

2017 Preliminary Results

| Results £m | FY 2017 AER | Growth | |
|--------------------------------------|----------------|--------------|--------------|
| | | AER | CER |
| Ongoing Revenue | 2,203.8 | 20.6% | 14.5% |
| Revenue | 2,412.3 | 11.3% | 5.5% |
| Ongoing Operating Profit | 294.6 | 22.8% | 14.8% |
| Operating Profit | 292.4 | 25.8% | 17.2% |
| Adjusted profit before tax | 286.9 | 13.8% | 6.2% |
| Net profit on disposal of businesses | 449.0 | - | - |
| Profit before tax | 713.6 | 242.3% | 241.5% |
| Free Cash Flow | 175.8 | | |
| Adjusted EPS | 12.19p | 13.6% | 5.2% |
| EPS | 37.21p | 304.9% | 305.1% |
| Dividend per share | 3.88p | 15.1% | |

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 measures represent the performance of the continuing operations of the Group (including acquisitions) after removing the effect of disposed or closed businesses. An explanation of the measures used along with reconciliation to the nearest IFRS measures is provided in Note 22 on page 6.

2017 Highlights

- **Strong performance in excess of medium-term financial targets** - Ongoing Revenue growth of 14.5%, Ongoing Operating Profit growth of 14.8% and Free Cash Flow of £175.8m
- **Year-on-year growth in Ongoing Organic Revenue of +3.8%** (2016: +3.6%, 3.0% Reported*), driven by Pest Control +5.8% and Hygiene +2.1%
- **Particularly strong execution of M&A** - 41 businesses acquired with combined annualised revenues of £224.7m. Cash spend on M&A of £281.1m
 - 33 Pest Control acquisitions, seven Hygiene acquisitions and one in Protect & Enhance
 - Pest Control acquisitions include:
 - Controlling interest in joint venture with India's largest pest control company, PCI, a strategically important step in a country with significant growth potential
 - Nine Pest Control acquisitions in the US with combined annualised revenues of £100m reinforcing our position as the number three player in the key North American market
 - Completion of joint venture with Haniel to create a leading provider of workwear and hygiene services in Europe and divestment of eight predominately flat linen laundries in France to RLD
- **Net debt below £1bn** at £927.3m, notwithstanding £281.1m spend on acquisitions in 2017
- **15.1% increase in proposed final dividend of 2.74p** to bring total dividend for 2017 to 3.88p

** includes performance from those businesses transferred to the Haniel JV*

Andy Ransom, CEO of Rentokil Initial plc, said:

"I am pleased with our performance in 2017 and the continued growth momentum in the business. Pest Control has performed well across the regions and we remain encouraged by the progress we are delivering in Hygiene, which is a strong complementary business to our Pest Control operations. 2017 has also been a particularly good year for M&A and we have acquired 33 Pest Control companies and 7 high-quality Hygiene businesses across 24 countries, strengthening our already leading positions in key growth territories. We continue to see a strong pipeline of value enhancing acquisition opportunities going forward."

"Overall, we have had a very good year and I am delighted that we have again exceeded our medium-term financial targets for revenue, profit and cash. We are confident of delivering further progress in 2018."

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 sold to RLD have also been excluded following the 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 22 on page 24. The term 'joint venture' is used to describe the Company's joint venture with Haniel, however our 17.8% interest in CWS-boco is equity accounted for as an associate. The term is also used to describe the Company's 57% investment interest in Rentokil PCI, however our interest in Rentokil PCI has been consolidated in our Financial Statements.

Revenue

Ongoing Revenue, which excludes disposed businesses, increased by 14.5% in 2017, with all regions contributing to growth. Asia performed particularly well, increasing revenues by 37.3% (aided by the PCI joint venture) with North America growing by 21.1%. Revenues in the Pacific and Europe rose by 7.7% and 7.3% respectively while the UK and ROW region delivered growth of 6.8%. Group Organic Revenue growth was 3.8% and growth from acquired businesses was 10.7%. Ongoing Revenue in Pest Control grew strongly at 21.4% during the year, of which 5.8% was Organic Revenue, while Hygiene reported increased revenues of 7.6%, up 2.1% Organic. Our Protect & Enhance businesses reported Ongoing Revenue growth of 0.9% during the period with improved performance in our French workwear business. Total Revenue at actual exchange rates increased by 11.3% reflecting the disposal of businesses during the year offset by the favourable impact of foreign exchange.

Profit

Ongoing Operating Profit, which excludes the results of disposed businesses, increased by 14.8% in 2017, reflecting growth in all regions but offset by lower profits in France. Restructuring costs amounted to £6.9m at CER (2016: £7.9m) 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 exchange rates grew by 242.3% to £713.6m. Profit before tax includes a net profit on disposal of businesses of £449.0m, including the profit on disposal of the businesses transferred into the Haniel joint venture of £481.2m and a loss of £32.2m in relation to the divestment of eight, predominantly flat linen laundries in France to RLD. Net one-off costs at actual exchange rates amounted to £6.8m (2016: £8.6m).

Adjusted profit before tax at actual exchange rates of £286.9m, which excludes the net profit from disposal of businesses, was favourably impacted by foreign exchange movements of £19.1m, due mainly to the weakening of Sterling against the Euro in the year.

Cash

Free Cash Flow from continuing operations at actual exchange rates amounted to £175.8m, driven by the increased profit delivery in 2017 and a year-on-year reduction in interest payments following the bond refinancing in Q1 2016, offset by the disposal of the businesses transferred to the Haniel joint venture and the non-repeat of the £7.3m special dividend from our Japanese associate in 2016. Spend on current and prior-year acquisitions (including the Rentokil PCI joint venture in India) totalled £281.1m, net proceeds received from the completion of the JV with Haniel and disposal of the eight laundries in France to RLD were £451.9m and dividend payments were £64.3m (an £8.8m, 15.9% increase on the prior year). Foreign exchange translation and other items decreased net debt by £29.1m, leaving an overall decrease in net debt of £311.4m and closing net debt of £927.3m.

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 acquired 41 businesses for £281.1m - 33 in Pest Control, seven in Hygiene and one in Protect & Enhance - with combined annualised revenues in the year prior to acquisition of £224.7m. 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 nine businesses. 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 will continue to seek further acquisition opportunities in 2018 in both Pest Control and Hygiene and the pipeline of prospects remains strong. Our anticipated spend on acquisitions in 2018 is estimated to be in the region of £200m to £250m.

Enquiries:

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|------------------------------|-------------------|----------------------|-----------------------------|
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A presentation for investors and analysts will be held on Thursday 1 March 2018 **at 9.30am** in the Sidney Suite Conference Room, 1st Floor, **The Grange Tower Bridge Hotel**, 45 Prescott Street, London E1 8GP. This will be available via a live audio web cast at www.rentokil-initial.com.

The Company will also be hosting two investor seminars - in London on 16 May 2018 and New York on 17 May 2018 - with a primary focus on Pest Control. Further details and invitations to the event will be issued in due course.

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

REGIONAL PERFORMANCE

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 21.1% in 2017, of which 16.3% was growth through acquisition and 4.8% was organic. Pest Control grew 23.5% (+5.2% organic), helped by a strong performance in the products business but also impacted by the hurricane in Puerto Rico in September. Our business in Puerto Rico contributed \$7m of Ongoing Operating Profit in 2017 and continues to be significantly impacted by the after effects of the hurricane. Ongoing Operating Profit growth of 21.7% reflects the combined impact from higher revenues and acquisitions. Net Operating Margins at 13.6% were 0.1% points above the prior year with an underlying increase in Pest Control services margins (up 0.7% points to 16.7%) reflecting greater density, offset by an increase in mix from the lower-margin distribution business. Nine Pest Control businesses were acquired in the region during the year with combined annualised revenues of just over £100m in the year prior to purchase.

Ongoing Revenue for **Europe** rose by 7.3% (+2.9% Organic Revenue growth), reflecting good growth in Germany (+8.6%) and Southern Europe (+29.1%) and an improved performance across all categories in France, which grew by 1.2%. Latin America, which was managed by the Europe region in 2017, once again performed well rising by 30.1%. Ongoing Revenue from our European Hygiene operations grew by 15.4%, driven by growth in France and Southern Europe (including the results of the acquisition of CWS Italy), while Ongoing Revenue from our Pest Control businesses grew by 5.7%. Overall Ongoing Operating Profit for the Europe region grew by 0.2%, with good growth in Southern Europe and Germany offset by a budgeted 7.2% decline in France as a result of ongoing market challenges. Net Operating Margins for the region declined by 1.3% to 19.1%, impacted by France Workwear and the dilutive effect of the acquisition of CWS-boco's Italian hygiene business. Including CWS-boco Italy the region acquired nine new businesses in 2017 in Europe and Latin America, including four in Pest Control and five in Hygiene with combined annualised revenues of £44m in the year prior to purchase.

Our transaction to form a joint venture 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), completed on 30 June 2017. In Q4 we also completed the sale of eight laundries in France to RLD. Our remaining France Workwear operations are making good operational progress and this, together with an improving economic outlook for France, gives us confidence in achieving our stated aim of returning France Workwear to profitable growth by the end of this year.

