£m	Pest Control	Hygiene	Textiles	Interior Plants	Facilities Services	Parcel Delivery	Other	Total
Textiles & Hygiene	6	246	430	–	–	–	69	751
Pest Control	418	130	10	5	–	–	17	580
Asia Pacific	94	107	–	15	–	–	2	218
Ambius	–	–	–	117	–	–	–	117
City Link	–	–	–	–	–	336	–	336
Initial Facilities	–	20	–	–	534	–	–	554
<b>Total</b>	<b>518</b>	<b>503</b>	<b>440</b>	<b>137</b>	<b>534</b>	<b>336</b>	<b>88</b>	<b>2,556</b>

## 2010 revenue by geography

£m	Pest Control	Hygiene	Textiles	Interior Plants	Facilities Services	Parcel Delivery	Other	Total
Europe	168	269	440	40	58	–	34	1,009
UK & Ireland	72	100	–	10	476	336	53	1,047
North America	154	–	–	66	–	–	–	220
Pacific	55	61	–	14	–	–	2	132
Asia	39	47	–	2	–	–	(1)	87
Africa/Caribbean	30	26	–	5	–	–	–	61
<b>Total</b>	<b>518</b>	<b>503</b>	<b>440</b>	<b>137</b>	<b>534</b>	<b>336</b>	<b>88</b>	<b>2,556</b>

## 2010 APBITA by category

£m	Pest Control	Hygiene	Textiles	Interior Plants	Facilities Services	Parcel Delivery	Other	Total
Textiles & Hygiene	1	60	54	–	–	–	(5)	110
Pest Control	84	21	–	1	–	–	3	109
Asia Pacific	12	21	–	1	–	–	(5)	29
Ambius	–	–	–	9	–	–	–	9
City Link	–	–	–	–	–	(10)	–	(10)
Initial Facilities	–	4	–	–	22	–	–	26
Central Costs	–	–	–	–	–	–	(34)	(34)
<b>Total</b>	<b>97</b>	<b>106</b>	<b>54</b>	<b>11</b>	<b>22</b>	<b>(10)</b>	<b>(41)</b>	<b>239</b>

# Business review

This review of performance takes a close look at each of our business areas – **Textiles & Hygiene, Pest Control, Asia Pacific, Ambius, City Link** and **Initial Facilities**. In each case we report on strategic objectives and priorities, market conditions in 2011, our progress throughout the year and our expectations for 2012.

## Basis of preparation

Segmental information has been presented in accordance with IFRS 8 “Operating Segments” which the group has implemented with effect from January 2009. Full details of the basis of preparation is set out in note 1 to the Accounts on page 73.

## Textiles & Hygiene

### Market conditions

Trading conditions in many of our markets continued to be difficult, particularly in France due to competitor pressure and the economic climate in Italy, while Germany has been more robust. Highly competitive pricing experienced in France and Benelux in 2010 eased in 2011 and, having taken some significant price reductions in 2009 and 2010 in order to bring our pricing back in line with the market, in 2011 we have been able to pass on a number of price increases to customers, reflecting significant cost inflation and a more benign pricing environment.

£m	Fourth Quarter			Full Year		
	2011	2010	change	2011	2010	change
<b>At 2010 constant exchange rates:</b>						
Revenue	195.7	190.6	2.7%	771.3	751.0	2.7%
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	33.5	26.8	25.0%	115.0	110.1	4.5%
<b>At actual exchange rates:</b>						
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	33.4	26.7	25.1%	116.6	110.1	5.9%

<sup>1</sup> Excluding computer software

## Performance review

Full year revenue grew by 2.7%, an organic increase of 1.4% after adjusting for the acquisitions of the Swedish dental business in late 2010, two specialist hygiene businesses in H1 2011 and the French textiles supply business in Q4 2011. Revenue growth was however impacted by a challenging economic environment in Italy and the UK. Inflationary and commodity cost increases, particularly cotton prices, were managed well. This is best reflected in France, where despite continued competitor pressure, the business achieved organic revenue growth of 1.5%. Benelux delivered growth of 1.2%, demonstrating a significant turnaround on the prior year. Germany reported another robust performance, delivering growth of 5.8%. This was however partially offset by Italy's revenue decline of 3.2%. Divisional customer retention was 86.2%, unchanged on the prior year.

Profit rose by 3.8% on 2010, after adjusting for acquisitions. The Benelux businesses achieved the highest growth at 16.6% reflecting the turnaround of the business, control over pricing and significant benefits derived from restructuring. Germany's continued strong performance saw profit rise by 12%. France achieved an organic profit growth of 5.9% in challenging economic conditions with customer retention improving by 2.2% on the previous year. These solid performances in the larger markets were offset by some of the smaller businesses in Italy, Eastern Europe, Specialist Hygiene and UK Supplies (as well as increased investment in divisional overheads).

## 2012 outlook and objectives

While the economic outlook in continental Europe for 2012 looks very uncertain, divisional initiatives launched in 2011 across many areas, including marketing, sales and service productivity improvement programmes, will help the Textiles & Hygiene division to mitigate the impact of challenging market conditions and inflation. Continued focus remains on the cost base with cost saving programmes ongoing across all countries. Performance will be also aided by recent reductions in cotton prices as supply begins to come back into line with demand and the identification of further restructuring opportunities in several of our businesses. Performance will also continue to be helped by the Benelux business, the turnaround of which was successfully completed in 2011.

## Key objectives

- Continued refinement of pricing policy to reflect European market conditions and fluctuations in cost inflation
- Focus on product innovation to support Hygiene offer
- Deliver further cost savings through procurement, restructuring and back office administration
- Increased capex reflecting sales growth and investment in infrastructure

## Pest Control

### Market conditions

Market conditions were largely stable in northern Europe and North America during 2011. However, they became increasingly challenging in Ireland and the Southern European economies of Spain, Portugal and Greece, reflecting the economic crisis in the Eurozone. The South Africa, East Africa and Caribbean markets were also largely stable, although with a softening in H2. Due to the political crisis in the Middle East, the division's operations in Libya were suspended in early 2011 but the first steps in restarting our commercial operations were taken in Q4. In Q3 Pest Control entered two new developing and high-growth economies of Turkey and Mexico through the July acquisition of NB Turkey and the September acquisition of Mexican pest control company Tetengo.

£m	Fourth Quarter			Full Year		
	2011	2010	change	2011	2010	change
<b>At 2010 constant exchange rates:</b>						
Revenue	143.8	138.2	4.1%	581.3	579.5	0.3%
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	27.9	26.4	5.7%	112.4	108.6	3.5%
<b>At actual exchange rates:</b>						
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	27.3	26.4	3.4%	112.2	108.6	3.3%

<sup>1</sup> Excluding computer software

### Performance review

Revenue for the division grew by 0.3%, up 3.1% excluding disposals and the suspension of operations in Libya in Q1. UK Pest Control grew by 11.3%, of which 6.7% is attributed to the acquisition of the pest control operations of Santia Services and, although revenue in the UK and Ireland Hygiene business fell, its rate of decline slowed to 5.7% from 9.7% in 2010. In Europe strong performances from Germany, Austria, Switzerland and the Nordics were largely offset by difficult trading conditions in Spain, Portugal and Greece, which have been impacted by the Eurozone crisis, with overall revenue growth for the region of 1.8%. North America, the division's largest business, delivered strong growth of 5.5%.

Profit rose by 3.5%, up 4.6% excluding disposals and Libya, reflecting continued good cost management across most businesses. Notably strong profit growth performances were recorded in UK Pest (16.2%), Germany (11.4%), Austria (20.9%), Switzerland (32.9%), the Nordics (8.3%) and North America (7.9%). Profit declined in the UK Hygiene operations and the difficult markets of Spain, Portugal, Ireland and Greece.

### 2012 outlook and objectives

We expect overall market conditions to soften further in 2012, following closely those experienced in H2. Ireland and the Southern European economies we believe will continue to be severely impacted by the economic crisis, which has the potential to have broader reaching impacts in the rest of our markets, including North America.

## Key objectives

- Deployment of Programme Olympic growth initiatives to drive organic growth
- Continued focus on cost saving in service productivity and back office administration (particularly North America)
- Further bolt-on acquisitions in targeted regions

## Asia Pacific

### Market conditions

Trading conditions in the Asian pest control and hygiene markets were good throughout 2011 and the business exited the year with double digit portfolio growth. The Pacific began the year more hesitantly with a subdued Q1, impacted by the Christchurch earthquake and flooding in Queensland, but strengthened as the year progressed.

£m	Fourth Quarter			Full Year		
	2011	2010	change	2011	2010	change
<b>At 2010 constant exchange rates:</b>						
Revenue	58.3	55.6	4.9%	227.3	218.3	4.1%
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	10.0	7.9	26.6%	31.7	29.6	7.1%
<b>At actual exchange rates:</b>						
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	10.7	8.2	30.5%	33.9	29.6	14.5%

<sup>1</sup> Excluding computer software

### Performance review

Asia Pacific revenue increased by 4.1% in 2011 (2010: up 0.6%). Both Asia and Pacific achieved growth with Pacific up 3.0% and Asia up 5.9%. Excluding the acquisition of Australian pest control business Ant-Eater earlier in the year, Pacific grew by 2.3%. In Asia the momentum in key markets of Indonesia (up 15.1%) and Malaysia (up 7.3%) reflects traction in sales and marketing and other growth initiatives. The emerging businesses of India and Vietnam continued to progress, benefiting from investment in capability. Thailand had a weak close to the year due to the severe flooding throughout the country. In Pacific the Australia pest business grew 6.8% with significant gains in share. The Australia hygiene business, Pink, grew by 1.6%, an improvement on the negative growth trend of recent years.

Profit for the division rose by 7.1% for the year. Gross margins remain stable with price increases and cost savings offsetting inflationary pressures. Investment in sales and marketing is now delivering to the bottom line.

### 2012 outlook and objectives

Conditions for 2012 remain positive although there may be some slowdown in growth if Asian economies are impacted by the debt

crisis in Europe. The Pacific region is solid, reflecting a robust Australian economy supported by the mining industry.

#### Key objectives

- Continued refinement of pricing policy to reflect local market conditions, product and range innovation and to offset relatively high regional cost inflation
- Focus on product innovation to support Hygiene offer
- Continued integration of Pest and Hygiene operations under single country management teams
- Drive cost saving opportunities in back office administration, especially Pacific region

## Ambius

### Market conditions

Market conditions in the US, while still difficult, stabilised in 2011. Localised competition and the lack of a single dominant market player has allowed Ambius to maintain pricing and recover some of its inflationary increases. In Europe, particularly the Netherlands and the UK, market conditions continue to be very difficult, with highly competitive pricing resulting in a reduced margin and requests for terminations.

£m	Fourth Quarter			Full Year		
	2011	2010	change	2011	2010	change
<b>At 2010 constant exchange rates:</b>						
Revenue	37.3	36.4	2.5%	118.5	117.2	1.1%
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	5.6	4.8	16.7%	8.5	8.6	(1.2%)
<b>At actual exchange rates:</b>						
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	5.6	4.8	16.7%	8.6	8.6	–

<sup>1</sup> Excluding computer software

### Performance review

Ambius revenue grew by 1.1% in 2011, (down 0.9% organic), reflecting the Q3 acquisition of Westplant in the Netherlands. Christmas season job sales remained strong in Q4 with the total value sold slightly ahead of the prior year.

Profit was down year on year, with cost saving initiatives mitigating the impact of cost inflation on plants and fuel as well as changes in business mix.

## 2012 outlook and objectives

Trading for Ambius in 2012 is anticipated to show some improvements over 2011 as brand extensions continue to be a major focus for the division. Further cost savings initiatives have been introduced in 2011, and the full benefit is expected to support profitability in 2012.

### Key objectives

- Continue to develop service and product extensions to support core offer
- Drive cost savings through service productivity and back office rationalisation

## City Link

### Market conditions

During 2011 there was continued growth in the B2C sector, whilst growth in the B2B sector was largely flat following economic output. There continues to be very high levels of competition within the industry forcing an underlying downward pressure on price.

£m	Fourth Quarter			Full Year		
	2011	2010	change	2011	2010	change
<b>At 2010 constant exchange rates:</b>						
Revenue	88.0	87.6	0.5%	306.9	335.5	(8.5%)
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	(6.7)	(3.6)	(86.1%)	(31.3)	(9.6)	(226.0%)
<b>At actual exchange rates:</b>						
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	(6.7)	(3.6)	(86.1%)	(31.3)	(9.6)	(226.0%)

<sup>1</sup> Excluding computer software

## Performance review

Despite operational improvements during 2011 the business made an operating loss of £31.3 million on revenue down 8.5% to £306.9 million reflecting a 3.5% volume decline and 5% decline in revenue per consignment (RPC). Losses were also impacted by slow progress on cost saving initiatives and productivity in particular.

RPC decline was driven by a loss of smaller and medium sized customers in Q1 predominantly due to poor service quality in December 2010, a very competitive market and a lack of investment in account management. Quality of service improved dramatically in 2011 and has consistently been at a high level throughout the year. City Link invested in both account management and customer service during the year and as a result is now gaining momentum in winning new business. It exited the year with an additional £25 million in annualised contract sales and the new business pipeline remains in excess of £50 million. There is also a need, however, to increase prices after many years of serial decline in the industry as a whole.

Given the poor performance of the business of the division in 2011 we have written off intangible assets at the 2011 year end relating to City Link. The total write down amounted to £146 million of which £108 million related to goodwill and £38 million related to customer lists.

A strong plan has been put in place by the new leadership team. Though we do not expect to see an improvement in financial performance during H1 2012, we expect to see better results in H2 2012.

## 2012 outlook and objectives

The B2C market is expected to continue to grow while the B2B market remains more susceptible to economic conditions, around which there remains uncertainty. Excess capacity in the market continues to make pricing extremely competitive.

### Key objectives

- Continue to drive top line growth with focus on profitable new customers
- Deliver £20 million in cost savings, focused on driver productivity and supported by hub and trunking, warehouse and back office cost reductions



## Initial Facilities

### Market conditions

Economic conditions in 2011 continued to be challenging, with customers looking for overall cost reduction opportunities, and for opportunities to reduce discretionary expenditure.

£m	Fourth Quarter			Full Year		
	2011	2010	change	2011	2010	change
<b>At 2010 constant exchange rates:</b>						
Revenue	151.8	148.1	2.5%	592.4	554.0	6.9%
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	10.3	9.2	12.0%	29.3	25.9	13.1%
<b>At actual exchange rates:</b>						
Adjusted operating profit (before amortisation and impairment of intangible assets, <sup>1</sup> reorganisation costs and one-off items)	10.2	9.2	12.0%	29.3	25.9	13.1%

<sup>1</sup> Excluding computer software

### Performance review

Despite the difficult market conditions described above, Initial Facilities performed robustly in the year with revenue growing 6.9%, aided by the acquisitions of the Fire and Water businesses of Santia Services in early 2011. Underlying revenue, excluding acquisitions, was broadly flat.

Further progress in improving operational efficiency and ongoing cost reductions have helped contribute to improvements in profitability, with growth of 13.1% for the full year. Excluding acquisitions, profit grew by 4.1% year on year.

### 2012 outlook and objectives

Continued uncertainty remains around the UK economic outlook for 2012. Consumer confidence is expected to remain weak in an environment of financial and economic instability across Europe, and ongoing spending austerity. Having reorganised in 2011, improved efficiency of operations and acquired the Santia Fire and Water businesses, and the MSS maintenance business, Initial Facilities is well placed to provide good-value innovative integrated facilities solutions to its customers. The acquisition of MSS in November 2011 provides strong capability in the maintenance field, which allows Initial Facilities to now provide all key facilities services directly.

#### Key objectives

- Leverage recent acquisitions to drive top line growth through increased new contract win rate
- Improve gross margins through applying LEAN principles to service delivery
- Drive net margin improvement through further cost savings in back office administration

## Central costs

£m	Fourth Quarter			Full Year		
	2011	2010	change	2011	2010	change
<b>At 2010 constant exchange rates:</b>						
Central costs	(12.7)	(4.5)	(182.2%)	(44.6)	(33.9)	(31.6%)
<b>At actual exchange rates:</b>						
Central costs	(12.7)	(4.5)	(182.2%)	(44.6)	(33.9)	(31.6%)

Central costs increased by £10.7 million reflecting investment in Programme Olympic and higher insurance cost provisions than in 2010.

# Risks and uncertainties

## Risk management approach

The identification and management of risk is fully integrated into the group's strategy development and into the day-to-day operational execution of the strategy by the divisions. Ensuring that risks are identified and managed effectively is a part of every manager's and supervisor's job through leadership of the teams for which they are responsible.

The board has overall responsibility for the group's risk management approach, which includes:

- reviewing and approving the group's overall strategy, including defining the group's overall risk appetite. This implicitly involves identifying the risks that may prevent the group from achieving its objectives and ensuring that these risks are mitigated or managed to an acceptable level
- regular reviews of business progress. This includes updates on the risks that the business is facing, and challenging management to obtain assurance that these risks are being effectively managed
- review of management's approach to identifying and managing risk including approval of the group risk register
- evaluation of the effectiveness of internal controls, including financial, operational and compliance controls
- evaluation of the effectiveness of internal and external audit
- delegation of authority to the Chief Executive and Chief Financial Officer to make commitments on behalf of the company

Some of the above responsibilities are delegated to the Audit Committee, the full remit of which is described on pages 34 to 36.

The Chief Executive and his leadership team are responsible for day-to-day identification and management of risk, which includes:

- setting targets and objectives for their respective teams and divisions in line with the agreed group strategic direction
- monitoring of business performance through monthly and quarterly meetings with divisional and functional leadership which include reviews of financial performance, non-financial metrics, latest financial forecasts and progress in delivering the projects to drive operational excellence and capability improvement
- compilation and regular review of the group risk register which defines the key risks that the company faces in delivery of its strategy and ensures that the options to manage or mitigate the risks are appropriate
- ensuring that the business maintains sound systems of internal control, and that appropriate assurance mechanisms are in place to confirm that these internal controls are working effectively. This includes controls relating to the preparation of financial statements, operational controls and controls to ensure that the business meets its legal and regulatory obligations, e.g. in health and safety, tax, employment, etc.

- delegating authorities to ensure that decisions are always made at the appropriate level in the organisation taking into account the level of risk involved (financial and non-financial)
- promulgating the Code of Conduct which defines how employees, and others who act on behalf of the company, must behave when dealing with colleagues, suppliers, customers and other stakeholders. This includes approval of policies, procedures and processes that underpin the Code of Conduct and are designed to ensure that the group meets its legal and regulatory obligations

## Assurance and re-assurance

The Group Risk Committee, chaired by the CFO, has oversight of the group's risk and control framework, reviews the risks that the group faces and the effectiveness of internal controls. It comprises representatives from finance, IT, HR and the Corporate Secretary.

Specific programmes are used to support implementation of the Code of Conduct and underlying policies, national laws and regulations. In some cases dedicated specialists ensure that standards are set and complied with, for example in Health and Safety, IT Security, Pensions and Tax. More broadly, computer-based training is used to ensure that expected standards of behaviour are widely disseminated and adopted across the group, for example to ensure compliance with competition law and anti-corruption/anti-bribery legislation.

Independent re-assurance of the effectiveness of risk management and internal controls across the group is provided to the Chief Executive and the board by Group Internal Audit.

## Principal risks

The group's overall risk management approach, defined above, is designed to provide reasonable, but not absolute, assurance at all levels of the group that risks are properly identified and are being effectively managed. This includes the provision of appropriate mechanisms to ensure that issues and concerns relating to risk can be escalated up through the organisation, confidentially if necessary.

The principal risks that are most relevant to the group are as follows:

- achieving profitable growth and cash flows in the face of a weakening of the economies in which we operate, particularly Europe
- managing the number, scope, complexity and interdependency of many initiatives necessary to deliver improved capabilities of our people, excellence across the group's operations and outstanding service to our customers

# Risk mapped to group's strategic thrusts

## How are we doing?

- High
- Medium
- Low

Strategic thrusts	Risk description	What we are doing to manage and/or reduce the risk	Net risk after mitigation	Change from 2010
<b>Delivering outstanding customer service</b>	Achieve service level targets	Global metrics are defined for state of service (see KPIs page 5) and are reviewed every month. Reward and recognition schemes for front line colleagues are used to drive employee and customer engagement.	<span style="color: green;">●</span>	<span style="color: green;">◀▶</span>
	Achieve or exceed customer satisfaction	Customer care initiatives developed at City Link to be rolled out across the group in 2012. Customer account management processes to be rolled out following successful trials in UK Pest. Customer Voice Counts (net promoter score) surveys regularly undertaken across the group. (see KPIs page 5)	<span style="color: orange;">●</span>	<span style="color: orange;">◀▶</span>
<b>Developing the capability of our organisation and people</b>	Successfully deploy information systems and technology to support business requirements and protect confidential information	The IT strategy is focused on supporting the business strategy across all divisions, and is formally reviewed by the board annually. An information security policy is in place, monitored by regular self-assessment reviews.	<span style="color: orange;">●</span>	<span style="color: orange;">◀▶</span>
	Roll out a sustainable pipeline of new innovation across the business	Marketing and innovation is now under the leadership of a single management team. This will ensure innovation is developed from a global perspective and roll-out can be co-ordinated with greater effectiveness.	<span style="color: orange;">●</span>	NEW
	Recruit, develop and retain key staff	Programmes are being implemented as part of Programme Olympic to drive standardised core employee processes and a global HR information system. A new graduate recruitment scheme was implemented in 2011. A global learning management system is in pilot.	<span style="color: green;">●</span>	<span style="color: green;">▼</span>
	Development of a professional sales capability across the business	Initiatives are under way in all divisions to improve sales capability and effectiveness. A new global sales leadership team has been established to drive improved sales capability, training and develop new tools.	<span style="color: orange;">●</span>	NEW
<b>Delivering operational excellence in all our processes and functions</b>	City Link turnaround is not delivered	A number of broad initiatives have been undertaken to win new key accounts, invest in customer care and drive operational efficiencies. See details on page 7.	<span style="color: red;">●</span>	<span style="color: red;">◀▶</span>
	Recruit to Reward project fails to deliver step-change in HR capability and operations	HR processes are being globally defined and implemented on a rolling basis, starting with pilots in the UK, Spain, Australia, South Africa and North America. Progress is monitored by the Programme Olympic steering group.	<span style="color: orange;">●</span>	NEW
	Poor implementation of new accounting systems and processes (Record to Report project) results in loss of finance transaction/reporting capability	A global chart of accounts is being rolled out as key enabler to new systems. A rolling plan of new system implementation and upgrades has been agreed as part of Programme Olympic for 2012 and 2013 to drive further process harmonisation and efficiency.	<span style="color: orange;">●</span>	NEW
	Poor service scheduling and productivity	Route optimisation techniques have been applied to businesses where efficient multiple service calls are a critical part of the business model – City Link, Textiles & Hygiene and Pest Control. For City Link specific innovations, see pages 2 to 7.	<span style="color: orange;">●</span>	<span style="color: orange;">◀▶</span>
<b>Operating at lowest possible cost consistent with our service objectives and delivering maximum cash</b>	Identify and execute cost saving opportunities	Cost savings programmes are in place across all divisions and are monitored monthly. An outline of current initiatives are described on page 4.	<span style="color: red;">●</span>	<span style="color: red;">▲</span>
	Poor supply chain management (including procurement)	An SKU rationalisation project is in progress within Textiles & Hygiene as a pre-cursor to implementing a centralised warehousing and distribution model across Europe.	<span style="color: orange;">●</span>	<span style="color: orange;">◀▶</span>
	Achieve operating cash flow targets	Cash conversion targets and days outstanding debtors targets are set for all divisions and countries and are monitored monthly. (see KPIs page 5)	<span style="color: red;">●</span>	<span style="color: red;">▲</span>
	Deteriorating ability to collect debts due to weak economies impacting our customers, especially governments	The level of debtors is monitored monthly (see KPIs page 5). The creditworthiness of new customers and material existing customers is regularly reviewed. Credit limits are applied based on an assessment of risk.	<span style="color: orange;">●</span>	NEW
	Financial market risks – foreign exchange risk, interest rate risk, liquidity risk, counterparty risk and settlement risk	Detailed policies are in place that require group Treasury to approve, oversee and monitor all financial market risks. Financial risks are explained in more detail in note 21 on pages 89 to 92.	<span style="color: green;">●</span>	<span style="color: green;">▼</span>
	Volatility in pension scheme funding obligations adversely impacts group profitability or cash flow	Pension provision is via defined contribution schemes for all current employees. The medium term funding of the now closed UK direct benefit scheme was agreed in 2011 (page 21).	<span style="color: green;">●</span>	<span style="color: green;">▼</span>

Strategic thrusts	Risk description	What we are doing to manage and/or reduce the risk	Net risk after mitigation	Change from 2010
Delivering profitable growth through organic and acquisitive actions	Win profitable new customers	Programme Olympic includes several initiatives targeted at delivering profitable growth including tele-appointing, bids and tenders management and online sales. These initiatives are supported by the development of cost-to-serve models to ensure competitive pricing of the service offering.		
	Upsell or cross-sell to existing customers	Common sales processes, supported by new CRM technology, are being developed to share customer information and identify cross-selling opportunities. Sales training and improved incentive schemes are being rolled out to help capture additional business with existing customers.		
	Retain profitable business (when renewing existing customer contracts)	Initiatives to better monitor customer satisfaction and develop customer retention plans include benchmarking, market price research, a new cost to serve model, senior management involvement in re-tendering and contract renewal.		
	Generate profitable growth through strategically relevant acquisition/joint venture	Potential acquisitions and/or strategic partners are regularly reviewed. Dedicated M&A resource supports bids when opportunities arise.		
Assurance risks	Fraud, financial crime or material accounting misstatement	Group accounting policies and procedures are described on pages 63 to 70. There is a strong focus on regular financial controls testing, including self-assessment exercises each year, with independent testing by the external auditors. "Speak Up" is available for confidential whistleblowing.		
	Health, Safety or Environmental breach resulting in loss of life, litigation, financial penalties or reputational damage	The group Safety, Health and Environment board (SHE) is responsible for setting SHE policies, processes and systems and monitoring their effectiveness. External certification and internal review ensure that SHE standards are maintained at an adequate level.		
	Non-compliance with local tax legislation/reporting requirement leading to material unprovided tax charge	The group tax director monitors all local tax issues above a threshold, and approves and monitors tax contingencies.		
	Breach of laws or regulations (including competition and anti-trust laws and regulations)	Compulsory e-training for all managers on competition law and anti-corruption laws. Requirement to inform group legal director of all potential law breaches which may give rise to litigation.		
	Loss of operational capability due to major incident, e.g. fire, flood, terrorism, war, political or civil unrest, kidnap, etc.	The business continuity policy has been revised and is being implemented across the group. Divisional policies are reviewed periodically.		
	Failure to act responsibly and ethically towards colleagues, customers or business partners (i.e. failure to comply with the Code of Conduct)	Code of Conduct fully revised and rolled out in 2010 to all existing managers. Policy is included in the packs for all new starters. E-learning programme under development, to be rolled out to all managers in 2012. "Speak Up" hotline monitored by group internal audit.		NEW

As described on page 15, the board, Chief Executive and his leadership team regularly review the above principal risks and the specific actions and activities that the group has taken to mitigate the risks. In order to ensure that actions are taken at the most appropriate level, these risks have been further disaggregated and mapped against the group's five strategic thrusts. This analysis is shown on pages 16 and 17. A schedule of "assurance risks", which relate to activities that the group must undertake in order to meet legal, fiscal and governance obligations, is also shown.

Note that it must be recognised that although the risks and activities are regularly reviewed, the activities identified to manage and/or reduce the risks identified may not be sufficient by themselves to fully mitigate the risks, should they materialise.

### Financial risks

Full details of the company's financial risks can be found in Note 21 on pages 89 to 92.

### Other risks

The group is exposed to other risks and uncertainties related to environmental, political, social, economic and employment factors in the territories in which we operate. Additional risks and uncertainties not presently known to management or deemed to be of lower materiality may, if they materialise, have an adverse impact on the group's revenue, profitability, cash flow and/or net assets.

## Overview

Despite tough conditions in many of our markets in 2011 full year revenue of £2.54 billion grew by 1.9% on 2010 at actual exchange rates (1.2% at constant rates).

Growth of 2.7% was achieved across our key categories of Textiles, Hygiene, Pest Control and Facilities Services. Revenue from our Parcels business declined however by 8.5%, reflecting a combination of difficult market conditions and lower volumes as a result of customer losses in 2010.

Textiles & Hygiene performed well in 2011, aided by a notably robust performance from Germany and significantly improved performance from Benelux. Difficult market conditions in Italy and Eastern Europe dampened otherwise solid results. Pest Control delivered a strong performance in North America and most European markets, but overall revenue was held back by disposals and the suspension of operations in Libya in Q1. Initial Facilities performed robustly, reporting revenue growth of just under 7%, aided by the acquisitions of the Fire and Water businesses of Santia Services in early 2011. Asia Pacific revenue grew 4.1% year on year, reflecting investment in capability and traction in sales and marketing and other growth initiatives. Ambius revenue grew by 1.1%, attributable to good Christmas season sales in North America and the acquisition of Netherlands-based Westplant in Q3. In City

Link, while revenue declined year on year, the business moved into positive revenue growth in Q4, the first time since Q2 2010, reflecting c.£25 million of annualised contract wins in Q3 and Q4.

Contract portfolio, which accounts for 74.9% of revenue, grew by 1.6% year on year, of which 1.4% is due to the net effect of acquisitions and disposals and the remainder to ongoing improvements in customer retention rates.

Adjusted operating profit (before amortisation and impairment of intangible assets, reorganisation costs and one-off items) amounted to £221.0 million (at CER), a decrease of 7.6% on the prior year. Adjusted profit before tax (before amortisation and impairment of intangible assets, reorganisation costs and one-off items) declined by 6.1% to £180.5 million (at CER) and adjusted earnings per share (at AER) declined by 4.2% to 7.48p. Positive divisional profit performances were recorded in Textiles & Hygiene, Pest Control, Asia Pacific and Initial Facilities, while profit from Ambius remained unchanged on the prior year. City Link's financial performance was disappointing and while good progress was made during the year on operational improvements and service levels, progress on productivity savings was much slower than anticipated.

