Rentokil Initial

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2017

Accelerated Organic Revenue growth and strong execution of M&A

27 July 2017

Results £m	**H1 2017** AER	**Growth** AER	CER
Ongoing Revenue	**1,056.0**	**28.4%**	**16.0%**
Revenue	**1,233.6**	25.0%	13.0%
Ongoing Operating Profit	**122.1**	**29.2%**	**13.0%**
Operating Profit	**143.8**	56.6%	37.5%
Adjusted profit before tax	**126.3**	**28.5%**	**12.5%**
Net profit on disposal of businesses	**462.5**	-	-
Profit before tax	**592.9**	637.4%	581.8%
Free cash flow	**68.1**		
Adjusted EPS	**5.36p**	**27.6%**	**10.9%**
EPS	31.62p	788.2%	717.1%
Dividend per share	**1.14p**	**15.2%**	

This statement includes certain financial performance measures which are not GAAP measures as defined under International Financial Reporting Standards (IFRS). An explanation of the measures used along with reconciliation to the nearest IFRS measures is provided in Note 12 on page 24.

Interim Highlights

- **Further delivery of financial targets -** Ongoing Revenue growth of 16.0%, Ongoing Operating Profit growth of 13.0% and Free Cash Flow of £68.1m
- **Continued improvement in Organic Revenue growth** - total Organic Revenue growth of 4.2% driven by Pest Control, +6.5% and Hygiene, +3.0%. Flat Organic Revenue in France Workwear of -0.1% (H1 2016: -3.7%)
- **Particularly strong execution of M&A - £206.8m spend on M&A in first half including:**
    - Joint venture with India's largest pest control company, PCI, a strategically important step in a country with significant growth potential - 57% stake acquired with annualised revenues in the year prior to acquisition of £47m
    - Five pest control acquisitions in the US with combined annualised revenues of £61m reinforce our position as the number three player in the key North American market
    - 19 further acquisitions (13 in Pest Control, five in Hygiene and one in Protect & Enhance) with combined annualised revenues of £67m
- **Completion of joint venture with Haniel** to create a leading provider of workwear and hygiene services in Europe on 30 June 2017 and proposed **divestment of eight laundries in France** to Regie Linge Developpement (RLD). We aim to return our remaining France workwear operations to profitable growth by end 2018
- **15.2% increase in interim dividend of 1.14p**
- **Expectations for the full year unchanged**

Commenting on today's interim results Andy Ransom, CEO of Rentokil Initial plc, said:

"I am pleased with our performance in H1 and the continued momentum in the business. Pest Control has performed well across the regions and we remain encouraged by the progress we are delivering in Hygiene. We have significantly accelerated our M&A activity this year, acquiring 24 high quality pest control and hygiene businesses across 15 countries, strengthening our already leading positions in key growth territories.

"Our joint venture with Haniel represents a step change in the execution of our strategy. It is a great deal for both our companies and gives us a valuable stake in a leading European Workwear and Hygiene business while at

the same time allowing us to redeploy the proceeds from the divestment into Pest Control and Hygiene, which now represent over 90% of operating profit. We are a stronger and more focused business going forward, operating in higher growth markets, with improving levels of organic growth, reduced capital intensity and high levels of cash generation. As a reflection of this, we are increasing our guidance for revenue, profit and cash delivery over the medium term.

"Prospects in the majority of our markets are good and, while conditions in France remain difficult, we are confident of meeting our expectations for 2017."

This statement includes certain financial performance measures which are not GAAP measures as defined under International Financial Reporting Standards (IFRS). Ongoing Revenue and Ongoing Operating Profit represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. In particular, following the completion of the Haniel JV on 30 June 2017, the financial results of the businesses contributed to the JV have been removed from Ongoing Revenue and Ongoing profit measures. The financial results of the French workwear businesses that are proposed to be sold to RLD have also been excluded, recognising an expected completion of the transaction in the second half of 2017. Ongoing measures enable the users of the accounts to focus on the performance of the businesses retained by the Group and that will therefore contribute to the future performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. An explanation of the measures used along with reconciliation to the nearest IFRS measures is provided in Note 12 on page 24.

Revenue

Excluding the financial performance of disposed businesses and businesses held for sale, Ongoing Revenue increased by 16.0% in the first half, with all regions contributing to growth. Both North America and Asia grew revenues by 29.7%, while the UK and ROW grew by 7.1%, Pacific by 8.9% and Europe by 4.3%. Group Organic Revenue growth was 4.2% and growth from acquired businesses was 11.8%. Ongoing Revenue in Pest Control grew strongly at 25.8% during H1, of which 6.5% was Organic Revenue, while Hygiene continued its positive growth trajectory, reporting increased revenues of 3.7%. Our Protect & Enhance businesses (which include our France workwear operations, our global Ambius business and our UK Property Care operations) reported revenue growth of 0.6% during the period. Total Revenue at actual exchange rates increased by 25.0%, reflecting the favourable impact of foreign exchange movements.

Profit

Excluding the results of disposed businesses and businesses held for sale, Ongoing Operating Profit increased by 13.0% in H1, reflecting growth in all regions but offset by lower profits in France and an increase in central and regional overheads from investments in digital capability and increased charges for Long Term Incentive Plans as a result of the share price performance of the Company. Restructuring costs amounted to £3.8m at CER (H1 2016: £4.4m) consisting mainly of costs in respect of initiatives focused on driving operational efficiency in North America, France and the UK.

Profit before tax at actual rates grew by 637.4% to £592.9m. Profit before tax is after a net profit on disposal of businesses of £462.5m including the profit on disposal of the businesses transferred into the Haniel joint venture of £481.6m and a loss of £19.1m in relation to the write-down of the eight French laundries' assets proposed to be divested to RLD. Other one-off costs amounted to £7.7m (H1 2016: £2.1m).

Adjusted profit before tax at actual exchange rates of £126.3m, which excludes the net profit from disposal of businesses, was favourably impacted by foreign exchange movements of £9.0m, due mainly to the weakening of Sterling against the Euro and the US Dollar in the year.

Cash

Free Cash Flow from continuing operations at actual exchange rates amounted to £68.1m, driven by the increased profit delivery in H1 and a year-on-year reduction in interest payments following the bond refinancing in Q1 2016, offset by an increase in capex (in line with revenue) and adverse working capital phasing. Spend on current and prior-year acquisitions (including the Rentokil PCI joint venture in India) totalled £206.8m, net proceeds received to date from the completion of the JV with Haniel were £396.1m and dividend payments were £43.5m (a £6.0m, 16.0% increase on the prior year). Foreign exchange translation and other items increased net debt by £0.7m, leaving an overall decrease in net debt of £213.2m and closing net debt of £1,025.5m.

M&A

In line with our strategy we have continued our M&A programme to pursue targets in higher growth markets and in areas which add local density to our existing operations. We have had a particularly strong six months of M&A activity, acquiring 25 businesses – 19 in Pest Control, five in Hygiene and one in Protect & Enhance with combined annualised revenues in the year prior to acquisition of £175m and total spend including prior year acquisitions of £206.8m. In North America we have continued to reinforce our presence as the number three player in the world's largest Pest Control market through the acquisition of five businesses, including Allgood Pest Solutions. In addition, we have become the clear market leader in India and in the Kingdom of Saudi Arabia and the Gulf Cooperation Council countries through the Rentokil PCI joint venture in India and the acquisition of Sames. We expect underlying M&A activity for the remainder of the year to continue in line with H1 but do not currently anticipate as many larger deals as those executed this year to date. We expect a further £50m spend on M&A in H2.

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A presentation for investors and analysts will be held on Thursday 27 July **at 9.15am** in the Sidney Suite Conference Room, 1st Floor, **The Grange Tower Bridge Hotel**, 45 Prescot Street, London E1 8GP. This will be available via a live audio web cast at www.rentokil-initial.com.

REGIONAL PERFORMANCE OVERVIEW

Due to the international nature of the Group, foreign exchange movements can have a significant impact on regional performance. In order to help understand the underlying trading performance, unless otherwise stated, percentage movements in Ongoing Revenue and Ongoing Operating Profit are presented at constant exchange rates.

In North America Ongoing Revenue grew 29.7% in H1, of which 24.1% was growth through acquisition and 5.6% was organic. Pest Control grew by 33.1% (6.0% organic), helped by a very strong performance in the products business. Strong Ongoing Operating Profit growth of 29.5% reflects the leverage impact from higher revenues and acquisitions. Net Operating Margins were maintained at 11.9%, with a 1.6% point improvement in pest control service margins reflecting greater density and overhead consolidation from acquisitions, offset by the increase in the mix of the lower margin products revenues. Five pest control businesses were acquired in the region in the first half of this year with combined annualised revenues of c. £61m in the year prior to purchase.

Ongoing Revenue for Europe rose by 4.3% (of which 3.0% was organic), reflecting good growth in Germany (+10.2%) and Southern Europe (+5.8%) and an improved performance in France, which grew by 0.6%. Latin America, which is run out of the Europe region, once again performed particularly well rising by 38.8%. Our European Hygiene operations grew by 3.5%, driven by growth in France and Southern Europe, while Ongoing Revenue from our Pest Control businesses grew by 10.6%. Overall Ongoing Operating Profit for the Europe region rose by 0.6%, with good growth in Benelux, Germany and Southern Europe offset by declines in France Workwear. Net Operating Margins declined by 70 basis points to 18.2%, reflecting ongoing market challenges in our France Workwear business. Including the CWS-Boco hygiene business in Italy, the region acquired six new businesses in the first half – two in Pest Control and four in Hygiene with combined annualised revenues of c. £41m.

As noted above, in December 2016 we signed a joint venture agreement with Haniel to create a leading provider of Workwear and Hygiene services in Europe by transferring our Workwear and Hygiene businesses in Benelux and Central and Eastern Europe into CWS-boco (owned by Haniel). The transaction completed on 30 June 2017. We also announce today our proposed divestment of eight laundries (predominantly flat linen) in France to RLD. Subject to successful completion of an employee consultation process, the Company expects to complete the disposal in Q4 2017. We aim to return our remaining France workwear operations to profitable growth by the end of 2018.

UK & Rest of World region delivered a good performance in H1, with an overall increase in Ongoing Revenue of 7.1%, comprising Organic Revenue growth of 2.1% and growth through acquisition of 5.0%. The region delivered continued growth from UK Pest Control and Hygiene, with Pest Control continuing to benefit from increased jobbing work in particular. However our UK property care business has seen a challenging market in H1 which has impacted both revenue and margins. The Rest of World operations delivered strong Ongoing Revenue growth of 10.3% across all of its regional clusters in the Nordics, Caribbean, Africa and MENAT. Overall Ongoing Operating Profit for the region grew by 4.8%, reflecting higher revenues. However, Net Operating Margins for the UK and Rest of World region declined by 50 basis points to 19.4%, reflecting lower margins in the property care business. The region acquired seven new businesses in the first half including five in Pest Control and one in Hygiene with combined annualised revenues of c. £22m.