The **UK & Rest of World** region delivered a good performance in 2017, with an overall increase in Ongoing Revenue of 6.8%, comprising Organic Revenue growth of 1.4% and growth through acquisition of 5.4%. 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 experienced challenging market conditions in 2017 which impacted both revenue and margins. The Rest of World operations delivered strong Ongoing Revenue growth of 12.6% across all of its regional clusters in the Nordics, Caribbean, Africa and MENAT. Overall Ongoing Operating Profit for the region grew by 6.1%, reflecting higher revenues. However, Net Operating Margins for the UK and Rest of World region declined by 0.2% points to 20.7%, reflecting lower margins in Property Care. The region acquired 11 new businesses in the year, including nine in Pest Control, one in Hygiene and one in Protect & Enhance, with combined annualised revenues of £24m in the year prior to purchase.

The **Asia** region has had another excellent performance with Ongoing Revenue increasing by 37.3% (+7.6% 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 16.2%. Including PCI, these countries combined delivered revenue growth of 210.0%. Ongoing Operating Profit in the region grew by 39.5% in 2017, reflecting the leverage from higher revenues, density and service productivity. Net Operating Margins increased by 0.2% points to 10.5%, with growth in Hygiene margins being offset by the dilutive effect of the lower-margin PCI Pest Control business. Including PCI we acquired five Pest Control businesses during 2017 in India, Singapore and Malaysia with combined annualised revenues of £49m in the year prior to purchase.

In the **Pacific** region Ongoing Revenue grew well by 7.7%, (+4.2% organic), driven by good performances across our core Pest Control and Hygiene categories. Our Pest Control operations in Australia and New Zealand performed well, growing organically by just under 5% and 10% respectively. Ongoing Operating Profit in the region grew by 9.6% and Net Operating Margins rose by 0.4% points to 21.6%. We acquired six small Pest Control companies in Australia in the year and one Hygiene business, with combined annualised revenues of £7m in the year prior to purchase.

Change in regional reporting structure

From January 2018 our Central American operations (previously managed out of and reported within the North America region) will be managed out of our existing Latin American operations, which continue to be reported within our Europe region.

STRATEGY

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. Four years on we are a stronger and more focused business, operating in higher growth markets, with improving levels of organic growth, reduced capital intensity and high levels of cash generation. The proceeds we have received from our joint venture with Haniel gives us greater flexibility to invest in our higher growth categories of Pest Control and Hygiene, which now represent just under 90% of Ongoing Operating Profit.

At our interim results in July we announced we had updated our business model, strategy and medium-term financial targets to reflect the significant changes to our business portfolio and our focus going forward. We provide a summary below.

Our 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 70 countries, c. 90% of our revenues are derived outside of the UK.
2. We have **market-leading businesses in Pest Control and Hygiene:**

Rentokil is the world's leading commercial pest control company with a principal focus on Growth and Emerging markets and 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 the 44 countries in which it operates. It has top three leading positions in 38 of these markets; and

Our **Protect & Enhance** businesses (which account for c. 10% of Ongoing Operating Profit (pre-central and regional overheads) include Ambius (our global plants business), our UK Property Care business, our France-based Workwear business and a small Dental Services business based in Germany and Sweden. 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 36,000 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. 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.
6. Our **Financial Model to Compound Growth** is a virtuous circle predicated on delivering growth organically and through M&A which leads to increased density and 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: first, into a financially disciplined M&A programme and operational investment; and second, into maintaining our progressive dividend policy.

Medium-term financial targets

On average over the next five years we would expect our Ongoing Revenue growth to increase by 5% to 8% per annum with Ongoing Operating Profit* growth of c.10% and Free Cash Flow conversion of c. 90%. In 2017 we delivered Ongoing Revenue growth of 14.5%, Ongoing Operating Profit growth of 14.8% and Free Cash Flow conversion of c. 90%, in line with our medium-term guidance.

Employer of choice

In 2017 we made significant progress on our aim to become an employer of choice with our employee survey 'Your Voice Counts' showing us having improved on both Employee Engagement and Employee Enablement by four points, and therefore sitting well ahead of the Global Company norm and the High Performing Company norm as determined by the Korn Ferry Survey. In 2017 we also saw strong improvements in colleague opinions on the workplace review site Glassdoor, culminating in us being ranked 7th out of 700,000 companies in the UK's Best Places to Work (as at December 2017). In addition, we were also awarded the title of Britain's Most Admired Company for Business Support Services in 2017. Going forward, improving colleague retention - especially short term retention of between 0 and 12 months- will be a key focus for 2018. Learning, development and career progression are also critical to employee engagement, as is building the pipeline of talent we need for future business success.

Pest Control - a defensive and growing market

Pest control is an attractive and growing market offering long-term growth prospects and is expected to deliver a CAGR of around 5%* over the next five years. Structural growth drivers include: economic activity in growth markets (offices, housing etc.); population expansion and urbanisation, particularly in Emerging markets; a growing middle class demanding higher standards of hygiene; rising international standards in food safety and hygiene regulation; and increasing pressure from pest species through climate change, legislation and regulatory change.

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

Rentokil – the world's largest commercial pest control company

We are strengthening our position as global leaders in pest control through increased organic growth and by establishing stronger market positions particularly in Growth and Emerging markets, and through digital expertise, innovation and acquisitions. The business has delivered a four-year revenue CAGR of 17.2%. Pest Control accounts for 64% of Ongoing Revenue and 69% of Ongoing Operating Profit and generated a Net Operating Margin of 18.1% in 2017. In 2017 Ongoing Revenue and Ongoing Operating Profit in Pest Control grew by 21.4% and 18.1% respectively. Organic Revenue rose by 5.8% with growth through acquisition of 15.6%. For acquisitions in Pest Control we seek an IRR in Growth markets of 13%+ and 15%+ in Emerging markets.

Growth markets

These markets include North America, the UK, Australia, New Zealand and the Caribbean. North America is particularly important to us as it is the world's largest pest control market. Worth c. \$8bn it represents 50% of the global market and is expected to grow at CAGR of c. 5% through to 2023 with the demand for mosquito control expected to outpace demand for general pest services. Our North American Pest Control business has delivered a four-year revenue CAGR of 23.2% and is growing organically in excess of the market. North America is a key market for M&A and, as the 'buyer of choice', our pipeline is particularly strong. Through a combination of organic and non-organic growth actions, we plan to generate \$1.5bn revenues and Net Operating Margins of c. 18% across our entire North American business by 2020.

Emerging markets

These markets include Asia, Latin America, MENAT, Kenya, Fiji and Central America. In India we have grown from a small loss-making operation to the country's number one pest control company through our joint venture with PCI. In China we are pursuing a city-based strategy with a focus on specific urban and industrial zones. Our performance in the more mature markets of Indonesia and Malaysia has been steady, with both countries delivering high single digit revenue growth. Latin America is a significant opportunity and we have moved quickly to secure a leadership position in Chile, Brazil and Columbia through organic growth and acquisitions.

Global and National accounts

We continue to make good progress in targeting global customers particularly in the food processing and hospitality sectors. Our acquisition of Steritech in North America, combined with our increasingly active participation in the Global Food Safety Initiative, has strengthened our global brand presence in these sectors. In 2016 we signed our first major international Pest Control contract with a global food production and agricultural products organisation and at the end of that year secured a contract with Mondelez, the multinational confectionery, food, and beverage company. This was followed in 2017 with new global preferred supplier contract wins with facilities management business ISS and Sodexo, one of the world's largest multinational food services and the facilities management corporations. The combination of our unique global footprint and emphasis on expertise and innovation has been a core theme in these wins, with several customers visiting The Power Centre (our new global research and development centre based in the UK) in the final stages of their selection process, and crediting it with a critical role in the decision. We have a strong pipeline of further new global customer opportunities within the food production, pharmaceutical, hotels, hospitality, transportation and logistics sectors.

The acquisition of Steritech in 2015 also significantly enhanced our capability in the US national accounts market. Now with greater national scale and density, we are more competitive and the progress we made in this area in 2016 has continued in 2017 resulting in a 40% increase in sales from national accounts during the year. Our pipeline of prospects remains strong going into 2018.

Technical expertise shared across markets

Across the world we combat the dangers to public health from mosquitoes and believe our expertise and experience is unrivalled. This helped us to win in 2015 a prestigious two-year contract with the US Centres for Disease Control for the prevention and control of Zika virus in the US and its protectorates. While the contract with the CDC expired in 2017, the threat from mosquito-borne diseases is rising and in Q4 we announced our acquisition of Vector Disease Acquisition, LLC ('VDA'), North America's largest provider of mosquito control services. VDA provides a full range of vector control services, including weekly monitoring of mosquito levels, species identification and disease testing and control of adult and larval mosquitoes from the ground and using aircraft. To support our growing work in this field, in 2017 we established in North America a new global centre of excellence for mosquito control.

Digital leadership

We are seeing an unprecedented level of change in the impact of technology on our customers and our front-line and back office colleagues and are using IT to improve the quality and consistency of service delivery, drive innovation and reduce costs. We believe we are leading the pest control industry in the commercialisation of the 'Internet-of-Things' through connected devices and have digital expertise at every stage of the customer journey from web searching through to e-billing. In addition we are developing, testing and deploying our range of remote monitoring sensors.

Connected devices open up opportunities to revolutionise our business and provide customers with a complete pest detection solution and full traceability. PestConnect, our award-winning remote monitoring system for rodents, is the world's smartest mouse trap. We now have over 50,000 devices being used in over 3,000 customer premises across ten countries. The system has sent us over three million individual messages relating to the presence of rodent activity and service productivity (such as battery life and the level of mobile connectivity). The system also guides our technicians to the exact unit that has signalled rodent activity – particularly useful on sites which use multiple units.