The unadjusted group after tax loss for the year was £67.1 million, reflecting an £145.8 million impairment of intangible assets in City Link.

## Net debt and cash flow

	Year to date		
	2011 £m	2010 £m	Change £m
Adjusted profit <sup>1</sup>	224.7	239.3	(14.6)
Reorganisation costs and one-off items	(38.2)	(25.1)	(13.1)
Depreciation	204.2	212.9	(8.7)
Other non-cash	7.0	13.1	(6.1)
EBITDA	397.7	440.2	(42.5)
Working capital	(32.1)	(32.8)	0.7
Capex – additions	(216.4)	(197.7)	(18.7)
Capex – disposals	5.5	13.0	(7.5)
Operating cash flow	154.7	222.7	(68.0)
Interest	(44.4)	(43.9)	(0.5)
Tax	(44.5)	(35.0)	(9.5)
Disposal of available-for-sale investments	0.1	–	0.1
Free cash flow	65.9	143.8	(77.9)
Acquisitions/disposals	(32.0)	(7.9)	(24.1)
Foreign exchange translation and other items	0.7	18.6	(17.9)
Decrease in net debt	34.6	154.5	(119.9)
Closing net debt	(919.0)	(953.6)	34.6

<sup>1</sup> before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items

## Net debt and cash flow

Operating cash flow was £68.0 million lower than 2010 due to lower EBITDA and increased net capex, with working capital outflows being relatively flat (despite an £18 million adverse impact in Q1 relating to the phasing of Initial Facilities cash flows in 2010).

Total tax payments were £44.5 million compared with £35.0 million in 2010, with the increase attributable to the phasing of payments relating to prior year liabilities. Interest payments were £0.5 million higher than 2010 and the acquisition/disposal outflow of £32.0 million largely reflects the acquisitions of Santia Services, MSS and the remaining non-controlling interest in our catering business. Foreign exchange translation and other items increased cash flow by £0.7 million, leaving an overall inflow of £34.6 million and net debt of £919.0 million.

## Reorganisation costs and one-off items

References to adjusted operating profit and adjusted profit before tax also exclude reorganisation costs and one-off items, totalling a net cost of £38.0 million at constant exchange rates (CER), £38.2 million at actual exchange rates (AER) (2010: £25.1 million at CER and AER). £34.4 million (at CER, £34.6 million at AER) of these relate directly to the group's major reorganisation programme, including Programme Olympic, and consist mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties (2010: 27.9 million, at CER and AER). One-off items of £3.6 million (at CER and AER) include a provision of £4.8 million against our full financial exposure arising from the suspension of our Libyan pest control business, £4.0 million of acquisition costs, and credits of £3.9 million in respect of negative goodwill and £1.3 million relating to the release of prior year provisions. In 2010, one-off items of £2.8 million credit (at CER and AER) also included the profit or loss on the disposal of businesses, which totalled £3.0 million, a credit of £35.0 million in respect of a change in pension liabilities as a result of using CPI rather than RPI for calculating future pensions increases and a £29.2 million charge in respect of a claim under a lease guarantee given by a subsidiary following the disposal of a business some 20 years ago. These costs have been separately identified as they are not considered to be "business as usual" expenses and have a varying impact on different businesses and reporting periods.

## Intangible assets impairment

In accordance with the group's accounting policy, goodwill is tested for impairment annually using cash flow projections based on financial budgets and long-range plans. During the year impairment charges of £111.5 million of which £108.1 million related to City Link, have been recognised and charged to the income statement. Additionally, an impairment charge of £37.7 million has been recognised and charged to the income statement in respect of City Link customer lists and relationships.

## Funding

The group generated operating cash flows of £154.7 million in 2011 (2010: £222.7 million), representing 92% conversion from profit (after adjusting for one-off cash flows of £51.6 million).

Capex in 2011 was 103% of depreciation reflecting inflationary pressures, sales growth in Textiles & Hygiene and upweighted investment in systems to support Programme Olympic and improvements in customer care.

At 31 December 2011 the group had net debt of £919.0 million. Of this, £855.0 million is represented by capital market notes issued by the group and the earliest maturity of any of these instruments is 2013. In December 2011 the group entered into a new £270 million Revolving Credit Facility maturing in December 2016. The group has good headroom in its bank facilities in terms of funds available to withdraw and in relation to its interest cover and net debt covenants.

## Dividend

The board proposes a final dividend in respect of 2011 of 1.33p per ordinary share, payable to shareholders on the register at the close of business on 10 April 2012, to be paid on 15 May 2012. This equates to a full year dividend of 2p per share on a one third/two thirds interim/final basis. The board intends to pursue a progressive dividend policy going forward.

## Interest

Net interest payable of £44.6 million was £6.5 million lower than in 2010. Underlying interest (excluding pensions, mark to market and foreign exchange differences) was £48.6 million, compared to £51.2 million in the prior year, a reduction of £2.6 million, due to lower interest rates and net debt. Net interest payable included improvements of £3.1 million from pension income and £0.8 million resulting from mark to market and foreign exchange differences.

## Tax

The income tax expense for the year was £16.6 million on the reported loss before tax of £50.5 million. The principal reason for the high tax charge (when compared with the reported loss) is that there is no tax relief due on the goodwill impairment of £111.5 million. After adjusting for the goodwill impairment and amortisation of intangible assets, reorganisation costs and one-off items, the effective tax rate for the year is 24.9% (2010: 24.9%) of APBITA. This compares with a blended rate of tax for the countries in which the group operates of 29% (2010: 29%). The principal factor that caused the effective tax rate to be lower than the blended rate is the release of prior year provisions for tax no longer considered necessary as various issues were either settled or became statute barred in the year.



## IFRS 8

Segmental information has been presented in accordance with IFRS 8 “Operating Segments” which the group has implemented with effect from 1 January 2009. This statement reflects internal organisation changes made on 1 January 2011 with our Scandinavian and Iberian Textiles & Hygiene units and some small Pest units transferring from the Textiles & Hygiene division to the Pest Control division. Prior year comparisons have been restated.

## Financial risk management policies

Financial risk management policies are shown in note 21 on pages 89 to 92.

## Acquisitions

The group acquired businesses in the year for a net consideration of £26.5 million. Details of businesses acquired and revenue and operating profit therefrom are set out in note 29 to the accounts.

## Pensions

In the interim report Rentokil Initial plc announced it had reached a provisional agreement with the UK pension scheme trustees in relation to the 31 March 2010 triennial valuation of the company's UK pension scheme and its funding. Final agreement has now been reached with the trustees which assumes a funding deficit of £80 million at the valuation date and a funding arrangement by the company of £12.5 million per annum over an eight-year period commencing in January 2012.

## 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 on pages 63 to 70.

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## The Annual Report and Accounts for the year ended 31 December 2011 will be laid before shareholders at our Annual General Meeting on 1 May 2012.

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### Governance

The board has three primary functions: the provision of clear strategic leadership, the appointment and oversight of management and other issues of stewardship and to represent and listen to the views of shareholders. The highest standards of governance are critical to the board's objectivity and effectiveness in addressing these three pillars of its role. The board is also committed to operating the business in a responsible and sustainable manner. Our governance framework is integral to delivering our responsibilities to shareholders and to our colleagues as well as to those who come into contact with our activities.

The principal change to governance processes arising from the new UK Corporate Governance Code ("the Code") was our move to give shareholders the opportunity to re-elect directors annually. We adopted this principle at last year's annual general meeting ahead of the Code taking effect. Another governance development is the introduction of the UK Bribery Act in connection with which we have taken the opportunity to update our anti-corruption arrangements including a wide ranging programme of training and reinforcement. This is in addition to the introduction in 2010 of an updated code of conduct which articulates our fundamental business principles.

It is clear to me that the non-executive directors as a group and individually constructively challenge the executive team both at board and committee meetings as well as during the many exchanges which occur between formal meetings. Our board evaluation process gives me assurance that all non-executive members of the board retain their independence of judgement which underpins the culture of constructive challenge in the boardroom. In addition to constructive challenge the non-executive directors are also effective in bringing their wide experience to the boardroom for the benefit of the execution of business strategy.

The board is always mindful of its obligations to act in the best interests of shareholders and acts collectively with that paramount aim in mind. I believe that decisions are taken on good quality information and advice and only after a good level of discussion and debate and our board performance evaluation supports this view.

I am pleased that we have been successful in attracting Angela Seymour-Jackson to join the board and I am sure that her service industry experience, most recently as the chief executive of the RAC, will bring a welcome added dimension to the existing skills and experience of the board.

For both executive and non-executive directors, it is my responsibility that the board maintains the best possible balance of skills and therefore the process of achieving the optimum level of diversity will be carried out in that context.

I hope that the information contained in this corporate governance report and elsewhere in the annual report is helpful to shareholders' understanding of the challenges facing the company and of the way in which the company is managed and governed to meet these challenges.

**John McAdam**  
Chairman

## Corporate governance report

### Compliance with the UK Corporate Governance Code (“the Code”)

The board is committed to the highest standard of governance and believes that good governance emanates from an effective board which provides strong leadership representing protection for its shareholders. The board remains committed to maintaining high standards of business ethics and integrity across the group, recognising these to be vital to the long-term performance of the company.

As at the date of this report, for financial years beginning on or after 29 June 2010, the principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the Code which is published by the Financial Reporting Council and is available on its website at [www.frc.gov.uk](http://www.frc.gov.uk). The company’s governance report aims to provide shareholders with an understanding of how the company has applied the main principles and provisions of the Code. The board fully supports the Code and the direction in which it is taking the practice of good governance in the UK.

With the exception of the information in the following paragraph, the board considers that the company has, throughout the year ended 31 December 2011, complied with the relevant main principles and detailed provisions set out in sections A to E of the Code.

With reference to the Code principle B.1.1 the chairman, John McAdam, is not considered to be independent as a result of his participation in a one-off incentive arrangement approved by shareholders in 2008 in connection with the recruitment at that time of a new leadership team for the business.

## Leadership and effectiveness

### Board composition

We have a strong board which works hard to provide effective governance over the company. The board currently comprises the chairman, six independent non-executive directors and three executive directors. There have been no changes in the composition of the board during the year, with the last appointment being that of Jeremy Townsend as chief financial officer in August 2010.

The balance of the board both in terms of executive and non-executive roles and in respect of skills is a critical requirement. The board’s experience ranges across the UK, European and international services sector as well as in multi-national business leadership and the development and execution of strategy. The board collectively has a high level of experience of international finance, risk control, governance and market development. Information on the individual skills and experience of directors together with information on their board committee participation is set out on pages 26 and 27.

The board is keen to retain the current spread of talents at the present time but has initiated a process to address gender diversity at board level. On 24 February 2012 the appointment was announced of Angela Seymour-Jackson as a non-executive director from 5 March 2012.

### The role and activities of the board

The board is organised both in depth of experience and skills to discharge its primary duty to promote the success of the company while exercising independent judgement, care and diligence. The board is responsible for the group’s risk management approach including evaluating and reviewing the overall level of risk that is inherent in its strategy and for the execution of that strategy. The board held nine meetings in 2011 and in addition held a two-day meeting to review and update the group’s strategic plan.

The principal matters specifically reserved for the board's approval are:

- development of the group's objectives and strategy and annual operating plan
- strategic direction of the company, including entry into material new businesses and markets or any decision to cease to operate a material part of the group's business
- determining the significant risks the company is willing to take in determining its strategic objectives
- review of the group's risk management approach and risks register
- approval of interim and full year financial statements and trading updates
- consideration and approval of dividend policy
- approval of any significant change in accounting policies or practices
- the remuneration of the company's auditors (where, as is usual, shareholders have delegated this power to the board) and recommendations for appointment or removal of such auditors
- conduct of all matters requiring the issue of circulars to shareholders and listing particulars
- changes to the company's share capital structure and the issue of any securities
- changes to the company's organisation at the level immediately below the chief executive
- terms and conditions of employment (including salaries, pensions and other benefits) at the level immediately below the chief executive
- introduction of or major changes in long-term incentive schemes (which involve the issue of equity) and the allocation of share-based long-term incentive awards

At its meetings during the year the board discharged its responsibilities as listed above and a wide range of topics were reviewed by the board including:

- the group's health and safety performance, actions underway to improve performance and analysis of the more material matters that occurred during the year, further information on which can be found in the corporate responsibility section of this report
- strategy and strategic options were considered at a two day review in November 2011 as well as periodically at other meetings
- approval of the 2011 annual operating plan, monitoring performance against the plan at group level and by division and consideration of a draft plan for 2012
- operational performance of each of the group's divisions to include operational issues, business turnarounds – principally the City Link business and earlier in the year the Benelux hygiene business
- opportunities to extend the group's operations through acquisition, principally relating to the pest control business. Details of transactions completed during the year are set out in the notes to the accounts
- capability and human resources including the appointment of a managing director and finance director for City Link and the appointment of a new group chief information officer
- succession planning for senior executive roles and a review of talent across the group including an added focus on the balance and diversity of applicants for roles in the organisation
- the annual colleague survey in which over 40,000 participated which showed further improvements in both colleague engagement and enablement, details of which are provided in the corporate responsibility report
- bank financing, tax and treasury management, including the refinancing of the group's revolving credit facility and letter of credit facility, details of which are provided in the financial review
- the 2010 preliminary results; interim results; quarterly updates and annual report and accounts
- board composition, independence, effectiveness, evaluation and performance
- corporate social responsibility and related reporting
- developments in corporate governance in line with board governance procedures and practices including a review of guidance issued by the Financial Reporting Council and a review of the board's governance procedures and practices

- directors' conflicts of interest register and the authorisation of a number of situational conflicts
- updates on material litigation issues
- investor relations activity including data on an investor day focusing on the pest control division
- the insurable risk profile and external insurance arrangements
- UK pension scheme valuation and funding, details on which are set out in the financial review
- a briefing by the leaders of each of the work streams involved in the Programme Olympic process change projects, progress under which is reported in the chairman/chief executive's statement and in the strategy update

In addition, the board also visited the Textiles & Hygiene business in the Netherlands to review both the turnaround of the performance of the Benelux businesses as well as other operational priorities for the division, as part of an ongoing programme through which the board visits operations in the UK and overseas.

The chairman, supported by the company secretary, ensures that the board is kept properly informed and that matters are given appropriate attention. Board papers and other information and resources are provided in sufficient time to allow directors to be properly briefed in advance of meetings.

## Board effectiveness

Prerequisites of an effective board are to have the correct mix of skills and experience in non-executive directors which are appropriate to the needs of the business to ensure that the performance of executive management is appropriately challenged and to ensure that there are adequate controls and risk management processes in place.

A performance review is carried out annually which covers the effectiveness of the board, its committees and its individual members. A full external review was conducted in 2010 and in 2011 a more targeted review was conducted that was also externally facilitated. The review concluded that the board is operating very effectively with its members providing the skills and experience the company requires. There was seen to be a high level of openness and support as well as rigorous challenge. A summary of the process is set out on page 29.

# Board of directors

**John McAdam (Age 63)**

Chairman



## Committee memberships

Chairman, Nominations committee

**Skills and experience** Joined Rentokil Initial as Chairman in May 2008 and prior to that had a successful executive career as Chief Executive of Imperial Chemical Industries plc ("ICI") from 2003 to 2008. Prior to joining ICI in 1997 he held a number of positions at Unilever, from 1974, within Birds Eye Walls, Quest International and Unichema International.

**Current external commitments and qualifications** Chairman of United Utilities Group plc and non-executive director of Rolls-Royce PLC, J Sainsbury plc and Sara Lee Corporation (USA). Graduated from Manchester University with a first class honours degree in chemical physics and, after completing his doctorate, was awarded a research fellowship.

**Alan Brown (Age 55)**

Chief Executive



## Committee memberships

None

**Skills and experience** Joined Rentokil Initial as Chief Executive in April 2008. Prior to this, he was Chief Financial Officer of ICI from 2005 to 2008. Before ICI, he spent 25 years at Unilever plc in various corporate, operational and finance roles in the Unilever group in the UK, Europe, Taiwan and China including Senior Vice President Finance, Unilever Food and Beverage Europe and latterly Executive Chairman, Unilever China.

**Current external commitments and relevant qualifications** A non-executive director of Intertek Group plc. Barrister and Chartered Management Accountant.

**Peter Bamford (Age 57)**

Non-Executive Director



## Committee memberships

Member, Audit committee

**Skills and experience** Joined Rentokil Initial as a non-executive director in July 2006.

He was one of the key architects of developing the global Vodafone brand as Chief Marketing Officer and director of Vodafone Group plc from 1998 to 2006. He brings extensive experience to the board over the developing marketing agenda for Rentokil Initial's brands. He also held senior executive roles at Vodafone, including Chief Executive of Northern Europe, Middle East and Africa operations and Chief Executive of Vodafone UK. Prior to this he held senior positions at Kingfisher plc and Tesco PLC and was a director of WH Smith PLC.

**Current external commitments and relevant qualifications** Chairman of SuperGroup plc, Chairman of MCPC-PRS Alliance Ltd (known as PRS Music) and of Six Degrees Technology Group Ltd.

**Richard Burrows (Age 66)**

Non-Executive Director



## Committee memberships

Member, Remuneration committee

**Skills and experience** Joined Rentokil Initial as a non-executive director in January 2008. Significant international business experience ranging from leading successful manufacturing and service businesses in the drinks industry to banking and financial services roles. Formerly Governor of the Bank of Ireland, joint Chief Executive (and latterly a non-executive director) of Pernod Ricard SA (France), Chairman and Chief Executive of Irish Distillers and a director of CityJet Ltd (Ireland) and Mey İçki (Turkey).

**Current external commitments and relevant qualifications** Chairman of British American Tobacco plc and Voicesage Global Holdings Ltd. Non-executive director of Carlsberg A/S (Denmark). Mr Burrows is a graduate of Wesley College, Dublin (Ireland). A Chartered Accountant.

**Alan Giles (Age 57)**

Non-Executive Director



## Committee memberships

Chairman, Remuneration committee (from 2012) Member, Nominations committee

**Skills and experience** Joined Rentokil Initial as a non-executive director in May 2006. He has extensive commercial and strategic service industry experience, having led two major retail brand businesses through significant periods of change. Formerly Chief Executive of HMV Group plc, Managing Director of Waterstones, a director of WH Smith PLC, and a non-executive director of Somerfield plc and Wilson Bowden plc.

**Current external commitments and relevant qualifications** Chairman of Fat Face Group Ltd, a director of the Office of Fair Trading and Book Tokens Ltd. Associate Fellow at Oxford University's Said Business School. Honorary visiting professor at Cass Business School.

**Peter Long (Age 59)**

Non-Executive Director



## Committee memberships

Senior independent director Member, Remuneration committee Member, Nominations committee

**Skills and experience** Joined Rentokil Initial as a non-executive director in October 2002. Serving chief executive of a global service business, TUI Travel plc, with over 50,000 employees and two global brands. Led the creation of the TUI Travel Group executing a successful strategy of industry consolidation and organic growth with a focus on differentiated service offerings. Previously held positions as non-executive director of Debenhams plc and RAC plc and Chief Executive of Sunworld Ltd.

**Current external commitments and relevant qualifications** Chief Executive of TUI Travel PLC. A Chartered Management Accountant.

**Andy Ransom (Age 48)**

Executive Director



## Committee memberships

None

**Skills and experience** Joined Rentokil Initial as an executive director in May 2008. Responsible for the Pest Control and Ambius divisions and the group legal and M&A function. He was responsible for Rentokil Initial's Asia-Pacific businesses in 2008/09. 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. He served as the Executive Vice President of Mergers and Acquisitions, General Counsel and Company Secretary and was responsible for a number of group functions.

**Current external commitments and relevant qualifications** No other appointments. Mr Ransom is a graduate of the University of Southampton. A Solicitor.

**William Rucker (Age 48)**

Non-Executive Director



## Committee memberships

Member, Audit committee

**Skills and experience** Joined Rentokil Initial as a non-executive director in February 2008. A leading UK corporate financier, bringing to the board a contemporary financial market perspective as well as bringing added expertise over company financing from his role as Chief Executive of Lazard & Co. Ltd. He joined Lazard in 1987 from Arthur Andersen.

**Current external commitments and relevant qualifications** Chief Executive of Lazard & Co. Ltd in the UK, Deputy Chairman of Lazard LLC. Chairman of Quintain Estates and Development plc and Chairman of Crest Nicholson Holdings Ltd. A Chartered Accountant.

**Duncan Tatton-Brown (Age 46)**  
Non-Executive Director



**Committee memberships**

Chairman, Audit committee  
Member, Nominations committee  
**Skills and experience** Joined Rentokil Initial as a non-executive director in July 2005. As a recently serving chief financial officer, he brings current and relevant experience of the financial management of large complex international service businesses having served most recently as Chief Financial Officer of Fitness First Group Ltd and prior to that Group Finance Director of Kingfisher plc, Finance Director of B&Q plc and Chief Financial Officer of Virgin Entertainment Group.

**Current external commitments and relevant qualifications** No other appointments. Chartered Management Accountant.

**Jeremy Townsend (Age 48)**  
Chief Financial Officer



**Committee memberships** None

**Skills and experience** Joined Rentokil Initial as Chief Financial Officer in August 2010. Formerly Finance Director of Mitchells & Butlers plc, having been previously an executive at J Sainsbury plc where he held various finance roles including Group Financial Controller, Corporate Finance Director and Strategy Director. Prior to Sainsbury's, he was employed by Ernst & Young, working in audit and corporate finance.

**Current external commitments and relevant qualifications** Graduated from Manchester University with a first class honours degree in Management Science. A Chartered Accountant.

**Paul Griffiths (Age 59)**  
Company Secretary

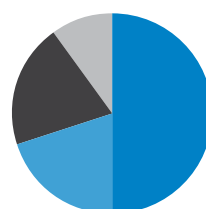
**Relevant qualifications**  
Chartered Secretary

Angela Seymour-Jackson will join the board on 5 March 2012 and will be proposed for re-appointment at the annual general meeting; her biographical information is set out in the notice of annual general meeting. On appointment she will join the remuneration committee.

**Number of years appointed**

Jeremy Townsend	2
John McAdam	4
Andrew Ransom	4
Alan Brown	4
William Rucker	4
Richard Burrows	4
Peter Bamford	5
Alan Giles	5
Duncan Tatton-Brown	7
Peter Long	9

**Director qualifications**



● 50% Finance  
● 20% Science  
● 20% Legal  
● 10% Engineering



## The chairman, chief executive and senior independent director

The chairman and chief executive have separate roles and responsibilities and these are set out in the board governance manual which is reviewed by the board annually.

The chairman, John McAdam, is responsible for the leadership of the board and its governance including the encouragement of active debate and ensuring that each director has the opportunity to contribute fully and ensuring that all appropriate business is brought to the board for discussion and decision.

### John McAdam's duties

- Managing the board
- Timely information to directors
- Setting the agenda and managing the board's time
- Communication with shareholders
- Director induction, training and development
- Board succession
- Performance evaluation

The chief executive, Alan Brown, is responsible for the day-to-day management of the company and for the execution of strategy as approved by the board. Executive directors, divisional managing directors and other key corporate executives report direct to the chief executive.

### Alan Brown's duties

- Recommending strategy and strategic priorities
- Managing agreed strategies and strategic priorities
- Operational and financial performance
- With the chief financial officer, explain performance to shareholders
- Executive management capability and development

### Peter Long

The senior independent director is responsible for leading the non-executive directors' annual review of the chairman's performance as well as acting as a sounding board for the chairman. He is available to shareholders in the event that they wish to discuss governance matters with someone other than the chairman, the chief executive or the chief financial officer.

## Board committees

In order to operate effectively and to give the appropriate level of attention to the range of matters required to be addressed by the board, tasks have been delegated to committees. The terms of reference for the main committees are available from the company's website at [www.rentokil-initial.com](http://www.rentokil-initial.com) or from

the company secretary. A summary of the main committees' membership and activities is shown at the head of each committee report.

Agendas, papers and minutes of committee meetings are generally provided to all board members. Chairmen of committees update the board following each committee meeting. The nominations committee is chaired by John McAdam who, while not an independent director, is considered by the board to be the appropriate person to chair the board's nominations committee.

In addition to the principal board committees (audit, remuneration and nominations) the board operates a number of ad hoc committees. The main ad hoc committee is the finance committee which comprises the chairman, the chief executive, the chief financial officer and three non-executive directors with relevant financial experience. This committee reviews matters concerning company financing and group treasury policy and makes recommendations to the board on financing matters.

## Director attendance

The attendance of directors at board and committee meetings during 2011 is shown in the following table.

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

## Board appointments, diversity, induction and development

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. As mentioned in the chairman's introduction, diversity considerations are among the important factors considered by the nominations committee and the board when contemplating the future composition of the board. Appointments to the board are made on the recommendation of the nominations committee and following a rigorous selection process.

There have been no changes to the board in the year under review but the company has an established process coordinated by the group HR director for ensuring that appointment processes to executive and non-executive positions include appropriate

training and induction, including spending time in the company's operations. The company is mindful that ongoing training for executive directors and non-executive directors must be targeted to specific needs. Where appropriate, directors participate in peer group discussion forums and seminars related to the commercial environment, for example relating to executive remuneration, financial reporting or risk management.

In response to the recommendations of the Davies Review on Women in boards published in 2011, the company published a formal statement indicating the board's aspiration to have a minimum of two female representatives on the board by 2015. As reported elsewhere, Angela Seymour-Jackson will join the board as a non-executive director on 5 March 2012.

## Succession planning

The board has considered executive and non-executive succession during the year. The executive management team under the chief executive has been strengthened significantly over the last three years and now provides a strong pool of talent for the future development of the group. There is no impending planned succession requirement for executive management at board level but nevertheless the board has considered its contingency plans in the event of unplanned circumstances as well as the longer term development potential of the executive team.

With the exception of the requirement to address the lack of diversity on the board, the board considers that there is significant merit in retaining the board's current balance of talents and experience although succession issues are kept regularly under review.

## Board performance evaluation

The board performance evaluation involved an external independent facilitator engaging with the chairman and company secretary to set the context for the evaluation. Respondents completed online questionnaires addressing the performance of the board, committees, chairman and individuals. The anonymity of all respondents was ensured in order to promote an open and frank exchange of views. The review addressed the following issues:

- board composition, expertise and dynamics
- board support, time management and board committees
- strategic, operational and risk oversight
- succession planning and human resources
- priorities for change

The board considered the output from the review at a meeting earlier this year. The findings indicated that the board and individual director performance were effective.

Board composition and dynamics were highly rated, subject to bringing about greater diversity which was in progress. Information provided to the board was highly rated as was strategic and operational oversight. Risk oversight was considered to have shown continued improvement. The continued focus on securing the operational performance of the City Link business was regarded as the key priority for 2012. The board and committees also agreed a number of practical enhancements to regular meeting content.

## Director re-election

Biographical information on the current directors is shown on pages 26 and 27 and in the notes accompanying the notice of the annual general meeting. Membership of the board has not changed during the year. Angela Seymour-Jackson has been appointed a director with effect from 5 March 2012 and will submit herself for re-appointment at the annual general meeting.

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

In line with the provisions of the Code, all members of the board will submit themselves for re-election or re-appointment at the annual general meeting in 2012. Service contracts and letters of appointment for all directors are available for inspection at the registered office and will be available at the annual general meeting on 1 May 2012. A pro-forma of non-executive directors' letters of appointment is available on the company's website.

## Non-executive director independence

The continuing independence of non-executive directors is critical to their ongoing effectiveness over challenging executive management. The independence of directors is reviewed as part of the individual director performance evaluation process.

The chairman, John McAdam, who joined the board in 2008, is not classified as independent because he participates in a long-term incentive plan approved by shareholders at the time of his appointment.

All other non-executive directors have been determined by the board to be independent, having retained their independence of character and judgement, including Peter Long who has served as a director for more than nine years. In making this determination the board has taken into account indicators of potential non-independence as set out in the Code. No director took part in the board's consideration of their own independence.

## Conflicts of interest procedure

The company has a procedure in place to deal with the situation where a director has a conflict of interest and as part of the process the board considers each potential conflict situation on its particular merits. The board maintains a register of authorisations granted and the scope of any approvals given. These potential conflicts are not material either to the company or, the directors believe, to the other companies that are the subject of the potential conflict. The register of authorised conflicts is reviewed by the board periodically. All of the approvals given have been situational and no circumstances of transactional conflicts have occurred.

The process for authorising potential conflicts is reviewed by the nominations committee annually.

## Risk management and control statement

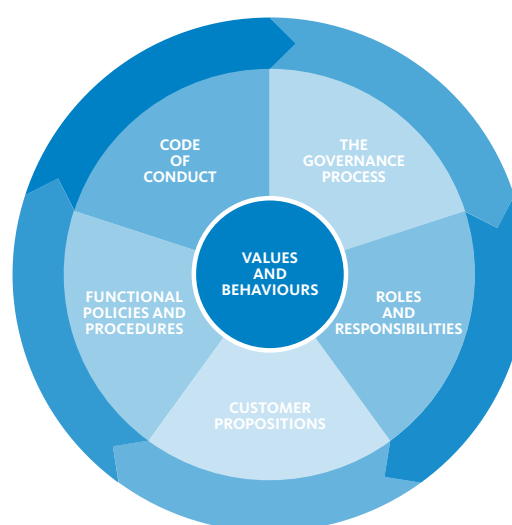
The board is ultimately responsible for maintaining sound systems of risk management and internal control and for reviewing their effectiveness. The audit committee assists the board in meeting its obligations in these areas. The board reviews the strategic risks facing the group and mitigating actions as part of its annual review of strategy and operational risks. The board gains its confidence over the effectiveness of control processes through regular and transparent management reporting, through the governance processes of the group and from the external and internal assurance processes the output of which is reported to the audit committee and available to the board. Through its monitoring and control processes, the board has conducted a review of the effectiveness of the system of internal control during the year ended 31 December 2011. 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 company's approach to managing risk and ensuring an adequate internal control environment is in place and maintained is provided on pages 15 to 18. The process has been in place from the start of 2011 to the date of approval of this report and has been reviewed by the board. It accords with the Guidance for Directors on the Combined Code (the Turnbull Guidance). The effectiveness of the system of internal controls, including processes in relation to financial reporting and the preparation of the financial statements, has been reviewed by the audit committee. Details are provided in the report of the audit committee on pages 34 to 36.