The Asia region has had another excellent performance with Ongoing Revenue increasing by 29.7% (+7.4% Organic Revenue growth) with both Pest Control and Hygiene performing well. Our operations in the less established markets of India (excluding the Rentokil PCI joint venture), China and Vietnam continue to deliver strong growth of 16.8%. Including PCI, these countries combined delivered revenue growth of 166%. Ongoing Operating Profit in the region grew by 30.5% in 2017, reflecting the leverage from higher revenues, density and service productivity. Net Operating Margins increased by 10 basis points to 9.9%, with growth in Hygiene margins being offset by the dilutive effect of the lower-margin PCI pest control business. Including PCI, we acquired four pest control businesses during H1 in India, Singapore and Malaysia with combined annualised revenues of c. £49m.

In the Pacific region Ongoing Revenue grew well by 8.9% in H1, (+4.7% Organic Revenue growth), driven by good performances in our Australian pest control and hygiene businesses offsetting some weakness in residential pest control work in Australia. Ongoing Operating Profit in the region grew by 8.9%, in line with revenue growth with Net Operating Margins maintained at 20.9%. We acquired three small pest control companies in Australia in the first half, with combined annualised revenues of c. £2m.

BUSINESS PEFORMANCE OVERVIEW

Since February 2014 we have implemented an effective and consistent strategy – called our **RIGHT WAY** plan - at pace and this strategy has delivered consistent progress against our financial targets. The plan has been based upon a clear, fixed business model with five geographic regions and three core business lines, all operating on a low-cost, single-country operating structure. Our three core competencies have been: our colleagues as experts; our business leadership; and our lean multi-business operations. In addition, we have used a quadrant analysis tool for capital allocation and operational management to group our businesses into a four-box growth potential grid which has again worked very well for us over the past three and a half years.

Our joint venture with Haniel represents a step change in the execution of our strategy. The transaction allows us to redeploy the proceeds from the divestment into Pest Control and Hygiene, which now represent over 90% of Ongoing Operating Profit. We are a stronger and more focused business going forward, operating in higher growth markets, with improving levels of organic growth, reduced capital intensity and high levels of cash generation.

It is therefore appropriate to update our business model, strategy and targets to reflect the significant changes to our business portfolio and our focus going forward. As a reflection of this, on average over the next five years we would expect our Ongoing Revenue growth to increase to 5-8% per annum with Ongoing Profit growth of c. 10% and Free Cash Flow conversion of 90%+.

Business Model

1. We have over 1800 local service teams across the world covering 91% of global GDP in over 90 of the world's 100 largest cities across North America, Europe, UK and the Rest of World, Asia and the Pacific. Operating in over 65 countries, c. 90% of our revenues are derived outside of the UK.

2. We have market-leading businesses in Pest Control and Hygiene markets:

    Following the completion of our Joint Venture with Haniel, the existing categories and quadrants will be merged into a new reporting framework as set out below.

    Rentokil is the world's leading pest control company with a principal focus on Growth and Emerging markets with number one positions in 44 markets, number two positions in 13 markets and number three positions in eight markets globally.

    Initial is a world leader in the provision of global hygiene services with a focus on delivering operational excellence in over 40 markets in which it operates. It is the leading player in 23 markets, number two in 12 markets and number three in a further three markets globally.

    Our **Protect & Enhance** businesses (which account for less than 10% of Ongoing Operating Profit) include Ambius (our global plants business), our UK property care business and our France-based workwear business. All are profitable, cash-generative, route-based businesses focused on delivering enhanced service quality to protect customer retention and profitability.

3. The Expertise of our People is paramount to delivering excellence in service quality. Our 35,500 colleagues across the world are highly-motivated and trained experts with strong local insight, operating within integrated country models.

4. We have a Leadership position in Digital Capability and Innovation and see significant opportunities to drive revenues, reduce costs and better serve and retain our customers through the deployment of digital technologies. In addition, the innovation and development of differentiated products is at the heart of what we do.

5. At the centre of our Consistent and Efficient Operating Model is our 'colleague – customer – shareholder' value chain: the **RIGHT People**, doing the **RIGHT Things** for customers, in the **RIGHT Way** for shareholders. This necessitates investment in recruiting, training and retaining the right people who in turn deliver outstanding customer service (measured by Customer Voice Counts satisfaction surveys) and sales excellence (measured by gross sales), supported by innovation and digital expertise. In this way we can deliver value for shareholders, achieved through customer retention, growth in contract and jobbing sales, price management and service efficiency. Underpinning this is a consistent focus on productivity and cost management, a deep understanding of product and route density, best practice sharing and common IT platforms.

6 Our Financial Model to Compound Growth is a virtuous circle predicated on delivering organic growth and M&A growth which leads to increased density which is directly correlated to improved gross margins across our business categories. The above, combined with our low cost operating model, drives strong profitable growth and sustainable free cash flow which is deployed in two ways: firstly, into a financially

disciplined M&A programme and operational investment and; secondly, into maintaining our progressive dividend policy.

Rentokil – the world's largest commercial pest control company

We have strengthened our position as global leaders in pest control through increased organic growth and by establishing stronger market positions particularly in Emerging and Growth markets, and through innovation, digital expertise and acquisitions. In H1 2017 Pest Control Ongoing Revenue and Ongoing Operating Profit grew by 25.8% and 21.4% respectively. Organic Revenue rose by 6.5% with growth through acquisition of 19.3%. Pest Control now accounts for 63% of Ongoing Revenue and 70% of Ongoing Operating Profit and generates a Net Operating Margin of c. 19% on an annualised basis. In Pest Control M&A we seek an IRR in Growth markets of 13%+ and 15%+ in Emerging markets.

Pest Control is an attractive and growing market offering sustainable, long-term growth prospects and is expected to deliver a compound annual growth rate (CAGR) of between 5% and 6%*. A description of structural growth drivers is provided below:

* *Source: Various market reports forecasting over 5+ years including Markets & Markets, Allied Market Research, Future Market Insight (all 2017)*

1. Emerging markets and urbanisation - this includes the rise of middle classes in Asia and Latin America which is driving increased spend on pest control. According to the Organisation for Economic Cooperation and Development, by 2030 Asia will represent 66% of the global middle class. Rentokil is uniquely placed in these markets with unrivalled scale, brand and experience. In Asia we currently have over 7,500 technicians in 12 countries operating in 500+ locations. We have a strong leadership position in India through our recent JV with PCI and in H1 our pest control operations in the more mature markets of Malaysia, Singapore and Indonesia grew at 8%. We also have leadership positions in those cities in which we are present in Latin America and continue to target new cities and build greater density. Ongoing Revenue from our operations in Brazil grew by 37% in the first six months of this year.

2. Science and innovation - innovation is fuelling growth in pest control, particularly in established markets where consumer expectations for improved products and techniques is rising. Rentokil leads the industry in providing innovative solutions to enhance core lines, meet emerging threats and the requirements of new regulation. Our strong pipeline of innovations includes next-generation PestConnect digital products and Lumnia, our innovative LED electronic fly killer which was launched in 10 markets this year and generated revenues some 40% ahead of our expectations.

3. Compliance, risks and digital reporting - drivers here include increasing levels of regulation and enforcement, demand for higher quality reporting and risk management assurance, and the impact of social media driving companies to invest in brand protection. We are leaders in offering digital tools and services across the customer experience and have digital expertise at every stage of the customer journey from web searching through to e-billing. We continue to see strong demand for PestConnect, our remote monitoring system for rodents, among high-dependency customers. Over 30,000 devices are now in the field and have sent us over 25 million individual messages relating to the presence of rodent activity and service productivity. We also continue to improve our customer experience through the roll-out of the myRentokil customer portal which is currently being used in c. 45% of commercial customer premises. Our objective going forward is to have 100% of our commercial customers using the myRentokil portal by the end of 2019.

4. Climate change - rising temperatures are enabling pests to become endemic. It is also leading to an increased threat from mosquitoes transmitting diseases such as dengue fever, Zika, yellow fever, encephalitis, West Nile virus, chikungunya and malaria. With our global presence we are able to share our expertise gained in territories such as Asia, Latin America, the Caribbean, Africa and North America. This is illustrated by our contract to handle pest control for the Rio 2016 Olympic Games and the award of the US Federal Government's Centers for Disease Control Zika contract in the United States and Puerto Rico last year.

5. Global standards - international hygiene standards (particularly in the food industry) are converging and driving a consistency in approach from multi-nationals. With operations in over 65 countries, our international reach is a key differentiator in our ability to service global accounts and our pipeline of new opportunities is currently worth c. £50m.

6. Growth in North America - this is the world's largest pest control market (representing 50% of the global market) and worth c. $8bn. It is expected to reach $10bn by 2020, growing at a CAGR of c. 5% through

to 2023. Rentokil has a strong market position, growing organically faster than the market. Recent growth has been aided by a strong performance in national accounts and the pest products business. Looking forward, demand for mosquito control is expected to outpace demand for general pest services. North America is a key market for M&A and, as the 'buyer of choice', our pipeline remains particularly strong. Through a combination of organic and non-organic growth actions, we aim to generate $1.5bn revenues and Net Operating Margins of c. 18% by 2020.

Initial Hygiene – one of the world's leading commercial hygiene services companies

As a leading player in the hygiene industry, Initial Hygiene has award-winning products including Signature, Reflection and Colour and one of the world's strongest brands, which is particularly valuable in Emerging markets. We have an in-depth understanding of the importance of density and operational drivers of growth. We have strong market positions in higher-growth markets and are well placed to take advantage of major demographic changes.

Since 2013 we have delivered a significant improvement in revenue growth, established a strong product range, launched the myInitial customer portal for enhanced customer insight and engagement and have begun to acquire bolt-on businesses to build scale and density. In H1 2017 Ongoing Revenue and Ongoing Operating Profit grew by 3.7% and 9.9% respectively. Organic Revenue rose by 3.0% with growth through acquisition of 0.7%. Hygiene accounts for 19% of Ongoing Revenue and 21% of Ongoing Operating Profit. It generates a Net Operating Margin of c. 19% on an annualised basis. In M&A we seek an IRR of 15% to 20%+.

Like Pest Control, our hygiene businesses operate in an attractive industry offering good growth opportunities as expectations around standards of hygiene increase. The business is highly profitable with margins being driven by post code density (servicing as many customers as possible in any tight geographic zone) and customer penetration (selling multiple service lines to customers). What we seek therefore is more customers on our routes and more products within customers' premises. Key structural growth drivers of the industry include:

1. Changing demographics and tighter regulation - these include population growth and an aging population which result in more health issues and hygiene product requirements, higher expectations for nappy changing / disposal in public and retail areas, and incontinence facilities and product disposal. Other demographic changes include growth in Emerging markets, rising middle classes and greater levels of women at work requiring more feminine hygiene facilities and services. Tighter regulation across the world is also driving greater compliance with workplace hygiene, food production and retail hygiene and environmental standards.