In 2017 our web platform handled over 15.7m visits over 12 months, with double digit visitor growth in key markets. During the year one new website was launched to a new country every three weeks. In addition the myRentokil online customer portal was rolled out to 32 countries with over 100,000 customers registered. We aim to register the majority of our commercial customers by the end of 2018.

We see many opportunities to further automate our back-office functions, deploying cloud platform services, artificial intelligence, robotics and utilising data from sensors, colleague apps and customer portals to facilitate management decision making and further reduce costs.

Industry leading innovation

Innovation underlines our brand positioning as the experts in pest control and continues to differentiate the business. It is also an important driver of organic growth. In the UK in 2017, 21.5% of new pest control job sales

came from innovations launched in the last two years, a further 5% point increase on 2016. New product launches in 2017 included three high-quality products: Lumnia, RapidPro and AutoGate.

Lumnia is the world's first commercial range of fly killers that uses LED lighting rather than traditional blue-light fluorescent tubes allowing for power reductions of up to 60% versus comparable units. We currently have 15,000 units being used in 31 markets around the world. RapidPro is the world's fastest acting rodenticide aimed specifically at mice. Our AutoGate rodent control unit uses sensors to contain poisoned bait behind a gate, safe from non-target species, until activated. During 2017 the product went live in five countries, with a further ten planned for 2018. AutoGate was created to address EU legislation prohibiting certain uses of permanent baiting using chemical products in pest control. Our pipeline of new innovations remains very healthy and we are currently working on around 70 innovation projects, a 20% increase on project volumes in 2016.

Initial Hygiene – the world's largest hygiene services company

Initial Hygiene is the world's largest hygiene services business and we see it as a strong complementary business to our Pest Control operations. Both businesses service the same types of customers and also share country management, technology, infrastructure and back office services. They are both route-based businesses where profit growth is driven by a fundamental understanding of the importance of density. The megatrends in the hygiene industry - and the importance of being able to prevent the spread of diseases, germs and bacteria – such as: an increasing aging population and adult incontinence; more women at work requiring feminine hygiene products and services; and reputational risk from poor hygiene standards, are fuelling demand for our services.

Since 2013 we have delivered an 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. Hygiene has delivered a four-year revenue CAGR of 4.9%. 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). Hygiene accounts for 19% of Group Ongoing Revenue and 20% of Ongoing Operating Profit and in 2017 it generated a Net Operating Margin of 17.7%. In 2017 Ongoing Revenue and Ongoing Operating Profit grew by 7.6% and 9.7% respectively. Organic Revenue rose by 2.1% with growth through acquisition of 5.5%. For acquisitions within our Hygiene business we seek an IRR of 15% to 20%+.

Driving growth in Hygiene

As the world's leading hygiene services business, we have the scale and expertise to drive Organic Revenue Growth and provide an update on some of our organic growth levers below.

Postcode density and service productivity

Our Service+ route planner is a web-based planning tool which we also use in our Pest Control business. During the year we have further developed this tool for application across our Hygiene operations. The Service+ route planner has been formulated to optimise both territory and daily route planning. Customer service visits, driving routes and working days are automatically pre-planned and optimised, then service visits requiring further planning can be appointed, automatically confirmed and the plans updated.

ServiceTrak is our smartphone field service app used by technicians to record service visits – for example, start time, services performed, customer recommendations, customer signatures and end time. Proof of service is then emailed to customers at the end of the visit and the data uploaded to our customer data systems, allowing our customer care team to view the information and respond quickly and easily to customer queries. We aim to reach 100% deployment of this tool across our Hygiene technicians in 2018. The benefits of ServiceTrak include greater service productivity, delivery of a more professional service and cost savings. In Indonesia, where all 300 of our technicians have access to ServiceTrak, gross margins grew by 1.2% points in 2017.

Product penetration and customer upselling

Significant leverage is gained in Hygiene through selling multiple services to each customer premises. We have high-quality product ranges and offer our sales colleagues specialist training to help them sell multiple services to customers, supported by promotional campaigns. We are implementing country-specific incentive programmes to focus our sales force and front line colleagues on achieving greater product density. In addition, we continue to strengthen our washroom range to maximise our selling capabilities through additional product launches and the continued roll-out of the range across our operations. Notable developments in 2017 include the launch of our new GENIE air care product, a patented innovation and the world's most advanced commercial air

fragrancing system. The product utilises unique dispersal technology and odour neutralising fragrances ideally suited for challenging washroom odours and high-traffic washroom spaces.

Digital leadership and web expertise

Our digital sales and service tools are also being utilised to build customer awareness of Initial's multiple product offerings, for instance, our customer portal, myInitial, is being developed to highlight the full spectrum of Hygiene solutions on its home page.

Growth through M&A

In M&A we are adopting the same route density, city-focused strategy for our Hygiene business as we have for our Pest Control business, to build density and grow margins. In 2017 we bought seven businesses in Australia, Colombia, France, Germany, Italy, Sweden and the UK, generating combined annualised revenues of £44m in the year prior to purchase. This includes CWS-boco's Italian hygiene business which in the year prior to acquisition generated revenues of just under £40m.

Acquisition of Cannon Hygiene Services

In early 2018 the Company completed its acquisition of Cannon Hygiene Services. Cannon has businesses in nine countries – the UK, Ireland, Spain, Portugal, South Africa, India, Thailand, Australia and New Zealand – and represents a particularly good fit with our existing Hygiene businesses. The acquisition will allow us to increase our coverage in key markets and gain a good level of synergies from enhanced density and combining infrastructures. The transaction also marks our entry into the attractive Indian hygiene market where Cannon is the market leader. Cannon will add c. £77m of global Hygiene revenues to the Company and replaces a high proportion of the European Hygiene revenues contributed to the joint venture with Haniel. The business generated £5m of adjusted operating profits in the year to March 2017. In the UK we are currently required to hold the Cannon business separate while we respond to queries from the Competition & Markets Authority, but we remain confident that the acquisition does not create any competition concerns and will be cleared in due course.

Protect & Enhance - focus on enhanced service, customer retention and profit protection

The four businesses included in this category - Ambius, Property Care, France Workwear and a very small Dental Services business - are profitable, cash-generative route-based businesses which share overheads with our Pest Control and Hygiene operations. Combined, the businesses represent 17% of Group Ongoing Revenue and 11% of Ongoing Operating Profit. In 2017 Ongoing Revenue grew by 0.9% while Ongoing Operating Profit declined by 21.2%. The category generated a Net Operating Margin of 10.3% in 2017. For acquisitions in our Protect & Enhance business we seek an IRR of 20%+.

Ambius

Ambius operates in 17 countries with leadership positions in the US, Canada, Australia and New Zealand. Its product offering includes interior landscaping, 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.

Property Care

Our Property Care business is based solely in the UK. Services include dry rot and woodworm treatment and damp proofing. Highly fragmented, the UK property care market is valued at c. £150m. We have a leading position in the industry and have developed a strong operational capability with certified teams undertaking 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 and the business has underperformed in 2017. The strategic focus of Property Care is on sharing digital expertise with Pest Control, cost optimisation and efficiency, IT system integration and margin management.

France Workwear

Our Workwear operations in France specialise in the supply and laundering of workwear, uniforms, cleanroom uniforms and personal protective garments. While the business has shown operational and financial improvements this year, market conditions continue to be challenging. The European workwear industry is

currently undergoing a period of consolidation with the Elis / Berendsen merger, our own JV with Haniel and our recent divestment of eight of our textile laundries to RLD. Going forward, our France Workwear operations will continue to implement a Quality agenda focused on service quality, together with profit improvement and margin protection initiatives. We are committed to returning the business to profitable growth by the end of this year.

ACQUISITIONS AND DISPOSALS

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 Pest Control Emerging and Growth markets. During the year we acquired 41 businesses for £281.1m (33 in Pest Control, seven in Hygiene and one in Protect & Enhance) with combined annualised revenues of £224.7m in the year prior to purchase. We have been active in M&A acquiring businesses in 24 countries and across all of our regions.

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 nine Pest Control companies, five of which are businesses with revenues in excess of \$12m. Combined annualised revenues of all businesses acquired in the region in 2017 amounted to just over £100m in the year prior to acquisition, giving annualised revenues from our North America business at the end of December 2017 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 and a 57% stake, is integrating its Indian operations into the JV and the combined business (known as Rentokil PCI) will operate from 250 locations employing 6,900 people. Further, on 11 April we acquired SAMES, the market leader in the commercial pest control sector in the Kingdom of Saudi Arabia (KSA) with c. 2,500 customers covering most major cities, making us the number one pest control company in the KSA and the Gulf Cooperation Council countries. The business generated revenues of £9m in the 12 months prior to acquisition.

We monitor the integration and performance of acquired businesses closely to ensure they meet our financial hurdles and resourcing capabilities. Of the 40 acquisitions that were made between 1 April 2015 and 30 September 2016, all are delivering expected returns at or above their respective target levels.

Going forward, we will continue to execute a differentiated approach to capital investment and M&A, with clear expectations and IRRs by business line. We will continue to seek further acquisition opportunities in 2018 in both Pest Control and Hygiene and the pipeline of prospects remains strong. Our anticipated spend on acquisitions in 2018 is estimated to be in the region of £200m to £250m.

Completion of JV with Haniel and 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 formation, after which time we have various exit options under the terms of the agreement. We also completed the sales of eight laundries in France to RLD in Q4. The laundries, which predominantly supply flat linen to the highly competitive healthcare sector, delivered revenues of c. €78m and were break-even for the year ended 31 December 2016.