## Governance across the group

The combination of our shared values, a good governance process, clear roles and responsibilities and accountability, the principles set out in the group's code of conduct and the group's policies and procedures form the operating framework within which all colleagues are expected to work.

### Operating framework



## Company executive board

The chief executive chairs the company executive board comprising the heads of the group's operating divisions and of the finance, human resources and information services functions. They meet regularly to review performance, priorities and operational actions. Biographical information on executive directors, Alan Brown, Jeremy Townsend and Andy Ransom is provided on pages 26 to 27 and information on other members of the company executive board is shown in the table opposite.

## Company executive board



### 1. Xuemei Bennink-Bai (Age 45)

Group Marketing and Innovation Director and responsible for operations in Asia

**Skills and experience** Appointed in October 2009, initially for operations in the Asia and Pacific regions. 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, business development, project management and research in China, Vietnam, the Netherlands and the UK. **Current external commitments and relevant qualifications** No external commitments. PhD in Engineering from Cambridge University and BSc in Engineering from Huazhong University of Science and Technology, China.

### 4. Martin Sawkins (Age 56)

Group HR Director

**Skills and experience** Appointed in November 2008. Previously held positions as Group HR Director at HomeServe plc; Group HR Director at The AA Ltd and HR Director at Centrica Home and Road Services. Prior to this held a number of senior positions in HR and operations at British Aerospace and United Biscuits. **Current external commitments and relevant qualifications** No external commitments. BSc (Hons) in Physics from Southampton University.

### 2. David Smith (Age 47)

Divisional Managing Director, City Link

**Skills and experience** Appointed in December 2011. Previously at the Royal Mail Group since 2002. From the end of 2010 he was a member of the Holdings Board where he served as Chief Customer Officer for Royal Mail Group responsible for the commercial direction of the UK Letters, Parcels and International Business, and driving an agenda of customer centricity. Previous roles include Managing Director of Post Office Ltd and Managing Director of Parcelforce. He also held senior roles at RS Components UK Ltd. **Current external commitments and relevant qualifications** No external commitments. A Chartered Accountant.

### 5. Peter Slator (Age 51)

Divisional Managing Director, Textiles & Hygiene Services with responsibility for operations in the Pacific

**Skills and experience** Appointed in April 2009. Previously worked for 28 years with Unilever, having been Executive Chairman in Australasia and prior to that the Group Head of IT and before that Managing Director of the Foods business in Japan. **Current external commitments and relevant qualifications** Board member of the European Textile Services Association. BSc (Hons) in Physics from Imperial College, London.

### 3. Chris Broe (Age 50)

Chief Information Officer

**Skills and experience** Appointed in August 2011. He joined Rentokil Initial in June 2010 initially as Programme Director before quickly assuming responsibility as Textiles & Hygiene Divisional IT Director. Prior to this he held a number of positions at Unilever, most notably as Vice President, Global Application Services and CIO, Europe. **Current external commitments and relevant qualifications** No external commitments. BA(Hons) in Business Studies and a postgraduate of Warwick Business School.

### 6. Mike Brown (Age 55)

Divisional Managing Director, Initial Facilities

**Skills and experience** Appointed in September 2010. Formerly Group Director of Operations and prior to that CEO of Integrated Services at Serco Group plc. His previous career was with BOC Group, holding managing director positions in Europe, China and South East Asia. He also worked for Nestlé Ltd and GKN. **Current external commitments and relevant qualifications** A non-executive director of N G Bailey Ltd. A Chartered Accountant.



### 7. Alan Brown (Age 55)

Chief Executive  
Please see page 26.

### 8. Jeremy Townsend (Age 48)

Chief Financial Officer  
Please see page 27.

### 9. Andy Ransom (Age 48)

Executive Director  
Please see page 26.

The chief executive and chief financial officer lead monthly and quarterly business performance reviews with business unit management teams. The group's change programmes are monitored by a programme board chaired by the chief executive. The HR, finance and IT functions each has a governance structure that oversees the performance of the functions and the delivery of functional change programmes to drive capability improvements.

The company's disclosure committee assists the chief executive and the chief financial officer in fulfilling the board's responsibility for the accuracy and timeliness of the disclosures made by the company whether in connection with its financial reporting obligations or on other matters.

The company's risk committee, chaired by the chief financial officer, has oversight of the group's risk and control function and reviews the risks the group is facing and the effectiveness of the internal controls.

The governance process in the business units comprises the application of group and local policies and procedures, management oversight, the analysis and management of risk, all underpinned by the group's values and behaviours. The operating framework, illustrated on page 30, is designed to ensure that decisions are taken at the right time by colleagues with appropriate authority, after considering all relevant factors from commercial to reputational. The group operates through locally constituted and governed legal entities in some 60 countries. Corporate entities are managed in compliance with local law and regulation and under principles set out in the group's code of conduct.

## Corporate responsibility

The chief executive has board responsibility for all corporate responsibility matters which are reviewed at least annually by the board and by the company executive board. A summary of the group's corporate responsibility performance is set out on pages 52 to 56 and more fully in the group's web-based corporate responsibility report which can be found at [www.rentokil-initial.com/corporate-responsibility/introduction](http://www.rentokil-initial.com/corporate-responsibility/introduction)

## Relations with shareholders

### Engagement

The company places great importance on communications with shareholders, including with employee shareholders. The chairman, chief executive and chief financial officer make themselves available to shareholders at all appropriate times. The company has a regular dialogue with institutional shareholders through one-to-one and group meetings, formal investor and analyst conference calls as well as ad hoc communications, where appropriate.

Formal presentations are held after full year and half year results, to which investors and sell and buy side analysts are invited. These presentations are web-cast and any investor is able to hear the presentation and related questions and answers via the company's website. Accompanying slide presentations are hosted on the company's website as are recordings of meetings. Conference calls for investors and analysts are hosted after the first and third quarter trading updates, with typical levels of participation in excess of 80 shareholders and analysts. Investor roadshows are conducted after full year and interim results, involving extensive investor meetings on each occasion. The chairman and the senior independent director are available to attend meetings with investors, as required. The company also provides opportunities for private client investor presentations across the UK.

The company reviews and provides to the board material issued by shareholder representative groups to ensure that shareholders views and preferences are taken into account.

The company sees the annual general meeting as an important opportunity for all shareholders to engage with the board over performance and other matters on the agenda for the meeting and encourages both private and institutional shareholders to attend.

During 2011 the company held an "Investor Day" for shareholders and the investment community giving an in depth review of activities of the pest control business.

The board is briefed on the company's investor relations programme through a comprehensive quarterly report from the head of investor relations (who is responsible for day-to-day communications with shareholders and the financial community) as well as by periodic updates from the chief executive and the chief financial officer. In addition, published broker reports are provided to the board. The company's financial and investor relations advisers also maintain a regular dialogue with major shareholders and reports are provided to the board on investors' views on key issues and management performance following major investor presentations of results.

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 and did so in April 2010.



The company's annual report and other investor presentation material is available to all shareholders via the company's website at [www.rentokil-initial.com](http://www.rentokil-initial.com)

## Substantial interests in shares and share capital

The company's share capital during the year consisted of ordinary shares of 1p each. There were 1,814,831,011 shares in issue throughout the year. Each ordinary share (other than treasury shares, which have no voting rights) carries the right to vote at a general meeting of the company. At any general meeting, a resolution put to the vote of the meeting shall be decided on a show of hands unless a poll is duly demanded. On a show of hands, every member who is present in person or by proxy at a general meeting of the company shall have one vote. On a poll, every member who is present in person or by proxy shall have one vote for every share of which they are a holder.

The company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements which may at a subsequent date result in a change in control of the company. As at 1 March 2012 the shareholders shown below had indicated that they were interested in 3% or more of the company's issued share capital and were not subject to the 5% disclosure exemption under the Disclosure and Transparency Directive. No other interests have been disclosed to the company in accordance with Disclosure and Listing Rule 5 either during the year or as at 1 March 2012. There were no movements in the company's ordinary shares during the period.

Authority for the company to make purchases of its own shares of up to 181,483,101 was obtained at the annual general meeting on 14 May 2011. No purchases of its shares were made by the company during 2011. The authority is normally renewable annually and approval will be sought from shareholders at the 2012 annual general meeting to renew the authority for a further year.

Substantial shareholding	%	No. of ordinary shares	Nature of holding
Invesco Ltd	20.01	363,180,841	Direct
Schroders plc	12.01	218,055,571	Indirect
Orbis Holdings Ltd	9.02	163,665,262	Indirect
Aviva plc (and subsidiaries)	6.66	120,863,049	Direct
Société Générale SA	4.81	87,287,805	Direct
Ameriprise Financial Inc	5.00	90,790,221	Indirect
Blackrock Inc	4.96	90,090,116	Indirect
AXA SA	4.80	87,093,421	Indirect
Legal and General Group plc	3.99	72,494,739	Indirect

## Annual general meeting

The annual general meeting of the company will be held at the Hilton, (Ascot Suite), Gatwick Airport, South Terminal, Crawley, West Sussex, RH6 0LL on 1 May 2012 at 12 noon.

In addition to the adoption of the 2011 report and accounts, the declaration of a final dividend, resolutions dealing with re-election and re-appointment 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 re-purchase 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. Both documents can be found on the company's website, [www.rentokil-initial.com](http://www.rentokil-initial.com)

## Shareholder information

A summary of useful information for investors can be found on pages 111 and 112.

The company's website also contains detailed information on the company's operations and the website investor centre contains a full range of information on results and past publications, press releases and analyst presentation material. It also contains other information to help shareholders manage their holdings such as change of address or change of name notifications, transfer of shares, lost share certificates, online and telephone share dealing facilities and how to receive your shareholder communications as well as including a link to the website of our share registrars, Capita Registrars.

## Audit committee report

### Membership

Duncan Tatton-Brown (Chairman)

Peter Bamford

William Rucker

### Role and focus

The aim of the committee is to ensure high standards of corporate controls, risk management, reporting and compliance to enhance the effectiveness of control processes and to reduce risk and provide independent monitoring and challenge to executive management.

### Other attendees

The chairman, chief executive, chief financial officer, external auditors, director of risk and audit, divisional finance directors (by rotation), company secretary and periodically: the group financial controller, the director of tax and other senior finance executives.

## Dear shareholder

In addition to the regular process of reviewing and approving a range of matters relating to financial reporting the committee has this year overseen further improvements in the structure of the control environment, achieved partly through improvements in capability in the organisation but also through improved clarity and structure around processes and procedures. The committee has also overseen an updating of the group's risk management and strategic risk assessment process. While the group's risk profile has not changed the improvements have brought greater robustness and clarity which have assisted the committee in discharging its responsibility to support the board in its assessment of the overall risk appetite of the group.

The committee also spent time looking closely at the control environment around change programmes underway in the group which, among other objectives, are designed to bring about over the next several years a further improvement in transactional accounting processes and related controls.

The following report describes the committee's responsibilities and key tasks in the year which I hope shareholders will find helpful.

### Duncan Tatton-Brown

Chairman, Audit committee

## Responsibilities

In accordance with its terms of reference, the committee, which reports its findings to the board, is authorised to:

- monitor the integrity of the annual and half-year results and interim management statements, including a review of the significant financial reporting judgements contained in them;
- review the company's internal financial controls and internal control and risk management systems;
- monitor and review the effectiveness of the company's internal audit function;
- establish and oversee the company's relationship with the external auditors, including the monitoring of their independence; and
- monitor matters raised pursuant to the company's whistleblowing arrangements

## Terms of reference

The terms of reference of the committee are available at [www.rentokil-initial.com](http://www.rentokil-initial.com) or from the company secretary.

The committee's terms of reference were reviewed by the committee during 2011 and a number of clarifications concerning Code of Conduct compliance oversight and the role of the group's risk committee have been approved by the board. The committee's terms of reference take full account of the Smith guidance on the role of audit committees.

## Governance

Committee members are independent non-executive directors. Duncan Tatton-Brown and William Rucker are considered by the board to have recent and relevant financial experience, details of which are set out on pages 26 and 27. The committee meets routinely four times a year and additionally when necessary and also meets the company's external auditors and internal risk and audit executives without executive directors present.

Membership and details of the number of meetings held and attendance at meetings during the year are shown on page 28 and during 2011 the committee met on six occasions.

During the year, the committee has met with the external auditors and the director of risk and audit without executives present. The committee did not find it necessary to seek external advice during the year, other than through its dialogue with the auditors.



## Activities

The committee discharged its responsibilities as listed above and, in particular dealt with the following matters:

### Financial reporting

- preliminary full year and interim results, including accounting issues and judgements and quarterly trading updates together with related reports from the company's auditors
- draft financial statements contained within the Annual Report 2010 and a report from the auditors on the statements
- liquidity risk and the basis for preparing the financial statements on a going concern basis
- planning for an improved timetable for statutory reporting to facilitate the issue of the preliminary announcement of full-year results for 2011 on an audited basis
- the group processes for disclosing information to the auditors and the statement concerning such disclosure in the annual report
- material litigation conducted by the company and its subsidiaries
- approval of the board statement on internal control practices, principal risks and uncertainties and the audit committee report within the 2010 annual report

### Risk management and internal control

- annual review of 2010 internal controls process; approach and effectiveness of internal controls together with the related disclosures in the annual report
- roadmap to further improve the control environment and assurance processes over the medium term
- the control environment in the Benelux Textiles & Hygiene business in relation to financial control issues which had occurred in the previous year
- long-term process improvements through Programme Olympic and the potential positive impact on the control environment in the long-term as well as short-term risks associated with execution
- a series of reports and reviews on the financial controls testing environment as well as initiatives to improve the processes for reviewing internal audit findings
- the implementation of procedures in relation to the Bribery Act 2010, the adoption of an anti-corruption policy together with related risk assessments and communication, training and support
- routine reports on control incidents occurring in the businesses and reported by internal audit
- in depth reviews of the control environment in the Initial Facilities and Asia Pacific divisions as part of a rolling programme of reporting by divisional finance directors to

gain an improved understanding in core control processes at business unit level

- a review of tax risk management and policy
- the group's treasury policies, including the management of related risk; including the bank refinancing of the revolving credit facility and letter of credit facility (reviewed in detail by the finance committee and by the board)
- an updating of the strategic risk identification process within the context of the wider internal control framework
- implementation of the group's new business continuity management process launched in 2010 and being embedded across the group during 2011 and 2012
- review of the group's confidential reporting processes (whistleblowing) together with data on incidents reported, none of which was material in the context either of an individual business or the group as a whole
- review of upcoming developments on risk including the FRC's paper on "boards and risk", which provided helpful insights into the issues facing boards over the oversight of risk, and its report on "effective company stewardship" containing proposals on future audit committee responsibilities in respect of the effectiveness of the internal control environment

### Internal audit

- changes to the staffing and structure of the internal audit function including the appointment of a director of risk and audit
- reports from the group's internal audit function on the work they have undertaken in reviewing the audit and control environment in order to assess the quality and effectiveness of the internal control system
- the internal audit plan for 2012, which had been structured to provide more thematic output for the committee's consideration focused on key risk areas

### Auditors

- the performance and effectiveness of the services provided by the external auditors, leading to the re-appointment of KPMG Audit Plc as the group's auditors; terms of engagement and rotation requirements of the lead audit partner
- the company's policy on the permitted engagement of the company's auditors for non-audit services (see following section)
- the approach and scope of the audit work to be undertaken by the auditors in 2011
- the fees paid to the auditors
- the level of fees paid to the auditors for non-audit services carried out by the auditors in conformity with the board's policy

## Non-audit services

The committee accepts that certain work of a non-audit nature is best undertaken by the external auditors. The committee reviews regularly the amount and nature of non-audit work performed by the auditors. The company's policy on non-audit services provides clear guidance on the categories of non-audit work which may and may not be undertaken by the auditors and describes the circumstances when consent from the committee is required. The policy does not set a ceiling on the level of work carried out by auditors by reference to audit fees earned as this would not take into account the judgments that need to be taken over the nature of the work to be done.

## Auditor re-appointment

The company's audit services were last subject to a tender process in 2009 at which time KPMG Audit Plc replaced PricewaterhouseCoopers LLP as the group's auditors. The company is satisfied with the performance of the auditors and has no immediate plans to undertake a further competitive tender for audit services. The lead audit partner is not yet due to be subject to rotation. Resolutions will put to shareholders at the annual general meeting over the reappointment of KPMG Audit Plc and the setting of their fees.

## Committee effectiveness

The committee conducted a review of its effectiveness using the services of an independent external facilitator. The review concluded that the committee had received sufficient, reliable and timely information from management to enable it to fulfil its responsibilities and highlighted some areas to improve the effectiveness of the committee's oversight of the control environment and associated assurance processes.

On behalf of the board,  
[Duncan Tatton-Brown](#)  
 Chairman, Audit committee  
 1 March 2012

## Nominations committee report

### Membership

John McAdam (Chairman)

Alan Giles

Peter Long (senior independent director)

Duncan Tatton-Brown

### Role and focus

The nominations committee assists the board by keeping its composition (size and structure) under review and for reviewing succession planning to executive roles from amongst the senior management population as well as to conduct a rigorous and transparent process when making or renewing appointments to the board. The committee's terms of reference make clear the duty on the committee to consider diversity issues when contemplating board appointments.

### Other attendees

The group HR director, company secretary.

## Dear shareholder

The nominations committee provides a focus for the key task of ensuring that there are proper plans in place to ensure that the board continues to comprise a group of individuals who work effectively together as a team and who possess the right mix of experience and talent to provide effective oversight and challenge to management.

The committee is satisfied that for the current phase in the company's strategic development there is merit in retaining on the board the existing range of skills, experience and particularly knowledge of the issues facing the group. The committee oversaw the process of identifying a non-executive director with relevant service sector experience resulting in the appointment of Angela Seymour-Jackson with effect from 5 March 2012. Issues of diversity along with executive succession and longer term board balance will be key areas for the committee in 2012.

[John McAdam](#)

Chairman, Nominations committee

## Responsibilities

- review the structure, size, composition diversity and balance of the board and its principal committees and make recommendations to the board with regard to any adjustments that are deemed necessary
- evaluate the balance of skills, knowledge and experience on the board and in the light of such evaluation, prepare a description of the roles and capabilities required for a particular appointment and identify and nominate for the approval of the board, candidates to fill board vacancies
- planning for orderly succession of directors to the board
- review the policies and procedures which the board has in place for monitoring and authorising actual or potential conflict situations and make recommendations to the board with regard to any adjustments that are deemed necessary

## Activities

The committee discharged its responsibilities as listed above and in particular it reviewed:

- re-election of directors at the annual general meeting; including consideration of the independence and performance of each director seeking re-election
- succession planning for non-executive directors which concluded that there was considerable merit in maintaining the existing balance of experience, skills and knowledge in the board during 2012
- the chairmanship of board committees leading to the recommendation to the board that Alan Giles take on the chairmanship of the remuneration committee in succession to Peter Long with effect from 1 January 2012
- executive director succession planning both in respect of unexpected events and in the longer term, as well as reviewing potential capability gaps and weaknesses. The committee took input from the chief executive as part of the process
- the process leading to the appointment of Angela Seymour-Jackson, on 5 March 2012 having conducted a rigorous selection process utilising the services of a leading executive recruitment firm
- policies and procedures adopted by the board for monitoring and authorising transactional and situational conflicts of interest as well as current authorisations
- findings of the external facilitator on the evaluation of the committee's effectiveness

The committee was provided with material considered by the board as a whole in relation to plans and processes aimed at ensuring that the company has senior executive resources with the necessary skills and experience to meet the company's future needs, with a particular interest in long-term succession planning for roles on the company executive board and ultimately executive director roles.

## Committee effectiveness

The committee has conducted a review of how it operates which concluded that the committee operates effectively. In 2012 the committee will have a continued focus on executive management succession as well as on continuing to address the diversity of board membership and to review board balance.

On behalf of the board,  
[John McAdam](#)  
 Chairman, Nominations committee

## Other statutory disclosures

### Directors' report

The directors submit to the members their annual report and accounts for the year ended 31 December 2011. In accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing and Disclosure and Transparency Rules, the Governance report set out on pages 22 to 51 comprises the directors' report, together with other sections relating to principal activities and business review listed below which are incorporated into this report by reference.

#### Principal activities

Rentokil Initial plc is the holding company of a group which through its operating businesses in some 60 countries provides a range of principally business to business support services. A summary description of the group's principal activities is given on the inside front cover and the principal subsidiary undertakings and joint ventures of the company are shown on page 102.

#### Business review

The directors' report includes a description of the company's current business model providing an explanation of the basis on which the group generates value over the long-term and strategy for delivering its objectives. The information that fulfils the business review requirements can be found in the following sections:

- Statement by the chairman and chief executive pages 1 to 2
- Progress on key objectives pages 2 to 4
- Strategy update pages 6 to 7
- Business overview on pages 8 to 9
- Business review on pages 10 to 14
- Risks and uncertainties on pages 15 to 18
- Financial review on pages 19 to 21
- Financial risks in note 21 on pages 89 to 92

### Results and dividends

The adjusted operating profit for the financial year ended 31 December 2011 was £224.7 million (2010: £239.3 million). The directors recommend payment of a final dividend in respect of the year to 31 December 2011 of 1.33p per ordinary share, which subject to approval at the annual general meeting on 1 May 2012, will be paid on 15 May 2012 to shareholders on the register on 10 April 2012.

### Articles of association

The articles of association set up the internal regulations of the company and cover such matters as the rights of shareholders and the conduct of the board and general meetings.

Under the articles, the directors are 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 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 of shares are also included in the articles of association and such authorities are renewed by shareholders each year at the annual general meeting. The articles do not contain special control rights or restrictions on transfer or limitations on the holding of ordinary shares and no requirements for the prior approval of any transfers. No person holds securities in the company carrying special rights with regard to control of the company. The company is not aware of any agreements between holders of securities that may result in restrictions on the transfer of securities or on voting rights.

The articles of association also give power to the board to appoint and replace 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 although directors now submit themselves for re-election annually. The articles themselves may be amended by special resolution of the shareholders.

In accordance with the articles of association directors can be appointed or removed by the board or shareholders in general meeting. Amendments to the articles of association have to be approved by at least 75% of those voting in person or by proxy at the general meeting. Subject to company law and the articles of association the directors may exercise all the powers of the company and may delegate authority to committees and day-to-day management and decision-making to individual executive directors. Copies of the articles of association are available upon request and are displayed on the company's website at [www.rentokil-initial.com](http://www.rentokil-initial.com)

### Auditors' independence and objectivity

In accordance with section 489 of the Companies Act 2006, a resolution to re-appoint KPMG Audit Plc as auditors of the company and to authorise the directors to determine their remuneration will be proposed at the forthcoming annual general meeting.

In concluding that KPMG Audit Plc should be reappointed as auditors at the 2012 annual general meeting, the board and the audit committee took into account the need to ensure that auditor independence was safeguarded. The committee also took into account the review undertaken of the effectiveness of the audit process as well as input from executive management.

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. The amount of non-audit fees earned by the auditors is routinely reported to the committee. The board does not consider that there is any material risk of the company's auditors withdrawing from the market.

Further information on auditor independence is provided in the report of the audit committee.

## Accountability and audit

The board is required by the Code to present a balanced and understandable assessment of the company's position and prospects. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the financial statements set out on page 41.

The independent auditor's report on page 110 includes a statement by the auditors about their reporting responsibilities. The board recognises that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports, reports to regulators, and information required to be presented by law.

## Audit information

Insofar as each of the directors are 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 director has taken all of the steps that should have been taken to ensure that they are each aware of any relevant audit information (as defined) and to establish that the company's auditors are aware of that information.

## Directors' indemnity and insurance

The company has granted indemnities in favour of its directors as is permitted by Section 232-235 of the Companies Act 2006. 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 criminal activity.

## Change of control provisions

There are a number of 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.

## Charitable donations, communities and political donations

The company's approach to the community consists of three separate elements – charitable cash donations (mainly linked to employees' initiatives), community support and community investment. Community support and investment is locally rather than centrally driven.

Donations for UK charitable purposes in 2011 amounted to £58,000 and a further £77,000 was donated in other countries. Total charitable donations amounted to £135,000 (2010: £130,000). This amount excludes value in kind donations or colleagues' time. The company operates a matched giving scheme whereby the company matches donations raised by employee fundraising. No company donation was greater than £2,000. Payments are made to a wide range of charitable organisations both in the UK and overseas.

There were no payments to political organisations during 2011 (2010: nil).

Further details of charity and community involvement are provided in the corporate responsibility section on pages 52 to 56.

## 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 which was refreshed in 2010 is used to announce company news with the support of direct email communication from the executive team. This is supplemented by a periodic electronic magazine called "Horizon" 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. The company maintains an open dialogue with the Forum at times of business change. Divisional communications use a wide range of channels such as email, 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.

## Going concern

The directors, having made enquiries consider that the company has adequate resources to continue in operational existence for the foreseeable future and therefore consider it appropriate to maintain the going concern basis in preparing the financial statements.

The group signed a new five year revolving credit facility (RCF) in December 2011 and has no bond maturities in the 12 months from 1 March 2012. At 31 December 2011 and 1 March 2012, headroom on the RCF, the group's principal source of day-to-day liquidity, was £180 million.

The group's practice is to forecast a year-end position three years forward and to prepare a monthly budget in advance of each financial year. The expected full-year outcome in terms of profit and cash every month and current and prospective performance is reviewed formally with each of the group's divisions monthly and forecasts are updated accordingly.

The group's RCF contains two financial covenants requiring 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) and net debt to be no more than 3x EBITDA. The covenant is tested on 30 June and 31 December. At 31 December the group had good headroom on both measures, with an interest cover ratio of 9.3x and a net debt ratio of 2.1x representing EBITDA headroom of £168 million or debt headroom of £584 million.

The directors considered a base case using the above forecasts and sensitivity analysis including a downside scenario to ensure that headroom and covenants would not be breached.

It was considered that in the event that cash flows from trading, acquisitions or disposals were significantly below expectations, operating capital expenditure, or bolt-on acquisitions could be reduced to protect headroom on the RCF.

On the basis of the available headroom provided by the RCF, projected cash flows and the levels of discretion available to management to manage cash flow, the directors continue to adopt the going concern basis in preparing the accounts.

Full details of the group's net debt and borrowing facilities are set out in notes 20, 21 and 27 to the financial statement.

## 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. The company is a signatory to the UK "Prompt Payment Code". At 31 December 2011 the trade creditors of the group represented 57 days of annual purchases and the UK businesses' trade creditors represented 49 days of purchases; UK trade debtors represented 31 days of turnover. During the year the parent company did not have any trade creditors.

## Post balance sheet events

Please refer to note 34 to the accounts on page 101.

## Related party transactions

Other than in respect of arrangements relating to the employment of directors, details of which are provided in the remuneration report or as set out in note 33 on page 101, there is no material indebtedness owed to or by the company to any employee or any other person considered to be a related party.

## 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 2011 was £2.0 million (2010: £1.9 million).

## Key contracts

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

## Key performance indicators

As a means of helping shareholders assess the success and impacts of our strategies, the company uses non-financial performance indicators, which are shown in the table on page 5.



## Statement of directors' responsibilities (in respect of the annual report and the financial statements)

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

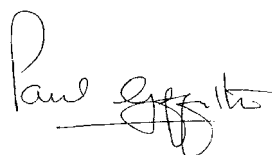
safeguard the assets of the group and to prevent and detect fraud and other irregularities.

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 name and functions are set out on pages 26 to 27, confirms that, to the best of their knowledge:

- (a) 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
- (b) the directors' report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

On behalf of the board,



**Paul Griffiths**  
Company Secretary  
1 March 2012

Registered office:  
2 City Place  
Beehive Ring Road  
Gatwick Airport  
West Sussex  
RH6 0HA

Registered in England and Wales No. 5393279

### Cautionary Statement

This report contains statements that are, or may be, forward-looking regarding the group's financial position and results, business strategy, plans and objectives. Such statements involve risk and uncertainty because they relate to future events and circumstances and there are accordingly a number of factors which might cause actual results and performance to differ materially from those expressed or implied by such statements. Forward-looking statements speak only as of the date they are made and no representation or warranty, whether expressed or implied, is given in relation to them, including as to their completeness or accuracy or the basis on which they were prepared. Other than in accordance with the company's legal or regulatory obligations (including under the Listing Rules and the Disclosure and Transparency Rules), the company does not undertake any obligation to update or revise publicly any forward-looking statement, whether as a result of new information, future events or otherwise. Information contained in this announcement relating to the company or its share price, or the yield on its shares, should not be relied upon as an indicator of future performance. Nothing in this announcement should be construed as a profit forecast.



# Directors' remuneration report

## Membership

Alan Giles (Chairman from 2012)

Richard Burrows

Peter Long (Chairman to 2011)

On appointment on 5 March 2012, Angela Seymour-Jackson will join the committee.

## Role and focus

The committee has responsibility for making recommendations to the board on the company's remuneration policy for the executive directors and the senior management population. The committee also considers and determines specific remuneration packages for executive directors and senior executives reporting to the chief executive and considers and authorises incentive arrangements, payments on termination of employment and related benefits to those individuals. During the year, the committee's terms of reference were amended to refer explicitly to the wider pay environment in the company when dealing with executive pay to ensure that decisions in relation to executive remuneration are reasonable in this context.

## Other attendees

The chairman, the chief executive, the chief financial officer (when required), the group HR director, the company secretary, the committee's independent advisers, Deloitte LLP. The reward director also periodically attended meetings. No individual is present during any discussion relating to their own remuneration.

## Dear shareholder

I am pleased to present the directors' remuneration report for the financial year ended 31 December 2011 for which we will be seeking approval from shareholders at the annual general meeting on 1 May 2012.

As set out in the chairman's statement, 2011 has seen some progress in addressing the issues facing Rentokil Initial. We have a strong executive team in place and our remuneration policies and total reward approach ensure that the company is able to attract, retain and motivate the leadership talent needed to deliver the performance shareholders expect, now and in the future. The remuneration committee continues to review executive remuneration, ensuring that it supports long-term business direction, shareholder value creation and is aligned with our values of Service, Relationships and Teamwork.