   The products and services which address the above are called 'In Cubicle Hygiene Services' and account for c. 40% of the hygiene market. Services include disposal of sanitary waste and disposal of nappies and incontinence products. We have developed high quality products to match these growth drivers and increase density, including Signature, Reflection and full Colour bins in different size options to suit customer needs and also premium 'No Touch' products.

2. Rising customer expectations - there is an increasing awareness of the link between good hand hygiene and wellbeing and a greater expectation for healthy workplaces and healthcare facilities. Social media is also driving companies to invest in brand protection while an increasing focus on sustainability is encouraging lower water consumption and paper saving.

   'Hand Care Services' account for c. 25% of the hygiene market. Initial Hygiene offers a full range of hand hygiene solutions including soap and sanitiser dispensers, hand driers, roller towels and paper towel dispensers, consumables and premium 'No-Touch' products.

3. Enhanced brand experience - this is important within organisations seeking to enhance and differentiate customer experience through the use of design, colour and scent. 'Air Care Hygiene Services' account for c. 20% of the market. Clean air is a major topic in Asia given air pollution concerns and accounts for over 30% of the market in Malaysia for example. Air Care Services include commercial air scenting, air fresheners and air purification services to combat airborne bacteria such as 'flu, e.coli and salmonella. Initial Hygiene's Premium Scenting range provides both standard and bespoke scenting and customer segments include hotels (offering scenting in lobby areas), car showrooms and clothing retailers seeking to match scent to brand.

4. Mitigating risk - 'Floor Care Services' include indoor and outdoor mats which help prevent trips and slips and account for c. 15% of the hygiene market. Initial Hygiene offers a range of high-quality products including textile and non-textile floor mats for use in reception areas, industrial and food preparation areas. It also offers logo and branded mats to enhance brand experience.

Protect and Enhance businesses – focus on enhanced service, customer retention and profit protection

The three businesses which are included in this category are Ambius, Property Care and France Workwear. All are profitable, cash-generative route-based businesses and combined represent less than 10% of Ongoing Operating Profit. The businesses generate a Net Operating Margin of c. 10% on an annualised basis. In M&A we seek an IRR of 20%+. A brief description of each is provided below:

1. Ambius - operates in 17 countries with leadership positions in the US, Canada, Australia and New Zealand. Its product offering is broadly consistent across the world and includes interior landscaping (living walls), Christmas decorations and premium scenting. Key customer segments are offices, facilities management, hospitality and retail. Its strategic focus is on higher-margin green (living) walls and premium scenting, expanding and exploiting international agreements and driving lead generation through digital applications.

2. Property Care - based only in the UK, services include dry rot, woodworm and damp proofing. Highly fragmented, the UK market is valued at c. £150m. We have built a leading position in the industry over recent years, cemented by the acquisitions of Peter Cox and Wise. We have developed a strong operational capability with certified teams primarily undertaking jobbing work in commercial and social housing. While the business has a defensive cash position with advance payment required before work is undertaken, the market is currently experiencing some weakness. The strategic focus of Property Care is on sharing digital expertise with Pest Control, cost optimisation and efficiency, IT system integration and margin management.

3. France Workwear - our remaining workwear operations in France have shown operational and financial improvements in H1 2017 however market conditions continue to be challenging. The business generated first half Ongoing Revenues of £85m and Ongoing Operating Profits of £11m. We aim to return the operations to profitable growth by the end of 2018. The European workwear industry is currently undergoing a period of consolidation with the proposed Elis / Berendsen merger, our own JV with Haniel and our proposed divestment of eight of our textile laundries to RLD. Going forward, our France Workwear operations will continue to implement our Quality Workwear agenda focused on service quality, together with profit improvement and margin protection initiatives.

M&A

Acquisitions are core to our strategy - we have the in-house capability to identify, evaluate and execute acquisitions at pace. Our model for value-creating M&A is structured around disciplined evaluation of targets, detailed integration programmes and careful governance of new businesses under our ownership.

We have significantly accelerated our execution of M&A during the year, particularly within Emerging and Growth markets. This year to date we have acquired 25 businesses for £206.8m (19 in Pest Control, five in Hygiene and one in Protect & Enhance) with combined annualised revenues of £175m. We have been active in M&A across all our regions, acquiring businesses in 15 countries including Australia, Chile, Colombia, Denmark, France, India, Ireland, Italy, Malawi, Malaysia, Saudi Arabia, Singapore, Sweden, the UK, and the US.

In North America we have continued to reinforce our presence as the number three player in the world's largest pest control market through the acquisition of five pest control companies, four of which are larger businesses, each with revenues in excess of $12m. These businesses generated annualised revenues of c. $77m in the year prior to acquisition, giving us annualised revenues from our North America business of over $1.1bn.

In March 2017 we created a joint venture with PCI, India's largest pest control company, which offers a comprehensive range of pest control services and products through its countrywide network. Rentokil, which has management control of the JV through a 57% stake, is integrating its Indian operations into the JV and the combined business (known as Rentokil PCI) has revenues of 4.5bn rupees (c. £54m), will operate from c. 250 locations and employ c. 6,900 people. Further, on 11 April our JV in the Kingdom of Saudi Arabia (KSA) acquired Sames, the market leader in the commercial pest control sector in KSA with c. 2,500 customers covering most major cities, making us the number one pest control company in KSA and the Gulf Cooperation Council countries. The business generated revenues of £9m in the last 12 months prior to acquisition.

We monitor the integration and performance of acquired businesses closely to ensure they meet our financial hurdles. Out of those 35 businesses acquired over an 18-month period, between October 2014 and March 2016 (trading for more than one year), only one acquisition is delivering returns slightly lower than the category target hurdle rate.

Going forward, we will continue to execute a differentiated approach to capital investment and M&A, with clear expectations and IRRs by business line as indicated above. We will continue to seek further acquisition opportunities in the second half in both Pest Control and Hygiene and the pipeline of prospects remains strong. While we have exceeded our guidance spend of £150m for 2017 on M&A already this year, we expect the volume of M&A activity for the remainder of the year to continue in line with H1, but do not currently anticipate as many larger deals as those executed this year to date. We expect a further c. £50m spend on M&A in H2.

Completion of JV transaction with Haniel and proposed disposal of eight laundries in France

Our transaction to enter into a JV with Haniel to combine our Workwear and Hygiene businesses in Benelux and Central and Eastern Europe completed on 30 June 2017. We anticipate retaining our 17.8% stake in the combined business for three to five years, after which time we have various exit options under the terms of the agreement. The Company now has Workwear operations in France only.

We are also announcing today that the Company holds an irrevocable Put Option to sell eight laundries in France to RLD. The laundries, which predominantly supply flat linen (sheets and towels) to the highly competitive healthcare sector and employs c. 1,000 people, delivered revenues of €78m and were break-even for the year ended 31 December 2016.

Unconditional clearance was received from the French competition authorities on 8 July 2017. The Company is now engaged in consultations with employee representative bodies. A decision to exercise the Put Option will be made at the end of the consultation process. Assuming the successful completion of the employee consultation process the Company expects to complete the disposal in H2.

FINANCIAL REVIEW

Central and regional overheads

The £3.2m increase in central and regional overheads to £37.4m at CER (2016: £34.2m) largely reflects investments in digital capability and increases in Long-Term Incentive Plans following the continued share price performance of the Company.

Restructuring costs

In February 2016 we announced that, with the exception of integration costs for significant acquisitions, we will report restructuring costs within operating profit. Integration costs associated with significant acquisitions will be reported as one-off items and excluded from operating profit.

Restructuring costs of £3.8m at CER (2016: £4.4m) consisted mainly of costs in respect of initiatives focused on driving operational efficiency in North America, France and the UK.

Disposals (at AER)

A net profit on disposal of businesses has been recognised of £462.5m relating to the profit on disposal of the businesses transferred to the Haniel JV of £481.6m and the write-down of French flat linen assets that are proposed to be sold to RLD (£19.1m).

The profit on disposal in respect of the Haniel JV includes consideration of £703.4m comprising cash consideration of £449.4m (of which a net £396.1m has been received to date) plus the retained 17.8% share in the JV of £254.0m. Net assets of the businesses contributed amounted to £245.3m which together with transaction costs of £18.7m and foreign exchange gains transferred from reserves of £42.2m resulted in a profit on disposal of £481.6m.

One-off items (at AER)

One-off costs of £7.7m (H1 2016: £2.1m) primarily relate to the acquisition and integration costs of Steritech. Details of one-off items are set out in Note 4.

Interest (at AER)

Net interest payable (excluding the net interest credit from pensions) at actual exchange rates was £20.6m compared to £18.7m in the prior year, a net increase of £1.9m primarily from the impact of exchange due to the weakening of Sterling against the Euro and US Dollar. The average cost of net debt for the Group was 3.5% for H1 2017.

Tax

The income tax expense for the first half at actual exchange rates was £13.3m on the reported profit before tax of £592.9m. After adjusting the reported profit before tax for the profits and losses on disposal of businesses, the amortisation of intangible assets (excluding computer software), one-off items and the net interest credit from pensions, the Adjusted Effective Tax Rate for the first half of 2017 was 22.2% (H1 2016: 22.1%). This compares with a blended rate of tax for the countries in which the Group operates of 25% (2016: 25%). The lower adjusted tax rate compared to the blended tax rate is principally due to the benefit of previously unrecognised brought forward tax losses being set off against UK profits.

Net debt and cash flow

£m at actual exchange rates	Year to Date		
	H1 2017 £m	H1 2016 £m	*Change £m*
Adjusted Operating Profit	**143.1**	114.0	*29.1*
One-off items – operating	**(7.7)**	(2.1)	*(5.6)*
Depreciation	**107.3**	93.8	*13.5*
Other	**3.1**	1.6	*1.5*
EBITDA	**245.8**	207.3	*38.5*
Working capital	**(24.1)**	(2.9)	*(21.2)*
Provisions	**(6.0)**	(5.4)	*(0.6)*
Capex – additions	**(124.8)**	(104.6)	*(20.2)*
Capex – disposals	**3.0**	3.3	*(0.3)*
Operating cash flow – continuing operations	**93.9**	97.7	*(3.8)*
Interest	**(6.3)**	(22.8)	*16.5*
Tax	**(19.5)**	(17.8)	*(1.7)*
Free Cash Flow	**68.1**	57.1	*11.0*
Acquisitions	**(206.8)**	(34.9)	*(171.9)*
Disposal of companies and businesses	**396.1**	0.5	*395.6*
Dividends	**(43.5)**	(37.5)	*(6.0)*
Foreign exchange translation and other items	**(0.7)**	(142.8)	*142.1*
Decrease / (increase) in net debt	**213.2**	(157.6)	*370.8*
Opening net debt	**(1,238.7)**	(1,026.6)	*(212.1)*
Closing net debt	**(1,025.5)**	(1,184.2)	*158.7*

Operating cash inflow (£93.9m at AER for continuing operations) was £3.8m lower than 2016 largely due to an increase in EBITDA being offset by the phasing of working capital outflows and higher capital expenditure on the increased revenue base and due to foreign exchange.