FINANCIAL REVIEW

Central and regional overheads

Central and regional overheads reduced by £1.5m to £66.2m at CER (2016: £67.7m) reflecting the central cost reduction programme following the Haniel JV offset by investments in digital capability.

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 £6.9m at CER (2016: £7.9m) consisted mainly of costs in respect of initiatives focused on driving operational efficiency in North America, France and the UK.

One-off items (at CER)

Net one-off costs of £6.6m (2016: £8.6m) primarily relate to the acquisition and integration costs of Steritech.

Interest (at AER)

Net interest payable (excluding the net interest credit from pensions) at actual exchange rates was £42.9m compared to £38.5m in the prior year, a net increase of £4.4m primarily due to the impact of foreign exchange as a result of the weakening of Sterling against the Euro and a change in the net debt currency mix. The average cost of net debt for the Group was 4.0% in 2017.

Tax

The income tax expense for the year at actual exchange rates was £30.6m on the reported profit before tax of £713.6m. The tax charge for the year includes a one-off deferred tax credit of £6.4m as a result of the US tax reforms enacted at the end of 2017. The tax reforms are not expected to have any material impact on the company's tax rate for 2018 but are expected to result in an increase in cash tax payments of about £4m in 2018.

After adjusting the reported profit before tax for the profits and losses on disposal of businesses, the amortisation and impairment of intangible assets (excluding computer software), one-off items, the net interest credit from pensions and the one-off deferred tax credit arising from the US tax reforms, the Adjusted Effective Tax Rate (ETR) for 2017 at AER was 22.0% (2016: 22.3%). This compares with a blended rate of tax for the countries in which the Group operates of 24% (2016: 25%). The lower adjusted ETR compared to the blended tax rate is principally due to the benefit derived from financing overseas operations and the release of a net prior year over-provision for tax.

Disposals (at AER)

A net profit on disposal of businesses has been recognised of £449.0m relating to the profit on disposal of the businesses transferred to the Haniel JV of £481.2m, and a loss of £32.2m in relation to eight French laundries sold to RLD.

The profit on disposal in respect of the Haniel JV includes consideration of £703.9m comprising cash consideration of £449.9m plus the retained 17.8% share in the JV of £254.0m. Net assets of the businesses contributed amounted to £247.3m which together with transaction costs of £18.2m and foreign exchange gains transferred from reserves of £42.8m resulted in a profit on disposal of £481.2m.

Net debt and cash flow

| £m at actual exchange rates | Year to Date | | |
|---|---------------|---------------|--------------|
| | 2017 FY £m | 2016 FY £m | Change £m |
| Adjusted Operating Profit | 314.5 | 284.4 | 30.1 |
| One-off items – operating | (6.8) | (8.6) | 1.8 |
| Depreciation | 185.6 | 200.7 | (15.1) |
| Other | (1.5) | 12.6 | (14.1) |
| EBITDA | 491.8 | 489.1 | 2.7 |
| Working capital | (16.3) | (11.3) | (5.0) |
| Movement on provisions | (9.9) | (14.5) | 4.6 |
| Capex – additions | (212.1) | (221.8) | 9.7 |
| Capex – disposals | 4.9 | 6.3 | (1.4) |
| Operating cash flow – continuing operations | 258.4 | 247.8 | 10.6 |
| Interest | (41.4) | (54.6) | 13.2 |
| Tax | (40.1) | (35.8) | (4.3) |
| Special pension contributions | (1.1) | (1.0) | (0.1) |
| Free Cash Flow – continuing operations | 175.8 | 156.4 | 19.4 |
| Free Cash Flow – discontinued operations | - | (0.4) | 0.4 |
| Free Cash Flow | 175.8 | 156.0 | 19.8 |
| Acquisitions | (281.1) | (109.2) | (171.9) |

| | | | |
|--|-----------|-----------|---------|
| Disposal of companies and businesses | 451.9 | 0.3 | 451.6 |
| Dividends | (64.3) | (55.5) | (8.8) |
| Foreign exchange translation and other items | 29.1 | (203.7) | 232.8 |
| (Increase) / decrease in net debt | 311.4 | (212.1) | 523.5 |
| Opening net debt | (1,238.7) | (1,026.6) | (212.1) |
| Closing net debt | (927.3) | (1,238.7) | 311.4 |

Operating cash inflow (£258.4m at AER for continuing operations) was £11m higher than in 2016 largely due to the increase in Ongoing Operating profit of £54.4m offset by the impact of the Haniel JV and the non-repeat of the £7.3m special dividend from our Japanese associate in 2016.

Capital expenditure from continuing operations of £212.1m was £9.7m lower than 2016 with an underlying growth in capital expenditure in the ongoing business in line with revenue growth and the adverse impact of exchange rate movements being offset by a reduction in capex following the disposal of the workwear and hygiene assets to Haniel and RLD.

Interest payments (including finance lease interest) were £13.2m 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 £175.8m, an increase of £19.4m on the prior year.

Cash spent on acquisitions totalled £281.1m. Net proceeds received during the year from the completion of the JV transaction with Haniel and the divestment of the French laundries was £451.9m. The Company made dividend payments of £64.3m in 2017 (an £8.8m, 15.9% increase on the prior year) which together with foreign exchange translation and other items of £29.1m resulted in an overall decrease in net debt of £311.4m and closing net debt of £927.3m.

Pensions

At 31 December 2017 the Company's UK defined benefit pension scheme, which is closed to new members, was valued at an accounting surplus of £325.4m 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 31 December 2017, and following the receipt of the proceeds in respect of the Haniel JV, the Group had net debt of £927.3m representing a reduction of £98.2m from the net debt as at 30 June 2017. At the year end the Group had £613m of centrally held funds and available undrawn committed facilities. In November 2017 the Group's term loans were refinanced with a €400m bond maturing in November 2024 at a € coupon of 0.95%. The majority of funds were swapped into US Dollars in line with our hedging policy. Other than a €50m bond that is maturing in March 2018, the Group has no debt maturities until September 2019 when the €500m bond matures.

The ratio of net debt to EBITDA at 31 December 2017 was c. 1.9x 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 2018, we are confident in doing so.

Going Concern

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 2017, and in anticipation of further progress in 2018, the Board is recommending a final dividend in respect of 2016 of 2.74p per share, payable to shareholders on the register at the close of business on 13 April 2018, to be paid on 16 May 2018. This equates to a full year dividend of 3.88p per share, an increase of 15.1% compared to 2016.

Geopolitical events

We are a global business with c. 90% of revenues derived from outside the UK and with minimal cross-border trading. The global economic environment continues to be uncertain with high levels of volatility in exchange and commodity markets and with international trading arrangements potentially subject to significant change. We

continue to monitor the potential implications of geopolitical change on our trading and financing environment. We remain of the view that the defensive nature of our core categories, combined with the geographic location and spread of our operations, place us in a relatively strong position to mitigate such risks going forward and to take advantage of any potential opportunities that the changes may bring.

GUIDANCE FOR 2018 (at CER unless otherwise stated)

Central and regional overheads for the year are expected to be £4m above the prior year reflecting further investments in our digital capability and deployment costs. We estimate that restructuring costs (reported within Ongoing Operating Profit) will be in line with 2017 at c. £7m.

The businesses and laundries that have now been transferred to Haniel and RLD contributed £195m of revenue and £21m of adjusted operating profit in 2017 prior to their disposal.

Profit from associates, including our share of the adjusted profit from the Haniel JV, is estimated to be in the region of £20m to £25m in 2018.

Interest costs are estimated to be c. £46m with cash interest estimated to be broadly in line with the P&L impact. This small increase is a reflection of movements in foreign exchange and an increased mix of higher coupon US Dollar debt. Sterling has started to strengthen against both the Euro and the US Dollar following the substantial weakening in late 2016 and 2017.

If the recent exchange rates gains were to continue for the rest of 2018, the full year estimated negative impact of currency movements on our profit (and Free Cash Flow) would be in the region of £10m to £15m.

Our current estimate for the Adjusted Effective Tax Rate in 2018 is c. 22.5% (in line with 2017) with cash tax payable in the region of £45 to £50m. This reflects an increased level of profits and the impact of the recent US tax reforms.