The company's remuneration policies are designed to support the delivery of the group's strategic objectives, specifically to ensure that there is the maximum possible alignment between the interests of executive directors and senior colleagues with the creation of value for shareholders and the ambition of the company

to succeed in the long-term. Success can only be achieved if the company can attract, retain and motivate high quality people to deliver the business performance shareholders expect. This requires levels and structures of remuneration that are appropriate to achieve these goals. In carrying out its duties the committee will take into consideration the pay environment for all colleagues in the business.

The committee will keep under review legislative developments in the UK over setting and reporting on executive pay.

## Alan Giles

Chairman, Remuneration committee

## Overview

This directors' remuneration report sets out the company's approach to the remuneration of directors and the principles that underpin it, together with details of the directors' pay, employment agreements, letters of appointment and interests in shares. In producing this report, 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. 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 1 May 2012.

## Responsibilities

In accordance with its terms of reference, the committee, which reports its findings to the board, is authorised to:

- make recommendations to the board on the company's policy on executive remuneration and its cost; including the remuneration of the chairman, the executive directors and the senior management population
- determine the remuneration and incentive packages of executive directors and senior executives reporting to the chief executive, to ensure that they are appropriately rewarded for their individual contributions to overall performance, giving full consideration to the matters set out in the Code
- formulate remuneration policy with regard to the strategic objectives and operational performance of the company
- formulate policy for the grant of awards/options to executive directors and senior executives to ensure that the appropriate level of incentives is consistent with directors' remuneration policy
- approve awards to executive directors and senior executives, including the consideration of quantum and performance conditions vesting arrangements and determine, in conjunction with the company's auditors, whether such performance targets have been satisfied

- ensure that contractual terms of termination affecting executive directors and senior executives, including the payments made, are fair to the individual and to the company ensuring that failure is not rewarded and recognise the duty to mitigate loss
- appoint consultants to provide external advice in respect of executive director remuneration and to take steps to ensure their independence and that no conflict of interests arises in relation to their appointment
- advise on any major changes in colleague benefit structures throughout the group

## Activities

At its meetings during the year, the committee discharged its responsibilities as listed above and in particular it:

- reviewed the group's executive remuneration policy including a review of the key trends in market practice and the market competitiveness of remuneration packages for executive directors and senior management. The committee also took into account remuneration across the group when setting executive pay
- approved the directors' remuneration report contained within the 2010 annual report and accounts
- reviewed the findings of the performance evaluation of the committee's effectiveness
- approved the recruitment terms for the appointment of a managing director for the City Link business
- approved the terms for the departure of the chief information officer, a role that reports to the chief executive, and for the appointment of his successor
- approved the outcomes of the 2010 annual bonus plan for executive directors and the senior management team and the structure and targets of the annual bonus plan for 2011
- approved the outcome of performance against targets set in respect of long-term incentive share awards to John McAdam, Alan Brown and Andy Ransom approved by shareholders in 2008 at the first vesting date. The level of vesting was disclosed to shareholders in the 2010 annual report
- authorised the vesting of a portion of awards made in 2008 under the performance share plan
- authorised performance share awards in 2011 to executive directors and senior management and set performance conditions for vesting, including in respect of executive directors
- authorised the lapse of options issued in 2001 under the previously operated executive share option scheme
- considered the guidance issued by corporate governance bodies and shareholders in relation to remuneration matters
- reviewed changes to legislation relating to retirement provisions affecting colleagues in the UK
- reviewed provisional arrangements for bonus and long-term incentives in 2012, including the use of appropriate clawback provisions

At a meeting following the year end but prior to the publication of this report the committee undertook the following:

- approved the outcomes of the 2011 annual bonus plan for executive directors and the senior management team and the structure of targets of the annual bonus plan for 2012
- approved this directors' remuneration report contained within the 2011 annual report and accounts
- approved targets for 2012 long-term incentive awards

## Terms of reference

A copy of the committee's terms of reference is available on the company's website at [www.rentokil-initial.com](http://www.rentokil-initial.com) or from the company secretary.

The committee reviewed its terms of reference during the year and a number of provisions were added, the principal one requiring the committee formally to take into account the wider remuneration environment in the group when setting executive pay. The committee believes it is very important that executive pay is positioned appropriately in the context of pay for other colleagues in the group and therefore felt that it was necessary that this was formally incorporated into its terms of reference.

## Governance

The committee met six times in 2011 and in addition was consulted on various remuneration issues between formal meetings. No individual was present during any discussion relating to their own remuneration.

Deloitte LLP has been retained by the committee to provide advice on executive remuneration matters and on the company's long-term incentive plan (the Performance Share Plan, approved by shareholders in 2006) ("PSP") and on incentive arrangements relating to John McAdam, Alan Brown and Andy Ransom, under the 2008 Share Incentive Plan ("2008 Plan") approved by shareholders in May 2008. Details of incentive arrangements in place in respect of both schemes are provided in this report.

During the year, Deloitte have provided the company with a limited level of advice over non-remuneration matters, such as taxation and due diligence on acquisitions, although they are not the company's main source of advice in such areas. Deloitte also provided a limited level of resource to support the internal audit function, no element of which represents a conflict of interest over their role as advisers to the committee. Towers Watson advised the company on its UK pension matters.

## Remuneration policy

The committee reviews the total reward packages of the executive directors and senior executives regularly to ensure ongoing effectiveness and competitiveness. The committee takes advice from Deloitte with market surveys prepared by Towers Watson. The company's remuneration policy for the executive directors and senior colleagues is designed to:

- attract and retain the leadership talent necessary to drive and deliver business growth, financial performance and other key strategic priorities
- recognise and reward individual contributions to delivering long-term, sustainable business performance
- ensure alignment of executives with the overall shareholder objective of long-term value creation through linking a substantial part of the remuneration package to long-term performance targets

- deliver a total reward package that is market aligned and provides upside for exceptional business performance whilst being affordable
- encourage executive behaviours consistent with Rentokil Initial's business values

## Total reward

The remuneration policy is underpinned by a set of principles that are reflected in all elements of the executive total reward package, summarised below. Further detail is provided in this report.

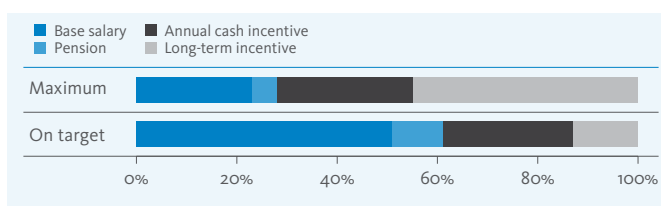
### Summary of remuneration policy

Element	Objective	Principles and operation	Performance measure
Base salary	To attract and retain the best talent.	Set after taking into account the market competitive range for companies of a similar size and complexity, individual skills and experience, contribution to overall business performance, pay and conditions across the group and external market conditions.  Salaries are reviewed annually and set on 1 January.	Delivery against key personal objectives.
Annual bonus – Annual cash incentive	To motivate executives to deliver annual financial, strategic and operational goals.	Set at a market competitive level providing that target financial, operational and personal targets are achieved.  Recognises exceptional business performance and individual contribution to that performance.  The structure is reviewed annually to ensure that it continues to support the business's short-term and long-term goals.  The annual bonus is normally paid in cash in March each year.  Maximum bonus opportunity of 100% of salary.  Personal performance modifier can increase this to 120% of base salary.	Group and divisional profit, cash flow, revenue and other key strategic performance targets.  The personal performance modifier (that can both increase and decrease the bonus payout) is based on the outcome of the company's performance development review process.

Element	Objective	Principles and operation	Performance measure
Long-term incentive – The Performance Share Plan (“The PSP”)	To motivate and incentivise delivery of performance over the long-term.	<p>Set at a market competitive level, relative to companies of comparable size and complexity.</p> <p>Award levels and performance conditions are reviewed annually to ensure they continue to support the business’s long-term goals.</p> <p>Awards are made in Q2 each year and vest three years later subject to performance conditions and the individual performance bonus modifier.</p> <p>Maximum award of 200% of salary (250% in exceptional circumstances).</p> <p>Typical awards to executive directors of 100% of base salary (with the opportunity to earn double that for sustained exceptional individual performance).</p>	<p>Performance conditions are intended to reward achievements against financial performance and the creation of shareholder value.</p> <p>Awards subject to Total Shareholder Return performance against FTSE 350 (excluding Financial Services and basic resources Companies). Individual performance multiplier (based on bonus outcomes for the performance period) also applies which can reduce vesting to 0% or increase vesting to 200%.</p>
Pensions	To enable attraction and retention of the best talent.	<p>Positioned to ensure broad competitiveness with market practice.</p> <p>Executive director pension arrangements are by way of a defined contribution arrangement or through a cash alternative of a similar value.</p>	n/a

#### On-target and maximum performance

The chart 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 to embed alignment with wider shareholder objectives.



This illustrates the current remuneration and incentive policy and therefore it 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 Alan Brown and Andy Ransom (further details relating to these awards are provided on page 48).

#### Base salaries

Executive directors and senior management salaries are reviewed with effect from 1 January each year. Base salaries reflect the role, individual experience, skills and contribution to overall business performance as well as external market conditions. When determining base salary increases the committee considers the

above factors as well as market survey data from Towers Watson and the salary increases being awarded throughout the group.

On a review of the economic and market considerations in the UK as well as pay across the group, the committee has agreed that pay awards will not be made in 2012 for Alan Brown, the chief executive and Andy Ransom, the executive director and that the chief financial officer, Jeremy Townsend, will receive an award of 2%.

Similar considerations will apply when setting pay below board level and across the group, where levels of pay changes agreed locally will vary depending on economic and market conditions, statutory requirements and on individual business performance.

#### Annual bonus plan

The committee sets the performance measures and targets for the bonus scheme annually to ensure they continue to support the business’s short-term and long-term goals.

For the 2011 annual bonus the following performance measures were applied: for the chief executive, Alan Brown, 25% of the bonus opportunity related to revenue growth, a further 15% related to cash conversion, 10% related to the key performance indicator of customer care and 50% related to the achievement of profit performance for the group. For the executive director, Andy Ransom, who runs the Pest Control and Ambius businesses, the performance measures for his bonus opportunity were split between his group and his divisional commitments. 30% of his bonus opportunity related to revenue growth (10% group; 20% division); 20% related to cash conversion (5% group; 15% division)

and 50% related to achievement of profit (10% group; 40% division). For the chief financial officer, Jeremy Townsend, 25% of the bonus opportunity related to revenue growth, 25% related to cash conversion and 50% related to the achievement of profit performance for the group. The committee believes that these measures support the delivery of long-term, sustained business growth and financial performance.

The cash bonus opportunity for the chief executive and other executive directors continues to be 100% of base salary (before the application of the modifier), subject to meeting the stretching performance targets described below. This can be increased or decreased by a personal performance modifier (85% to 120%), based on the outcome of the company's performance development review process. The maximum payment is 120% for the executive directors.

#### 2011 Bonus payouts

The committee reviewed the 2011 bonus plan outcome for the group's senior management population based on the targets set at the start of the financial year. Despite stronger than expected performance in some business units and good progress in terms of strengthening the business foundations for future growth overall, group level performance targets were not met and no payments were made in respect of group performance. Mr Ransom received a bonus in relation to the financial performance of the Pest Control and Ambius businesses for which he is responsible which is shown in the total pay and benefits table on page 49.

#### 2012 Bonus targets

For 2012, the committee has approved a bonus plan for executive directors and the group's senior management, which is broadly similar in structure to the 2011 bonus plan. In respect of the chief executive, Alan Brown, the proportions were agreed as profit (40%), cash (20%) revenue (20%) and key performance indicators (20%). For the executive director, Andy Ransom, who runs the Pest Control and Ambius businesses, the proportions agreed were as profit (group: 10%; division: 40%), cash (group: 5%; division 10%) and revenue (group: 5%; division 30%). In respect of the chief financial officer, Jeremy Townsend, the proportions were agreed as revenue (20%), profit (40%), cash (20%) and key performance indicators (20%). The committee believes that these metrics provide the right combination of incentivising executives to focus on top and bottom line financial performance while strengthening our cash position.

For senior management below board level, for 2012, an additional "customer care" performance measure has been introduced to reward relative improvements in customer care (where applicable).

Any one of the four performance measures (other than profit) can be substituted with non-financial performance measures in individual cases. Payout for the achievement of revenue and customer care targets may only be made if profit thresholds are achieved.

In addition to executive directors, over 500 senior executives also participate in the annual bonus plan. The performance measures relate to group, divisional and business revenue, profit and cash

performance as well as customer care and non-financial personal objectives where appropriate.

#### Long-term share incentive plans

There are two plans covering the executive and senior management team, the Performance Share Plan ("PSP") and the 2008 Share Incentive Plan ("the 2008 Plan"). In 2011 approximately 270 senior managers across the group received awards under the PSP Plan. In 2008 one-off share awards were made to the new senior leadership team under the 2008 Plan. Details of both plans are set out below.

In the event of a change of control, outstanding awards may vest taking into account the time elapsed and performance to the date of the change of control.

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

The PSP, approved by shareholders in 2006, enables participants, selected on a discretionary basis, to earn shares in the company based on achieving stretching performance targets.

#### Award values

- 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 a maximum 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
- typical annual award to executive directors is 100% of base salary
- details of awards made to executive directors during the year are set out later in this report, along with their other interests in shares

#### Performance conditions

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 were 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	"Maximum" percentage
Less than £1.20	0%
£1.20	20%
£1.80	100%
Awards will vest on a straight-line basis between each point above	

Awards made in 2008 under the PSP partially met share price performance targets and 34.43% vested on 25 June 2011 details of which were reported in the 2010 annual report and are included in the table on page 50.

In summary, during the first half of 2010 the company's share price achieved a 60 day highest average price of 130.82p and therefore under the terms of the PSP 34.43% of the award vested provided that each individual achieved "on target" annual bonus performance in 2008, 2009 and 2010. Awards were scaled according to each participant's individual performance multiplier, which was based on their average annual bonus outcome in respect of financial performance conditions over the 2008–2010 period. None of the current executive directors received an award under the PSP in 2008.

Outstanding awards are subject to two performance measures described below. Executive directors have participated in the PSP from 2009.

**Relative TSR:** Outstanding awards are subjected to relative TSR performance; this reflects market practice and shareholder preferences. A relative TSR measure is used to ensure management are incentivised to outperform key peers and to ensure that the interests of management are aligned with shareholders. 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 is 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. 25% of the initial award will vest if Rentokil's performance is positioned at median against this group with the full initial award vesting for upper quartile TSR performance.

**Individual performance modifier:** Achievement under the relative TSR performance measure is modified based on individual achievement of annual bonus targets, to further align plan participants with the need to deliver consistent, strong financial and operational performance on a year-by-year basis. This modifier also ensures that exceptional individual performance is rewarded, whilst those individuals whose contribution has not been as strong do not benefit disproportionately.

For executive directors, the effect of the individual performance modifier (in 2009 and 2010), as set out in the table below, is to reduce the level of award that would otherwise vest if an individual fails to reach threshold performance under the annual bonus in each of the three years of the performance period to zero, and increase vesting by a maximum of 200% if above target performance is achieved.

Achievement against annual bonus targets in respect of each financial year (average over performance period)	Below threshold	Threshold	Target	Maximum
<b>Individual Performance Modifier</b>	<b>0%</b>	<b>20%</b>	<b>100%</b>	<b>200%</b>
Awards will vest on a straight-line basis between each point above				

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 lead to maximum bonus outcomes in each of the three consecutive financial years for the relevant business unit.

The committee considered this to be an appropriately ambitious goal that would 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 of the performance period.

The rationale for including the Individual Performance Modifier is to provide a financial performance criteria based on the achievement of budget related financial performance conditions. The committee considers this to be helpful in aligning the plan with the shareholders' overall objectives of maximising long-term value creation.

In 2011 the committee reviewed the application of the performance modifier introduced in 2008 on the first vesting and concluded that its application had tended to reduce the vested award to an extent that it might prejudice the incentive value in the scheme. It was therefore agreed that for all those, other than for executive directors, for 2011 the performance modifier would operate to reduce the award as calculated on TSR performance to a maximum of 50% of the vested amount (previously 0%) and to reduce the maximum uplift to 150% (previously 200%). The performance conditions related to the 2009 and 2010 awards would remain unaffected.

The performance modifier for awards to executive directors in 2011 and beyond will continue to be based on the original performance modifier (i.e. a range of application from 0% to 200%).

#### Vesting of the PSP awards

The outcome of the performance condition relating to awards made in 2009 will not be tested until April 2012.

#### Award values and performance measures – 2012 awards

The committee considers that the level of awards and nature of the performance conditions for the 2011 awards continues to be an effective basis for incentivising the senior management population and for supporting the delivery of the overall objective of creating long-term value for shareholders. As such, the committee currently intends to maintain this approach for awards made in 2012.

#### Clawback

For 2012 PSP awards a "clawback" provision will be introduced to allow the committee to scale back awards in the event of a material misstatement of performance or in other circumstances where the committee considers that this treatment is appropriate.



### The 2008 Plan

The 2008 Plan, approved by shareholders in 2008 was designed to facilitate the appointment of John McAdam, chairman, Alan Brown, chief executive, and Andy Ransom, executive director and to motivate them over a sufficient period to deliver a turnaround in corporate performance.

The key features of the Plan were:

- an award to each participant 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, measured on the basis of an average share price over any 60 consecutive dealing days during the performance measurement period, demonstrating realisable value creation for shareholders;
- 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.

### Vesting of 2008 Plan awards

As discussed in last year's report, during the first half of 2010 the company's share price achieved a 60 day highest average price of 130.82p and therefore under the terms of the plan 34.43% of the award vested with participants being entitled to receive a third of the award (i.e. 11.5% of the initial award or 872,828 shares including accrued dividends) from May 2011. The second third will become capable of being released in May 2012 with the balance becoming capable of release in May 2013. If the share price over a 60 day average period exceeds 130.82p before the end of the performance period in May 2013, further shares may be earned under this plan. No further awards may be made under this plan.

## 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. Jeremy Townsend has a service agreement dated 4 March 2010.

The company's policy in respect of the notice periods for the termination of executive directors' contracts conforms to the Code. The committee is fully aware that under the Code, and acting within the contractual framework, it should take a robust line over payments to departing directors. On termination without notice (other than by reason of resignation or unacceptable performance or conduct), executive directors are entitled to a payment equal to base pay and the value of benefits only for the duration of the notice period, subject to mitigation.

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.

## Pensions

Executive directors participate in defined contribution pension arrangements or receive additional gross salary in lieu of pension contributions from the company at the rate of up to 25% of base salary. Alan Brown and Andy Ransom received a cash supplement in lieu of a pension contribution in 2011. Jeremy Townsend participated in the company's defined contribution pension scheme on the basis of 75% of the 15% of salary employer contribution to which he is entitled under current group policy and received a cash supplement for the balance. A cash supplement in lieu of pension scheme contribution is not counted as salary for bonus purposes.

## 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. The chief executive, Alan Brown, joined the board of Intertek Group plc on 15 April 2011 as a non-executive director and his earnings during the year in respect of the appointment were £32,000 which he has retained. Both Alan Brown and Jeremy Townsend are directors of businesses run by members of their family for which they receive no remuneration nor have any management involvement.

## 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.



## Chairman and non-executive directors

The chairman, 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, details of which are described above and in the schedule of interests in shares shown on page 50. He is not eligible to participate in the company's annual bonus plan or in the company's other incentive arrangements.

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 a further period of three years by mutual consent and thereafter reviewed annually, subject to acceptable tests of performance and independence. 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, or any conflicts of interest arising from other directorships which would impinge upon their independence or objectivity 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 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 which were updated during the year to reflect the requirement for directors to submit themselves for annual re-election in accordance with the provisions of the Code. 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 levels of fees for non-executive directors were reviewed by this committee in 2009 based on external market data at which time they were set at £55,000 per annum. The level of fees was reviewed during the year and considered to remain appropriate.

The chairmen of the remuneration and audit committees are each paid an additional £15,000 per annum and the senior independent director receives £5,000 per annum for acting in that capacity. These amounts are included in the remuneration table below which has been audited.

Copies of executive directors' service contracts and non-executive directors' letters of appointment are available for inspection by shareholders at the company's registered office and at the annual general meeting.

## Total pay and benefits for directors

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

	Salary £000	Termination payments £000	Pension provision £000	Bonus £000	Allowances/ benefits £000	2011 Total £000	2010 Total £000
John McAdam	350	–	–	–	–	350	350
Alan Brown <sup>(i)</sup>	775	–	194	–	22	991	989
Peter Bamford	55	–	–	–	–	55	55
Richard Burrows	55	–	–	–	–	55	55
Alan Giles	55	–	–	–	–	55	55
Peter Long	75	–	–	–	–	75	75
Andy Ransom <sup>(i)</sup>	450	–	113	95	20	678	797
William Rucker <sup>(ii)</sup>	55	–	–	–	–	55	55
Jeremy Townsend <sup>(i)</sup>	425	–	64	–	16	505	296
Duncan Tatton-Brown	70	–	–	–	–	70	70
Michael Murray <sup>(iii)</sup>	–	–	–	–	–	–	281
2011	2,365	–	371	95	58	2,889	
2010	2,203	133	344	341	57		3,078

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

(iii) Michael Murray resigned as a director on 31 March 2010

## Share incentive awards

Share incentive awards to directors as follows – the table has been audited:

	Date of award	Plan	Market price at award	Scheme interest at 1 January 2011	Shares awarded during 2011	Shares vested during 2011	Outstanding at 31 December 2011	Vesting date	Shares exercised during 2011	Shares exercisable during 2011	Shares vested during 2011 but not yet exercisable
John McAdam	26/06/08	2008 Plan <sup>(i)</sup>	100.50p	7,500,000	–	2,582,250 <sup>(ii)</sup>	4,917,750	2011/13	–	872,828	1,745,656
Alan Brown	26/06/08	2008 Plan <sup>(i)</sup>	100.50p	7,500,000	–	2,582,250 <sup>(ii)</sup>	4,917,750	2011/13	–	872,828	1,745,656
Andy Ransom	26/06/08	2008 Plan <sup>(i)</sup>	100.50p	7,500,000	–	2,582,250 <sup>(ii)</sup>	4,917,750	2011/13	–	872,828	1,745,656
Alan Brown	12/06/09	2009 PSP <sup>(iii)</sup>	88.25p	2,144,092 <sup>(ii)</sup>	–	–	2,144,092 <sup>(ii)</sup>	31/12/12	–	–	–
Andy Ransom	12/06/09	2009 PSP <sup>(iii)</sup>	88.25p	1,037,464 <sup>(ii)</sup>	–	–	1,037,464 <sup>(ii)</sup>	31/12/12	–	–	–
Alan Brown	14/05/10	2009 PSP <sup>(iii)</sup>	125.00p	1,240,000 <sup>(ii)</sup>	–	–	1,240,000 <sup>(ii)</sup>	31/12/13	–	–	–
Andy Ransom	14/05/10	2010 PSP <sup>(iii)</sup>	125.00p	720,000 <sup>(ii)</sup>	–	–	720,000 <sup>(ii)</sup>	31/12/13	–	–	–
Jeremy Townsend	30/09/10	2010 PSP <sup>(iii)</sup>	103.00p	825,242 <sup>(ii)</sup>	–	–	825,242 <sup>(ii)</sup>	31/12/13	–	–	–
Jeremy Townsend	01/09/10	2010 APPT <sup>(iv)</sup>	96.75p	113,273 <sup>(iv)</sup>	–	113,273	–	01/09/11	113,273	–	–
Jeremy Townsend	01/09/10	2010 APPT <sup>(iv)</sup>	96.75p	90,618	–	–	90,618	01/09/12	–	–	–
Alan Brown	01/08/11	2011 PSP <sup>(iii)</sup>	89.55p	–	2,026,144	–	2,026,144	01/08/14	–	–	–
Andy Ransom	01/08/11	2011 PSP <sup>(iii)</sup>	89.55p	–	980,394	–	980,394	01/08/14	–	–	–
Jeremy Townsend	01/08/11	2011 PSP <sup>(iii)</sup>	89.55p	–	925,926	–	925,926	01/08/14	–	–	–

(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). This has not been achieved. Awards under the 2008 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) At the first vesting date on 20 May 2011 (i.e. 61 dealing days after 31 December 2010 results were announced), 34.43% of the total plan interest at 1 January 2011 vested, resulting in each participant being awarded 2,582,250 shares. Following dividend readjustment, the total balance due to each participant at 31 December 2011 was 2,618,485. The first one-third of this (872,828 shares) was released to each participant on 20 May 2011 ("first vesting date") a further 872,828 will be released in May 2012 ("second vesting date") and a final 872,828 will be released in May 2013 ("third vesting date"). The remaining 4,917,750 shares have not yet vested and continue to be subject to performance conditions. If the share price over a 60 day average period exceeds 130.82p before the end of the performance period in May 2013, further shares may be earned under this 2008 Plan

(iii) The maximum PSP plan vesting is only applicable in the event of upper quartile TSR performance and maximum annual bonus outperformance for participants for the three-year performance measurement 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

(iv) Jeremy Townsend was awarded compensatory share awards on 1 September 2010. 113,273 shares vested on 1 September 2011 ("the first award vesting date") and were acquired on 29 September 2011. 58,902 shares were sold to satisfy tax liability. 90,618 shares will vest on 1 September 2012 ("the second award vesting date")

## Directors' interests in shares

The interests of the directors and their families in the share capital of the company on 1 January 2011 or their date of appointment if later, and at 31 December 2011, are set out opposite.

No director has any beneficial interest in the shares of any of the company's subsidiaries. Any changes in the interests of the directors and their families in the company and its subsidiary companies during the year and from the end of the year to 1 March 2012 are shown in this report.

	31 December 2011 Beneficial Interests number	1 January 2011 Beneficial Interests number
Rentokil Initial plc ordinary shares of 1p each		
John McAdam	20,800	20,800
Alan Brown	20,800	20,800
Andy Ransom	52,000	52,000
Jeremy Townsend	99,371	nil
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
<b>Total</b>	<b>381,971</b>	<b>282,600</b>

## Committee effectiveness

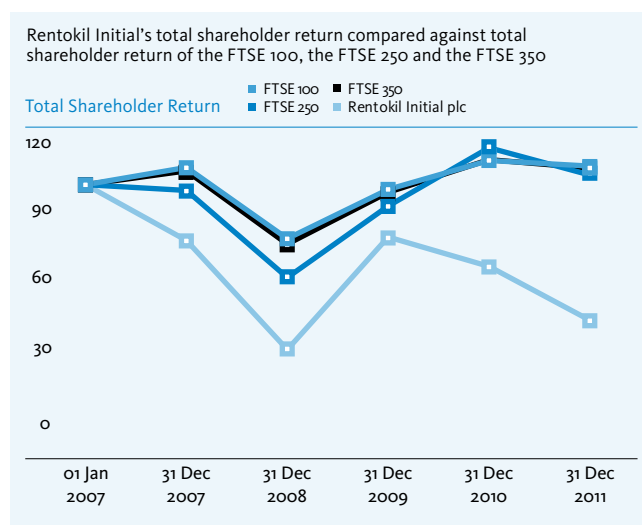
The committee conducted a review of its performance during the year with the assistance of an external independent facilitator. The review concluded that the committee continued to operate effectively and that individual directors serving on the committee continued to have access to appropriate advice and information. The committee agreed upon a number of additions to its work programme for 2012.

## TSR performance graph

This report is required to include a graph showing total shareholder return (TSR) over a five-year period reflecting a holding of the company's shares, plotted against the movement of a broad equity market index. 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, and is compliant with these requirements. The company has been a constituent of both these indices over the five-year period that is shown. The FTSE 350 index is also shown, on the basis that the constituents of the comparator group for LTI purposes are drawn from this index (although the comparator group excludes financial services and primary resources companies). The basis of assessment of relative TSR performance in respect of awards made under the company's PSP differs from the basis on which the chart is prepared, and is described on pages 46 and 47 in this report.

This chart has been prepared by Deloitte LLP for Rentokil Initial plc, for inclusion in the annual report for the year ended 31 December 2011. This is based on data sourced from Thomson Reuters DataStream, and uses spot Return Index data.

## Rentokil Initial versus the FTSE 100, 250 and 350 indices



### Status of report

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 UK corporate governance regime applicable to these accounts. 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.

On behalf of the board,

[Alan Giles](#)

Chairman, Remuneration committee

1 March 2012

# Corporate responsibility

The following pages provide an overview of the company's corporate responsibility approach which is aligned to the company's business plan, listing just some of the actions within each of our strategic thrusts that enhance responsible business practice.

2011 was a year of tough economic conditions in many of our markets. At the same time, environmental disasters – floods in Australia and Thailand, earthquakes in New Zealand, and the tsunami in Japan – meant that our colleagues around the world had to face significant challenges at work as well as in some instances, at home. 57 colleagues lost their homes and possessions in the Thailand flooding and were housed in our Bangkok branch for several weeks. As always, we pulled together and supported one another.

We are proud to have continued our improved performance in this year's Business in the Community Corporate Responsibility Index and Dow Jones Sustainability Index of the world's leading companies. A more detailed report as well as case studies can be found in the company's Corporate Responsibility Report 2011 which is available online at [rentokil-initial.com](http://rentokil-initial.com)

**Alan Brown**  
Chief executive

## Governance

The board reviews corporate responsibility activities and performance at least once a year and many elements more regularly. Through the chief executive, operational management has responsibility for corporate responsibility matters. The company's governance procedures and group policies require adherence to corporate responsibility policies and local initiatives are encouraged. As with many aspects of the company's operating framework, consistent standards over corporate responsibility matters are encouraged.

For instance, a new code of conduct was introduced in 2010 and anti-corruption policy in 2011. These have been promulgated in the business to underpin our culture of responsible business practice.