Interest payments (including finance lease interest) were £16.5m lower than last year due to phasing following the maturity of the £300m bond in Q1 2016. This resulted in Free Cash Flow from continuing operations of £68.1m, an increase of £11.0m on the prior year.

Cash spent on acquisitions totalled £206.8m. Proceeds received in H1 from the completion of the JV transaction with Haniel net of transactions costs (£5.8m) and cash disposed (£17.5m) was £396.1m with further deferred consideration of c. £30m expected to be received in H2 subject to net debt and working capital adjustments. The Company made dividend payments of £43.5m in 2017 (a £6.0m, 16.0% increase on the prior year) which together with foreign exchange translation and other items of £0.7m resulted in an overall decrease in net debt of £213.2m and closing net debt of £1,025.5m.

Pensions

At 30 June 2017 the Company's UK defined benefit pension scheme, which is closed to new members, was valued at an accounting surplus of £265.7m on the Company's balance sheet. Following the most recent triennial actuarial valuation as at 31 December 2015 the Trustee and the Company agreed that the Scheme is now fully funded on a technical provisions basis. The Trustees have therefore agreed annual payments will not be required going forward. Because the Scheme is fully funded on a technical provisions basis, £9.0m of payments previously held in escrow was released to the Company in February 2017. The funding position will be reviewed at the next actuarial valuation, which is scheduled for 31 December 2018.

Funding

At 30 June 2017, and following the receipt of the proceeds in respect of the Haniel JV, the Group had net debt of £1,025.5m representing a reduction of £213.3m from the net debt as at 31 December 2016. The Group has £507m of centrally held funds and available undrawn committed facilities. The ratio of net debt to EBITDA at 30 June 2017 was c. 2x and the Company's credit rating remains at BBB with a Stable outlook. We are committed to maintaining a BBB rating and, based on our expectations for the coming year and our strong cash flow projections for 2017, we are confident in doing so.

The Directors continue to adopt the going concern basis in preparing the accounts on the basis that the Group's strong liquidity position and ability to reduce capital expenditure or expenditure on bolt-on acquisitions are sufficient to meet the Group's forecast funding needs, including those modelled in a downside case.

Dividend

Following an encouraging performance in the first half of 2017, and in anticipation of further progress for the remainder of the year, the Board is declaring an interim dividend for 2017 of 1.14p per share, an increase of 15.2% compared to 2016, payable to shareholders on the register at the close of business on 11 August 2017, to be paid on 13 September 2017.

Board changes

Alan Giles, a Non-Executive Director of the Company since 2006, retired at the conclusion of the Company's annual general meeting on 10 May 2017. He also resigned as Senior Independent Director, Chairman of the Remuneration Committee and as a member of the Audit and Nomination Committees at that time. Chris Geoghegan, who was appointed to the Board in June 2016, has succeeded him as Senior Independent Director and Chairman of the Remuneration Committee. Sir Crispin Davis was appointed as a Non-Executive Director of the Company and a member of the Audit and Nomination Committees on 20 July 2017.

Audit re-tender

As previously disclosed in the 2016 Annual Report, the Company will shortly be commencing a competitive tender process for its external auditor. The current auditor, KPMG LLP, was appointed in 2009. The Audit Committee expects to complete the competitive tender process in 2017.

GUIDANCE AND OUTLOOK FOR 2017 (at CER unless otherwise stated)

The estimated financial impact of the completion of the joint venture with Haniel on the Company's H2 performance is summarised in the table below:

	£m
H2 operating profit of businesses transferred[1]	(19)
Central overhead and interest reduction	5
Estimated share of Income from JV (adjusted)[2]	7
	(7)

1 Based on the profit contributed by the businesses contributed to the JV in H2 of 2016

2 To be equity accounted from H2 - share of joint venture earnings is based on a 17.8% stake and on an adjusted basis (excluding goodwill amortisation and one-off integration costs) and estimated based on the pro forma earnings for the JV for the 12 months to 31 December 2016

The businesses that have now been transferred to Haniel contributed £19m to operating profit in H2 2016. This impact is offset by an estimated reduction in central overheads and interest (relating to the disposal proceeds which has been used to partially pay down debt) of c. £5m and a share of profit from the JV (on an adjusted basis excluding goodwill amortisation and integration costs) of c. £7m.

Central and regional overheads for the year are expected to be £6m above the prior year principally due to investments in digital capability and LTIP charges being offset by central savings in relation to the Haniel JV noted above. This is £4m higher than previously guided.

We estimate that restructuring costs (reported within Ongoing Operating Profit) will be in line with 2016 at c. £7m.

Interest costs are estimated to be c. £40m with the previously guided underlying increase being offset by the estimated reduction in H2 following the receipt of the proceeds from the Haniel JV. Cash interest is estimated to be broadly in line with the P&L impact.

Following the referendum in June 2016 Sterling has weakened significantly against both the Euro and the US Dollar and, if recent exchange rates were to continue for the rest of this year, the full year estimated favourable impact of currency movements on our profit would be in the region of £20m.

Our current estimate for the Adjusted Effective Tax Rate is around 22.5% (2016: 22.3%) with cash tax payable in the region of £40m to £45m. Working capital outflow is anticipated to be in line with 2016 at around £10m and net capex in the region of £210m - £220m (subject to foreign exchange movements) a reduction of c. £25m versus our previous guidance and reflecting reduced capex in H2 following the transfer of the businesses to the Haniel JV.

The impact of the JV with Haniel reduces Free Cash Flow in 2017 by c. £18m. Based upon current exchange rates, we have increased our guidance on Free Cash Flow to a minimum of £150m for 2017.

Condensed consolidated statement of profit or loss and other comprehensive income
For the period ended 30 June

	Notes	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m
Revenue	4	**1,233.6**	987.1
Operating profit		**143.8**	91.8
Net profit on disposal of businesses	6	**462.5**	-
Profit before interest and income tax		**606.3**	91.8
Finance income		**7.2**	10.0
Finance cost		**(24.4)**	(24.4)
Share of profit from associates, net of tax of £1.9m (2016: £1.4m)		**3.8**	3.0
Profit before income tax		**592.9**	80.4
Income tax expense[1]		**(13.3)**	(15.3)
Profit for the year attributable to the Company's equity holders (including non-controlling interests of £0.1m (2016: £0.2m))		**579.6**	65.1
Other comprehensive income:			
Items that are not reclassified subsequently to the income statement:			
Re-measurement of net defined benefit asset	9	**(9.5)**	95.9
Tax related to items taken to other comprehensive income		**1.7**	(19.2)
Items that may be reclassified subsequently to the income statement:			
Net exchange adjustments offset in reserves		**(22.5)**	(0.7)
Other items		**(36.0)**	(0.8)
Total comprehensive income for the year (including non-controlling interests of £0.1m (2016: £0.2m))		**513.3**	140.3

1 taxation includes £13.3m (HY 2016: £13.9m) in respect of overseas taxation

Earnings per share attributable to the Company's equity holders:		
Basic	**31.62p**	3.56p
Diluted	**31.49p**	3.54p

Non-GAAP measures			
Operating profit		**143.8**	91.8
Adjusted for:			
Amortisation and impairment of intangible assets (excluding computer software)	4	**25.9**	20.1
One-off items – operating	4	**7.7**	2.1
Reversal of depreciation – assets held-for-sale		**(34.3)**	-
Adjusted operating profit		**143.1**	114.0
Finance income		**7.2**	10.0
Add back: Net interest credit from pensions		**(3.4)**	(4.3)
Finance cost		**(24.4)**	(24.4)
Share of profit from associates, net of tax of £1.9m (2016: £1.4m)		**3.8**	3.0
Adjusted profit before income tax		**126.3**	98.3
Basic adjusted earnings per share attributable to the Company's equity holders		**5.36p**	4.20p

The weighted average number of ordinary shares in issue is 1,833m (HY 2016: 1,823m). For the diluted EPS calculation the adjustment for share options and LTIPs is 7.7m (HY 2016: 8.3m).

Condensed consolidated balance sheet

	Notes	At 30 June 2017 £m	At 31 December 2016 £m
Assets			
Non-current assets			
Intangible assets		**1,202.4**	999.6
Property, plant and equipment		**382.1**	416.3
Investments in associated undertakings		**275.1**	17.8
Other investments		**0.2**	0.2
Deferred tax assets		**1.5**	2.0
Retirement benefit assets	8	**266.3**	272.7
Other receivables		**10.1**	10.8
Derivative financial instruments	10	**3.5**	-
		2,141.2	1,719.4
Current assets			
Other investments		**3.2**	9.6
Inventories		**88.7**	80.0
Trade and other receivables		**462.0**	383.3
Current tax assets		**13.3**	11.0
Disposal group held-for-sale		**30.4**	177.7
Derivative financial instruments	10	**1.3**	1.6
Cash and cash equivalents		**499.5**	160.2
		1,098.4	823.4
Liabilities			
Current liabilities			
Trade and other payables		**(513.3)**	(458.5)
Current tax liabilities		**(79.0)**	(71.6)
Provisions for other liabilities and charges		**(29.0)**	(15.3)
Bank and other short-term borrowings	9	**(388.3)**	(77.4)
Derivative financial instruments	10	**(1.5)**	(56.8)
		(1,011.1)	(679.6)
Net current assets		**87.3**	143.8
Non-current liabilities			
Other payables[1]		**(68.3)**	(21.4)
Bank and other long-term borrowings	9	**(1,130.7)**	(1,260.4)
Deferred tax liabilities		**(95.3)**	(112.8)
Retirement benefit obligations	8	**(27.3)**	(30.9)
Provisions for other liabilities and charges		**(53.9)**	(55.2)
Derivative financial instruments	10	**(18.8)**	(21.8)
		(1,394.3)	(1,502.5)
Net assets		**834.2**	360.7
Equity			
Capital and reserves attributable to the company's equity holders			
Called up share capital		**18.4**	18.3
Share premium account		**6.8**	6.8
Other reserves		**(1,822.0)**	(1,763.5)
Retained profits		**2,630.8**	2,099.0
		834.0	360.6
Non-controlling interests		**0.2**	0.1
Total equity		**834.2**	360.7