Capital expenditure during 2018 is estimated to be in the region of £165m to £175m and reflects a reduction in spend following the Haniel joint venture and the French laundry disposals, partially offset by increased service equipment to support growth in Ongoing Revenue and investments in digital capability across the Group. Working capital outflow is anticipated to be £15m.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December

| | Notes | 2017 £m | 2016 £m |
|--|-------|----------------|------------|
| Revenue | 2 | 2,412.3 | 2,168.1 |
| Operating profit | | 292.4 | 232.4 |
| Net profit on disposal of businesses | | 449.0 | - |
| Profit before interest and income tax | | 741.4 | 232.4 |
| Finance income | 4 | 12.3 | 19.3 |
| Finance cost | 3 | (48.4) | (49.4) |
| Share of profit from associates, net of tax of £4.4m (2016: £3.4m) | | 8.3 | 6.2 |
| Profit before income tax | | 713.6 | 208.5 |
| Income tax expense ¹ | 5 | (30.6) | (40.7) |
| Profit for the year attributable to the Company's equity holders (including non-controlling interests of £0.2m (2016: £0.3m)) | | 683.0 | 167.8 |
| Other comprehensive income: | | | |
| <i>Items that are not reclassified subsequently to the income statement:</i> | | | |
| Re-measurement of net defined benefit asset | | 47.0 | 21.3 |
| Tax related to items taken to other comprehensive income | | (5.6) | 4.1 |
| <i>Items that may be reclassified subsequently to the income statement:</i> | | | |
| Net exchange adjustments offset in reserves | | (36.0) | 11.4 |
| Cumulative exchange recycled to income statement on disposal of foreign operations | | (46.5) | - |
| Other items | | (2.6) | (6.1) |
| Total comprehensive income for the year (including non-controlling interests of £0.2m (2016: £0.3m)) | | 639.3 | 198.5 |
| Earnings per share attributable to the Company's equity holders: | | | |
| Basic | 6 | 37.21p | 9.19p |
| Diluted | 6 | 36.90p | 9.11p |

All profit is from continuing operations.

| | | | |
|--|---|---------------|--------|
| Non-GAAP measures | | | |
| Operating profit | | 292.4 | 232.4 |
| Adjusted for: | | | |
| Amortisation and impairment of intangible assets (excluding computer software) | 2 | 53.8 | 43.4 |
| One-off items – operating | 2 | 6.8 | 8.6 |
| Reversal of depreciation – assets held-for-sale | | (38.5) | - |
| Adjusted operating profit | | 314.5 | 284.4 |
| Finance income | 4 | 12.3 | 19.3 |
| Add back: Net interest credit from pensions | 4 | (6.8) | (8.4) |
| Finance cost | 3 | (48.4) | (49.4) |
| Share of profit from associates, net of tax of £4.4m (2016: £3.4m) | | 8.3 | 6.2 |
| One-off items - associates | | 7.0 | - |
| Adjusted profit before income tax | | 286.9 | 252.1 |
| Basic adjusted earnings per share attributable to the Company's equity holders | 6 | 12.19p | 10.73p |
| Diluted adjusted earnings per share attributable to the Company's equity holders | 6 | 12.08p | 10.63p |

1. taxation includes £14.9m (2016: £32.8m) in respect of overseas taxation

Consolidated Balance Sheet

At 31 December

| | Notes | 2017 £m | 2016 £m |
|--|-------|------------------|------------------|
| Assets | | | |
| Non-current assets | | | |
| Intangible assets | 8 | 1,220.2 | 999.6 |
| Property, plant and equipment | 9 | 390.2 | 416.3 |
| Investments in associated undertakings | | 278.7 | 17.8 |
| Other investments | | 0.2 | 0.2 |
| Deferred tax assets | | 3.4 | 2.0 |
| Retirement benefit assets | 14 | 326.2 | 272.7 |
| Other receivables | | 11.0 | 10.8 |
| Derivative financial instruments | | 13.7 | - |
| | | 2,243.6 | 1,719.4 |
| Current assets | | | |
| Other investments | | 0.5 | 9.6 |
| Inventories | | 84.3 | 80.0 |
| Trade and other receivables | | 449.8 | 383.3 |
| Current tax assets | | 13.1 | 11.0 |
| Disposal group held-for-sale | 10 | - | 177.7 |
| Derivative financial instruments | | 6.3 | 1.6 |
| Cash and cash equivalents | 12 | 310.1 | 160.2 |
| | | 864.1 | 823.4 |
| Liabilities | | | |
| Current liabilities | | | |
| Trade and other payables | | (535.7) | (458.5) |
| Current tax liabilities | | (79.5) | (71.6) |
| Provisions for other liabilities and charges | 15 | (25.3) | (15.3) |
| Bank and other short-term borrowings | | (68.0) | (77.4) |
| Derivative financial instruments | | (5.3) | (56.8) |
| | | (713.8) | (679.6) |
| Net current assets | | 150.3 | 143.8 |
| Non-current liabilities | | | |
| Other payables | | (76.0) | (21.4) |
| Bank and other long-term borrowings | | (1,166.9) | (1,260.4) |
| Deferred tax liabilities | | (109.3) | (112.8) |
| Retirement benefit obligations | 14 | (26.1) | (30.9) |
| Provisions for other liabilities and charges | 15 | (55.0) | (55.2) |
| Derivative financial instruments | | (26.6) | (21.8) |
| | | (1,459.9) | (1,502.5) |
| Net assets | | 934.0 | 360.7 |
| Equity | | | |
| Capital and reserves attributable to the Company's equity holders | | | |
| Share capital | 16 | 18.4 | 18.3 |
| Share premium account | | 6.8 | 6.8 |
| Other reserves | | (1,848.6) | (1,763.5) |
| Retained profits | | 2,757.1 | 2,099.0 |
| | | 933.7 | 360.6 |
| Non-controlling interests | | 0.3 | 0.1 |
| Total equity | | 934.0 | 360.7 |

Consolidated Statement of Changes in Equity

For the year ended 31 December

| | Attributable to equity holders of the Company | | | | | |
|--|---|-----------------------------|----------------------|-------------------------|---------------------------------|--------------------|
| | 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 year | – | – | – | 167.5 | 0.3 | 167.8 |
| Other comprehensive income: | | | | | | |
| Net exchange adjustments offset in reserves | – | – | 11.4 | – | – | 11.4 |
| Re-measurement of net defined benefit asset/liability | – | – | – | 21.3 | – | 21.3 |
| Effective portion of changes in fair value of cash flow hedge | – | – | (6.1) | – | – | (6.1) |
| Tax related to items taken directly to other comprehensive income | – | – | – | 4.1 | – | 4.1 |
| Total comprehensive income for the year | – | – | 5.3 | 192.9 | 0.3 | 198.5 |
| Transactions with owners: | | | | | | |
| Dividends paid to equity shareholders | – | – | – | (55.5) | – | (55.5) |
| Shares issued | 0.1 | – | – | – | – | 0.1 |
| Cost of share options and long-term incentive plan | – | – | – | 5.5 | – | 5.5 |
| At 31 December 2016 | 18.3 | 6.8 | (1,763.5) | 2,099.0 | 0.1 | 360.7 |
| Profit for the year | – | – | – | 682.8 | 0.2 | 683.0 |
| Other comprehensive income: | | | | | | |
| Net exchange adjustments offset in reserves | – | – | (36.0) | – | – | (36.0) |
| Re-measurement of net defined benefit asset/liability | – | – | – | 47.0 | – | 47.0 |
| Effective portion of changes in fair value of cash flow hedge | – | – | (2.6) | – | – | (2.6) |
| Cumulative exchange recycled to income statement on disposal of foreign operations | – | – | (46.5) | – | – | (46.5) |
| Tax related to items taken directly to other comprehensive income | – | – | – | (5.6) | – | (5.6) |
| Total comprehensive income for the year | – | – | (85.1) | 724.2 | 0.2 | 639.3 |
| Transactions with owners: | | | | | | |
| Dividends paid to equity shareholders | – | – | – | (64.3) | – | (64.3) |
| Shares issued | 0.1 | – | – | – | – | 0.1 |
| Cost of share options and long-term incentive plan | – | – | – | 4.4 | – | 4.4 |
| Movement on put option | – | – | – | (6.2) | – | (6.2) |
| At 31 December 2017 | 18.4 | 6.8 | (1,848.6) | 2,757.1 | 0.3 | 934.0 |

Shares of £0.1m (2016: £0.1m) have been netted against retained earnings. This represents 6.7m (2016: 4.8m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2017 was £21.2m (2016: £10.7m). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

Consolidated Statement of Changes in Equity (continued)

For the year ended 31 December

Analysis of other reserves

| | Capital reduction reserve £m | Legal reserve £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 | – | – | – | 11.4 | 11.4 |
| Effective portion of changes in fair value of cash flow hedge | – | – | (6.1) | – | (6.1) |
| Total comprehensive (expense)/income for the year | – | – | (6.1) | 11.4 | 5.3 |
| At 31 December 2016 | (1,722.7) | 10.4 | (5.9) | (45.3) | (1,763.5) |
| Net exchange adjustments offset in reserves | – | – | – | (36.0) | (36.0) |
| Effective portion of changes in fair value of cash flow hedge | – | – | (2.6) | – | (2.6) |
| Cumulative exchange recycled to income statement on disposal of foreign operations | – | – | – | (46.5) | (46.5) |
| Total comprehensive income for the year | – | – | (2.6) | (82.5) | (85.1) |
| At 31 December 2017 | (1,722.7) | 10.4 | (8.5) | (127.8) | (1,848.6) |

The capital reduction reserve arose in 2005 as a result of the scheme of arrangement of Rentokil Initial 1927 plc, under section 425 of the Companies Act 1985, to introduce a new holding company, Rentokil Initial plc, and the subsequent reduction in capital approved by the High Court whereby the nominal value of each ordinary share was reduced from 100p to 1p.

The legal reserve represents amounts set aside in compliance with local laws in certain countries in which the Group operates.