A UK policy group meets to review people-related policies. Adherence to policies is monitored through annual internal control self-assessments as well as through management review. "Speak Up" confidential reporting provides a further check on the actions of individuals who may be operating at odds with our business principles and policies. In 2011, there were 28 "control incidents" reported to the audit committee, all were investigated and action taken as required. Reports of safety, health and environment issues are the first item on the agenda at our board and management meetings.

Further support to compliance is provided through competition law and anti-corruption training. To date, the total number of colleagues completing the competition law courses is 2,890.

Divisional processes include externally accredited ISO 9001 for Rentokil Pest Control and Initial Facilities.

Our values of [Service](#), [Relationships](#) and [Teamwork](#) are integrated into new employee induction, training, performance development reviews and monitored by the "Your Voice Counts" survey which measures employee enablement and engagement. Eight out of ten colleagues say they have a good understanding of the company's values.

Rentokil Initial's corporate responsibility strategy and reporting is fully aligned with the company's strategic business plan and annual operating plans, articulated through our five strategic thrusts.

## Outstanding customer service and care

Having established high levels of customer service across the group, the company began to focus on Customer Care in 2011 – a proactive approach to customer relationship management.

### Engagement with customers

- In 2011, City Link implemented new customer care systems and processes ahead of the peak season, aided by the Join the Conversation internal campaign and customer care colleague training.
- The company enhanced its customer engagement programme through the Customer Voice Counts (CVC) survey, delivered across the group, providing service delivery feedback through a confidential and independent third party.
- A new proactive and tiered customer account management approach was piloted through Programme Olympic in UK Pest Control, delivering significantly improved CVC scores.
- The company continued to invest in digital dialogue channels including websites, e-commerce, extranets and social media. Its first smart phone App was launched in Germany allowing customers to email signs of pest activity directly to the company.

KPI	2008	2009	2010	2011
State of Service	88.5%	98.1%	97%	98%▲
Customer Voice Counts	n/a	n/a	19%	6%*
Customer retention	81.0%	80.8%	83.9%	83.9%▲

- State of Service is the total number of service visits performed divided by the total number of visits due.
- The CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting. \*CVC score for 2011 is based on a more extended measurement (incl. City Link and Initial Facilities) than for 2010.
- Customer retention is the reciprocal of closing portfolio (after reductions and terminations) as a percentage of opening portfolio.

### Partnerships with customers

- Initial Facilities' commitment with London Underground to service modernisation and lean processes delivered cleanliness improvements and depot graffiti reductions.
- Initial Facilities assisted Xerox UK to exceed emissions targets through structured research and development.
- Lancaster Cleaning's food waste management project for London's Devonshire Square restaurants included educational programmes – food waste re-cycling increased by 25%.

### Product stewardship and innovation

- Product stewardship considers environmental and health and safety impacts during product life cycles. This includes specifiers' educational programmes, such as Ambius's Continuing Professional Development programme with RIBA for Architects and Interior Designers. The company also anticipates forthcoming legislation, helping customers safeguard liabilities and reputation. Examples include Rentokil's work on the EU's Biocidal Products Directive, resulting in two "first in field" product registrations.
- Rentokil's Authorised Product List (APL) ensures fit for purpose and efficacious products. Preliminary APL work in the USA enabled a reduction from 2,286 SKUs (stock-keeping units) in 2007 to 338. The North American experience has been applied across all of the division's worldwide operations, with the total number of rodenticide and insecticides used down from 845 in 2010 to 397 by year end (from 507 to 228 in Europe). Initial Textiles & Hygiene has also reduced its hygiene SKUs from 2,300 to below its target of 1,000.

## Developing capability

In 2011, the company continued to build capability in its people and systems and processes.

### Colleague engagement and enablement

- The annual Your Voice Counts (YVC) survey compares Rentokil Initial results to Hay Group's Global General Industry norms. It is carried out annually and is confidential. In 2011, 40,236 colleagues took part (2010: 33,364).
- Overall results showed that out of the 35 questions, 30 showed an improved score with no questions declining. Areas of largest improvement included recognition and respect, training and coaching and feedback.
- Colleague engagement improved by 2 points to 72% (3 points above the Global General Industry Norm).
- Colleague enablement improved by 1 point to 69% (3 points above the Global General Industry Norm).
- The perceptions of colleagues through the YVC survey in 2011 of "training", "managing performance", "job clarity" and "opportunity to feedback views" place Rentokil Initial amongst the world's High Performing organisations in these areas.

Performance Indicators	2008	2009	2010	2011
Colleague engagement	n/a	70%	70%	72%▲
Colleague enablement	n/a	68%	68%	69%▲
Sales colleague retention	54.6%	63.5%	63.8%	65.0%▲
Service colleague retention	74.2%	74.4%	75.9%	72%▼

• Colleague engagement and colleague enablement scores are based upon all colleagues surveyed across the company. Scores are calculated by Hay Group based upon answers to questions within the annual Your Voice Counts survey.  
 • Sales colleague and service colleague retention is the reciprocal of total sales and service colleagues leaving in the year as a percentage of the sales and service head count at the beginning of the year.

### Skills development

- The company delivered over 9,000 days' training in 2011.
- A global leadership programme, Living Leadership, has now been attended by more than 300 people from across the company including Asia, Europe and South Africa and has received outstanding feedback. Living Leadership won the 2011 Personnel Today Excellence in Training and Development award.
- The company's first formal graduate recruitment programme commenced in 2011.
- Several pilot vocational training programmes are underway throughout the company. Several divisions are in the process of designing, developing and aligning embedded apprenticeship learning frameworks to ensure maximum impact and benefits at colleague level. Approximately 250 apprenticeships are currently underway, with an additional 1,600 colleagues undertaking formal stand-alone vocational programmes focusing in raising the standards of customer service and care.
- Values training programmes are being undertaken in the UK and South Africa.
- In 2011 a single governance structure for all learning and development activity was developed with a steering group and L&D Council (representatives from all divisions) established.

### People services

- Our aim for People Services in Rentokil Initial is to create country-based teams of experts responsible for providing consistent, compliant and quality HR transactional services – the colleague essentials – through HR Shared Service (HRSS) centres, using consistent fit for purpose systems and processes. This will deliver a single point of contact for accessible, easy to use, responsive People Services.
- The three core tools within People Services – Workday (HRIS), JobTrain (Applicant Tracking) and Cornerstone (Learning Management System) were identified, trialed and developed in 2011 for roll out to launch in 2012.

## Developing operational excellence

Operational Excellence involves new and continuing actions in areas such as health and safety, environmental efficiency and procurement.

### Environmental efficiency

- Environmental efficiency focuses on emissions from property and vehicles, supporting customers' waste recycling and product stewardship.
- In 2011, 71% of vehicle fuel was diesel (69% – 2010).
- The company's emissions are calculated as normalised CO<sub>2</sub> emissions. This showed a 1% decrease in emissions per £m turnover – an average reduction of 8% per annum since 2008.
- Total emissions for 2011 were 266,488 tonnes compared with 263,856 tonnes in 2010. These emissions represent operations with over 98% of colleagues (98% in 2010).
- Consolidated property portfolios and Green IT initiatives resulted in lower property energy usage. Vehicle fuel reduced due to fuel efficient vehicles and increasing route optimisation, but these were offset by City Link's increase in employed drivers rather than sub contractors.
- Initial Textiles & Hygiene continues its improvement in laundry processing plants' energy usage, representing 69% of all property emissions (2010 – 66%) – and just over 33% for all scope 1 and 2 emissions (2010 – 32%).
- Emissions reduced by 7.6% and water consumption fell 5.4% for mainland European laundry processing plants.
- In 2011, Ambius achieved Planet Positive status and stated its long-term plan is to reduce emissions by 10% – 15%, while Initial Facilities and Initial Medical are ISO 14001 certified.

Performance area	2011	Improvement ▲ Deterioration ▼
CO <sub>2</sub> emissions	104.74 tonnes/ £m turnover	1%▲
Water consumption	11.75 litres used per kilogramme washed	5.4%▲
<ul style="list-style-type: none"> <li>CO<sub>2</sub> emissions – calculated as kilogramme's per £m turnover on total group basis (year on year change).</li> <li>Water consumption – calculated as litres used per kilogramme of product processed in all European plants (year on year change).</li> </ul>		

### Waste management

- Rentokil Initial often addresses waste management on behalf of customers. Initial Facilities supports London Underground and Aviva in their waste management. It also helped First Capital Connect address food waste with a trial of wormeries on 10 stations. Initial Hygiene UK is processing feminine hygiene waste in an absorbent hygiene product waste recycling plant.

- In 2011 the percentage of waste recycled increased in City Link to 79% (2010: 33%) and in the Dudley Industries production facility to 88% (2010: 82%).

### Health and Safety

- The Safety, Health and Environment (SHE) committee focused in 2011 on five priority businesses, scrutinising action plans and performance, as well as group-wide actions. Actions included health and safety leadership workshops; a SHE induction video; and a SHE intranet site. Performance actions include an Eco-Driving campaign, and a contractor assessment process, for phased introduction. Process actions include further implementation of the "Success Is No Accident" incident management system.
- Performance exceeded 2011 targets – LTA improved by 16.3% to 1.44 and WDL by 20.7% to 36.16.
- City Link introduced Green Road 360 to reduce collisions, reduce claims and insurance premiums and fuel consumption. It continued its "Don't Look Away" campaign (near miss reporting) which achieved a 13% decrease in accidents from 2009-2011 and won the Corporate Safety award at the 2011 National Courier awards.

Performance area	2008	2009	2010	2011
Lost time accidents	1.82	1.53	1.72	1.44▲
Working days lost	n/a	39.66	45.63	36.16▲
<ul style="list-style-type: none"> <li>Number of Lost Time Accidents rate (injuries and illnesses)/100,000 hours worked.</li> <li>Working Days Lost because of Lost Time Accidents rate/100,000 hours worked.</li> </ul>				

### Procurement

- The company's procurement covers group-wide and division-specific categories.
- Group procurement utilises analyses such as whole-life costing (for vehicles) and optimising technical requirements (taking account of Green IT). A Supply Chain Academy ensures consistent procurement standards, with courses in six languages.
- Procurement for Rentokil Initial considers regulatory requirements. This is undertaken by divisional technical and procurement departments specifying product ingredients or components. When dealing with developing country textile suppliers, contracts stipulate ethical, environmental and labour standards.
- The company introduced the Ariba procurement system in 2011 to add consistency and standard process in larger markets.

### Operational efficiency

- In 2011 the company undertook three pilots to enhance route and round optimisation – within City Link, UK Pest Control and Initial



Textiles & Hygiene. For example, Initial Textiles & Hygiene's Services are delivered across Europe by in excess of 2,000 vehicles. The interval of visits to customers and product varies, creating a very complex planning situation. In the past, the planning of service routes was done by each branch itself. The introduction of route planning and route sequencing technology within the pilot vehicle fleet led to savings of up to 8% on the miles travelled and enhanced management information.

- As a result of the successful trials, route optimisation programmes are now being implemented across all our route based businesses and are expected to deliver a significant reduction in distance travelled.

## Cost efficiency and maximum cash

Corporate Responsibility impacts cost efficiency through sustainable use of resources and utilising colleagues' capabilities. This arises mainly in divisions, although group-level interventions act as a stimulus.

### Group-wide resource efficiency

- Improving environmental cost efficiency arises through improving energy usage and materials utilisation.

### Energy usage

- Focus has been on more effective property and vehicle utilisation.
- Property energy usage represents an increasingly smaller percentage of total energy costs (26% in 2011) due to integrating office locations and IT innovations such as global data centres.
- Textiles processing plants in mainland Europe have shown year on year improved efficiency for five years (kWh energy per kg of laundry processed 2007: 1.94; 2011: 1.68).
- Actions taken to improve vehicle utilisation include:
  - Focus on whole life costing;
  - Improved route optimisation;
  - Improved driving styles through Drive Smart.

Performance area	2008	2009	2010	2011	Improvement ▲ Deterioration ▼
Property energy consumption	246.8	224.9	195.7	173.4	10.4%▲
Vehicle energy consumption	30.4	26.0	24.0	25.2	5.0%▼

• Property energy consumption – thousand kWh per £m turnover.  
 • Vehicle energy consumption – thousand litres per £m turnover. Reduction in vehicle energy efficiency in 2011 is due in part to the switch by City Link from sub-contracted vehicles and drivers to in-house owned vehicles and employed drivers.

### Material usage

- Many services reuse or repair resources, e.g. floor mats and plastic reusable bait inserts. Divisions, such as Rentokil, have reduced the number of Stock Keeping Units which reduces waste and achieves higher stock utilisation.
- Continued recycling improvement. For example, Dudley Industries, a manufacturer of equipment for the washrooms servicing operations, improved its kgs of waste generated/£turnover to 13.40 (2010: 16.75).
- End of life resource disposal methods have differing cost levels. Ambius recycles containers, following research on both manufacture and end-of-life disposal. Medical Services exports amalgam from dentists for re-cycling – nearly 10 tonnes were exported from the UK in 2011.

### Improved efficiency in European laundries

- Steam-free laundries have been introduced in Sweden, Netherlands and Germany, reducing energy consumption.
- Projects to the value of €760,000 have been implemented in French laundry operations, reducing energy and water consumption.
- In the UK, major machinery manufacturers have been involved in developing more energy-efficient machinery and working practices, focusing on the reduction of particle emissions, as well as improved energy and water consumption.

### Utilising colleagues' capabilities

- The "Success is no Accident" system continues to improve accident reporting, reduce accident rates, and ensure efficient rehabilitation referrals, reducing days lost and boosting colleague morale.
- Since 2007 Rentokil Initial's ability to accelerate colleagues' assessment and treatment through its rehabilitation scheme has saved colleagues and the business over 30 years of time waiting for treatment or in rehabilitation after accidents or injury.
- Initial Facilities' focus on numeracy and literacy training recognises some cleaning operatives may need these basic skills improved. Addressing this ensures a better understanding of cleaning and health and safety procedures.



## Profitable growth

Profitable growth opportunities arise from innovation, acquisitions, and social and community leadership – all of which require responsible business practices. Social and community leadership is in three forms – charitable cash donations, colleague support, and investment.

### Customer focused innovation

- Rentokil has rolled out Entotherm, upgraded its Luminos flykiller range, and introduced Entosite – using natural predators to remove pests.
- Knightsbridge Guarding has introduced its web-based Security through E Partnership, to enable operational information sharing with customers.
- Sanitact Green is an environmental treatment for feminine hygiene bins, designed to reduce unpleasant odours in hot climates.

### Innovative business approaches

- Service delivery innovation can meet social needs as with Initial Facilities' contract at Cheltenham General Hospital. This included a new on-site Training Academy and funding a part-time Infection Control Nurse.
- Ambius's award-winning Living Walls assists customers in reducing noise levels and improves energy efficiency. The company won 11 awards at the USA Plantscape Industry Alliance awards, while its Living Green Wall at Longwood Gardens was awarded Most Outstanding Overall Project Award.
- Product development partnerships require partners with responsible standards. Textiles & Hygiene's new anti-microbial hygiene technology partnership with Byotrol addresses the needs of customers where alcohol-based sanitising products are prohibited and provides a far more effective solution against germs such as MRSA.

### Acquisitions and entering developing markets

- Due diligence is essential especially within developing countries where business practices may differ.
- Acquisitions in the UK (Santia), Mexico and Turkey demonstrate these differences. For Santia, due diligence included consulting the workforce about the new owner and including them as colleagues in open communication channels. In Turkey and Mexico, actions required integrating business processes, and ensuring company standards of governance applied, including Code of Conduct communication.

- Responsible business practices also extend to terminations, such as with the Libyan pest control operation, suspended because of the Libyan Revolution. Special attention was given to the needs of Libyan and British colleagues during the civil unrest.

### Social and community leadership

- This helps to secure key stakeholders' trust and goodwill, especially where businesses utilise skills and resources to benefit local communities.
- Initial Facilities works in London with employment charity Tomorrow's People to help vulnerable young people get back into work. It trained over 400 long-term unemployed people – 154 have gained permanent employment. This programme won an award at the 2011 Business Charity Awards for best employment scheme.
- Initial Transport Services, which has recruited 377 unemployed people and enrolled 45 people on to apprenticeships through Transport for London's "Total Purchased Services" contract.
- In South Africa, activities include supporting Embo Self-Help Project, including developing plant nursery skills.
- During 2011 a number of natural disasters (Australia flooding, New Zealand earthquake, Japan tsunami, Thailand flooding) impacted colleagues and customers. The company played a full role in supporting colleagues who made incredible efforts to service customers. In Thailand, over 50 colleagues lost their possessions and were housed within the Bangkok branch.
- Individual businesses use cause-related marketing to achieve business objectives, including Rentokil's UKWaspWatch, supporting The Anaphylaxis Campaign. Colleagues also benefit in charitable fund raising from matched giving via "Helping Hands".
- In 2011, Rentokil Initial's charitable donations amounted to £135,000 (£130,000 in 2010).

# Consolidated income statement

For the year ended 31 December

	Notes	2011 £m	2010 £m
Revenue	1	2,544.3	2,496.5
Operating expenses	2	(2,554.5)	(2,435.0)
<b>Operating (loss)/profit</b>		<b>(10.2)</b>	<b>61.5</b>
Analysed as:			
Operating profit before amortisation and impairment of intangible assets <sup>1</sup> , reorganisation costs and one-off items	1	224.7	239.3
Reorganisation costs	1	(34.6)	(27.9)
One-off items	1	(3.6)	2.8
Amortisation and impairment of intangible assets <sup>1</sup>	10	(196.7)	(152.7)
<b>Operating (loss)/profit</b>		<b>(10.2)</b>	<b>61.5</b>
Interest payable and similar charges	5	(109.7)	(114.4)
Interest receivable	6	65.1	63.3
Share of profit from associates, net of tax of £3.5m (2010: £3.1m)		4.3	4.1
<b>(Loss)/profit before income tax</b>		<b>(50.5)</b>	<b>14.5</b>
Income tax expense <sup>2</sup>	7	(16.6)	(34.8)
<b>Loss for the year</b>		<b>(67.1)</b>	<b>(20.3)</b>
Attributable to:			
Equity holders of the company		(69.7)	(23.4)
Non controlling interests		2.6	3.1
		<b>(67.1)</b>	<b>(20.3)</b>
<b>Basic earnings per share</b>	<b>8</b>	<b>(3.84p)</b>	<b>(1.29p)</b>
<b>Diluted earnings per share</b>	<b>8</b>	<b>(3.84p)</b>	<b>(1.29p)</b>
<b>Basic adjusted earnings per share<sup>3</sup></b>	<b>8</b>	<b>7.48p</b>	<b>7.81p</b>
<b>Diluted adjusted earnings per share</b>	<b>8</b>	<b>7.46p</b>	<b>7.75p</b>

<sup>1</sup> excluding computer software

<sup>2</sup> taxation includes £23.4 million (2010: £22.6 million) in respect of overseas taxation

<sup>3</sup> earnings per share before the after tax effects of amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items

# Consolidated statement of comprehensive income

For the year ended 31 December

	Notes	2011 £m	2010 £m
Loss for the year		(67.1)	(20.3)
<b>Other comprehensive income:</b>			
Net exchange adjustments offset in reserves		(6.4)	33.5
Actuarial gain on defined benefit pension plans	23	130.2	15.4
Revaluation of available-for-sale investments		0.8	1.1
Movement on cash flow hedge reserve		1.2	(1.3)
Tax on items taken directly to other comprehensive income		(32.8)	(4.2)
Cumulative exchange recycled to income statement on disposal of foreign operations		–	(2.3)
Net profit not recognised in income statement		93.0	42.2
Total comprehensive income for the year		25.9	21.9
<b>Attributable to:</b>			
Equity holders of the company		24.3	17.7
Non controlling interests		1.6	4.2
		25.9	21.9

# Consolidated balance sheet


At 31 December

	Notes	2011 £m	2010 £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	10	390.4	552.1
Property, plant and equipment	11	573.7	589.7
Investments in associated undertakings	12	22.2	18.7
Other investments	13	1.4	2.8
Deferred tax assets	22	9.5	10.3
Retirement benefit assets	23	144.0	5.0
Other receivables	14	26.3	29.6
Derivative financial instruments	15	49.5	39.7
		1,217.0	1,247.9
<b>Current assets</b>			
Other investments	13	2.1	0.9
Inventories	16	49.6	44.7
Trade and other receivables	14	433.5	414.1
Current tax assets		3.3	–
Derivative financial instruments	15	3.5	0.9
Cash and cash equivalents	17	89.9	93.0
		581.9	553.6
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	18	(540.8)	(533.8)
Current tax liabilities		(81.1)	(96.5)
Provisions for other liabilities and charges	19	(31.0)	(31.1)
Bank and other short-term borrowings	20	(56.4)	(58.6)
Derivative financial instruments	15	(0.8)	(3.0)
		(710.1)	(723.0)
<b>Net current liabilities</b>		(128.2)	(169.4)
<b>Non-current liabilities</b>			
Other payables	18	(13.4)	(12.3)
Bank and other long-term borrowings	20	(952.5)	(988.0)
Deferred tax liabilities	22	(90.7)	(69.9)
Retirement benefit obligations	23	(18.6)	(16.9)
Provisions for other liabilities and charges	19	(76.7)	(86.8)
Derivative financial instruments	15	(41.1)	(29.8)
		(1,193.0)	(1,203.7)
<b>Net liabilities</b>		(104.2)	(125.2)
<b>Equity</b>			
<b>Capital and reserves attributable to the company's equity holders</b>			
Called up share capital	24	18.1	18.1
Share premium account		6.8	6.8
Other reserves		(1,750.8)	(1,747.4)
Retained profits		1,616.2	1,586.8
		(109.7)	(135.7)
<b>Non controlling interests</b>		5.5	10.5
<b>Total equity</b>		(104.2)	(125.2)

The financial statements on pages 57 to 102 were approved by the board of directors on 1 March 2012 and were signed on its behalf by:



Alan Brown  
Chief Executive



Jeremy Townsend  
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	Non controlling interests £m	
At 1 January 2010	18.1	6.8	(1,777.3)	1,593.0	9.3	(150.1)
Loss for the year	–	–	–	(23.4)	3.1	(20.3)
Other comprehensive income:						
Net exchange adjustments offset in reserves	–	–	32.4	–	1.1	33.5
Actuarial gain on defined benefit pension plans	–	–	–	15.4	–	15.4
Revaluation of available-for-sale investments	–	–	1.1	–	–	1.1
Movement on cash flow hedge reserve	–	–	(1.3)	–	–	(1.3)
Tax on items taken directly to other comprehensive income	–	–	–	(4.2)	–	(4.2)
Cumulative exchange recycled to income statement on disposal of foreign operations	–	–	(2.3)	–	–	(2.3)
Total comprehensive income for the year	–	–	29.9	(12.2)	4.2	21.9
Transactions with owners:						
Cost of share options and long-term incentive plan	–	–	–	6.0	–	6.0
Transactions with non controlling interests:						
Acquisition of non controlling interests	–	–	–	–	(0.4)	(0.4)
Dividends paid to non controlling interests	–	–	–	–	(2.6)	(2.6)
At 31 December 2010	18.1	6.8	(1,747.4)	1,586.8	10.5	(125.2)
At 1 January 2011	18.1	6.8	(1,747.4)	1,586.8	10.5	(125.2)
Loss for the year	–	–	–	(69.7)	2.6	(67.1)
Other comprehensive income:						
Net exchange adjustments offset in reserves	–	–	(5.4)	–	(1.0)	(6.4)
Actuarial gain on defined benefit pension plans	–	–	–	130.2	–	130.2
Revaluation of available-for-sale investments	–	–	0.8	–	–	0.8
Movement on cash flow hedge reserve	–	–	1.2	–	–	1.2
Tax on items taken directly to other comprehensive income	–	–	–	(32.8)	–	(32.8)
Total comprehensive income for the year	–	–	(3.4)	27.7	1.6	25.9
Transactions with owners:						
Cost of share options and long-term incentive plan	–	–	–	6.3	–	6.3
Transactions with non controlling interests:						
Acquisition of non controlling interests	–	–	–	(4.6)	(0.4)	(5.0)
Dividends paid to non controlling interests	–	–	–	–	(6.2)	(6.2)
At 31 December 2011	18.1	6.8	(1,750.8)	1,616.2	5.5	(104.2)

Treasury shares of £11.1 million (2010: £11.1 million) have been netted against retained earnings. Treasury shares represent 6.4 million (2010: 7.4 million) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2011 was £4.0 million (2010: £7.2 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 2010	(1,722.7)	10.4	(5.0)	(59.8)	(0.2)	(1,777.3)
Net exchange adjustments offset in reserves	–	–	–	32.4	–	32.4
Revaluation of available-for-sale investments	–	–	–	–	1.1	1.1
Movement on cash flow hedge reserve	–	–	(1.3)	–	–	(1.3)
Cumulative exchange recycled to income statement on disposal of foreign operations	–	–	–	(2.3)	–	(2.3)
Total comprehensive income for the year	–	–	(1.3)	30.1	1.1	29.9
At 31 December 2010	(1,722.7)	10.4	(6.3)	(29.7)	0.9	(1,747.4)
At 1 January 2011	(1,722.7)	10.4	(6.3)	(29.7)	0.9	(1,747.4)
Net exchange adjustments offset in reserves	–	–	–	(5.4)	–	(5.4)
Revaluation of available-for-sale investments	–	–	–	–	0.8	0.8
Movement on cash flow hedge reserve	–	–	1.2	–	–	1.2
Total comprehensive income for the year	–	–	1.2	(5.4)	0.8	(3.4)
At 31 December 2011	(1,722.7)	10.4	(5.1)	(35.1)	1.7	(1,750.8)

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	2011 £m	2010 £m
<b>Cash flows from operating activities</b>			
Cash generated from operating activities	26	363.3	405.5
Interest received		5.4	5.3
Interest paid		(49.0)	(48.3)
Income tax paid		(44.5)	(35.0)
<b>Net cash generated from operating activities</b>		<b>275.2</b>	<b>327.5</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment (PPE)		(191.0)	(183.2)
Purchase of intangible fixed assets		(19.2)	(9.4)
Proceeds from sale of PPE		5.5	13.0
Acquisition of companies and businesses, net of cash acquired	29	(29.8)	(17.9)
Disposal of companies and businesses		2.8	10.0
Disposal of available-for-sale investments		0.1	–
Dividends received from associates		2.3	1.9
<b>Net cash flows from investing activities</b>		<b>(229.3)</b>	<b>(185.6)</b>
<b>Cash flows from financing activities</b>			
Dividends paid to non controlling interests		(6.2)	(2.6)
Acquisition of non controlling interests		(5.0)	–
Interest element of finance lease payments		(0.8)	(0.9)
Capital element of finance lease payments		(6.6)	(7.4)
Loan repayments		(24.1)	(122.9)
<b>Net cash flows from financing activities</b>		<b>(42.7)</b>	<b>(133.8)</b>
Net increase in cash and bank overdrafts	27	3.2	8.1
Cash and bank overdrafts at beginning of year	17	73.7	59.7
Exchange (losses)/gains on cash and bank overdrafts		(5.9)	5.9
<b>Cash and bank overdrafts at end of the financial year</b>	17	<b>71.0</b>	<b>73.7</b>



## 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 2011.

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).

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 consolidated financial statements (see the Directors’ report on page 40).

## 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. 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 non controlling 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 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 non controlling interest) 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 other comprehensive income is recognised in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

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 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 (excluding computer software) and items of a one-off nature (adjusted operating profit).

Segmental revenues and profits are shown at constant exchange rates consistent with our internal reporting and review process. Other segmental information is stated at actual exchange rates. Constant exchange rate refers to the translation of two different periods using the same exchange rate for a particular currency (the prior year’s average rate of exchange). Both the current and prior years’ currencies are translated at the prior years’ rate of exchange (£/\$:1.5486, £/€:1.1659). This gives a clearer indication of the actual performance of the business when measured against the previous year by separately identifying the impact of foreign exchange by providing information on both an actual and constant exchange rate basis. When using actual exchange rates, currencies are translated using the rate of exchange for that year.

## Reorganisation costs and one-off items

Reorganisation costs and one-off items have been separately identified as they are not considered to be “business as usual” expenses and have a varying impact on different businesses and reporting periods. These are separately identified and presented to give a clearer understanding of the performance of the business. It also shows the information in the same way as it is presented and reviewed by management.

Reorganisation costs relate directly to the group’s major reorganisation programme and consists mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties. One-off items in the current year include acquisition costs, negative goodwill credited to the income statement and the release of prior year provisions.

## 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. 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 and equity instruments issued by the acquirer. 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".

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 non controlling interests in existing subsidiary undertakings is taken directly to reserves. Costs directly attributable to business combinations made after 1 January 2010 are charged to the income statement as incurred. Costs directly attributable to business combinations prior to this date were included as part of the purchase price of the business combination. Contingent consideration is accounted for at fair value at the acquisition date with subsequent changes to the fair value being recognised in the consolidated income statement.

## 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 1 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 terminated 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 fair value (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.

## 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 plans

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 a right 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 of consideration received from the customer 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 fair value of consideration receivable from the customer for services rendered 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) 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 financial assets in the following categories: financial assets at fair value through the income statement, loans and receivables and available-for-sale financial assets. The classification depends on the purpose for which the financial assets 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

Assets are classified as current if they 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. Loans and receivables are measured at amortised cost using the effective interest rate method, subject to impairment.

#### (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". 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, 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 ongoing 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. Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant notes to the accounts.

### (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, patents 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 23 for the principal assumptions used for the Rentokil Initial Pension Scheme in the UK.

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

The following new standards and amendments to standards as adopted by the European Union at 31 December 2011 are mandatory for the first time for the financial year beginning 1 January 2012 and did not have a significant impact on the group.

IAS 24 Related party disclosures (revised 2009)

Amendments to IFRS 7 Financial Instruments: Disclosures

Amendments to IAS 1 Presentation of Financial Statements

Amendments to IFRIC 14 Prepayments of a Minimum Funding Requirement

There are no new standards or amendments to standards which are applicable to the group for the financial year beginning 1 January 2012.