1 Non-current other payables includes £42.6m of contingent consideration related to the PCI India acquisition

Condensed consolidated statement of changes in equity

	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2016	18.2	6.8	(1,768.8)	1,956.1	(0.2)	212.1
Profit for the period	-	-	-	64.9	0.2	65.1
Other comprehensive income:						
Net exchange adjustments offset in reserves	-	-	(0.7)	-	-	(0.7)
Remeasurement of net defined benefit asset	-	-		95.9	-	95.9
Effective portion of changes in fair value of cash flow hedge	-	-	(0.8)	-	-	(0.8)
Tax related to remeasurement of net defined benefit asset	-	-		(19.2)	-	(19.2)
Total comprehensive income for the period	-	-	(1.5)	141.6	0.2	140.3
Transactions with non-controlling interests:						
Amounts received from non-controlling interests	-	-	-	-	0.2	0.2
Transactions with owners:						
Dividends paid to equity shareholders	-	-	-	(37.5)	-	(37.5)
Issue of ordinary shares	0.1	-	-	-	-	0.1
Cost of share options and long-term incentive plan	-	-	-	2.3	-	2.3
At 30 June 2016	18.3	6.8	(1,770.3)	2,062.5	0.2	317.5
At 1 January 2017	**18.3**	**6.8**	**(1,763.5)**	**2,099.0**	**0.1**	**360.7**
Profit for the period	**-**	**-**	**-**	**579.5**	**0.1**	**579.6**
Other comprehensive income:						
Net exchange adjustments offset in reserves	**-**	**-**	**(22.5)**	**-**	**-**	**(22.5)**
Remeasurement of net defined benefit asset	**-**	**-**	**-**	**(9.5)**	**-**	**(9.5)**
Effective portion of changes in fair value of cash flow hedge	**-**	**-**	**6.2**	**-**	**-**	**6.2**
Cumulative exchange recycled to income statement on disposal of foreign operations	**-**	**-**	**(42.2)**	**-**	**-**	**(42.2)**
Tax related to remeasurement of net defined benefit asset	**-**	**-**	**-**	**1.7**	**-**	**1.7**
Total comprehensive income for the period	**-**	**-**	**(58.5)**	**571.7**	**0.1**	**513.3**
Transactions with owners:						
Dividends paid to equity shareholders	**-**	**-**	**-**	**(43.5)**	**-**	**(43.5)**
Issue of ordinary shares	**0.1**	**-**	**-**	**-**	**-**	**0.1**
Cost of share options and long-term incentive plan	**-**	**-**	**-**	**3.6**	**-**	**3.6**
At 30 June 2017	**18.4**	**6.8**	**(1,822.0)**	**2,630.8**	**0.2**	**834.2**

Treasury shares represent 7.9m (HY 2016: 5.4m) shares held by the Rentokil Initial Employee Share Trust and are netted against retained earnings. The market value of these shares at 30 June 2017 was £21.6m (HY 2016: £10.4m). 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	Total £m
At 1 January 2016	(1,722.7)	10.4	0.2	(56.7)	(1,768.8)
Net exchange adjustments offset in reserves	-	-	-	(0.7)	(0.7)
Effective portion of changes in fair value of cash flow hedge	-	-	(0.8)	-	(0.8)
Total comprehensive income for the period	-	-	(0.8)	(0.7)	(1.5)
At 30 June 2016	(1,722.7)	10.4	(0.6)	(57.4)	(1,770.3)
At 1 January 2017	**(1,722.7)**	**10.4**	**(5.9)**	**(45.3)**	**(1,763.5)**
Net exchange adjustments offset in reserves	**-**	**-**	**-**	**(22.5)**	**(22.5)**
Effective portion of changes in fair value of cash flow hedge	**-**	**-**	**6.2**	**-**	**6.2**
Cumulative exchange recycled to income statement on disposal of foreign operations	**-**	**-**	**-**	**(42.2)**	**(42.2)**
Total comprehensive income for the period	**-**	**-**	**6.2**	**(64.7)**	**(58.5)**
At 30 June 2017	**(1,722.7)**	**10.4**	**0.3**	**(110.0)**	**(1,822.0)**

Condensed consolidated cash flow statement

	Notes	**6 months to 30 June 2017 £m**	6 months to 30 June 2016 £m
Profit for the period		**579.6**	65.1
Adjustments for:			
- Tax		**13.3**	15.3
- Share of profit from associates		**(3.8)**	(3.0)
- Net interest credit from pensions		**(3.4)**	(4.3)
- Interest income		**(3.8)**	(5.7)
- Interest expense		**24.4**	24.4
Reversal of non-cash items:			
- Depreciation and impairment of property, plant and equipment		**66.6**	87.8
- Amortisation and impairment of intangible assets[1]		**25.9**	20.1
- Amortisation of computer software		**6.4**	6.0
- Other non-cash items		**3.1**	1.6
- Profit on sale of businesses		**(462.5)**	-
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):			
- Inventories		**(7.6)**	(6.8)
- Trade and other receivables		**(38.5)**	(16.0)
- Trade and other payables and provisions		**16.0**	14.5
Cash generated from operating activities		**215.7**	199.0
Interest received		**8.2**	6.3
Interest paid		**(13.8)**	(28.5)
Income tax paid		**(19.5)**	(17.8)
Net cash generated from operating activities		**190.6**	159.0
Cash flows from investing activities			
Purchase of property, plant and equipment		**(107.3)**	(89.0)
Purchase of intangible fixed assets		**(7.4)**	(8.8)
Proceeds from sale of property, plant and equipment		**3.0**	3.3
Acquisition of companies and businesses, net of cash acquired	5	**(206.8)**	(27.6)
Disposal of companies and businesses (net of disposal costs)		**396.1**	0.5
Net cash flows from investing activities		**77.6**	(121.6)
Cash flows from financing activities			
Issue of ordinary share capital		**0.1**	0.1
Dividends paid to equity shareholders		**(43.5)**	(37.5)
Interest element of finance lease payments		**(0.7)**	(0.6)
Capital element of finance lease payments		**(8.5)**	(6.6)
Cash outflow on settlement of debt related foreign exchange forward contracts		**(43.5)**	(0.3)
Proceeds from issue of debt		**225.0**	239.4
Net investment in term deposits		**6.4**	94.4
Net loan/bond repayments		**(10.5)**	(341.4)
Net cash flows from financing activities		**124.8**	(29.7)
Net increase in cash and cash equivalents		**393.0**	7.7
Cash and cash equivalents at beginning of year		**105.9**	100.5
Exchange gains/(losses) on cash and cash equivalents		**(4.7)**	6.8
Cash and cash equivalents at end of the financial period		**494.4**	115.0

1 excluding computer software

1. General information

The Company is a limited liability company incorporated and domiciled in the UK with a listing on the London Stock Exchange. The address of its registered office is Rentokil Initial plc, Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB.

The condensed consolidated half-yearly financial information for the half-year to 30 June 2017 was approved for issue on 27 July 2017.

On pages 65 to 66 of the Annual Report 2016 we set out the Group's approach to risk management and on pages 34 to 39 we define the principal risks that are most relevant to the Group. These risks are described in detail and have mitigating actions assigned to each of them. In our view the principal risks remain unchanged from those indicated in the Annual Report 2016 and actions continue to be taken to substantially mitigate the impact of such risks, should they materialise.

These interim financial results do not comprise statutory accounts within the meaning of Section 435 of the Companies Act 2006, and should be read in conjunction with the Annual Report 2016. Those accounts have been reported upon by the Group's auditors and delivered to the registrar of companies. The report of the auditors was unqualified, did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

For all information relating to 2016 results please refer to the Annual Report 2016 which can be accessed here: http://www.rentokil-initial.com/investors/year-in-review.aspx

2. Basis of preparation

These interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU.

The annual financial statements of the Group are prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, the interim financial statements have been prepared applying the accounting policies and presentation that were applied in the preparation of the Company's published condensed consolidated financial statements for the year ended 31 December 2016 except for the changes described in Note 3.

After reviewing Group cash balances, borrowing facilities and projected cash flows, the directors believe that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the condensed consolidated financial statements.

3. Accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those financial statements with the addition of accounting policy choices as described in note 5 and 6.

The preparation of the interim financial information for the half-year ended 30 June 2017 requires management to make estimates and assumptions that affect the reported amounts of revenues, expenses, assets, liabilities and disclosure of contingent liabilities at the date of the statement. If in the future such estimates and assumptions, which are based on management's best judgement at the date of the statement, deviate from the actual circumstances, the original estimates and assumptions will be modified as appropriate in the year in which the circumstances change.

Significant seasonal or cyclical variations in the group's total revenues are not experienced during the financial year.

Changes in accounting policies

The Group has adopted the following amendments to standards with effect from 1 January 2017:

- Amendments resulting from the disclosure initiative – IAS 7
- Amendments regarding the recognition of deferred tax assets for unrealised losses – IAS 12

These standards have had no impact on the financial position or performance of the Group. Consequently, no adjustment has been made to the comparative financial information as at 31 December 2016 or 30 June 2016. The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

The Group is considering the impact on the financial statements of relevant forthcoming standards, including IFRS 15 Revenue from Contracts with Customers (effective 1 January 2018), IFRS 16 Leases (effective 1 January 2019), and IFRS 9 Financial Instruments (effective 1 January 2018).

It is expected that substantially all of the Group's revenue will be treated as revenue from contracts with customers under IFRS 15, but the new standard will not require material changes to the timing of revenue recognition. We also expect that certain sales commissions that meet the requirements stated within the standard may need to be recognised as an asset and amortised over the life of the contracts to which they relate. This treatment is not anticipated to materially affect the profit of the Group.

As a result of the changes within the forthcoming standard IFRS 16 Leases, the majority of our existing operating leases will be accounted for as right of use assets, which will be largely offset by corresponding lease liabilities. The assets will be recognised as property, plant and equipment, and the lease liability will increase net debt. It is anticipated that operating expenses will decrease and financing costs will increase as the operating lease expense is replaced by depreciation and interest. Depreciation will be straight-line over the life of the lease but the financing charge will decrease over the lease term. The overall impact on net profit is not expected to be material.

The changes resulting from the new standard IFRS 9 are expected to be minimal. Financial assets are subject to new rules regarding provisions for impairment, however the Group has minimal financial assets (other than trade debtors), and a history of minimal impairments against these assets. Therefore the impact is not expected to be material.

4. Segmental information

Segmental information has been presented in accordance with IFRS 8 Operating Segments. Reporting segments reflect the internal management organisation and reporting structures. Each segment is headed by a Regional Managing Director who reports directly to the Chief Executive and is a member of the Executive Leadership Team responsible for the review of Group performance. The operating businesses within each segment report to the Regional Managing Directors.

Given the international nature of the Group, foreign exchange movements can have a significant impact on regional performance and as a result the segmental analysis is presented at constant exchange rates (CER). Restructuring costs and central and regional overheads are also presented separately as they are not directly attributable to any reportable segment. The basis of presentation is consistent with the information reviewed by internal management. Revenue and profit are from ongoing operations, which is defined and reconciled to the nearest equivalent GAAP measure in Note 12.