Consolidated Cash Flow Statement

For the year ended 31 December

| | Notes | 2017 £m | 2016 £m |
|---|-------|------------|------------|
| Cash flows from operating activities | | | |
| Cash generated from operating activities | | 461.3 | 451.6 |
| Interest received | | 5.1 | 12.7 |
| Interest paid ¹ | | (46.5) | (67.3) |
| Income tax paid | | (40.1) | (35.8) |
| Net cash flows from operating activities | | 379.8 | 361.2 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | | (174.3) | (186.2) |
| Purchase of intangible fixed assets | | (19.1) | (21.0) |
| Proceeds from sale of property, plant and equipment | | 4.9 | 6.3 |
| Acquisition of companies and businesses, net of cash acquired | 19 | (281.1) | (109.2) |
| Disposal of companies and businesses | | 451.9 | 0.3 |
| Dividends received from associates | | 3.2 | 10.3 |
| Net cash flows from investing activities | | (14.5) | (299.5) |
| Cash flows from financing activities | | | |
| Dividends paid to equity shareholders | 7 | (64.3) | (55.5) |
| Capital element of finance lease payments | | (15.9) | (13.7) |
| Cash outflow on settlement of debt related foreign exchange forward contracts | | (32.5) | (30.8) |
| Net investment in term deposits | | 9.1 | 89.7 |
| Proceeds from new debt | | 386.7 | 242.4 |
| Bond repayments | | (447.7) | (299.0) |
| Net cash flows from financing activities | | (164.6) | (66.9) |
| Net increase/(decrease) in cash and cash equivalents | | 200.7 | (5.2) |
| Cash and cash equivalents at beginning of year | | 105.9 | 100.5 |
| Exchange losses on cash and cash equivalents | | (2.5) | 10.6 |
| Cash and cash equivalents at end of the financial year | | 304.1 | 105.9 |

1. Interest paid includes interest on finance lease payments of £1.4m (2016: £1.3m)

Notes to the financial statements

1. Changes in accounting policies

The Group has adopted the following new standards and amendments to standards, including any consequential amendments to other standards, with effect from 1 January 2017:

- Income taxes – amendments to IAS 12
- Statement of cash flows – amendments to IAS 7

The application of these amendments has had no material impact on the disclosures of the amounts recognised in the Group's consolidated financial statements. Consequently, no adjustment has been made to the comparative financial information at 31 December 2016.

The Group has not early adopted any standard, interpretation or amendment that was issued but is not yet effective.

The Group will adopt IFRS 15 Revenue from Contracts with Customers from 1 January 2018. Substantially all of the Group's revenue will be in the scope of IFRS 15, but no material changes to the timing of revenue recognition are required. The majority of revenue across the Group is currently recognised evenly over the course of the contract because this reflects the timing of the provision of the service, and therefore revenue is recognised as performance obligations are satisfied. Incremental costs of obtaining contracts (mainly sales commissions) will be recognised as an asset and amortised over the lives of the contracts to which they relate. It is estimated that the value of this adjustment will be in the range of £35-45m. The impact on the income statement from this change in treatment is expected to be a reduction in costs in 2018 due to historic year on year increases in sales commissions. Any impact is not expected to be material. The assessment of the impact of IFRS 15 is preliminary as not all transition work requirements have been finalised and therefore may be subject to adjustment.

The Group will adopt IFRS 9 from 1 January 2018. The Group has minimal financial assets (other than trade debtors) and the new standard does not have a material impact on the recognition and measurement of the Group's financial assets. The standard will, however, result in changes in presentation in some disclosures of the Group's financial assets.

As a result of the changes within the forthcoming standard IFRS 16 Leases which is to be adopted from 1 January 2019, 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 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.

2. 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 Company 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 currency rates. Restructuring costs and Central and Regional overheads are also presented centrally 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 22.

2. Segmental information (continued)

| | Revenue 2017 £m | Revenue 2016 £m | Operating profit 2017 £m | Operating profit 2016 £m |
|---|-----------------------|-----------------------|-----------------------------------|-----------------------------------|
| France | 274.6 | 271.5 | 41.1 | 44.3 |
| Benelux | 79.9 | 79.7 | 23.5 | 23.4 |
| Germany | 78.0 | 71.6 | 23.6 | 22.4 |
| Southern Europe | 90.3 | 69.9 | 13.7 | 12.0 |
| Latin America | 33.8 | 26.0 | 4.2 | 3.9 |
| Europe | 556.6 | 518.7 | 106.1 | 106.0 |
| UK & Ireland | 245.6 | 235.8 | 47.6 | 45.7 |
| Rest of World | 124.8 | 110.9 | 29.2 | 26.7 |
| UK & Rest of World | 370.4 | 346.7 | 76.8 | 72.4 |
| Asia | 179.1 | 130.4 | 18.7 | 13.4 |
| North America | 824.0 | 680.4 | 111.7 | 91.8 |
| Pacific | 162.9 | 151.3 | 35.2 | 32.1 |
| Central and regional overheads | - | - | (66.2) | (67.6) |
| Restructuring costs | - | - | (6.9) | (7.9) |
| Ongoing operations at constant exchange rates | 2,093.0 | 1,827.5 | 275.4 | 240.2 |
| Disposed businesses ^{2, 3} | 195.0 | 340.6 | 55.0 | 44.2 |
| Continuing operations at constant exchange rates | 2,288.0 | 2,168.1 | 294.0 | 284.4 |
| Foreign exchange | 124.3 | - | 22.6 | - |
| Continuing operations at actual exchange rates | 2,412.3 | 2,168.1 | 353.0 | 284.4 |
| One-off items – operating | | | (6.8) | (8.6) |
| Amortisation of intangible assets ¹ | | | (53.8) | (43.4) |
| Operating profit | | | 292.4 | 232.4 |

¹ Excluding computer software.

² Disposed business for 2016 is restated for businesses disposed in 2017.

³ Includes revenue of £8.8m (2016: £nil) from product sales by the Group to CWS-boco International GmbH. Prior to 30th June 2017, this revenue was classified as intergroup revenue and eliminated on consolidation

One-off items – operating relates mainly to acquisition and integration costs in North America of £8.7m, various legacy issues in Europe relating to the continuing business and acquisition related costs in Asia and Pacific regions, partially offset by credits related to acquisition accounting.

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

| | Amortisation and impairment of intangibles ¹ 2017 £m | Amortisation and impairment of intangibles ¹ 2016 £m |
|----------------------------------|--|--|
| Europe | 6.2 | 6.2 |
| UK & Rest of World | 7.2 | 5.2 |
| Asia | 5.2 | 2.7 |
| North America | 26.6 | 24.4 |
| Pacific | 2.5 | 1.8 |
| Central and regional | 4.0 | 3.1 |
| Total at constant exchange rates | 51.7 | 43.4 |
| Foreign exchange | 2.1 | - |
| Total at actual exchange rates | 53.8 | 43.4 |
| Tax effect | (16.6) | (14.2) |
| Total after tax effect | 37.2 | 29.2 |

¹ excluding computer software

3. Interest payable and similar charges

| | 2017 £m | 2016 £m |
|---|-------------|-------------|
| Hedged interest payable on medium term notes issued ¹ | 24.7 | 28.4 |
| Interest payable on bank loans and overdrafts ¹ | 1.2 | 0.9 |
| Interest payable on revolving credit facility ¹ | 7.5 | 7.9 |
| Interest payable on foreign exchange swaps | 12.5 | 10.0 |
| Interest payable on finance leases | 1.4 | 1.3 |
| Amortisation of discount on provisions | 0.3 | 0.3 |
| Fair value loss on other derivatives ^{2,3} | 0.3 | 0.6 |
| Foreign exchange gain on translation of foreign denominated assets and liabilities ⁴ | 0.5 | - |
| Total interest payable and similar charges | 48.4 | 49.4 |

¹ interest expense on financial liabilities held at amortised cost

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

³ the fair value loss on other derivatives includes fair value losses relating to interest rate swaps

⁴ comprises translation gain on financing instruments of £133.8m, offset by losses of £134.3m (2016 gains of £761.0m offset by losses of £760.2m)

4. Interest receivable

| | 2017 £m | 2016 £m |
|---|-------------|-------------|
| Bank interest | 1.0 | 1.1 |
| Interest receivable on foreign exchange swaps | 4.5 | 8.5 |
| Fair value gain on other derivatives ^{1,2} | - | 0.5 |
| Foreign exchange gain on translation of foreign denominated assets and liabilities ³ | - | 0.8 |
| Interest on net defined benefit asset | 6.8 | 8.4 |
| Total interest receivable | 12.3 | 19.3 |

¹ gain on financial assets/liabilities at fair value through the income statement

² the fair value gain on other derivatives includes fair value gains relating to interest rate swaps

5. Income tax expense

| | 2017 £m | 2016 £m |
|--|---------------|--------------|
| Analysis of charge in the year: | | |
| UK corporation tax at 19.25% (2016: 20.00%) | 6.4 | 2.9 |
| Overseas taxation | 35.2 | 30.2 |
| Adjustment in respect of previous periods | 2.4 | 7.8 |
| Total current tax | 44.0 | 40.9 |
| Deferred tax debit/(credit) | (7.0) | 1.3 |
| Deferred tax adjustment in respect of previous periods | (6.4) | (1.5) |
| Total deferred tax | (13.4) | (0.2) |
| Total income tax expense | 30.6 | 40.7 |

Current tax expense represents the amount payable on this year's taxable profits and any adjustment relating to prior years. Deferred tax is an accounting adjustment to provide for tax that is expected to arise in the future due to differences between accounting and tax bases. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income. In this case the tax is also recognised in other comprehensive income.

Deferred income tax is provided on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities in transactions other than a business combination that at the time of the transactions affect neither the accounting nor taxable profit or loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred income tax is determined using tax rates (and laws) that have been enacted (or substantively enacted) at the balance sheet date, and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profits will be available against which the temporary differences can be utilised. In recognising the deferred tax asset in respect of UK losses, management has estimated the quantum of future UK taxable profits over the next three years.