# Notes to the accounts

## 1. Segment information

### Revenue and profit

	Revenue 2011 £m	Revenue 2010 £m	Operating profit/(loss) 2011 £m	Operating profit/(loss) 2010 £m
<b>At constant exchange rates<sup>1</sup></b>				
Textiles & Hygiene	771.3	751.0	115.0	110.1
Pest Control	581.3	579.5	112.4	108.6
Asia Pacific	227.3	218.3	31.7	29.6
Ambius	118.5	117.2	8.5	8.6
City Link	306.9	335.5	(31.3)	(9.6)
Initial Facilities	592.4	554.0	29.3	25.9
Central costs	–	–	(44.6)	(33.9)
<b>Total segmental</b>	<b>2,597.7</b>	<b>2,555.5</b>	<b>221.0</b>	<b>239.3</b>
Inter group revenue	(72.2)	(59.0)	–	–
<b>Exchange</b>	<b>2,525.5</b>	<b>2,496.5</b>	<b>221.0</b>	<b>239.3</b>
	18.8	–	3.7	–
<b>At actual exchange rates</b>	<b>2,544.3</b>	<b>2,496.5</b>	<b>224.7</b>	<b>239.3</b>
Reorganisation costs	–	–	(34.6)	(27.9)
One-off items	–	–	(3.6)	2.8
Amortisation of intangible assets <sup>2</sup>	–	–	(47.5)	(54.9)
Impairment of goodwill	–	–	(111.5)	(97.8)
Impairment of customer lists and relationships	–	–	(37.7)	–
Operating (loss)/profit	–	–	(10.2)	61.5
Interest payable and similar charges	–	–	(109.7)	(114.4)
Interest receivable	–	–	65.1	63.3
Share of profit from associates (net of tax)	–	–	–	–
– Asia Pacific	–	–	4.3	4.1
(Loss)/profit before income tax	–	–	(50.5)	14.5
Income tax expense	–	–	(16.6)	(34.8)
<b>Total for the year</b>	<b>2,544.3</b>	<b>2,496.5</b>	<b>(67.1)</b>	<b>(20.3)</b>

1 revenue and operating profit for both 2011 and 2010 have been translated using 2010 average exchange rates. Consequently, revenue and operating profit for 2010 has been restated from the amounts disclosed in the 2010 financial statements which were translated using 2009 average exchange rates. See accounting policies for basis of calculation

2 excluding computer software

Revenue from external customers attributed to the UK amounted to £974.2 million (2010: £973.9 million), with overseas countries accounting for the balance of £1,570.1 million (2010: £1,522.6 million). The only other country accounting for more than 10% of revenue from external customers is France, totalling £358.6 million (2010: £348.1 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>		Reorganisation costs and one-off items <sup>3</sup>		Amortisation and impairment of intangibles <sup>1,3</sup>	
	2011 £m	2010 £m	2011 £m	2010 £m	2011 £m	2010 £m
Textiles & Hygiene	37.1	34.0	8.4	5.0	5.3	4.9
Pest Control	4.6	3.8	13.0	9.4	18.0	17.3
Asia Pacific	0.3	0.3	1.7	(1.6)	17.5	20.7
Ambius	0.2	0.2	1.2	–	1.9	2.2
City Link <sup>4</sup>	1.1	1.1	2.4	10.5	150.3	104.8
Initial Facilities	28.9	19.6	8.8	3.1	3.4	2.5
Central items	–	–	2.7	(1.3)	0.3	0.3
<b>Total</b>	<b>72.2</b>	<b>59.0</b>	<b>38.2</b>	<b>25.1</b>	<b>196.7</b>	<b>152.7</b>
Tax effect	–	–	(6.0)	3.3	(23.4)	(16.5)
<b>After tax effect</b>	<b>72.2</b>	<b>59.0</b>	<b>32.2</b>	<b>28.4</b>	<b>173.3</b>	<b>136.2</b>

1 excluding computer software

2 at constant exchange rates

3 at actual exchange rates

4 included in the £150.3 million (2010: £104.8 million) amortisation and intangibles charge is an impairment charge of £145.8 million (2010: £95.0 million) for City Link

## Reorganisation costs and one-off items (before tax at actual exchange rates)

	2011 £m	2010 £m
<b>Textiles &amp; Hygiene</b>		
Reorganisation costs – Shared Service Centres <sup>1</sup>	4.4	3.6
Reorganisation costs – other businesses	3.9	1.0
Reorganisation costs – plant rationalisation <sup>2</sup>	–	0.4
Acquisition costs – see note 29	0.1	–
<b>Total – Textiles &amp; Hygiene</b>	<b>8.4</b>	<b>5.0</b>
<b>Pest Control</b>		
Reorganisation costs – UK Hygiene business <sup>2</sup>	5.7	0.3
Reorganisation costs – other businesses	1.5	1.5
Reorganisation costs – Shared Service Centres <sup>3</sup>	1.1	3.0
Libya write off <sup>4</sup>	4.8	–
Loss on disposal of businesses <sup>5</sup>	–	4.6
Acquisition costs – see note 29	1.2	–
Negative goodwill credit – see note 29	(1.3)	–
<b>Total – Pest Control</b>	<b>13.0</b>	<b>9.4</b>
<b>Asia Pacific</b>		
Reorganisation costs	1.2	–
Profit on disposal of businesses <sup>6</sup>	–	(1.6)
Acquisition costs – see note 29	0.5	–
<b>Total – Asia Pacific</b>	<b>1.7</b>	<b>(1.6)</b>
<b>Ambius</b>		
Reorganisation costs	1.2	–
<b>Total – Ambius</b>	<b>1.2</b>	<b>–</b>
<b>City Link</b>		
Reorganisation costs <sup>7</sup>	2.4	3.3
Reorganisation costs – closure of hub <sup>8</sup>	–	7.2
<b>Total – City Link</b>	<b>2.4</b>	<b>10.5</b>
<b>Initial Facilities</b>		
Reorganisation costs – project Chablis <sup>9</sup>	8.0	2.2
Reorganisation costs – other	1.2	0.9
Acquisition costs – see note 29	2.2	–
Negative goodwill credit – see note 29	(2.6)	–
<b>Total – Initial Facilities</b>	<b>8.8</b>	<b>3.1</b>
<b>Central costs</b>		
Reorganisation costs – Programme Olympic <sup>10</sup>	4.0	4.5
Release of prior year provisions	(1.3)	–
Pension changes – past service costs <sup>11</sup>	–	(35.0)
Lease guarantee <sup>12</sup>	–	29.2
<b>Total – Central costs</b>	<b>2.7</b>	<b>(1.3)</b>
<b>Total</b>	<b>38.2</b>	<b>25.1</b>
<b>Classified as:</b>		
Reorganisation costs	34.6	27.9
One-off items	3.6	(2.8)
<b>Total</b>	<b>38.2</b>	<b>25.1</b>

Additional notes in respect of 2010/11 reorganisation costs and one-off items

- 1 relates to the introduction of Shared Service Centres in Europe for back office processing and includes redundancy of employees and consultancy incurred in the implementation of these Shared Service Centres
- 2 relates to the closure of major processing plants in the UK, France, Belgium and the Netherlands including asset write-offs and redundancy costs net of the profit on the disposal of certain properties
- 3 redundancy costs – transfer of administration to Pest Control
- 4 provision against our full financial exposure arising from the suspension of our Libyan pest control business
- 5 loss on the disposal of the Spanish Textiles business partly offset by a small profit on disposal of the mats business in Finland including recycled exchange
- 6 adjustments made to the profit on disposal of businesses sold in earlier years

- 7 costs associated with redundancy, provision for the exit of non operational properties and the exit of vehicle leases  
 8 loss on disposal of the main City Link Hub  
 9 consultancy and redundancy costs associated with the reorganisation of the division into three business streams  
 10 consultancy and pilot running costs associated with the various performance improvement initiatives  
 11 reduction in pension liabilities following a change (move from RPI to CPI) in the calculation of certain future pension increases  
 12 charge in respect of a claim under a lease guarantee made by a subsidiary following the disposal of a business some 20 years ago

Segmental information has been presented in accordance with IFRS 8 "Operating Segments" which the group has implemented with effect from 1 January 2009. This statement reflects internal organisation changes made on 1 January 2011 with our Scandinavian and Iberian Textiles & Hygiene units and some small Pest units transferring from the Textiles & Hygiene division to the Pest Control division. Prior year comparisons have been restated.

Reported segments represent groups of businesses 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.

Segmental revenue and segmental profit (adjusted operating profit) are presented at constant exchange rates (2010 average exchange rates) to give a clearer indication of the actual performance of the business when measured against the previous year by separately identifying the impact of foreign exchange by providing information on both an actual and constant exchange rate basis. See Segment Reporting under accounting policies on page 63 for further details.

Revenue and operating profit relate to the following main groups of business category and activity, as described on the inside of the front cover: pest control, hygiene, textiles, interior plants, facilities services and parcel delivery. "Other" represents a number of small businesses outside of the other categories. A reconciliation of segmental revenue and operating profit to business category and activity is shown in the Business overview on pages 8 and 9.

Other segmental information is shown at actual exchange rates.

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

	Depreciation 2011 £m	Depreciation 2010 £m	Amortisation <sup>1</sup> 2011 £m	Amortisation <sup>1</sup> 2010 £m
Textiles & Hygiene	125.4	124.9	6.4	6.8
Pest Control	29.6	31.4	19.7	18.4
Asia Pacific	19.7	19.2	16.3	18.7
Ambius	11.9	12.6	1.8	2.2
City Link	4.5	12.5	5.2	10.5
Initial Facilities	5.1	5.7	3.8	2.7
Central items	0.9	1.0	1.4	1.2
<b>Total for the year</b>	<b>197.1</b>	<b>207.3</b>	<b>54.6</b>	<b>60.5</b>

<sup>1</sup> including computer software

The consolidated segment operating assets and liabilities at 31 December 2011 and 31 December 2010 and capital expenditure for the years then ended are as follows:

	Assets 2011 £m	Assets 2010 £m	Liabilities 2011 £m	Liabilities 2010 £m	Capital expenditure 2011 £m	Capital expenditure 2010 £m
Textiles & Hygiene	622.8	625.1	188.7	181.7	145.3	132.7
Pest Control	315.1	334.9	136.5	141.5	38.3	30.1
Asia Pacific <sup>1</sup>	221.2	235.6	55.6	54.3	23.8	15.6
Ambius	69.8	69.6	19.6	18.4	13.9	12.2
City Link	77.9	216.0	62.5	63.4	6.9	11.7
Initial Facilities	144.6	127.5	106.3	100.0	12.8	13.4
Central items	244.8	89.5	153.2	154.4	8.9	1.9
<b>Total</b>	<b>1,696.2</b>	<b>1,698.2</b>	<b>722.4</b>	<b>713.7</b>	<b>249.9</b>	<b>217.6</b>

<sup>1</sup> includes associates

Non-current assets other than financial instruments, deferred tax assets and post-employment assets located in the UK amount to £139.5 million (2010: £276.9 million), with overseas countries accounting for the balance of £874.5 million (2010: £916.0 million). The only other countries accounting for more than 10% of the total are France (£215.0 million, 2010: £218.8 million) and the USA (£121.2 million, 2010: £128.3 million).

## Reconciliation of segment assets/liabilities to total assets/liabilities

	Assets 2011 £m	Assets 2010 £m	Liabilities 2011 £m	Liabilities 2010 £m
Segment assets/liabilities as above	1,696.2	1,698.2	722.4	713.7
Deferred tax assets	9.5	10.3	–	–
Current tax assets	3.3	–	–	–
Cash and cash equivalents	89.9	93.0	–	–
Current tax liabilities	–	–	81.1	96.5
Bank and other short-term borrowings	–	–	56.4	58.6
Bank and other long-term borrowings	–	–	952.5	988.0
Deferred tax liabilities	–	–	90.7	69.9
<b>Total assets/liabilities</b>	<b>1,798.9</b>	<b>1,801.5</b>	<b>1,903.1</b>	<b>1,926.7</b>

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-term/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

	Total 2011 £m	Total 2010 £m
Contract service revenue (including rental income)	1,904.6	1,854.3
Non-contract service revenue	558.4	561.7
Sales of goods	81.3	80.5
	<b>2,544.3</b>	<b>2,496.5</b>

## 2. Operating expenses by nature

Operating expenses include the following items:

	Total 2011 £m	Total 2010 £m
Employee costs (note 3)	1,164.0	1,113.4
Depreciation – owned assets	190.8	200.3
– under finance leases	6.3	7.0
Amortisation – intangible assets <sup>1</sup>	47.5	54.9
– computer software	7.1	5.6
Impairment of intangibles	149.2	97.8
Cost of inventories expensed	76.2	73.5
Loss on disposal of PPE	1.5	1.9
Loss on disposal/retirement of intangible assets	0.8	0.3
Audit and non-audit services (note 4)	3.2	3.5
Hire of machinery and equipment	3.6	3.3
Other operating lease rentals	83.5	72.6
Net foreign exchange losses	0.1	(0.3)
Research and development costs (external)	2.0	1.9

<sup>1</sup> excluding computer software

### 3. Employee benefit expense

	Total 2011 £m	Total 2010 £m
Wages and salaries	979.0	937.8
Social security costs	156.0	149.1
Share-based payments	6.3	6.0
Pension costs		
defined contribution plans	21.4	19.0
Pension costs		
defined benefit plans (note 23)	1.3	1.5
	1,164.0	1,113.4

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

	Number	Number
Processing and service delivery	57,474	57,470
Sales and marketing	3,385	3,285
Administration and overheads	5,611	5,609
	66,470	66,364

Emoluments of directors of Rentokil Initial plc are included in staff costs above and in the key management compensation table in note 33.

Further details are also given in the directors' remuneration report on pages 42 to 51.

### 4. Audit and non-audit services

	2011 £m	2010 £m
Fees payable to the company's auditors for the audit of the parent company and group accounts	0.5	0.4
Fees payable to the company's auditors and its associates for other services:		
The audit of accounts of any associate of the company	2.1	2.1
Audit-related assurance services	0.4	0.4
<b>Total audit and audit-related assurance services</b>	<b>3.0</b>	<b>2.9</b>
Fees payable to the company's auditors and its associates for other services:		
Taxation compliance services	0.1	0.1
Taxation advisory services	0.1	0.4
All other non-audit services	–	0.1
<b>Total non-audit services</b>	<b>0.2</b>	<b>0.6</b>
<b>Total audit and non-audit services</b>	<b>3.2</b>	<b>3.5</b>

The amounts included in the above table relate to fees payable to KPMG Audit Plc and its associates.

## 5. Interest payable and similar charges

	2011 £m	2010 £m
Interest payable on medium term notes issued <sup>1</sup>	44.7	44.0
Interest payable on bank loans and overdrafts <sup>1</sup>	1.9	3.0
Interest payable on revolving credit facility <sup>1</sup>	2.8	4.0
Interest payable on foreign exchange swaps	1.7	3.2
Interest payable on finance leases	0.8	0.9
Amortisation of discount on provisions	1.6	0.8
<b>Underlying interest payable</b>	<b>53.5</b>	<b>55.9</b>
Interest on defined benefit plan liabilities	56.2	58.5
Foreign exchange gain on translation of foreign denominated loans	–	(0.3)
Fair value loss on other derivatives <sup>2</sup>	–	0.3
	<b>56.2</b>	<b>58.5</b>
<b>Total interest payable and similar charges</b>	<b>109.7</b>	<b>114.4</b>

1 interest expense on financial liabilities held at amortised cost

2 loss on financial assets/liabilities at fair value through the income statement

## 6. Interest receivable

	2011 £m	2010 £m
Bank interest <sup>1</sup>	2.7	4.1
Interest receivable on foreign exchange swaps	2.2	0.6
<b>Underlying interest receivable</b>	<b>4.9</b>	<b>4.7</b>
Return on defined benefit plan assets	59.4	58.6
Foreign exchange gain on translation of foreign denominated loans	0.2	–
Fair value gain on other derivatives <sup>2,3</sup>	0.6	–
	<b>60.2</b>	<b>58.6</b>
<b>Total interest receivable</b>	<b>65.1</b>	<b>63.3</b>

1 interest income on loans and receivables

2 gain on financial assets/liabilities at fair value through the income statement

3 the fair value gain on other derivatives includes fair value gains relating to interest rate swaps of £0.4 million (2010: £0.3 million loss) and fixed price commodity contracts of £0.2 million (2010: £nil)



## 7. Income tax expense

	2011 £m	2010 £m
<b>Analysis of charge in the year</b>		
UK Corporation tax at 26.5% (2010: 28%)	2.3	2.1
Overseas taxation	37.6	36.9
Adjustment in respect of previous periods	(13.0)	(10.2)
<b>Total current tax</b>	<b>26.9</b>	<b>28.8</b>
Deferred tax (credit)/charge	(7.9)	4.7
Deferred tax adjustment in respect of previous periods	(2.4)	1.3
<b>Total deferred tax*</b>	<b>(10.3)</b>	<b>6.0</b>
<b>Total income tax expense</b>	<b>16.6</b>	<b>34.8</b>
*The deferred tax (credit)/charge comprises:		
Accelerated tax depreciation	(3.0)	(0.2)
Deferred tax on retirement benefit obligations	4.1	3.2
Unremitted overseas profits/(losses)	1.6	0.6
Customer lists and other intangibles amortisation and impairment	(14.3)	(8.8)
Tax losses	1.5	14.9
Share-based payments	0.3	(3.7)
Other temporary differences	(0.5)	–
<b>Deferred tax (credit)/charge</b>	<b>(10.3)</b>	<b>6.0</b>
<b>Tax on items charged to equity</b>		
Deferred tax debit in respect of actuarial gain on defined benefit pensions	32.8	4.2
<b>Total tax debited to equity</b>	<b>32.8</b>	<b>4.2</b>

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

	2011 £m	2010 £m
Profit before income tax	(50.5)	14.5
Tax calculated at domestic tax rates applicable to profits in the respective countries	(10.7)	4.1
Adjustment in respect of previous periods	(15.4)	(9.0)
Expenses not deductible for tax purposes – other	2.9	3.9
Expenses not deductible for tax purposes – reorganisation costs and one-off items	4.9	10.8
Income not subject to tax	(1.0)	(2.0)
Goodwill deduction for which no deferred tax asset was recognised	(0.3)	(0.3)
Utilisation of previously unrecognised tax losses	(0.3)	(4.0)
Deferred tax on unremitted profits/(losses)	1.6	0.6
Goodwill impairment	29.6	27.4
Overseas withholding tax suffered	2.3	2.1
Losses not relieved	1.9	1.7
Provisions utilised for which no deferred tax assets were recognised	(1.0)	(2.4)
Local business taxes	2.6	3.4
Other	(0.5)	(1.5)
<b>Total tax expense</b>	<b>16.6</b>	<b>34.8</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 approximately 29% in 2011 and 29% in 2010.

## 8. 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 and including share options for which all conditions have been met.

	2011 £m	2010 £m
Loss attributable to equity holders of the company	(69.7)	(23.4)
Weighted average number of ordinary shares in issue	1,813.0	1,807.4
<b>Basic earnings per share</b>	<b>(3.84p)</b>	<b>(1.29p)</b>

### Diluted

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The group has two types of potential dilutive ordinary shares – those share options granted to employees where the exercise price is less than the average market price of the company's ordinary shares during the period, and the contingent issuable shares under the group's long-term incentive share plans, to the extent the performance conditions have been met at the end of the period.

	2011 £m	2010 £m
Loss attributable to equity holders of the company	(69.7)	(23.4)
Weighted average number of ordinary shares in issue	1,813.0	1,807.4
Adjustment for share options and LTIPs <sup>1</sup>	–	–
Weighted average number of ordinary shares for diluted earnings per share	1,813.0	1,807.4
<b>Diluted earnings per share</b>	<b>(3.84p)</b>	<b>(1.29p)</b>

### Adjusted

Adjusted earnings per share is the basic earnings per share adjusted for the after tax effects of amortisation and impairment of intangibles<sup>2</sup>, reorganisation costs and one-off items.

	2011 £m	2010 £m
Loss attributable to equity holders of the company	(69.7)	(23.4)
Amortisation and impairment of intangibles <sup>2</sup> , reorganisation costs and one-off items before tax	234.9	177.8
Tax on amortisation and impairment of intangibles <sup>2</sup> , reorganisation costs and one-off items	(29.4)	(13.2)
After tax effect of amortisation and impairment of intangibles <sup>2</sup> , reorganisation costs and one-off items attributable to non controlling interests	(0.2)	(0.1)
Adjusted profit attributable to equity holders of the company	135.6	141.1
Weighted average number of ordinary shares in issue	1,813.0	1,807.4
<b>Adjusted earnings per share</b>	<b>7.48p</b>	<b>7.81p</b>

### Diluted adjusted

	2011 £m	2010 £m
Adjusted profit attributable to equity holders of the company	135.6	141.1
Weighted average number of ordinary shares in issue	1,813.0	1,807.4
Adjustment for share options and LTIPs	5.5	12.7
Weighted average number of ordinary shares for diluted earnings per share	1,818.5	1,820.1
<b>Diluted adjusted earnings per share</b>	<b>7.46p</b>	<b>7.75p</b>

<sup>1</sup> potential issue of shares under share option and LTIPs schemes are not dilutive as the group reported a loss

<sup>2</sup> excluding computer software

## 9. Dividends

No dividend payments were made in 2011. A dividend in respect of 2011 of 1.33p (2010: nil) per 1p share amounting to £24.1 million (2010: £nil) is to be proposed at the annual general meeting on 1 May 2012. These financial statements do not reflect this recommended dividend.

## 10. Intangible assets

	Goodwill £m	Customer lists and relationships £m	Brands £m	Reacquired franchise rights £m	Computer software £m	Total £m
<b>Cost</b>						
At 1 January 2010	486.3	456.8	23.8	25.4	38.6	1,030.9
Exchange differences	12.2	12.9	0.7	–	0.6	26.4
Additions	–	–	–	–	9.4	9.4
Disposals/retirements	–	–	–	–	(1.9)	(1.9)
Acquisition of companies and businesses	6.5	7.8	2.5	–	–	16.8
Disposal of companies and businesses	(1.2)	(4.1)	–	–	–	(5.3)
At 31 December 2010	503.8	473.4	27.0	25.4	46.7	1,076.3
At 1 January 2011	503.8	473.4	27.0	25.4	46.7	1,076.3
Exchange differences	(3.8)	(6.4)	(0.1)	–	(0.9)	(11.2)
Additions	–	–	–	–	19.2	19.2
Disposals/retirements	–	–	–	–	(1.9)	(1.9)
Acquisition of companies and businesses	15.2	14.3	0.2	–	0.1	29.8
Disposal of companies and businesses	(0.2)	(1.2)	–	–	–	(1.4)
At 31 December 2011	515.0	480.1	27.1	25.4	63.2	1,110.8
<b>Accumulated amortisation and impairment</b>						
At 1 January 2010	(16.3)	(294.7)	(8.0)	(20.1)	(23.6)	(362.7)
Exchange differences	(0.8)	(6.1)	(1.2)	–	(0.4)	(8.5)
Disposals	–	–	–	–	1.6	1.6
Disposal of companies and businesses	–	3.7	–	–	–	3.7
Impairment charge <sup>1</sup>	(97.8)	–	–	–	–	(97.8)
Amortisation charge	–	(46.5)	(3.1)	(5.3)	(5.6)	(60.5)
At 31 December 2010	(114.9)	(343.6)	(12.3)	(25.4)	(28.0)	(524.2)
At 1 January 2011	(114.9)	(343.6)	(12.3)	(25.4)	(28.0)	(524.2)
Exchange differences	0.4	5.0	–	–	0.6	6.0
Disposals	–	–	–	–	1.1	1.1
Disposal of companies and businesses	–	0.5	–	–	–	0.5
Impairment charge <sup>1</sup>	(111.5)	(37.7)	–	–	–	(149.2)
Amortisation charge	–	(44.4)	(3.1)	–	(7.1)	(54.6)
At 31 December 2011	(226.0)	(420.2)	(15.4)	(25.4)	(33.4)	(720.4)
<b>Net Book Value</b>						
At 1 January 2010	470.0	162.1	15.8	5.3	15.0	668.2
At 31 December 2010	388.9	129.8	14.7	–	18.7	552.1
At 31 December 2011	289.0	59.9	11.7	–	29.8	390.4

<sup>1</sup> includes an impairment charge for City Link of £145.8 million (2010: £95.0 million), comprising goodwill impairment of £108.1 million (2010: £95.0 million) and customer lists impairment of £37.7 million (2010: £nil)

Amortisation of £54.6 million (2010: £60.5 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 2011 goodwill allocation by reportable segment is shown below:

	UK £m	Europe £m	North America £m	Asia Pacific £m	Africa £m	2011 Total £m	2010 Total £m
Textiles & Hygiene	3.9	56.5	–	–	–	60.4	58.6
Pest Control	4.8	35.1	64.7	–	0.2	104.8	102.0
Asia Pacific	–	–	–	85.5	–	85.5	85.6
Ambius	–	2.8	13.4	–	–	16.2	16.3
City Link	–	–	–	–	–	–	108.1
Initial Facilities	22.1	–	–	–	–	22.1	18.3
31 December 2011	30.8	94.4	78.1	85.5	0.2	289.0	
31 December 2010	135.0	92.3	75.7	85.6	0.3		388.9

### Key assumptions

The recoverable amount of a CGU is determined based on the higher of value-in-use calculations using cash flow projections and fair value less costs to sell if appropriate. The cash flow projections are based on financial budgets and long-range plans approved by management and the board covering a three-year period which are prepared as part of the group's normal planning process. Cash flows for years 4 and 5 use management's expectation of sales growth, operating costs and margin, based on past experience and expectations regarding future performance and profitability for each CGU. Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates. The key assumptions used by individual CGUs for value-in-use calculations were long-term growth rates of between 2% and 3% (2010: 2% and 3%) and pre-tax discount rates of between 10% and 13% (2010: 9% and 12%). 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.

### Impairment charges

	2011 £m	2010 £m
<b>Textiles &amp; Hygiene</b>		
• Europe	1.1	–
<b>Asia Pacific</b>	2.3	2.8
<b>City Link</b>		
• UK	108.1	95.0
	111.5	97.8

All impairment charges have been recorded in the income statement within operating expenses.

At the end of 2009 City Link had capitalised goodwill of £203.1 million held in respect of the acquisition of Target Express and the ex-City Link franchise companies. The annual impairment review in 2010 resulted in an impairment charge of £95.0 million triggered by reduced actual and forecast future cash flows. The City Link impairment charge of £108.1 million in 2011 was triggered by reduced actual and forecast future cash flows with City Link struggling in 2011 to take out operating costs in line with revenue and volume decline. There is no remaining City Link goodwill.

The actual and forecast cash flows indicate a recoverable amount for City Link below that of the residual net assets, after goodwill impairment. As a consequence, these assets have been impaired to that recoverable amount. In allocating that impairment, individual assets have been reduced no further than the higher of their fair value less cost to sell or value-in-use. The impact is an additional write down to reduce the customer list intangibles to zero as set out in the table on page 79.

The key assumption in arriving at the impairment is a return to profit within a three-year period. Additionally, a pre-tax discount rate of 13% and a long-term growth rate of 2% were used.

The impairment charges in the Textiles & Hygiene and Asia Pacific segments arose due to deteriorating trading conditions within two specific businesses in these segments.

### Sensitivity analysis

The value of residual City Link net assets following the impairment is £20.6 million at 31 December 2011. A reduction in the long-term growth rate of 1% would result in an additional impairment of £4.2 million to the remaining net assets.

The remaining goodwill balance of £289.0 million is spread across a number of CGUs, sensitivity analysis has been performed for each key assumption and the directors have not identified any reasonably possible material changes in the key assumptions that would cause the carrying value of goodwill to exceed the recoverable amount.

## 11. 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 2010	206.5	661.3	308.5	238.5	1,414.8
Exchange differences	(3.3)	(3.8)	(6.9)	6.0	(8.0)
Additions	9.5	127.2	20.9	32.7	190.3
Disposals	(19.3)	(85.5)	(29.2)	(33.1)	(167.1)
Acquisition of companies and businesses <sup>1</sup>	1.0	–	–	0.1	1.1
Disposal of companies and businesses	(2.8)	(15.3)	(10.8)	(1.2)	(30.1)
At 31 December 2010	191.6	683.9	282.5	243.0	1,401.0
At 1 January 2011	191.6	683.9	282.5	243.0	1,401.0
Exchange differences	(4.5)	(20.5)	(6.8)	(5.7)	(37.5)
Additions	4.8	141.9	16.0	38.7	201.4
Disposals	(7.4)	(110.7)	(15.1)	(35.0)	(168.2)
Acquisition of companies and businesses <sup>1</sup>	1.1	–	0.2	1.4	2.7
Disposal of companies and businesses	(1.6)	(0.8)	(0.3)	(0.5)	(3.2)
Reclassification	0.8	(0.3)	(1.3)	0.8	–
At 31 December 2011	184.8	693.5	275.2	242.7	1,396.2
<b>Accumulated depreciation and impairment</b>					
At 1 January 2010	(49.6)	(399.5)	(198.5)	(130.9)	(778.5)
Exchange differences	0.7	1.4	4.6	(3.0)	3.7
Disposals	11.4	84.0	27.3	29.5	152.2
Disposal of companies and businesses	0.5	11.1	6.0	1.0	18.6
Depreciation charge	(13.8)	(131.0)	(23.7)	(38.8)	(207.3)
At 31 December 2010	(50.8)	(434.0)	(184.3)	(142.2)	(811.3)
At 1 January 2011	(50.8)	(434.0)	(184.3)	(142.2)	(811.3)
Exchange differences	1.3	12.9	4.7	3.4	22.3
Disposals	4.4	109.7	14.7	32.4	161.2
Disposal of companies and businesses	1.0	0.8	0.2	0.4	2.4
Depreciation charge	(7.4)	(127.7)	(23.5)	(38.5)	(197.1)
Reclassification	–	–	0.3	(0.3)	–
At 31 December 2011	(51.5)	(438.3)	(187.9)	(144.8)	(822.5)
<b>Net Book Value</b>					
At 1 January 2010	156.9	261.8	110.0	107.6	636.3
At 31 December 2010	140.8	249.9	98.2	100.8	589.7
At 31 December 2011	133.3	255.2	87.3	97.9	573.7
<b>The net carrying amounts of assets held under finance leases are as follows:</b>					
At 31 December 2010	0.9	–	0.4	11.6	12.9
At 31 December 2011	0.8	–	0.3	9.7	10.8

<sup>1</sup> included within acquisition of companies and businesses are fair value adjustments to prior periods of £nil (2010: £nil). Refer to note 29 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.