	Revenue 30 June 2017 £m	Revenue 30 June 2016 £m	**Operating profit 30 June 2017 £m**	Operating profit 30 June 2016 £m
France	**136.6**	135.7	**19.5**	21.5
Benelux	**38.9**	38.5	**11.1**	10.4
Germany	**36.8**	33.4	**10.6**	9.5
Southern Europe	**35.9**	33.9	**5.5**	5.0
Latin America	**15.8**	11.4	**1.5**	1.5
Europe	**264.0**	252.9	**48.2**	47.9
UK & Ireland	**122.5**	115.9	**22.2**	21.6
Rest of World	**60.2**	54.6	**13.3**	12.3
UK & Rest of World	**182.7**	170.5	**35.5**	33.9
Asia	**82.4**	63.5	**8.2**	6.3
North America	**386.7**	298.0	**45.8**	35.4
Pacific	**80.8**	74.2	**16.9**	15.5
Central and regional overheads	**-**	-	**(37.4)**	(34.2)
Restructuring costs	**-**	-	**(3.8)**	(4.4)
Ongoing operations at constant exchange rates	**996.6**	859.1	**113.4**	100.4
Disposed businesses	**168.3**	172.0	**52.5**	20.2
Continuing operations at constant exchange rates	**1,164.9**	1,031.1	**165.9**	120.6
Foreign exchange	**68.7**	(44.0)	**11.5**	(6.6)
Continuing operations at actual exchange rates	**1,233.6**	987.1	**177.4**	114.0
One-off items – operating			**(7.7)**	(2.1)
Amortisation of intangible assets[1]			**(25.9)**	(20.1)
Operating profit			**143.8**	91.8

One-off items and amortisation and impairment of intangible assets

	Amortisation and impairment of intangibles[1] 30 June 2017 £m	Amortisation and impairment of intangibles[1] 30 June 2016 £m	**One-off items - operating 30 June 2017 £m**	One-off items - operating 30 June 2016 £m
Europe	**3.1**	2.9	**1.3**	0.3
UK & Rest of World	**3.5**	2.6	**0.2**	0.2
Asia	**1.4**	1.2	**0.4**	0.3
North America	**13.4**	12.1	**4.1**	1.3
Pacific	**1.2**	0.4	**0.3**	0.3
Central and regional	**1.9**	1.6	**0.9**	0.1
Disposed businesses	**-**	0.1	**-**	(0.3)
Total at constant exchange rates	**24.5**	20.9	**7.2**	2.2
Foreign exchange	**1.4**	(0.8)	**0.5**	(0.1)
Total at actual exchange rates	**25.9**	20.1	**7.7**	2.1

1 excluding computer software

One-off items – operating largely comprises acquisition and integration costs associated with significant acquisitions and in particular the Steritech acquisition in North America.

5. Business combinations

The Group purchased 100% of either the share capital or the trade and assets of 24 companies and businesses in the period and 57% of PCI India.

The Group has elected to account for the PCI India acquisition under the anticipated acquisition method per IAS 1 , and therefore no non-controlling interest is recognised. Under this accounting policy, put and call options are accounted for as an anticipated acquisition of the underlying non-controlling interest. The acquisition includes put options whereby the non-controlling interest can require the Group to purchase the remaining 43% of shares in stages over a fixed term (between five and ten years from the date of acquisition). The Group also holds a call option to acquire the shares from the non-controlling interest at the end of this fixed term which has not been recognised as it has nil fair value. The Group has recognised contingent consideration of £43.0m for the anticipated acquisition of the shares. The Group has also made an accounting policy choice, consistent with IAS 39, to recognise movements in the fair value of the liability for the options through other comprehensive income.

The total consideration in respect of acquisitions in the current year was £281.6m. Details of goodwill and the fair value of net assets acquired are as follows:

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m
Purchase consideration:		
- Cash paid	**207.5**	25.6
- Deferred and contingent consideration	**74.1**	6.8
Total purchase consideration	**281.6**	32.4
Fair value of net assets acquired	**(56.5)**	(19.8)
Goodwill from current period acquisitions	**225.1**	12.6

Goodwill represents the synergies, workforce and other benefits expected as a result of combining the respective businesses.

Deferred consideration of £3.2m and contingent consideration of £70.9m is payable in respect of the above acquisitions. Contingent consideration is payable based on a variety of conditions including revenue and profit targets being met.

The provisional fair value of assets and liabilities arising from acquisitions in the period are shown below. The provisional fair values will be finalised in the 2017 financial statements. The fair values are provisional as the acquisition accounting has not yet been finalised, primarily due to the proximity of the acquisitions to the period end.

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m
Non-current assets		
- Intangible assets	**45.9**	21.3
- Property, plant and equipment	**11.7**	1.0
Current assets	**25.6**	2.2
Current liabilities	**(20.0)**	(1.5)
Non-current liabilities	**(6.7)**	(3.2)
Net assets acquired	**56.5**	19.8

From the dates of acquisition to 30 June 2017, these acquisitions contributed £40.5m to revenue and £5.8m to operating profit. If the acquisitions had occurred on 1 January 2017, the revenue and operating profit of the combined entity would have amounted to £1,252.7m and £553.2m respectively.

In relation to prior period acquisitions, there has been an adjustment to the provisional fair values resulting in an increase to goodwill of £0.5m.

In addition £5.0m was paid in respect of deferred and contingent consideration for prior year acquisitions resulting in the total cash outflow in the period from current and past period acquisitions, net of cash acquired, of £206.8m.

6. Disposal group held for sale and business disposals

Net profit on disposal of businesses

	30 June 2017 £m
Disposal group held-for-sale impairment charge	**(19.1)**
Net gain on disposal of businesses	**481.6**
	462.5

A non-current asset or a disposal group is classified as held for sale if its carrying amount will be recovered principally through sale rather than through continuing use, it is available for immediate sale, and sale is highly probable within one year.

On initial classification as held for sale, non-current assets and disposal groups are measured at the lower of previous carrying amount and fair value less costs to sell with any adjustments taken to profit or loss. The same applies to gains and losses on subsequent remeasurement although gains are not recognised in excess of any cumulative impairment loss. Any impairment loss on a disposal group is first allocated to goodwill, and then to remaining assets and liabilities on pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets and employee benefit assets , which continue to be measured in accordance with the Group's accounting policies. Intangible assets and property, plant and equipment once classified as held for sale or distribution are not amortised or depreciated.

Subject to a successful completion of an employee consultation process and competition clearance, eight textile laundries in France are planned to be sold to Regie Linge Developpement ('RLD') for consideration of €33.0m. This disposal is expected to complete in the second half of the year. The assets and liabilities of the disposal group have been written down to their recoverable value resulting in an impairment of £19.1m, and classified as held for sale as set out in the table below.

Net assets of disposal group held for sale

	30 June 2017 £m
Assets held for sale	
Property, plant and equipment	**43.2**
Inventories	**0.9**
Liabilities held for sale	
Trade and other payables	**(0.2)**
Retirement benefit obligations	**(2.8)**
Deferred and current tax	**(10.7)**
Net assets held for sale	**30.4**

On the 30 June 2017 the Group sold its Workwear and Hygiene operations in 10 countries, principally in the Benelux and Central and Eastern Europe, to a joint venture with the CWS-Boco businesses of Franz Haniel & Cie. Holding Company. The disposal group was recognised as held for sale at 31 December 2016. In addition to cash consideration the Group received an 17.8% share in the combined CWS-Boco business. This is accounted for as an investment in associate at 30 June 2017. The value of the investment in associate is based on the valuation of the combined businesses.

The Group has made an accounting policy choice to recognise a full disposal of the businesses to CWS-boco under IFRS 10, rather than accounting for this as a partial disposal under IAS 28. Under this approach, no elimination of the gain or loss is performed and the fair value of the retained investment is its deemed cost for the purposes of subsequent accounting. Details of net assets disposed and disposal proceeds in the year relating to this disposal are as follows:

		30 June 2017 £m
Non-current assets		
– Intangible assets		**39.1**
– Property, plant and equipment		**202.7**
Current assets		
– Inventories		**2.0**
– Trade and other receivables		**52.0**
– Cash		**17.5**
Current liabilities		
– Trade and other payables		**(44.7)**
Non-current liabilities		
– Provisions		**(1.7)**
– Retirement benefit obligations		**(2.0)**
– Deferred and current tax		**(19.6)**
Net assets and liabilities disposed		**245.3**
Cash consideration	**(419.4)**	
Deferred consideration	**(30.0)**	
Share of investment in associate	**(254.0)**	
Total consideration		**(703.4)**
Cumulative exchange recycled from translation reserve		**(42.2)**
Costs of disposal		**18.7**
Net gain on disposal		**(481.6)**

7. Dividends

	6 months to 30 June 2017 £m	6 months to 30 June 2016 £m	Year to 31 December 2016 £m
2015 final dividend paid – 2.06p per share	**-**	37.5	37.5
2016 interim dividend paid – 0.99p per share	**-**	-	18.0
2016 final dividend paid – 2.38p per share	**43.5**	-	-
	43.5	37.5	55.5

The directors have declared an interim dividend of 1.14p per share amounting to £21.0m payable on 13 September 2017 to shareholders on the register at 12 August 2017. The Company has a progressive dividend policy and will take a view on the level of any growth for 2017 based on the year-end results. These interim financial statements do not reflect this dividend payable.

8. Retirement benefit obligations

Apart from the legally required state social security schemes, the Group operates a number of pension schemes around the world covering many of its employees. The major schemes are of the defined benefit type with assets held in separate trustee administered funds.

The principal scheme in the Group is the Rentokil Initial 2015 Pension Scheme in the United Kingdom ("the scheme"). It has a number of defined benefit sections which are all now closed to new members. At 30 June 2017 the scheme was valued at an accounting surplus of £265.7m (December 2016: £272.0m) on the Group's balance sheet.

Other schemes currently in an accounting surplus position total £0.6m and other schemes currently in an accounting deficit position total £27.3m

The scheme is re-appraised semi-annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19 requirements. The principal assumptions used for the scheme are shown below:

	30 June 2017 £m	31 December 2016 £m
Weighted average %		
Discount rate	**2.6%**	2.6%
Future salary increases	**N/A**	N/A
Future pension increases	**3.4%**	3.4%
RPI Inflation	**3.5%**	3.5%
CPI Inflation	**2.4%**	2.4%

The trustees of the scheme value the liabilities on a different basis and in the most recent valuation at 31 December 2015, it was agreed that the scheme is now fully funded and no contributions are required from the company at this time. The funding position will be reviewed at the next triennial actuarial valuation, which is due to be carried out at 31 December 2018.

9. Bank and other borrowings

	At 30 June 2017 £m	At 31 December 2016 £m
Non-current		
RCF and other bank borrowings	**360.7**	473.4
Bond debt	**743.1**	764.6
Finance lease liabilities	**26.9**	22.4
	1,130.7	1,260.4
Current		
Bank overdrafts	**5.1**	54.3
Bank borrowings	**308.3**	-
Bond debt	**43.8**	-
Bond interest accruals	**18.7**	6.2
Finance lease liabilities	**12.4**	16.9
	388.3	77.4
Total bank and other borrowings	**1,519.0**	1,337.8

At 30 June 2017, the Group has a £420m revolving credit facility (RCF) which is available for cash drawings up to £360m, and for guarantees and letters of credit up to £60m. The maturity date is January 2022. As at 30 June 2017 £308.3m was drawn under the part of the facility available for cash drawings and £33.2m under the part available for guarantees.

The Group also has a US$25m revolving credit facility, maturing December 2019, on terms in line with main RCF. At 30 June 2017, nothing was drawn on this facility.

In addition the Group has Term Loans available for cash drawings of up to £200m and $157m with a maturity date of December 2018. Both were fully drawn during the six months to 30 June 2017. The cost of borrowing under the £200m and $157m loans were 1.01% and 1.99% respectively.