5. Income tax expense (continued)

A deferred tax asset of £12.3m (2016: £22.2m) has been recognised in respect of UK losses carried forward at 31 December 2017. This amount has been calculated by estimating the future UK taxable profits, against which the UK tax losses will be utilised, and applying the tax rates (substantively enacted as at the balance sheet date) applicable for each year. Remaining UK tax losses of £136.0m have not been recognised as at 31 December 2017. The reduction in the deferred tax asset recognised on the UK tax losses is due to the fact that from 1 April 2017 only 50% of current year profits in excess of £5.0m may be offset by brought forward tax losses.

6. Earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of shares in issue during the year, excluding those held in the Rentokil Initial Employee Share Trust for UK employees (see note at the bottom of the Consolidated Statement of Changes in Equity) which are treated as cancelled, and including share options for which all conditions have been met.

Adjusted earnings per share is the basic earnings per share adjusted for the after-tax effects of one-off items, amortisation and impairment of intangibles¹ and net interest credit from pensions.

For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to include all potential dilutive ordinary shares. The Group's potentially dilutive ordinary shares relate to the contingent issuable shares under the Group's long term incentive share plans (LTIPs) to the extent the performance conditions have been met at the end of the period. These share options are issued for nil consideration to employees if performance conditions are met.

Details of the adjusted earnings per share are set out below:

| | 2017 £m | 2016 £m |
|---|----------------|------------|
| Profit from continuing operations attributable to equity holders of the Company | 682.8 | 167.8 |
| One-off items - operating | 6.8 | 8.6 |
| One-off items - associates | 7.0 | - |
| Net gain on disposal of businesses | (449.0) | - |
| Reversal of depreciation – assets held-for-sale | (38.5) | - |
| Amortisation and impairment of intangibles ¹ | 53.8 | 43.5 |
| Net interest credit from pensions | (6.8) | (8.4) |
| Tax on above items ² | (26.1) | (15.6) |
| US tax reform – net deferred tax credit | (6.4) | - |
| Adjusted profit from continuing operations attributable to equity holders of the Company | 223.6 | 195.9 |
| Weighted average number of ordinary shares in issue | 1,834.8 | 1,826.0 |
| Adjustment for potentially dilutive shares | 15.7 | 16.9 |
| Weighted average number of ordinary shares for diluted earnings per share | 1,850.5 | 1,842.9 |
| Basic earnings per share | 37.21p | 9.19p |
| Diluted earnings per share | 36.90p | 9.11p |
| Basic adjusted earnings per share | 12.19p | 10.73p |
| Diluted adjusted earnings per share | 12.08p | 10.63p |

¹ excluding computer software

² One-off items operating £5.1m (2016: £3.1m), one-off items associates £nil (2016: nil), net gain on disposal of businesses £5.7m (2016: nil), amortisation and impairment of intangibles £16.6m (2016: £14.1m), net interest credit from pensions £(1.3)m (2016: £(1.6)m)

7. Dividends

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

| | 2017 £m | 2016 £m |
|--|--------------------|--------------------|
| 2015 final dividend paid – 2.06p per share | - | 37.5 |
| 2016 interim dividend paid – 0.99p per share | - | 18.0 |
| 2016 final dividend paid – 2.38p per share | 43.5 | - |
| 2017 interim dividend paid – 1.14p per share | 20.8 | - |
| | 64.3 | 55.5 |

An interim dividend of 1.14p per share was paid on 13 September 2017 amounting to £20.8m. A final dividend in respect of 2017 of 2.74p (2016: 2.38p) per 1p share amounting to £50.3m (2016: £43.5m) is to be proposed at the annual general meeting on 09 May 2017. These financial statements do not reflect this recommended dividend.

8. Intangible assets

| | Goodwill £m | Customer lists and relationships £m | Brands £m | Product development £m | Computer software £m | 2017 Total £m | 2016 Total £m |
|--|----------------|--|--------------|------------------------------|----------------------------|---------------------|---------------------|
| Cost | | | | | | | |
| At 1 January | 766.3 | 591.2 | 60.1 | 18.2 | 91.0 | 1,526.8 | 1,306.8 |
| Exchange differences | (58.1) | (23.9) | (4.1) | - | (0.6) | (86.7) | 239.8 |
| Additions | - | - | - | 4.7 | 14.4 | 19.1 | 21.0 |
| Disposals/retirements | - | - | - | - | (4.1) | (4.1) | (7.8) |
| Acquisition of companies and businesses | 297.4 | 39.9 | 7.0 | - | 0.1 | 344.4 | 97.6 |
| Disposal of companies and businesses | (0.8) | (3.0) | - | - | (4.2) | (8.0) | - |
| Transferred to disposal group held-for-sale | - | - | - | - | - | - | (130.6) |
| At 31 December | 1,004.8 | 604.2 | 63.0 | 22.9 | 96.6 | 1,791.5 | 1,526.8 |
| Accumulated amortisation and impairment | | | | | | | |
| At 1 January | (30.3) | (403.4) | (31.2) | (6.0) | (56.3) | (527.2) | (488.5) |
| Exchange differences | (0.3) | 12.8 | 1.8 | - | - | 14.3 | (83.2) |
| Disposals/retirements | - | - | - | - | 3.4 | 3.4 | 6.4 |
| Disposal of companies and businesses | - | 2.9 | - | - | 2.3 | 5.2 | 0.1 |
| Impairment charge | (2.0) | - | - | - | (0.2) | (2.2) | - |
| Amortisation charge | - | (43.5) | (4.6) | (3.7) | (13.0) | (64.8) | (55.9) |
| Transferred to disposal group held-for-sale | - | - | - | - | - | - | 93.9 |
| At 31 December | (32.6) | (431.2) | (34.0) | (9.7) | (63.8) | (571.3) | (527.2) |
| Net book value | | | | | | | |
| At 1 January | 736.0 | 187.8 | 28.9 | 12.2 | 34.7 | 999.6 | 818.3 |
| At 31 December | 972.2 | 173.0 | 29.0 | 13.2 | 32.8 | 1,220.2 | 999.6 |

9. Property, plant and equipment

| | Land and buildings £m | Service contract equipment £m | Other plant and equipment £m | Vehicles and office equipment £m | 2017 Total £m | 2016 Total £m |
|--|-----------------------------|--|---------------------------------------|---|---------------------|---------------------|
| Cost | | | | | | |
| At 1 January | 96.4 | 423.9 | 193.2 | 225.7 | 939.2 | 1,203.8 |
| Exchange differences | 3.1 | 13.0 | 6.4 | (9.8) | 12.7 | 222.4 |
| Additions | 3.8 | 135.8 | 17.0 | 36.1 | 192.7 | 201.8 |
| Disposals | (2.6) | (78.5) | (7.2) | (30.7) | (119.0) | (171.0) |
| Acquisition of companies and businesses | 2.3 | 4.6 | 2.5 | 8.8 | 18.2 | 12.6 |
| Disposal of companies and businesses | (24.0) | (79.1) | (54.9) | (5.2) | (163.2) | - |
| Transferred to disposal group held-for-sale | - | - | - | - | - | (530.4) |
| At 31 December | 79.0 | 419.7 | 157.0 | 224.9 | 880.6 | 939.2 |
| Accumulated depreciation and impairment | | | | | | |
| At 1 January | (26.8) | (219.4) | (141.9) | (134.8) | (522.9) | (726.7) |
| Exchange differences | (1.0) | (7.5) | (4.9) | 5.0 | (8.4) | (140.7) |
| Disposals | 1.4 | 76.4 | 6.9 | 28.6 | 113.3 | 165.4 |
| Disposal of companies and businesses | 5.8 | 15.0 | 38.4 | 2.3 | 61.5 | - |
| Depreciation charge | (3.3) | (86.9) | (11.9) | (31.8) | (133.9) | (188.3) |
| Transferred to disposal group held-for-sale | - | - | - | - | - | 367.4 |
| At 31 December | (23.9) | (222.4) | (113.4) | (130.7) | (490.4) | (522.9) |
| Net book value | | | | | | |
| At 1 January | 69.6 | 204.5 | 51.3 | 90.9 | 416.3 | 477.1 |
| At 31 December | 55.1 | 197.3 | 43.6 | 94.2 | 390.2 | 416.3 |

10. Business disposals

On the 30 June 2017 the Group sold its Workwear and Hygiene operations in 10 countries, principally in the Benelux region and Central and Eastern Europe, to a joint venture with the CWS-boco businesses of Franz Haniel & Cie. GmbH (Haniel). The disposal group was recognised as held for sale at 31 December 2016. In addition to cash consideration, the Group received a 17.8% share in the combined business; CWS-boco International GmbH. This is recognised as an investment in associate at 31 December 2017. The value of the investment in associate is based on the valuation of the combined businesses. The Group anticipates maintaining its stake in the joint venture for a minimum period of three years, after which the Company has various exit options under the agreement to optimise further value for shareholders. In relation to its investment in the combined business, the Group will receive an annual dividend of €19m for five years.

The Group has made an accounting policy choice to recognise a full disposal of the businesses to Haniel under IFRS 10, rather than accounting for this as a partial disposal under IAS 28. Under this approach the full gain is recognised on the loss of control of the subsidiaries, and an element of the continuing interest in the assets and liabilities has not been eliminated in calculating the gain on disposal. The fair value of the retained investment in CWS-boco International GmbH is the deemed cost for the purposes of subsequent accounting.