## 12. Investments in associated undertakings

	2011 £m	2010 £m
At 1 January	18.7	13.4
Exchange differences	1.5	3.1
Share of profit <sup>1</sup>	4.3	4.1
Dividends	(2.3)	(1.9)
At 31 December	22.2	18.7

<sup>1</sup> share of profit is after tax

Investments in associates at 31 December 2011 includes goodwill of £nil (2010: £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
2011						
Nippon Calmic Ltd (49%)	Japan	34.0	(10.7)	38.4	4.3	49%
2010						
Nippon Calmic Ltd (49%)	Japan	30.1	(10.2)	35.3	4.1	49%

## 13. Other investments

	2011 £m	2010 £m
At 1 January	3.7	3.7
Additions	–	2.3
Disposals	(0.2)	(2.3)
At 31 December	3.5	3.7
Less: non-current portion	1.4	2.8
Current portion	2.1	0.9
Available-for-sale financial assets include the following:		
• UK Government gilts and US Treasury bonds	3.4	3.5
• Unlisted equity securities – Continental Europe	0.1	0.2
	3.5	3.7

All other investments are classified as available-for-sale financial assets and are valued based on public price quotations as appropriate (fair value hierarchy level 1). Changes in fair values of available-for-sale financial assets are recorded directly in equity. Other investments were not impaired in 2011 or 2010.

Available-for-sale financial assets are denominated in the following currencies:		
• Pounds sterling	3.1	3.2
• US dollar	0.3	0.3
• Euro	0.1	0.2
	3.5	3.7

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

### Investments

Fixed rate cash deposits include £3.4 million (2010: £3.5 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 5.3% (2010: 5.2%) and the weighted average rate is fixed for 1.1 years (2010: 1.5 years).

## 14. Trade and other receivables

	2011 £m	2010 £m
Trade receivables	380.2	375.0
Less: provision for impairment of receivables	(20.1)	(21.1)
Trade receivables – net	360.1	353.9
Other receivables	48.7	46.3
Prepayments	51.0	43.5
<b>Total</b>	<b>459.8</b>	<b>443.7</b>
Less non-current portion:		
Other receivables	26.3	29.6
	26.3	29.6
<b>Current portion</b>	<b>433.5</b>	<b>414.1</b>

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:

	2011 £m	2010 £m
At 1 January	21.1	23.0
Acquisition of companies and businesses	0.9	0.1
Disposal of companies and businesses	(0.3)	(0.2)
Additional provision	12.6	7.6
Receivables written off as uncollectable	(11.6)	(6.3)
Unused amounts reversed	(2.2)	(3.3)
Exchange differences	(0.4)	0.2
<b>At 31 December</b>	<b>20.1</b>	<b>21.1</b>

The ageing of trade receivables is as follows:

	2011 £m	2010 £m
Neither impaired nor past due	164.5	155.8
Not impaired but overdue by less than 1 month	100.2	101.8
Not impaired but overdue by between 1 and 3 months	64.0	63.1
Not impaired but overdue by between 3 and 6 months	10.6	14.7
Not impaired but overdue by between 6 and 12 months	4.6	5.0
Not impaired but overdue by more than 12 months	2.7	4.6
Impaired	33.6	30.0
Allowance for doubtful debts	(20.1)	(21.1)
	360.1	353.9

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 2011 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:

	2011 £m	2010 £m
Pounds sterling	122.0	111.2
Euro	185.3	188.6
US dollar	20.5	20.4
Other currencies	52.4	54.8
	380.2	375.0

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 £17.7 million (2010: £21.3 million) of interest bearing and £nil (2010: £1.0 million) of non-interest bearing notes and deferred consideration received in respect of business disposals. The notes/deferred consideration have final maturities between 2011 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.

## 15. Derivative financial instruments

	Fair value assets 2011 £m	Fair value assets 2010 £m	Fair value liabilities 2011 £m	Fair value liabilities 2010 £m
Interest rate swaps:				
• non-hedge	49.5	39.6	(35.7)	(23.1)
• cash flow hedge	–	–	(5.4)	(6.6)
Foreign exchange swaps:				
• non-hedge	2.1	0.4	(0.2)	(2.0)
• net investment hedge	0.1	0.6	(0.5)	(0.8)
Foreign exchange forwards:				
• non-hedge	0.7	–	(0.1)	(0.2)
• net investment hedge	0.4	–	–	(0.1)
Commodity futures:				
• non-hedge	0.2	–	–	–
	53.0	40.6	(41.9)	(32.8)
Analysed as follows:				
Current portion	3.5	0.9	(0.8)	(3.0)
Non-current portion	49.5	39.7	(41.1)	(29.8)
	53.0	40.6	(41.9)	(32.8)

Cash flow hedge accounting has been applied to derivatives (marked as “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 cash flow hedges is taken directly to finance costs. 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's £50 million bond is fixed to maturity and the group's £75 million bond is fixed to September 2013 using floating to fixed interest rate swaps. Cash flow hedge accounting has been applied and a net credit of £1.2 million has been recognised in reserves during the year (2010: £1.3 million charge).

The effective nominal value of foreign exchange swaps is £94.6 million (2010: £215.1 million) and foreign exchange forwards is £26.0 million (2010: £46.9 million).

The group has outstanding fixed price commodity contracts under in 12 months. Total nominal value of these contracts is €4.3 million (2010: €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 models based on market rates which are observable. Therefore all derivative financial instruments and available-for-sale assets held by the group fall into Level 2. No financial instruments have moved between levels in the year.

**16. Inventories**

	2011 £m	2010 £m
Raw materials	10.4	9.7
Work in progress	1.5	0.5
Finished goods	37.7	34.5
	49.6	44.7

There were no material inventory impairment charges in 2011 and 2010.

**17. Cash and cash equivalents**

	2011 £m	2010 £m
Cash at bank and in hand	82.4	86.9
Short-term bank deposits	7.5	6.1
	89.9	93.0
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
Cash and cash equivalents	89.9	93.0
Bank overdrafts (note 20)	(18.9)	(19.3)
	71.0	73.7

Included within cash at bank and in hand is £14.7 million (2010: £12.5 million) of restricted cash. This cash is held in respect of specific contracts and can only be utilised in line with terms under the contractual arrangements.

Interest is receivable and payable at rates of interest varying between 0.0% and 6.0%.

**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.

## 18. Trade and other payables

	2011 £m	2010 £m
Trade payables	145.8	121.2
Social security and other taxes	88.4	82.7
Other payables	63.2	69.1
Accruals and deferred income	249.9	264.8
Deferred and contingent consideration on acquisitions	6.9	8.3
<b>Total</b>	<b>554.2</b>	<b>546.1</b>
Less non-current portion:		
Other payables	13.4	12.3
	13.4	12.3
<b>Current portion</b>	<b>540.8</b>	<b>533.8</b>

## 19. Provisions for other liabilities and charges

	Vacant properties £m	Environmental £m	Self- insurance £m	Other £m	Total £m
At 1 January 2010	28.8	23.6	34.5	38.9	125.8
Exchange differences	–	(0.3)	0.7	(0.5)	(0.1)
Additional provisions	30.8	–	4.0	4.8	39.6
Unused amounts reversed	(0.3)	(1.1)	(2.4)	(0.7)	(4.5)
Unwinding of discount on provisions	0.3	0.5	–	–	0.8
Used during the year	(6.2)	(2.6)	(8.4)	(26.5)	(43.7)
<b>At 31 December 2010</b>	<b>53.4</b>	<b>20.1</b>	<b>28.4</b>	<b>16.0</b>	<b>117.9</b>
At 1 January 2011	53.4	20.1	28.4	16.0	117.9
Exchange differences	–	(0.3)	–	(0.2)	(0.5)
Additional provisions	10.7	0.6	3.5	8.7	23.5
Acquisition of companies and businesses	–	–	–	0.9	0.9
Unused amounts reversed	(3.5)	–	–	(4.3)	(7.8)
Unwinding of discount on provisions	1.1	0.4	–	–	1.5
Used during the year	(8.6)	(1.4)	(8.7)	(9.1)	(27.8)
<b>At 31 December 2011</b>	<b>53.1</b>	<b>19.4</b>	<b>23.2</b>	<b>12.0</b>	<b>107.7</b>

Provisions analysed as follows:

	2011 £m	2010 £m
Non-current	76.7	86.8
Current	31.0	31.1
	107.7	117.9

### 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.

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases at 31 December 2011 is £4.6 million (2010: £3.4 million).

**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 discount rates of 0.3% to 2.0% (2010: 1.7% to 3.5%) for the UK, 1.1% (2010: 2.9%) for Europe and 1.8% (2010: 2.9%) for the USA.

## 20. Bank and other borrowings

	2011 £m	2010 £m
<b>Non-current</b>		
RCF and other bank borrowings	90.0	113.8
Bond debt	855.0	867.5
Finance lease liabilities	7.5	6.7
	952.5	988.0
<b>Current</b>		
Bank overdrafts (note 17)	18.9	19.3
Bank borrowings	3.6	2.6
Bond accruals	28.3	29.7
Finance lease liabilities	5.6	7.0
	56.4	58.6
<b>Total bank and other borrowings</b>	<b>1,008.9</b>	<b>1,046.6</b>

Medium term notes and bond debt comprises:

	Bond interest coupon	Effective hedged rate
<b>Non current</b>		
£300m bond due March 2016	Fixed 5.75%	Fixed 4.47%
£75m bond due September 2013/2033	Floating 3 month LIBOR + 3.98%	Fixed 7.93%
£50m bond due October 2013	Floating 3 month LIBOR + 3.25%	Fixed 7.28%
€500m bond due March 2014	Fixed 4.625%	Fixed 4.99%
Average cost of bond debt at year end rates		5.20%

The group has a committed £270 million revolving credit facility which expires in December 2016 and which accrues interest at LIBOR for the period drawn plus a margin. The cost of borrowing under the RCF at the year end was 2.1%.

The group's RCF, bank borrowings and bonds are held at amortised cost.

The £300 million bond was revalued for changes in interest rates during the period March 2006 to April 2009, during which the group paid floating interest rates. At the end of this period, the group reverted to paying fixed interest rates and revaluation of the bond ceased as the hedge relationship ended. The bond is recorded in the financial statements at amortised cost and revaluation differences are amortised to the consolidated income statement over the life of the bond thus producing the effective rate indicated above.

The carrying values and the fair values of the group's non-current borrowings are shown below. Fair values are based on cash flows discounted at the current market rates:

	Carrying amount 2011 £m	Carrying amount 2010 £m	Fair value 2011 £m	Fair value 2010 £m
Bank borrowings	90.0	113.8	90.0	113.9
£300m bond due March 2016	316.2	319.9	315.5	307.6
£75m bond due September 2013/2033	74.9	74.9	97.5	86.3
£50m bond due October 2013	49.9	49.8	50.4	51.3
€500m bond due March 2014	414.0	422.9	432.7	440.1
Finance lease liabilities	7.5	6.7	7.5	6.7
	952.5	988.0	993.6	1,005.9

The group's £75 million floating rate note due September 2033 includes an investor option to call the bond in at fair value in September 2013 and every two years thereafter.

The group considers the fair value of its current liabilities to be equal to the carrying value.

#### Finance leases

Finance lease payments fall due as follows:

	2011 £m	2010 £m
Not later than one year	5.8	7.4
Between:		
• one and two years	4.6	3.7
• two and three years	2.3	2.5
• three and four years	1.0	0.8
• four and five years	0.1	0.2
• over five years	–	–
	13.8	14.6
Future finance charges on finance leases	(0.7)	(0.9)
Present value of finance lease liabilities	13.1	13.7

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

#### Undrawn committed borrowing facilities

The group's committed borrowing facilities comprise a £270 million Revolving Credit Facility and a £40 million Letter of Credit facility, both maturing December 2016. The group also had a £35 million Letter of Credit facility that was unavailable for drawing at year end pending transfer to the £40 million facility opened in December 2011. At 31 December, £90 million (2010: £110 million) was drawn under the Revolving Credit Facility and £39.2 million (2010: £39.8 million) of letters of credit were in issue.

	2011 £m	2010 £m
Expiring within		
• one year, or on demand	–	–
• one and two years	–	410.2
• two and three years	–	–
• three and four years	–	–
• four and five years	180.8	–
• over five years	–	–
	180.8	410.2

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

## 21. Maturity profile of financial liabilities

The table below analyses the undiscounted contractual cash flows of the group's financial liabilities, including interest payments.

	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 2011</b>					
Borrowings	62.1	163.0	868.5	–	1,093.6
Derivative financial instruments	3.6	2.8	–	–	6.4
Trade and other payables	350.3	13.4	–	–	363.7
Finance leases	5.8	4.6	3.4	–	13.8
Other	18.4	9.3	17.3	15.0	60.0
	440.2	193.1	889.2	15.0	1,537.5
<b>At 31 December 2010</b>					
Borrowings	66.0	158.4	652.9	317.5	1,194.8
Derivative financial instruments	2.9	2.7	1.1	–	6.7
Trade and other payables	342.1	12.3	–	–	354.4
Finance leases	7.4	3.7	3.5	–	14.6
Other	18.0	7.8	17.2	26.6	69.6
	436.4	184.9	674.7	344.1	1,640.1

Other includes £53.1 million (2010: £61.3 million) in respect of provisions related to underlying onerous lease contracts and £6.9 million (2010: £8.3 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 2011</b>								
<b>Assets</b>								
Other investments	–	–	3.5	–	–	3.5	1.4	2.1
Trade and other receivables	–	391.1	17.7	–	51.0	459.8	26.3	433.5
Derivative financial instruments	53.0	–	–	–	–	53.0	49.5	3.5
Cash and cash equivalents	–	89.9	–	–	–	89.9	–	89.9
<b>Liabilities</b>								
Derivative financial instruments	(41.9)	–	–	–	–	(41.9)	(41.1)	(0.8)
Trade and other payables	–	–	–	(370.6)	(183.6)	(554.2)	(13.4)	(540.8)
Bank and other borrowings	–	–	–	(1,008.9)	–	(1,008.9)	(952.5)	(56.4)
<b>At 31 December 2010</b>								
<b>Assets</b>								
Other investments	–	–	3.7	–	–	3.7	2.8	0.9
Trade and other receivables	–	378.9	21.3	–	43.5	443.7	29.6	414.1
Derivative financial instruments	40.6	–	–	–	–	40.6	0.9	39.7
Cash and cash equivalents	–	93.0	–	–	–	93.0	–	93.0
<b>Liabilities</b>								
Derivative financial instruments	(32.8)	–	–	–	–	(32.8)	(29.8)	(3.0)
Trade and other payables	–	–	–	(362.7)	(183.4)	(546.1)	(12.3)	(533.8)
Bank and other borrowings	–	–	–	(1,046.6)	–	(1,046.6)	(988.0)	(58.6)

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
<b>At 31 December 2011</b>					
Foreign exchange swaps					
• Outflow	(135.3)	–	–	–	(135.3)
• Inflow	136.9	–	–	–	136.9
Foreign exchange forwards					
• Outflow	(51.4)	–	–	–	(51.4)
• Inflow	52.6	–	–	–	52.6
Net outflow	2.8	–	–	–	2.8
<b>At 31 December 2010</b>					
Foreign exchange swaps					
• Outflow	(235.5)	–	–	–	(235.5)
• Inflow	234.0	–	–	–	234.0
Foreign exchange forwards					
• Outflow	(46.9)	–	–	–	(46.9)
• Inflow	47.0	–	–	–	47.0
Net outflow	(1.4)	–	–	–	(1.4)

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

	Borrowings 2011 £m	Borrowings 2010 £m	Trade payables and other 2011 £m	Trade payables and other 2010 £m	Total 2011 £m	Total 2010 £m
Pounds sterling	555.4	573.2	211.6	204.9	767.0	778.1
Euro	443.2	457.0	134.1	132.9	577.3	589.9
US dollar	3.2	3.8	28.4	28.0	31.6	31.8
Other currencies	7.1	12.6	49.6	50.3	56.7	62.9
	1,008.9	1,046.6	423.7	416.1	1,432.6	1,462.7

#### 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.

#### Risk management

The group's activities expose it to capital risk, liquidity risk, market risk and credit risk.

#### Capital risk

The group is committed to maintaining a debt/equity structure which allows continued access to a broad range of financing sources and sufficient flexibility to pursue commercial opportunities in a timely manner as they present themselves, without onerous financing terms and conditions. The group has in issue Medium Term Notes and a £270 million Revolving Credit Facility (see note 20 for details). The group's Revolving Credit Facility contains covenants requiring that EBITDA : Interest should be at least 4.0 : 1.0 and that Net Debt : Adjusted EBITDA should be no greater than 3.5 : 1.0 at each semi-annual reporting date. The group remains compliant.

The group targets an investment grade rating of BBB or above for debt issuance over the medium term. Currently the group is rated BBB – with a stable outlook.



The group's Medium Term Notes may be recalled by its investors in the event of a change of control of the group and within 120 days if:

- (a) the group's debt is down-graded below investment grade or the rating is withdrawn; and
- (b) the rating agency confirms in writing, either publicly or in writing to the issuer or the Trustee that the rating action occurred either wholly or in part due to the change of control.

The group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. Capital consists of ordinary shares, retained earnings and non-controlling interests of the group. Management monitor the return on capital as well as the level of dividends to ordinary shareholders.

There were no changes in the group's approach to capital management during the year.

#### Liquidity risk

The group is committed to ensuring it has sufficient liquidity to meet its payables as they fall due. To achieve this it aims to maintain significant committed headroom. At 31 December 2011 the group had available headroom under its new smaller facility of £180 million (2010: £390 million).

#### 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 the 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.

##### (i) Foreign exchange rate risk

The group is exposed to the following foreign exchange risks: pre-transaction risk, transaction risk, translation risk and economic risk.

The group's policy response is as follows:

- Pre-transaction risk – The majority of sales and purchases are local, limiting pre-transaction risk. The policy is therefore to accept and monitor the risk.
- Transaction risk – The majority of sales and purchases are local, limiting transaction risk. The policy is therefore to accept and monitor the risk. Where significant acquisitions or disposals (not internally funded) are to be undertaken, the transaction may be hedged to give certainty of pricing.
- Translation risk – The group is exposed to translation risk as a result of its worldwide operations. The group aims to hold debt in currencies broadly matching its forecast cash flows, meaning that currency interest costs reduce the net profit retranslation exposure. This reduces the volatility of earnings affecting the group's interest cover covenant. Foreign currency debt is designated for hedge accounting as a hedge of its currency net assets, so reducing its net currency assets. Retranslation gains and losses are recognised in reserves, rather than in the income statement.
- Economic risk – Economic risk is a core risk to the business, which the business therefore accepts and monitors.

2011 saw considerable volatility in financial markets due to ongoing concerns regarding unsustainable Sovereign debt levels within certain Eurozone countries. The potential impact on the group is two-fold:

- (i) Worsening GDP and trading conditions within the Eurozone, which the group consider as part of its ongoing operating plans; and
- (ii) Funding – the break-up of the Eurozone would likely result in individual countries reverting to their pre-Euro currencies. Approximately half of the group's net debt is denominated in Euro which would need to be re-denominated. Management monitor this risk but at present have no information to suggest that European governments do not remain committed to the Euro.

The group calculates the impact on the income statement and equity of a 10% shift in foreign exchange rates. The group's principal foreign currency exposure is to Euro, and a 10% shift in GBP/EUR would result in a £11.2 million (2010: £8.7 million) increase/decrease in operating profit, offset by a £1.9 million (2010: £1.9 million) decrease/increase in interest payable. Equity reserves would decrease/increase by £7.4 million (2010: £5.9 million).

##### (ii) Interest rate risk

The group is exposed to cash flow interest rate risk on borrowings and cash balances held at variable rates, resulting in variable interest cash flows. Fixed rate instruments provide certain interest cash flows but change in market value as market expectations of interest rates change.

The group seeks to manage interest rate risk to ensure reasonable certainty of its interest cash flows whilst allowing an element of risk exposure consistent with the variability of the group's cash flows.

The group is required to fix (or cap) a minimum of 50% of the group's estimated future interest rate exposures (excluding pensions) for a minimum of 12 months forward.

At the end of December 2011 approximately 91% of the group's debt was at a fixed rate of interest. The impact on profit and loss of a 1% shift would be a maximum increase/decrease of £0.2 million (2010: £0.6 million).

The £50 million bond and the £75 million bond were issued at floating rates and swapped to fixed rate. Changes in the valuation of the fixed rate instrument are recorded in equity. The impact on equity of a 1% shift in interest rates would be a maximum increase/decrease of £1.3 million (2010: £3.3 million). The £300 million bond and the €500 million bond are held at historic cost.

#### Credit risk

The group has no significant concentration of credit risk. Sales are typically low value, high volume, spreading the risk across a number of customers. Policies are in place to ensure that sales are only made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institution and there is no significant concentration of exposure to any single counterparty. The group monitors the creditworthiness of its derivative counterparties using a combination of credit ratings and other market indicators. All of the group's banking and derivative counterparties were graded A- or above by Standard & Poor's or equivalent at 31 December 2011. The group operates in some territories where there is increased exposure to trade credit risks and in those cases the group puts in place appropriate additional measures where possible to manage its credit exposure.

#### Treasury risk

The company utilises financial instruments to manage known financial exposures in line with policies agreed by the board and outlined above. The company does not enter into any speculative derivative contracts.

## 22. Deferred income tax

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

	2011 £m	2010 £m
At 1 January	(59.6)	(47.8)
Exchange differences	1.9	1.1
Acquisition of companies and businesses	(1.1)	(2.3)
Disposal of companies and businesses	0.1	(0.4)
Credited/(charged) to the income statement	10.3	(6.0)
Charged to equity	(32.8)	(4.2)
At 31 December	(81.2)	(59.6)
Deferred taxation has been presented on the balance sheet as follows:		
Deferred tax asset within non-current assets	9.5	10.3
Deferred tax liability within non-current liabilities	(90.7)	(69.9)
	(81.2)	(59.6)

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

	Customer lists/ intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Tax losses £m	Share-based payments £m	Other £m	Total £m
At 31 December 2010	33.2	53.4	(11.0)	5.0	(2.3)	(3.7)	(15.0)	59.6
Recognised in income statement	(14.3)	(3.0)	4.1	1.6	1.5	0.3	(0.5)	(10.3)
Recognised directly in equity	–	–	32.8	–	–	–	–	32.8
Exchange differences recognised in other comprehensive income	(0.5)	(1.3)	–	(0.1)	–	–	–	(1.9)
Acquired in business combinations	1.1	–	–	–	–	–	–	1.1
Disposal of businesses	–	(0.1)	–	–	–	–	–	(0.1)
At 31 December 2011	19.5	49.0	25.9	6.5	(0.8)	(3.4)	(15.5)	81.2

At the balance sheet date the group has tax losses of £394.6 million (2010: £381.1 million) on which no deferred tax asset is recognised. Of the losses, £79.1 million will expire at various dates between 2012 and 2031. In addition, there are capital losses carried forward of £295.8 million (2010: £294.4 million) on which no deferred tax asset is recognised. Other deferred tax assets relating to gross temporary timing differences of £14.5 million (2010: £23.9 million) have not been recognised due to the uncertainty regarding their utilisation.

The reduction in the UK corporation tax rate from 27% to 25% has had no material impact on the deferred tax position.

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.

## 23. 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 principal scheme in the group is the Rentokil Initial Pension Scheme ("RIPS") in the UK, 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 group has come to an agreement with the UK pension scheme trustees in relation to the 31 March 2010 triennial valuation of the group's UK pension scheme and the funding thereof. As shown below, the balance sheet records an IAS 19 pension scheme surplus at 31 December 2011 of £144 million, whereas the agreement with the trustees assumes a funding deficit, reflecting the position at 31 March 2010 and the underlying assumptions used for a funding basis. The funding deficit assumed in the agreement is £80 million with a funding arrangement by the group of £12.5 million per annum over an 8-year period commencing on 1 January 2012.

These defined benefit schemes are reappraised bi-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.

	2011	2010
Weighted average %		
Discount rate	4.8%	5.4%
Expected return on plan assets	5.2%	5.7%
Future salary increases	4.0%	4.4%
Future pension increases	3.2%	3.5%
RPI inflation	3.3%	3.7%
CPI inflation	2.4%	3.0%

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 2011, less an appropriate allowance for the cost of maintaining the swap portfolio.

### Mortality assumptions

The mortality assumptions are based on 90% of the SAPS Heavy tables for "staff" members; and 100% of the SAPS Light tables for "management" members. In both instances the post-retirement mortality used allows for future mortality improvements in line with CMI\_2009 Core Projections. The long-term minimum rate of future improvement is 1.0% per annum and is a best-estimate rate of future improvements for both "staff" and "management" members of the Scheme. This equates to a man currently aged 65 living for a further 20.5 years if he is a "staff" member and for a further 23.6 years if he is a "management" member. The corresponding figures for a woman are 23.8 and 24.6 years respectively.

The same assumptions were adopted at 31 December 2010.

### Sensitivity of assumptions

	Sensitivity	Impact on pension obligations (£m)	
		Increase	Decrease
Discount rate	1.0%	169.6	(217.1)
Inflation	1.0%	(119.5)	103.1
Mortality	1 year	(35.3)	35.8

## Pension benefits

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

	2011 UK RIPS £m	2011 Other <sup>1</sup> £m	2011 Total £m	2010 UK RIPS £m	2010 Other <sup>1</sup> £m	2010 Total £m
Present value of funded obligations	(1,109.9)	(27.6)	(1,137.5)	(1,043.4)	(27.6)	(1,071.0)
Fair value of plan assets	1,253.9	20.5	1,274.4	1,048.4	21.8	1,070.2
Present value of unfunded obligations	144.0	(7.1)	136.9	5.0	(5.8)	(0.8)
	–	(11.5)	(11.5)	–	(11.1)	(11.1)
(Liability)/asset in the balance sheet	144.0	(18.6)	125.4	5.0	(16.9)	(11.9)
Presented on the balance sheet as:						
Retirement benefit assets	144.0	–	144.0	5.0	–	5.0
Retirement benefit obligations	–	(18.6)	(18.6)	–	(16.9)	(16.9)
	144.0	(18.6)	125.4	5.0	(16.9)	(11.9)

The amounts recognised in the income statement are as follows:

	2011 UK RIPS £m	2011 Other <sup>1</sup> £m	2011 Total £m	2010 UK RIPS £m	2010 Other <sup>1</sup> £m	2010 Total £m
Current service cost <sup>2</sup>	0.3	1.0	1.3	0.4	1.1	1.5
Past service cost <sup>3</sup>	–	–	–	(35.0)	–	(35.0)
Interest cost <sup>2</sup>	55.1	1.1	56.2	57.3	1.2	58.5
Amount charged to pension liability	55.4	2.1	57.5	22.7	2.3	25.0
Expected return on plan assets <sup>2</sup>	(58.4)	(1.0)	(59.4)	(57.4)	(1.2)	(58.6)
Total pension (income)/cost	(3.0)	1.1	(1.9)	(34.7)	1.1	(33.6)

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

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

3 a credit in respect of a change in pension liabilities as a result of using CPI rather than RPI for calculating certain future pension increases

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

	2011 UK RIPS £m	2011 Other <sup>1</sup> £m	2011 Total £m	2010 UK RIPS £m	2010 Other <sup>1</sup> £m	2010 Total £m
At 1 January	1,048.4	21.8	1,070.2	978.8	22.3	1,001.1
Exchange differences	–	(0.5)	(0.5)	–	(0.1)	(0.1)
Expected return on plan assets	58.4	1.0	59.4	57.4	1.2	58.6
Actuarial gain/(loss) during the year	193.0	(1.3)	191.7	57.4	(0.5)	56.9
Contributions received from employees	0.1	0.1	0.2	0.1	0.1	0.2
Contributions received from employer	0.3	0.6	0.9	0.3	1.0	1.3
Benefits paid	(46.3)	(1.2)	(47.5)	(45.6)	(2.2)	(47.8)
At 31 December	1,253.9	20.5	1,274.4	1,048.4	21.8	1,070.2

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

	2011 UK RIPS £m	2011 Other <sup>1</sup> £m	2011 Total £m	2010 UK RIPS £m	2010 Other <sup>1</sup> £m	2010 Total £m
Equity instruments	223.1	8.0	231.1	188.9	8.4	197.3
Debt instruments	392.4	6.4	398.8	435.7	10.8	446.5
Property	–	1.1	1.1	–	0.7	0.7
Other	2.9	5.0	7.9	65.0	1.9	66.9
Interest and inflation rate hedging instruments	635.5	–	635.5	358.8	–	358.8
Total plan assets	1,253.9	20.5	1,274.4	1,048.4	21.8	1,070.2

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.

Pension plan assets include the company's ordinary shares with a fair value of £nil (2010: £nil).

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

	2011 UK RIPS £m	2011 Other <sup>1</sup> £m	2011 Total £m	2010 UK RIPS £m	2010 Other <sup>1</sup> £m	2010 Total £m
At 1 January	1,043.4	38.7	1,082.1	1,026.7	38.7	1,065.4
Exchange differences	–	(0.9)	(0.9)	–	(0.3)	(0.3)
Total expense charged in the income statement	55.4	2.1	57.5	22.7	2.3	25.0
Actuarial (gain)/loss during the year	59.8	1.7	61.5	42.0	(0.5)	41.5
Contributions received from employees	0.1	0.1	0.2	0.1	0.1	0.2
Expenses paid by employer	(2.5)	–	(2.5)	(2.5)	–	(2.5)
Benefits paid	(46.3)	(2.6)	(48.9)	(45.6)	(1.6)	(47.2)
At 31 December	1,109.9	39.1	1,149.0	1,043.4	38.7	1,082.1

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

	2011 £m	2010 £m	2009 £m	2008 £m	2007 £m
Present value of defined benefit plan liabilities	(1,149.0)	(1,082.1)	(1,065.4)	(914.4)	(942.9)
Fair value of plan assets	1,274.4	1,070.2	1,001.1	1,049.3	992.9
Net surplus/(deficit)	125.4	(11.9)	(64.3)	134.9	50.0
Experience adjustments on plan liabilities	(5.3)	2.8	29.5	(9.6)	14.0
Experience adjustments on plan assets	191.7	56.9	(65.0)	3.0	(13.3)

The group made a contribution of £0.3 million to the UK defined benefit scheme in 2011 (2010: £0.3 million).