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Non-current		
€50m bond due March 2018[1]	Float 3M EURIBOR+0.48%	Fixed 0.66%
€500m bond due September 2019	Fixed 3.375%	Fixed 3.50%
€350m bond due October 2021	Fixed 3.25%	Fixed 3.41%
£1.3m perpetual debentures	Fixed 5.00%	Fixed 5.00%
£0.3m perpetual debentures	Fixed 4.50%	Fixed 4.50%
Average cost of bond debt at period end rates		3.30%

1 The €50m bond due March 2018 was fixed at rate of 0.57% payable quarterly. The effective hedge rate is higher than the annual coupon on our bonds due to discount and fees paid on issuance

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

	Carrying amount 30 June 2017 £m	Carrying amount 31 December 2016 £m	**Fair Value 30 June 2017 £m**	Fair Value 31 December 2016 £m
Bank borrowings	**360.7**	473.4	**360.7**	473.4
€50m bond due March 2018	**-**	42.6	**-**	42.6
€500m bond due September 2019	**437.4**	425.0	**469.5**	465.6
€350m bond due October 2021	**304.7**	296.0	**339.4**	337.0
£1.6m perpetual debentures	**1.0**	1.0	**1.7**	1.7
Finance lease liabilities	**26.9**	22.4	**26.9**	22.4
	1,130.7	1,260.4	**1,198.2**	1,342.7

10. 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.

Financial instrument	**Hierarchy level**	**Valuation method**
Financial assets traded in active markets	1	Current bid price
Financial liabilities traded in active markets	1	Current ask price
Long-term debt	1	Quoted market prices or dealer quotes for similar instruments
Interest rate/currency swaps	1	Market swap rates at the balance sheet date
Forward foreign exchange contracts	1	Forward exchange market rates at the balance sheet date
Borrowings not traded in active markets	2	Cash flows discounted at current market rates
Financial instruments not traded in active markets	2 or 3	Valuation assumptions based on market conditions at the balance sheet date
Trade payables and receivables	3	Nominal value less estimated credit adjustments
Other financial instruments	3	Variety of techniques including discounted cash flows

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. Contingent consideration payable on acquisitions by the Group falls into Level 3. No financial instruments have moved between levels in the period.

	Fair value assets 30 June 2017 £m	Fair value assets 31 December 2016 £m	**Fair value liabilities 30 June 2017 £m**	Fair Value liabilities 31 December 2016 £m
Interest rate swaps:				
- non-hedge	**-**	-	**(6.3)**	(6.0)
- cash flow hedge	**3.6**	1.3	**(0.1)**	(0.2)
- net investment hedge	**0.1**	-	**(12.4)**	(65.9)
Foreign exchange forwards:				
- cash flow hedge	**-**	-	**-**	(6.0)
- non-hedge	**1.1**		**(1.3)**	-
Foreign exchange swaps:				
- non-hedge	**-**	0.3	**(0.2)**	(0.5)
	4.8	1.6	**(20.3)**	(78.6)
Analysed as follows:				
Current portion	**1.3**	1.6	**(1.5)**	(56.8)
Non-current portion	**3.5**	-	**(18.8)**	(21.8)
	4.8	1.6	**(20.3)**	(78.6)

11. Events occurring after the balance sheet date

Bank borrowings of £307.9m were repaid on 3 July 2017 (£154.3m) and 5 July 2017 (£153.6m). Additionally the Group entered into a EUR/USD cross currency interest rate swap on 3 July 2017 converting Euro debt of €141.3m to USD debt of $161.1m.

There were no other significant events occurring after the balance sheet date.

12. Alternative performance measures

Definitions and reconciliation of non-GAAP measures to GAAP measures

The Group uses a number of measures to present the financial performance of the business which are not GAAP measures as defined under IFRS. Management believes these measures provide valuable additional information for users of the financial statements in order to understand the underlying trading performance. The Group's internal strategic planning process is also based on these measures and they are used for incentive purposes. They should be viewed as complements to, and not replacements for, the comparable GAAP measures.

Constant exchange rates (CER)

Given the international nature of the Group's operations, foreign exchange movements can have a significant impact on the reported results of the Group when they are translated into sterling (the functional reporting currency of the Group). In order to help understand the underlying trading performance of the business, unless otherwise stated, percentage movements for revenue and profit measures are presented at constant exchange rates (CER). Constant exchange rates are calculated by retranslating current year reported numbers at the full year average exchange rates for the prior year, in order to give management and other users of the accounts better visibility of underlying performance against the prior period. The major exchange rates used are £/$ FY 2016 1.3556 (FY 2015 1.5288) and £/€ FY 2016 1.2299 (FY 2015 1.3770). Comparisons are to the period ended 30 June 2016 (2016) unless otherwise stated.

Ongoing Revenue and Ongoing Operating Profit

Ongoing Revenue and Ongoing Operating Profit represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. Ongoing Operating Profit is an adjusted measure and is presented before amortisation and impairment of intangible assets (excluding computer software), one-off items (see below), gain or loss on disposal of businesses, and add-back of depreciation on held-for-sale assets.

Ongoing measures enable the users of the accounts to focus on the performance of the businesses retained by the Group and that will therefore contribute to future performance. Ongoing Revenue and Ongoing Operating Profit are presented at CER unless otherwise stated. A reconciliation of Ongoing Revenue and Ongoing Operating Profit measures to the equivalent GAAP measure is provided in the table below and in the segmental analysis in Note 4.

Adjusted profit and earnings per share measures

Adjusted profit measures are used to give management and other users of the accounts a clear understanding of the underlying profitability of the business over time by removing distortions caused by non-recurring expenses and income, and the amortisation and impairment of intangible assets arising on the acquisition of businesses. Adjusted profit measures are calculated by adding the following items back to the equivalent GAAP profit measure:

- Amortisation and impairment of intangible assets (excluding software)
- One-off items
- Net profit on disposal of businesses
- Depreciation – held–for-sale assets
- Net interest credit from pensions

Intangible assets (excluding computer software) are recognised on the acquisition of businesses which, by their nature, can vary by size and amount each year. As a result, amortisation of intangibles is added back to assist with the understanding of the underlying trading performance of the business and to allow comparability across regions and categories.

One-off items are significant non-recurring expenses or income which will have a non-recurring impact on the profitability of the Group. Typical examples are costs related to the acquisition of businesses (including aborted acquisitions), gain or loss on disposal or closure of a business, material gains or losses on disposal of fixed assets, adjustments to legacy property-related provisions (vacant property and environmental liabilities), and payments or receipts as a result of legal disputes. One-off items are analysed in Note 4.

Given the size, the net profit on disposal of businesses of £409.0m has been separately presented on the face of the consolidated statement of profit or loss below operating profit.

In addition, following the announcement of the joint venture (JV) with Haniel in December 2016 the assets of the businesses being contributed into the JV were reported as 'held for sale'. In accordance with IFRS 5, - Non-current Assets Held for Sale and Discontinued Operations - the assets were not depreciated from that point which has increased the profitability of the disposed businesses by £34.3m in the first half. In order to avoid this distorting the underlying performance of the business the non-depreciation benefit has been added back in arriving at our adjusted profit measures (Adjusted EPS and Adjusted PBTA).

Prior to 2016 restructuring costs were an adjustment in arriving at adjusted profit measures. Although they are no longer adjusted for, they are presented in the segmental analysis in order to provide comparability. Central and regional costs are overhead costs which cannot be allocated to any specific segment.

Adjusted earnings per share is earnings per share calculated on adjusted profit after tax.

12. Alternative performance measures (continued)

A reconciliation of non-GAAP measures to the comparable GAAP equivalents is provided below at both AER and CER:

	H1 2017 AER £m	H1 2017 CER £m	H1 2016 AER £m	H1 2016 CER £m	*% change* AER	*% change* CER
Ongoing Revenue	**1,056.0**	**996.6**	822.6	859.1	*28.4%*	*16.0%*
Revenue - disposed and closed businesses	**177.6**	**168.3**	164.5	172.0	*7.9%*	*(2.1%)*
Revenue	**1,233.6**	**1,164.9**	987.1	1,031.1	*25.0%*	*13.0%*
Ongoing Operating Profit	**122.1**	**113.4**	94.7	100.4	*29.2%*	*13.0%*
Operating Profit – disposed and closed businesses	**55.3**	**52.5**	19.3	20.2	*186.7%*	*160.1%*
Operating Profit - continuing operations	**177.4**	**165.9**	114.0	120.6	*55.9%*	*37.7%*
Depreciation – held-for-sale assets	**(34.3)**	**(32.6)**	-	-	-	-
Adjusted Operating Profit	**143.1**	**133.3**	114.0	120.6	*25.7%*	*10.6%*
One-off items – Operating	**(7.7)**	**(7.3)**	(2.1)	(2.2)	*(266.7%)*	*(231.8%)*
Depreciation – held-for-sale assets	**34.3**	**32.6**	-	-	-	-
Amortisation and impairment of intangible assets	**(25.9)**	**(24.5)**	(20.1)	(20.9)	*(28.9%)*	*(17.0%)*
Operating profit	**143.8**	**134.1**	91.8	97.5	*56.6%*	*37.5%*
Profit on disposal of businesses	**462.5**	**461.4**	-	-	-	-
Share of profit from associates (net of tax)	**3.8**	**3.6**	3.0	3.2	*27.5%*	*13.2%*
Net interest payable (excluding pensions)	**(20.6)**	**(19.6)**	(18.7)	(19.5)	*(10.2%)*	*(1.3%)*
Net interest credit from pensions	**3.4**	**3.4**	4.3	4.3	*(21.4%)*	*(21.1%)*
Profit before tax	**592.9**	**582.9**	80.4	85.5	*637.4%*	*581.8%*
Net interest credit from pensions	**(3.4)**	**(3.4)**	(4.3)	(4.3)	*(21.4%)*	*(21.1%)*
One-off items – Operating	**7.7**	**7.3**	2.1	2.2	*(266.7%)*	*(231.8%)*
Profit on disposal of businesses	**(462.5)**	**(461.4)**	-	-	-	-
Depreciation – held-for-sale assets	**(34.3)**	**(32.6)**	-	-	-	-
Amortisation and impairment of intangible assets	**25.9**	**24.5**	20.1	20.9	*(28.9%)*	*(17.0%)*
Adjusted profit before tax	**126.3**	**117.3**	98.3	104.3	*28.5%*	*12.5%*
Basic earnings per share	**31.62p**	**31.13p**	3.56p	3.81p	*788.2%*	*717.1%*
Basic adjusted earnings per share	**5.36p**	**4.97p**	4.20p	4.48p	*27.6%*	*10.9%*

Organic Revenue measures

Acquisitions are a core part of the Group's growth strategy. Organic Revenue growth measures are used to help understand the underlying performance of the Group. Organic Revenue growth represents the growth in Ongoing Revenue excluding the effect of businesses acquired during the year. Acquired businesses are included in organic measures in the year following acquisition, and the comparative period is adjusted to include an estimated full year performance for growth calculations. The table below reconciles organic measures by category to the comparable GAAP measures.