The expected return on plan assets is based on market expectations at the beginning of the year. The actual return on plan assets was £251.1 million (2010: £115.5 million).

The cumulative actuarial loss recognised in the consolidated statement of comprehensive income was £49.9 million (2010: £180.1 million).

An actuarial gain of £130.2 million (2010: £15.4 million) was recognised during the year.

## 24. Share capital

	2011 £m	2010 £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 (2010: 1,814,831,011)	18.1	18.1

## 25. 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. The total net charge for the year relating to equity-settled share-based payment plans was £6.3 million (2010: £6.0 million).

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 '000
Outstanding at 1 January 2010	190.593	7,242
Expired	167.263	1,949
Outstanding at 31 December 2010	199.184	5,293
Expired	203.235	1,712
Outstanding at 31 December 2011	197.247	3,581

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	2002	2005–2012	266.750	956,412
	2003	2006–2013	204.500	995,576
	2004	2007–2014	152.000	1,628,696
				3,580,684

**Performance Share Plan**

The company introduced a new share-based Performance Plan in 2006 and granted 13,809,535 shares at various dates throughout 2011.

Year of grant	Vesting year	Scheme interest at 1 January 2011	Shares awarded during 2011	Shares vested during 2011	Shares lapsed during 2011	Outstanding at 31 December 2011	Shares exercised during 2011	Shares cancelled during 2011	Shares exercisable at 31 December 2011
2008	2011	6,735,866	–	1,682,344	5,053,522	–	927,253	65,617	689,474
2009	2012	10,119,277	–	–	555,529	9,563,748	–	–	–
2010	2013	10,151,534	–	–	988,615	9,162,919	–	–	–
2011	2014	–	13,809,535	–	93,241	13,716,294	–	–	–

The performance conditions for the 2008 awards were 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 was 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 ended 61 dealing days following the announcement of the company’s results for the financial year ended 31 December 2010. The annual bonus multiplier measured the extent to which the annual bonus targets had been achieved in respect of each financial year during the performance period. The 2008 awards in the above table reflect that during the first half of 2010 the company’s share price achieved a 60 day highest average price of 130.82p. Participants were entitled to the value of dividends that were paid during the vesting period on the number of shares that ultimately vested, in the form of additional shares transferred at the end of the vesting period.

The performance conditions for the 2009, 2010 and 2011 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 2011 award began on 1 April 2011, running to 31 March 2014. The TSR performance is measured using a three-month average with the start period average being 1 January 2011 to 31 March 2011 and the end period average being 1 January 2014 to 31 March 2014. 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, 2010 and 2011 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. For the 2009 and 2010 awards and the 2011 award to executive directors, 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. For the remainder of the 2011 awards no shares will vest if the share price does not reach median TSR performance at the end of the vesting period and 150% 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 2011 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 awards were made on two main dates with different valuation characteristics. For the shares awarded on 22 June 2011, the significant inputs into the model were a share price of 95.0p (2010: 127.7p), an expected share price volatility of 52%, a share price correlation of the companies in the comparator group of 26% and an expected life commensurate with the performance/vesting period. For the shares awarded on 1 August 2011, the significant inputs into the model were a share price of 91.8p an expected share price volatility of 46%, a share price correlation of the companies in the comparator group of 26% and an expected life commensurate with the performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices. 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.

The fair value of shares granted during 2011 was £8.8 million (2010: £8.9 million).

#### 2008 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	Scheme interest at 1 January 2011	Shares vested during 2011	Shares outstanding at 31 December 2011 and still subject to performance criteria	Shares exercisable during 2011	Shares vested during 2011 but not yet exercisable
2008	2011–2013	22,500,000	7,746,750	14,753,250	2,618,484	5,236,965

The performance condition for the award is share price and is only satisfied if the share price target is achieved over a sustained period, demonstrating realisable value creation for shareholders. This is 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 are earned. At 120p per share, 20% of the award is 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 42 to 51 for further details.

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

During the first half of 2010 the company's share price achieved a 60 day highest average price of 130.82p and therefore under the terms of the plan, 34.43% of the award vested with participants receiving a third of the award in May 2011, and being entitled to a second third a year later and the balance in May 2013. Additional amounts can be earned based on share price appreciation beyond the 130.82p level during the remaining life of the scheme.



## 26. Cash generated from operating activities

	2011 £m	2010 £m
Loss for the year	(67.1)	(20.3)
Adjustments for:		
• Tax	16.6	34.8
• Share of profit from associates	(4.3)	(4.1)
• Interest income	(65.1)	(63.3)
• Interest expense	109.7	114.4
• Depreciation and impairment of tangible assets	197.1	207.3
• Amortisation and impairment of intangible assets <sup>1</sup>	196.7	152.7
• Amortisation of computer software	7.1	5.6
• LTIP charges	6.3	6.0
• Loss on sale of property, plant and equipment	1.5	1.9
• Loss on disposal/retirement of intangible assets	0.8	0.3
• Loss on disposal of companies and businesses	–	5.3
• Cumulative translation exchange gain recycled on continuing operations	–	(2.3)
• Negative goodwill credited to the income statement	(3.9)	–
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
• Inventories	(1.7)	4.1
• Trade and other receivables	(12.5)	22.6
• Trade and other payables and provisions	(17.9)	(59.5)
Cash generated from operating activities	363.3	405.5

<sup>1</sup> excluding computer software

In the cash flow statement, proceeds from sale of property, plant and equipment comprise:

Net book amount	7.0	14.9
Loss on sale of property, plant and equipment	(1.5)	(1.9)
Proceeds from sale of property, plant and equipment	5.5	13.0

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

	2011 £m	2010 £m
Net increase in cash and bank overdrafts	3.2	8.1
Movement on finance leases	0.4	2.3
Movement on loans	24.1	122.9
Decrease in debt resulting from cash flows	27.7	133.3
Foreign exchange translation and other items	6.9	21.2
Movement on net debt in the year	34.6	154.5
Opening net debt	(953.6)	(1,108.1)
Closing net debt	(919.0)	(953.6)
Closing net debt comprises:		
Cash and cash equivalents	89.9	93.0
Bank and other short-term borrowings	(56.4)	(58.6)
Bank and other long-term borrowings	(952.5)	(988.0)
Total net debt	(919.0)	(953.6)

## 28. Operating and free cash flow

	2011 £m	2010 £m
Cash generated from operating activities	363.3	405.5
Purchase of property, plant and equipment (PPE)	(191.0)	(183.2)
Purchase of intangible fixed assets	(19.2)	(9.4)
Leased property, plant and equipment	(6.2)	(5.1)
Proceeds from sale of PPE	5.5	13.0
Dividends received from associates	2.3	1.9
<b>Operating cash flow</b>	<b>154.7</b>	<b>222.7</b>
Interest received	5.4	5.3
Interest paid	(49.0)	(48.3)
Interest element of finance lease payments	(0.8)	(0.9)
Income tax paid	(44.5)	(35.0)
Disposal of available-for-sale investments	0.1	–
<b>Free cash flow</b>	<b>65.9</b>	<b>143.8</b>

## 29. Business combinations

The group purchased 100% of the share capital or the trade and assets of 11 companies and businesses. The total consideration in respect of acquisitions was £26.5 million and the cash outflow from current period acquisitions, net of cash acquired was £25.0 million.

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

	2011 £m
<b>Purchase consideration:</b>	
• Cash paid	22.8
• Contingent consideration	3.7
<b>Total purchase consideration</b>	<b>26.5</b>
<b>Fair value of net assets acquired</b>	<b>(15.2)</b>
	<b>11.3</b>
<b>Recognised as:</b>	
Goodwill on balance sheet	15.2
Negative goodwill credited to the income statement	(3.9)
	<b>11.3</b>

Goodwill represents the synergies, workforce and other benefits expected as a result of combining the respective businesses. None of the goodwill recognised is expected to be deductible for tax purposes.

Contingent consideration up to a maximum of £3.7 million is payable over the next four years based on earn out conditions on revenue, profit and customer retention. The group has included the contingent consideration based on the fair value of consideration at the acquisition date.

The group incurred acquisition related costs of £4.0 million in respect of the above acquisitions.

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

	2011 £m
Non-current assets	
• Intangible assets	0.1
• Property, plant and equipment	2.7
Current assets	18.9
Current liabilities	(18.4)
Non-current liabilities	(1.6)
Net assets acquired	1.7

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:

	2011 £m
Non-current assets	
• Intangible assets	14.5
Non-current liabilities (deferred tax)	(1.0)
Net assets acquired	13.5

The fair value adjustments above include a reduction of £nil in respect of prior year acquisitions following the finalisation of the acquisition accounting.

The £14.6 million of intangible assets acquired relate to customer lists and relationships £14.3 million, brands £0.2 million and computer software £0.1 million.

The provisional fair value<sup>1</sup> of assets and liabilities arising from acquisitions in the year and adjustments in respect of prior period acquisitions are as follows:

	2011 £m
Non-current assets	
• Intangible assets	14.6
• Property, plant and equipment	2.7
Current assets <sup>2</sup>	18.9
Current liabilities	(18.4)
Non-current liabilities	(2.6)
Net assets acquired	15.2

1 the provisional fair values will be finalised in the 2012 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

2 includes trade receivables of £14.6 million which represents the gross and fair value of the assets acquired

	2011 £m
Total purchase consideration	26.5
Consideration payable in future periods	(3.7)
Purchase consideration (paid in cash)	22.8
Cash and cash equivalents in acquired companies and businesses	2.2
Cash outflow on current period acquisitions	25.0
Deferred consideration from prior periods paid	4.8
Cash outflow on current and past acquisitions	29.8

From the dates of acquisition to 31 December 2011, these acquisitions contributed £31.0 million to revenue and £1.3 million to operating profit.

If the acquisitions had occurred on 1 January 2011, the revenue and operating profit of the combined entity would have amounted to £2,585.2 million and £30.3 million respectively.

### 30. 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.

### 31. Capital commitments

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

	2011 £m	2010 £m
Property, plant and equipment	15.3	17.0
Intangible assets	1.8	1.9
	17.1	18.9

### 32. 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:

	2011 £m	2010 £m
Not later than one year	54.1	55.4
Later than one year and not later than five years	138.4	136.9
Later than five years	55.9	54.3
	248.4	246.6

### 33. Related party transactions

The group's strategy and policy are managed by the executive board (executive directors and senior management as shown on page 31). Their compensation and the compensation payable to the non-executive directors is shown below:

	2011 £m	2010 £m
Salaries and other short-term employee benefits	3.9	4.5
Post-employment benefits	0.4	0.5
Termination benefits	–	0.3
Share-based payments	3.6	4.2
	7.9	9.5

Rentokil Initial (Pty) Ltd (74.9%), Yu Yu Calmic Co Ltd (50%) 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 2011 and 2010 and its balances are disclosed in note 12. 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 2011 was £2.5 million (2010: £2.5 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 £17.7 million (2010: £21.3 million) at the end of the year, classified as available for sale in note 21. The loan is due for repayment in 2014. The repayment of the loan will be dependent upon the future dividends generated by the business.

### 34. Post-balance sheet events

There were no significant post-balance sheet events affecting the group since 31 December 2011.

# Principal operating subsidiary and associated undertakings

At 31 December 2011

## Subsidiary undertakings UK

Dudley Industries Ltd  
Initial Catering Services Ltd  
City Link Ltd  
Initial Facilities Management Ltd  
Rentokil Initial Holdings Ltd  
Rentokil Initial Services Ltd  
Rentokil Initial UK Ltd  
Rentokil Initial Facilities Services (UK) Ltd  
Rentokil Insurance Ltd  
Rentokil Initial 1927 plc  
Initial Medical Services Ltd  
Knightsbridge Guarding Ltd  
MSS Facilities Management Ltd

## Australia

Rentokil Initial Pty Ltd  
Ant-Eater Environmental Services 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 (85%)

## 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 SAS  
Rentokil Initial SAS  
Ambius SAS  
Technivap SAS  
CAFI SAS

## Germany

Initial Textil Service GmbH & Co. KG  
Rentokil Initial GmbH  
Medentex GmbH  
Initial Hygieneservice 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 Dezinf

## Luxembourg

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

## Malaysia

Rentokil Initial (M) Sdn Bhd

## Mexico

Balance Urbano Control de Plagas S.A. de C.V.

## Martinique

Rentokil Initial  
Martinique Sarl

## Netherlands

Initial Hokatex BV  
Rentokil Initial BV  
Ambius BV  
Holland Herstel Groep/Ureco BV  
MOC Reconditionering en Bouwherstel BV

## New Zealand

Rentokil Initial Ltd

## Norway

Rentokil Initial Norge AS

## People's Republic of China

Rentokil Tai Ming China Co Ltd

## Philippines

Rentokil Initial (Philippines) Inc

## Poland

Initial Matador Sp z.o.o.

## Portugal

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

## Republic of Ireland

Rentokil Initial Ltd  
Initial Medical Services (Ireland) Ltd

## Singapore

One Stop Habitat-Care 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 Korea Ltd

## Spain

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

## Sweden

Initial Sverige AB  
Rentokil AB  
Ambius AB  
SR Dental AB

## Switzerland

Rentokil Schweiz AG  
Initial Schweiz AG

## Taiwan

Initial Hygiene Co Ltd  
Rentokil Ding Sharn Company Ltd

## Tunisia

CAP Tunis

## Turkey

NB Çevre Sağlığı Sistemleri Ticaret ve Sanayi AS

## Thailand

Rentokil Initial (Thailand) Ltd

## Trinidad

Rentokil Initial (Trinidad) Ltd

## USA

Ambius Inc  
J.C. Ehrlich & Co Inc

## Vietnam

Initial Services Company Ltd  
RI Services Company Ltd

## Associated undertakings

### Japan

Nippon Calmic Ltd (49%)

The activities of the major subsidiaries are referred to in the business review on pages 10 to 14.

### Notes:

- 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
- undertakings operate and are incorporated in the country underneath which each is shown
- 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, its involvement in the management and because the businesses are conducted under licence from the group
- a full list of subsidiaries will be attached to the company's annual return

# Five-year summary

	2007 £m	2008 £m	2009 £m	2010 £m	2011 £m
Revenue from continuing operations	2,203.4	2,409.9	2,530.8	2,496.5	2,544.3
Operating profit/(loss) from continuing operations	211.9	82.1	119.3	61.5	(10.2)
Adjusted operating profit <sup>1</sup> from continuing operations	279.5	167.2	220.8	239.3	224.7
Profit/(loss) before income tax from continuing operations	142.0	22.8	65.0	14.5	(50.5)
Profit/(loss) for the year from continuing operations	111.7	16.4	48.9	(20.3)	(67.1)
Profit for the year from discontinued operations	546.8	5.0	–	–	–
Profit/(loss) for the year (including discontinued)	658.5	21.4	48.9	(20.3)	(67.1)
Profit/(loss) attributable to equity holders of the company	656.3	18.8	47.6	(23.4)	(69.7)
Profit attributable to non controlling interests	2.2	2.6	1.3	3.1	2.6
	658.5	21.4	48.9	(20.3)	(67.1)
Basic earnings per share:					
Continuing operations	6.06p	0.76p	2.63p	(1.29p)	(3.84p)
Continuing and discontinued operations	36.32p	1.04p	2.63p	(1.29p)	(3.84p)
Adjusted earnings per share <sup>2</sup> – continuing operations	8.72p	4.31p	6.61p	7.81p	7.48p
Dividends per 1p share	7.38p	0.65p	–	–	1.33p
Gross assets	1,960.3	2,396.9	2,001.0	1,801.5	1,798.9
Gross liabilities	(1,902.0)	(2,458.8)	(2,151.1)	(1,926.7)	(1,903.1)
Net (liabilities)/assets	58.3	(61.9)	(150.1)	(125.2)	(104.2)
Share capital	18.1	18.1	18.1	18.1	18.1
Reserves	32.8	(89.0)	(177.5)	(153.8)	(127.8)
Non controlling interests	7.4	9.0	9.3	10.5	5.5
Capital employed	58.3	(61.9)	(150.1)	(125.2)	(104.2)

<sup>1</sup> before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items

<sup>2</sup> earnings per share before the after tax effects of amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items

<sup>3</sup> prior years' figures have not been restated for the effect of discontinued operations

# Parent company balance sheet

At 31 December

	Notes	2011 £m	2010 £m
Investments	4	260.5	257.8
Derivative financial instruments (due after more than one year)	6	49.5	39.7
		310.0	297.5
<b>Current assets</b>			
Debtors – amounts falling due within one year	5	281.4	327.5
Debtors – amounts falling due after more than one year	5	2,457.9	2,457.9
Derivative financial instruments (due within one year)	6	–	0.9
Short-term deposits and cash		4.5	2.6
		2,743.8	2,788.9
<b>Creditors – amounts falling due within one year</b>			
Creditors	7	(1,138.4)	(1,035.9)
Bank and other borrowings	8	(28.3)	(233.4)
Derivative financial instruments	6	–	(2.5)
		(1,166.7)	(1,271.8)
<b>Net current assets/(liabilities)</b>		1,577.1	1,517.1
<b>Creditors – amounts falling due after more than one year</b>			
Bank and other borrowings	8	(944.0)	(977.5)
Derivative financial instruments	6	(41.1)	(29.8)
		(985.1)	(1,007.3)
<b>Net assets</b>		902.0	807.3
<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	877.1	782.4
<b>Capital employed</b>		902.0	807.3

The financial statements on pages 104 to 109 were approved by the board of directors on 1 March 2012 and were signed on its behalf by:



Alan Brown  
Chief Executive



Jeremy Townsend  
Chief Financial Officer



# Notes to the parent company accounts

## 1. Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivatives) and are in accordance with generally accepted accounting principles and standards in the UK 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 2010. 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 9 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 £87.2 million (2010: £98.6 million) which includes a charge of £0.8 million (2010: £2.1 million credit) in respect of exchange adjustments and £0.4 million (2010: £0.4 million) in respect of audit fees.

**4. Investments**

	2011 £m	2010 £m
At 1 January	257.8	256.0
Share-based payments to employees of subsidiaries	2.7	1.8
At 31 December	260.5	257.8

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

**5. Debtors**

	2011 £m	2010 £m
<b>Amounts falling due within one year:</b>		
Amounts owed by subsidiary undertakings	279.0	326.8
Other debtors	2.4	0.7
	281.4	327.5
<b>Amounts falling due after more than one year:</b>		
Amounts owed by subsidiary undertakings	2,457.9	2,457.9

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

## 6. Derivative financial instruments

	Fair value assets 2011 £m	Fair value assets 2010 £m	Fair value liabilities 2011 £m	Fair value liabilities 2010 £m
Interest rate swaps:				
• non-hedge	49.5	39.6	(35.7)	(23.1)
• cash flow hedge	–	–	(5.4)	(6.6)
Foreign exchange swaps:				
• non-hedge	–	1.0	–	(2.3)
Foreign exchange forwards:				
• non-hedge	–	–	–	(0.3)
	49.5	40.6	(41.1)	(32.3)
Analysed as follows:				
Due within one year	–	0.9	–	(2.5)
Due after more than one year	49.5	39.7	(41.1)	(29.8)
	49.5	40.6	(41.1)	(32.3)

Cash flow hedge accounting has been applied to derivatives (marked as “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 cash flow hedges is taken directly to finance costs. There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship.

The company's £50 million bond is fixed to maturity and the group's £75 million bond is fixed to September 2013 using floating to fixed interest rate swaps. Cash flow hedge accounting has been applied and a net credit of £1.2 million has been recognised in reserves during the year (2010: £2.6 million charge).

The effective nominal value of foreign exchange swaps is £nil (2010: £215.1 million) and foreign exchange forwards is £nil (2010: £46.9 million).

## 7. Creditors – amounts falling due within one year

	2011 £m	2010 £m
Amounts due to subsidiary undertakings	1,137.9	1,035.7
Other creditors	0.5	0.2
	1,138.4	1,035.9

## 8. Bank and other borrowings

	2011 £m	2010 £m
Amounts falling due within one year	28.3	233.4
Amounts falling due after one year	944.0	977.5

Current and non-current loans include £28.3 million (2010: £29.7 million) and £854.0 million (2010: £867.5 million) respectively of notes issued under the company's 2.5 billion Euro Medium Term Note programme.

Medium term notes and bond debt comprises:

	Bond interest coupon	Effective hedged rate
<b>Non current</b>		
£300m bond due March 2016	Fixed 5.75%	Fixed 4.47%
£75m bond due September 2013/2033	Floating 3 month LIBOR + 3.98%	Fixed 7.93%
£50m bond due October 2013	Floating 3 month LIBOR + 3.25%	Fixed 7.28%
€500m bond due March 2014	Fixed 4.625%	Fixed 4.99%
Average cost of bond debt at year end rates		5.20%

The company has a committed £270 million revolving credit facility which expires in December 2016 and which accrues interest at LIBOR for the period drawn plus a margin. The cost of borrowing under the RCF at the year end was 2.1%.

The company's RCF, bank borrowings and bonds are held at amortised cost.

The £300 million bond was revalued for changes in interest rates during the period March 2006 to April 2009, during which the company paid floating interest rates. At the end of this period, the company reverted to paying fixed interest rates and revaluation of the bond ceased as the hedge relationship ended. The bond is recorded in the financial statements at amortised cost and revaluation differences are amortised to the consolidated income statement over the life of the bond thus producing the effective rate indicated above.

## 9. Share capital

	2011 £m	2010 £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 (2010: 1,814,831,011)	18.1	18.1

At 31 December 2011, 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	2002	2005–2012	266.750	956,412
	2003	2006–2013	204.500	995,576
	2004	2007–2014	152.000	1,628,696
				3,580,684

### Performance Share Plan

The company introduced a new share-based Performance Plan in 2006 and granted 13,809,535 shares at various dates throughout 2011.

Year of grant	Vesting year	Scheme interest at 1 January 2011	Shares awarded during 2011	Shares vested during 2011	Shares lapsed during 2011	Outstanding at 31 December 2011	Shares exercised during 2011	Shares cancelled during 2011	Shares exercisable at 31 December 2011
2008	2011	6,735,866	–	1,682,344	5,053,522	–	927,253	65,617	689,474
2009	2012	10,119,277	–	–	555,529	9,563,748	–	–	–
2010	2013	10,151,534	–	–	988,615	9,162,919	–	–	–
2011	2014	–	13,809,535	–	93,241	13,716,294	–	–	–

### 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	Scheme interest at 1 January 2011	Shares vested during 2011	Shares outstanding at 31 December 2011 and still subject to performance criteria	Shares exercisable during 2011	Shares vested during 2011 but not yet exercisable
2008	2011–2013	22,500,000	7,746,750	14,753,250	2,618,484	5,236,965

For more information regarding the company's share option schemes, Performance Share Plan and Executive Share Plan see note 25 of the consolidated financial statements.

## 10. Share premium

	2011 £m	2010 £m
At 1 January and 31 December	6.8	6.8

## 11. Profit and loss account

	2011 £m	2010 £m
At 1 January	782.4	679.1
Profit for the financial period (note 3)	87.2	98.6
Share-based payments charged to profit and loss	3.6	4.2
Share-based payments debited to investments	2.7	1.8
Movement on cash flow hedge	1.2	(1.3)
At 31 December	877.1	782.4

Treasury shares of £11.1 million (2010: £11.1 million) have been netted against retained earnings. Treasury shares represent 6.4 million (2010: 7.4 million) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2011 was £4.0 million (2010: £7.2 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 (2010: eight employees). For information on employee costs, see note 33 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 2011, the RIPS pension asset under IAS 19, "Employee Benefits" amounted to £144.0 million (2010: £5.0 million). 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 23 of the consolidated financial statements.

## 15. Share-based payments

Share-based payments for the financial period were £6.3 million (2010: £6.0 million) of which £3.6 million (2010: £4.2 million) was charged to the profit and loss account and £2.7 million (2010: £1.8 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 25 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 2011.

# Independent auditor's report to the members of Rentokil Initial plc

We have audited the financial statements of Rentokil Initial plc for the year ended 31 December 2011 set out on pages 57 to 102 and 104 to 109.

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 Chapter 3 of Part 16 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 auditor's 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 auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 41, 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, and express an opinion on, 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/private.cfm](http://www.frc.org.uk/apb/scope/private.cfm)

## 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 2011 and of the group's loss 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

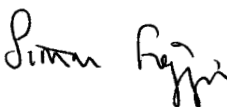
We have nothing to report in respect of the following:

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 40, in relation to going concern;
- the part of the Corporate Governance Statement on page 23 relating to the company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.



Simon Figgis (Senior Statutory Auditor)  
for and on behalf of KPMG Audit Plc, Statutory Auditor  
Chartered Accountants  
15 Canada Square  
London  
E14 5GL  
1 March 2012

# General shareholder information

## Registrars

All enquiries relating to the administration of shareholdings should be directed to:

Capita Registrars  
The Registry  
34 Beckenham Road  
Beckenham  
Kent  
BR3 4TU

Telephone (from the UK): 0871 664 0300  
(Calls cost 10p per minute plus network extras, lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday.)

Telephone (from overseas): +44 20 8639 3399  
(Call charges depend on local network rates, lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday.)

Fax: +44 (0) 1484 600 911  
E-mail: [ssd@capitaregistrars.com](mailto:ssd@capitaregistrars.com)

## Share Dealing Services

These services allow you to trade “real time” at a known price. You will need your full name, investor code, full postcode and date of birth. Please have the appropriate information to hand when you log on or call, so that Capita can verify your identity.

Capita Registrars provide the following two services for buying and selling shares:

- Telephone share dealing: 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.)
- Online share dealing: [www.capitadeal.com](http://www.capitadeal.com)

## Capita Share Portal

An online service available at [www.capitashareportal.com](http://www.capitashareportal.com) which gives shareholders online access to more information on their investments including;

- Cast your proxy vote online
- View your holding balance and get an indicative valuation
- View movements on your holding
- View the dividend payments you have received
- Update your address
- Register and change bank mandate instructions so that dividends can be paid directly to your bank account
- Elect to receive shareholder communication electronically
- Access a wide range of shareholder information including the ability to download shareholder forms

The Share Portal has a dedicated helpline and email enquiries:

- 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 (from overseas): +44 20 8639 3367  
(Call charges depend on local network rates, lines are open 8.30 a.m. to 5.30 p.m. Monday to Friday.)
- E-mail: [shareportal@capita.co.uk](mailto:shareportal@capita.co.uk)

## ShareGift

Shareholders with small holdings in shares, whose value makes them uneconomical to sell, may wish to donate them to ShareGift, the donation charity (registered charity no. 1052686). Further information about sharegift and the charities it supports may be obtained from their website [www.sharegift.org](http://www.sharegift.org) or by calling +44 (0) 20 7930 3737

## 2012 Financial Reporting Calendar

Preliminary results – 2 March 2012  
First quarter trading update – 4 May 2012  
Half year – 3 August 2012  
Third quarter trading update – 9 November 2012

## Annual general meeting

To be held at the Hilton (Ascot Suite), Gatwick Airport, South Terminal, Crawley, West Sussex, RH6 0LL on Tuesday 1 May 2012 at 12 noon.  
Website: [www.hilton.co.uk/gatwick](http://www.hilton.co.uk/gatwick)

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)

## 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)

## Share price history

Mid market price 31 March 1982 – 7.5375p\*  
Mid market price 30 December 2011 – 62.65p  
2011 high/low – 104.9p/58.2p

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

## Dividend

2008 Interim: 0.65p  
2008 Final to 2011 Interim: no dividend  
2011 Final: 1.33p

## 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 online at [www.capitashareportal.com](http://www.capitashareportal.com) Or call the Capita IRG Trustees on 0871 664 0381 from the UK. (Calls cost 10p per minute plus network extras, lines are open 9.00 a.m. to 5.30 p.m. Monday to Friday) or +44 20 8639 3402 from overseas.



## Share listing

The primary listing is on the London Stock Exchange

## American depository receipts (“ADR”)

Rentokil Initial plc has a sponsored Level 1 ADR programme for which The Bank of New York Mellon acts as depositary. Each ADR is equivalent to five Rentokil Initial plc ordinary shares. Dividends are paid in US Dollars via the depositary.

Details of the ADR programme are as follows:

Exchange: OTC (Over-The-Counter)

Symbol: RTOKY

CUSIP: 760125104

Ratio (ADR: Ord) 1:5

Contact: The Bank of New York Mellon, Shareowner Services

PO. Box 358516

Pittsburgh

PA 15252-8516

USA

Email: [shrrelations@bnymellon.com](mailto:shrrelations@bnymellon.com)

[www.bnymellon.com/shareowner](http://www.bnymellon.com/shareowner)

## Registered office and UK headquarters

Rentokil Initial plc

2 City Place

Beehive Ring Road

Gatwick Airport

West Sussex

RH6 0HA

Telephone: +44 (0) 1293 858000

Contact: [investor@rentokil-initial.com](mailto:investor@rentokil-initial.com)

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

Registered in England and Wales, No. 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)

The company is aware that Rentokil Initial shareholders, as well as many other companies' 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.

Tips on protecting your shares:

- Make sure you get the correct name of the person and organisation
- Check that they are properly authorised by the FSA before getting involved by visiting the FSA register: [www.fsa.gov.uk/register/](http://www.fsa.gov.uk/register/) and contacting the firm using the details on the register
- Report the matter to the FSA either by calling 0845 606 1234 or by filling in an unauthorised firms reporting form on the FSA website: <http://www.fsa.gov.uk/pages/doing/Regulated/Law/Alerts/form.shtml>
- If the calls persist, hang up

## 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:

MPS FREEPOST LON20771

London W1E 0ZT

or call on 0845 703 4599

or online at [www.mpsonline.org.uk](http://www.mpsonline.org.uk)

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