	Europe		**UK and ROW**		**Asia**		**North America**		**Pacific**		**Total**	
	£m	%	**£m**	%	**£m**	%	**£m**	%	**£m**	%	**£m**	%
H1 2016 Ongoing Revenue (as reported)	252.9	-	170.5	-	63.5	-	298.0	-	74.2	-	859.1	-
Pro forma revenue from 2016 and 2017 acquisitions	3.3	1.3	8.5	5.0	14.2	22.3	71.8	24.1	3.1	4.2	100.9	11.8
Organic Revenue growth	7.8	3.0	3.7	2.1	4.7	7.4	16.9	5.6	3.5	4.7	36.6	4.2
H1 2017 Ongoing Revenue (as reported)	**264.0**	**4.3**	**182.7**	**7.1**	**82.4**	**29.7**	**386.7**	**29.7**	**80.8**	**8.9**	**996.6**	**16.0**

	Pest Control		**Hygiene**		**Protect & Enhance**		**Total**	
	£m	%	**£m**	%	**£m**	%	**£m**	%
H1 2016 Ongoing Revenue (as reported)	502.1	-	184.5	-	172.5	-	859.1	-
Pro forma revenue from 2016 and 2017 acquisitions	96.7	19.3	1.3	0.7	2.9	1.7	100.9	11.8
Organic growth	32.8	6.5	5.6	3.0	(1.8)	(1.1)	36.6	4.2
H1 2017 Ongoing Revenue (as reported)	**631.6**	**25.8**	**191.4**	**3.7**	**173.6**	**0.6**	**996.6**	**16.0**

12. Alternative performance measures (continued)

Segmental analysis

Segmental information has been presented in accordance with IFRS 8 Operating Segments (Note 4). The "Geographic" reporting segments reflect the internal management organisation and reporting structure of the Group. The "Category" reporting segment has been revised in 2017 and now combines with the quadrant analysis to give new operational categories of Pest Control, Hygiene, and Protect & Enhance (made up of the non-core businesses of Workwear, Ambius and Property Care).

Segmental analysis is presented at CER unless otherwise stated.

Regional Analysis

	Revenue				Operating Profit			
	H1 2017		Change from HY 2016		H1 2017		Change from HY 2016	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
France	144.0	136.6	11.0	0.6	20.6	19.5	0.1	(9.3)
Benelux	41.0	38.9	11.4	1.0	11.7	11.1	17.4	6.4
Germany	38.8	36.8	21.7	10.2	11.2	10.6	23.2	11.4
Southern Europe	37.9	35.9	16.7	5.8	5.8	5.5	22.0	10.4
Latin America	17.7	15.8	67.6	38.8	1.6	1.5	14.8	0.5
Total Europe	**279.4**	**264.0**	**15.7**	**4.3**	**50.9**	**48.2**	**11.2**	**0.6**
UK & Ireland	123.0	122.5	6.5	5.6	22.4	22.2	4.5	2.9
Rest of World	64.9	60.2	25.4	10.3	14.4	13.3	23.8	8.2
UK & Rest of World	**187.9**	**182.7**	**12.4**	**7.1**	**36.8**	**35.5**	**11.3**	**4.8**
Asia	**87.4**	**82.4**	**44.2**	**29.7**	**8.5**	**8.2**	**42.3**	**30.5**
North America	**413.5**	**386.7**	**45.9**	**29.7**	**49.0**	**45.8**	**45.7**	**29.5**
Pacific	**87.8**	**80.8**	**25.8**	**8.9**	**18.3**	**16.9**	**26.0**	**8.9**
Central and regional overheads	**-**	**-**	**-**	**-**	**(37.5)**	**(37.4)**	**(9.7)**	**(9.6)**
Restructuring costs	**-**	**-**	**-**	**-**	**(3.9)**	**(3.8)**	**7.4**	**13.6**
Ongoing operations	**1,056.0**	**996.6**	**28.4**	**16.0**	**122.1**	**113.4**	**29.2**	**13.0**
Disposed businesses	177.6	168.3	7.9	(2.1)	55.3	52.5	186.7	160.1
Continuing operations	**1,233.6**	**1,164.9**	**25.0**	**13.0**	**177.4**	**165.9**	**55.9**	**37.7**
Depreciation – held-for-sale assets	-	-	-	-	(34.3)	(32.6)	**-**	**-**
Adjusted - Continuing operations	**1,233.6**	**1,164.9**	**25.0**	**13.0**	**143.1**	**133.3**	25.7	10.6

Category Analysis[1]

	Revenue				Operating Profit			
	H1 2017		Change from HY 2016		H1 2017		Change from HY 2016	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
Pest Control	**672.0**	**631.6**	**40.2**	**25.8**	**113.8**	**107.6**	**34.3**	**21.4**
- Growth	578.1	543.9	36.0	22.2	99.6	94.1	29.1	16.8
- Emerging	93.9	87.7	72.7	53.4	14.2	13.5	87.2	68.2
Hygiene	**201.4**	**191.4**	**13.6**	**3.7**	**35.5**	**33.6**	**21.1**	**9.9**
Protect & Enhance	**182.6**	**173.6**	**10.1**	**0.6**	**14.2**	**13.4**	**(25.0)**	**(32.1)**
Central and regional overheads	**-**	**-**	**-**	**-**	**(37.5)**	**(37.4)**	**(9.7)**	**(9.6)**
Restructuring costs	**-**	**-**	**-**	**-**	**(3.9)**	**(3.8)**	**7.4**	**13.6**
Ongoing operations	**1,056.0**	**996.6**	**28.4**	**16.0**	**122.1**	**113.4**	**29.2**	**13.0**
Disposed businesses	177.6	168.3	7.9	(2.1)	55.3	52.5	186.7	160.1
Continuing operations	**1,233.6**	**1,164.9**	**25.0**	**13.0**	**177.4**	**165.9**	**55.9**	**37.7**
Depreciation – held-for-sale assets	-	-	-	-	(34.3)	(32.6)	-	-
Adjusted - Continuing operations	**1,233.6**	**1,164.9**	**25.0**	**13.0**	**143.1**	**133.3**	25.7	10.6

1 The "Category" reporting segment has been revised in 2017, this table is restated

12. Alternative performance measures (continued)

Operating Margin

Operating Margin is calculated by dividing Ongoing Operating Profit by Ongoing Revenue, expressed as a percentage. Net Operating Margin by region and category is shown in the tables below:

	H1 2017 %	H1 2016 %	Variance %
France	**14.3**	15.8	(1.5)
Benelux	**28.6**	27.1	1.5
Germany	**28.7**	28.4	0.3
Southern Europe	**15.4**	14.8	0.6
Latin America	**9.2**	12.9	(3.7)
Total Europe	**18.2**	18.9	(0.7)
UK & Ireland	**18.1**	18.6	(0.5)
Rest of World	**22.1**	22.6	(0.5)
UK & Rest of World	**19.4**	19.9	(0.5)
Asia	**9.9**	9.8	0.1
North America	**11.9**	11.9	-
Pacific	**20.9**	20.9	-
Ongoing operations[1]	**11.4**	11.7	(0.3)
Disposed businesses	**11.8**	11.7	0.1
Continuing operations[1]	**11.4**	11.7	(0.3)

	H1 2017 %	H1 2016[2] %	Variance %
Pest Control	**17.0**	17.6	(0.6)
- Growth	**17.3**	18.1	(0.8)
- Emerging	**15.3**	14.0	1.3
Hygiene	**17.6**	16.6	1.0
Protect & Enhance	**7.7**	11.4	(3.7)
Ongoing operations[1]	**11.4**	11.7	(0.3)
Disposed businesses	**11.8**	11.7	0.1
Continuing operations[1]	**11.4**	11.7	(0.3)

1 Operating Margin for ongoing operations and continuing operations is calculated after central and regional overheads and restructuring costs

2 The “Category” reporting segment has been revised in 2017, this table is restated

Free Cash Flow

The Group aims to generate sustainable cash flow (Free Cash Flow) in order the support its acquisition programme and to fund dividend payments to shareholders. Free Cash Flow is measured as net cash from operating activities, adjusted for cash flows related to the purchase and sale of property, plant, equipment and intangible fixed assets, and dividends received from associates. These items are considered by management to be non-discretionary, as continued investment in these assets is required to support the day-to-day operations of the business. A reconciliation of Free Cash Flow from Net Cash from Operating Activities is provided in the table below:

	H1 2017 AER £m	H1 2016 AER £m
Net cash from operating activities	**190.6**	159.0
Purchase of property, plant, equipment and intangible fixed assets	**(114.7)**	(97.8)
Leased property, plant and equipment	**(10.1)**	(6.8)
Proceeds from sale of property, plant, equipment and software	**3.0**	3.3
Interest element of finance lease payments	**(0.7)**	(0.6)
Free Cash Flow	**68.1**	57.1

12. Alternative performance measures (continued)

Adjusted Effective Tax Rate

Adjusted Effective Tax Rate is calculated by dividing adjusted income tax expense by adjusted profit before income tax, expressed as a percentage. The measure is used by management to assess the rate of tax applied to the Group's adjusted profit before tax from continuing operations.

	H1 2017 £m	H1 2016 £m
Unadjusted income tax expense	**13.3**	15.3
Tax adjustments on:		
Amortisation and impairment of intangible assets (excluding computer software)	**8.3**	6.6
One-off items – operating	**2.3**	0.6
Net interest credit from pensions	**(0.6)**	(0.8)
Profits and losses on disposal of businesses and reversal of depreciation on assets held for sale	**4.8**	-
Adjusted income tax expense (a)	**28.1**	21.7
Adjusted profit before income tax (b)	**126.3**	98.3
Adjusted Effective Tax Rate (a/b)	**22.2%**	22.1%

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU

- the interim management report includes a fair review of the information required by:

    - DTR 4.2.7R of the *Disclosure and Transparency Rules*, being an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining six months of the year; and

    - DTR 4.2.8R of the *Disclosure and Transparency Rules*, being related party transactions that have taken place in the first six months of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so

By Order of the Board

Andy Ransom
Chief Executive
26 July 2017

The directors of Rentokil Initial plc are listed in the Rentokil Initial plc Annual Report for 31 December 2016. A list of the current directors is maintained on the Rentokil Initial website: www.rentokil-initial.com

INDEPENDENT REVIEW REPORT TO RENTOKIL INITIAL PLC

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 which comprises the condensed consolidated income statement, condensed consolidated balance sheet, condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity, condensed consolidated cash flow and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 June 2017 is not prepared, in all material respects, in accordance with IAS 34 *Interim Financial Reporting* as adopted by the EU and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half-yearly financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with International Financial Reporting Standards as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in the half-yearly financial report in accordance with IAS 34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this 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 for our review work, for this report, or for the conclusions we have reached.

Paul Sawdon
for and on behalf of KPMG LLP,
Chartered Accountants
15 Canada Square
London
E14 5GL

26 July 2017