On 30 September 2017 the Group sold eight textile laundries in France to RLD for a cash consideration of €32.4m.

Details of net assets disposed and disposal proceeds in the year relating to this disposal are as follows:

| | Europe workwear and hygiene 2017 £m | France textile laundries 2017 £m | Total 2017 £m |
|---|--|---|---------------------|
| Non-current assets | | | |
| Intangible assets | 39.4 | - | 39.4 |
| Property, plant and equipment | 201.2 | 63.5 | 264.7 |
| Current assets | | | |
| Inventories | 2.0 | 1.4 | 3.4 |
| Trade and other receivables | 52.6 | 2.2 | 54.8 |
| Cash | 17.4 | - | 17.4 |
| Current liabilities | | | |
| Trade and other payables | (43.1) | (2.7) | (45.8) |
| Non-current liabilities | | | |
| Other long- term liabilities | (6.0) | (5.0) | (11.0) |
| Deferred and current tax | (16.2) | (1.2) | (17.4) |
| Net assets and liabilities | 247.3 | 58.2 | 305.5 |
| Consideration | (449.9) | (28.4) | (478.3) |
| Share of investment in associate | (254.0) | - | (254.0) |
| Total consideration | (703.9) | (28.4) | (732.3) |
| Cumulative exchange recycled from the translation reserve | (42.8) | (3.7) | (46.5) |
| Costs of disposal | 18.2 | 6.1 | 24.3 |
| Net (gain)/loss on disposal | (481.2) | 32.2 | (449.0) |

11. Financing

Fair value estimation

All financial instruments held at fair value are 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.

11. Financing (continued)

The Group uses the following methods to estimate fair value of its financial instruments:

| 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 |
| Borrowings not traded in active markets | 2 | Cash flows discounted at current market rates |
| Long-term debt | 1 | Quoted market prices |
| 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 |
| 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 |
| Deferred and contingent consideration | 3 | Fair value based on the future forecasts of the acquired businesses |
| Other financial instruments | 3 | Variety of techniques including discounted cash flows |

12. Cash and cash equivalents

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

Cash at bank and in hand includes £1.9m (2016: £25.2m) of restricted cash. This cash is held in respect of specific contracts and can only be utilised in line with terms under the contractual arrangements.

The Group operates pooling arrangements whereby cash balances and overdrafts held within the same bank are offset to give a net balance which is included within cash and cash equivalents on the balance sheet. These cash and bank overdraft figures before netting are shown in the table below:

Offsetting financial assets and liabilities

| | Gross amounts before offsetting £m | Gross amounts set off £m | Net amounts presented £m |
|---------------------------|------------------------------------|--------------------------|--------------------------|
| At 31 December 2017 | | | |
| Cash at bank and in hand | 997.8 | (697.5) | 300.3 |
| Short-term bank deposits | 9.8 | - | 9.8 |
| Cash and cash equivalents | 1,007.6 | (697.5) | 310.1 |
| Bank overdraft | (703.5) | 697.5 | (6.0) |
| | 304.1 | - | 304.1 |
| At 31 December 2016 | | | |
| Cash at bank and in hand | 767.9 | (609.7) | 158.2 |
| Short-term bank deposits | 2.0 | - | 2.0 |
| Cash and cash equivalents | 769.9 | (609.7) | 160.2 |
| Bank overdraft | (664.0) | 609.7 | (54.3) |
| | 105.9 | - | 105.9 |

13. Analysis of bank and bond debt

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are classified as current liabilities unless the Group has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date.

The Group's bank debt comprises:

| | Facility amount £m | Drawn at year end £m | Headroom £m | Interest rate at year end % |
|---|--------------------------|----------------------------|----------------|-----------------------------------|
| Non-current | | | | |
| \$25m RCF due December 2019 | 18.5 | - | 18.5 | - |
| £420m RCF due January 2022 (£60m reserved for guarantees) | 360.0 | - | 360.0 | - |
| \$50m term loan due June 2020 | 37.0 | 37.0 | - | 2.17 |
| Average cost of bank debt at year end rates | 415.5 | 37.0 | 378.5 | 2.17 |

The Group has a revolving credit facility of £360m available for cash drawings, and £60m for guarantees and letters of credit. The maturity date of the RCF is January 2022. At the year end, £nil was drawn under the part of the facility available for cash drawings, and £34m under the part available for guarantees. The Group also has a \$25m revolving credit facility that matures in December 2019, on terms in line with the main RCF.

On 19 June 2017 the Group entered into a \$50m term loan for three years on terms in line with its other bank facilities.

Medium-term notes and bond debt comprises:

| | Bond interest coupon | Effective hedged interest rate |
|---|----------------------|--------------------------------|
| Current | | |
| €50m bond due March 2018 | Euribor +0.48% | Fixed 0.84% |
| Non-current | | |
| €500m bond due September 2019 | Fixed 3.375% | Fixed 3.65% |
| €350m bond due October 2021 | Fixed 3.25% | Fixed 4.31% |
| €400m bond due November 2024 | Fixed 0.95% | Fixed 2.77% |
| £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 year end rates | | 3.45% |

The effective interest rate reflects the interest rate after the impact of interest from currency swaps. The Group hedging strategy is to hold debt in proportion to the Group foreign currency profit and cash flows which are mainly EUR and USD. As a result the Group has swapped a proportion of the Euro bond issue into USD debt which has increased effective interest rate.

On 22 November 2017 the Group issued a new €400m bond at a coupon of 0.95% under its EMTN Programme. Part of the proceeds were swapped into USD and used to refinance the £200m and \$157m term loans. The rate on the USD swaps is floating for the first year at 3 month libor +1.08% and fixed at 3.38% from November 2018 until maturity.

On 30 June 2017, €141m of the €350m bond due in 2021 was swapped for USD at a fixed rate of 5.49%.

The Group considers the fair value of other current liabilities to be equal to the carrying value.

14. Retirement benefit obligations

Apart from the legally required social security state schemes, the Group operates a number of pension schemes around the world covering many of its employees.

The principal pension scheme in the Group is the Rentokil Initial 2015 Pension Scheme (RIPS) in the UK which has a defined contribution section, and a number of defined benefit sections which are now closed to new entrants and future accrual of benefits. The defined benefit scheme is funded through payments to a trustee-administered fund, determined by periodic actuarial calculations.

Actuarial valuations of the RIPS are usually carried out every three years. At 31 December 2017 RIPS was valued at an accounting surplus of £325.4m (2016: £272.0m) on the Group's balance sheet. The trustees of the RIPS value the scheme on a different basis. In their valuation at 31 December 2015 the scheme is fully funded and no contributions are currently required from the Company. The funding position will be formally reviewed at the next actuarial valuation, which is expected to be carried out at 31 December 2018.

The Group has recognised an asset in relation to the RIPS surplus as the Group has an unconditional right reduce future pension contributions, taking into account the adverse effect of any minimum funding requirements.

The defined benefit schemes are reappraised semi-annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19R requirements. The assumptions used for the RIPS scheme are shown below.

| | 2017 | 2016 |
|---------------------------|-------------|-------|
| Weighted average % | | |
| Discount rate | 2.5% | 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% |

14. Retirement benefit obligations (continued)

The movement in the net defined benefit obligation for all pension schemes over the accounting period is as follows:

| | Present value of obligation 2017 £m | Fair value of plan assets 2017 £m | Total 2017 £m | Present value of obligation 2016 £m | Fair value of plan assets 2016 £m | Total 2016 £m |
|--|---|--|---------------------|---|--|---------------------|
| At 1 January | (1,486.2) | 1,728.0 | 241.8 | (1,232.0) | 1,444.9 | 212.9 |
| Current service costs ¹ | (0.5) | - | (0.5) | (0.5) | - | (0.5) |
| Past service costs ¹ | (0.3) | - | (0.3) | (0.1) | - | (0.1) |
| Administration expenses ¹ | (1.2) | - | (1.2) | (1.3) | - | (1.3) |
| Interest on net defined benefit asset ¹ | (36.8) | 43.6 | 6.8 | (45.1) | 53.5 | 8.4 |
| Exchange difference | (1.0) | 0.3 | (0.7) | (8.2) | 4.1 | (4.1) |
| Total pension income | (39.8) | 43.9 | 4.1 | (55.2) | 57.6 | 2.4 |
| Remeasurements: | | | | | | |
| - Remeasurement of gain/(loss) on scheme assets | - | 20.1 | 20.1 | - | 285.9 | 285.9 |
| - Actuarial gain/(loss) on obligation ² | 26.9 | - | 26.9 | (264.6) | - | (264.6) |
| Transfers | | | | | | |
| - Transferred on disposal of business | 1.3 | - | 1.3 | | | |
| - Transferred on acquisition of business | (0.9) | - | (0.9) | | | |
| - Transfers to disposal group held-for-sale | - | - | - | 4.6 | (3.2) | 1.4 |
| Contributions: | | | | | | |
| - Employers | (0.6) | 1.8 | 1.2 | (0.5) | 1.5 | 1.0 |
| - Participants | (0.1) | 0.1 | - | - | 0.1 | 0.1 |
| - Benefit payments | 82.9 | (78.5) | 4.4 | 60.2 | (58.8) | 1.4 |
| - Administration costs | 1.2 | - | 1.2 | 1.3 | - | 1.3 |
| At 31 December | (1,415.3) | 1,715.4 | 300.1 | (1,486.2) | 1,728.0 | 241.8 |
| Retirement benefit obligation schemes ³ | (50.1) | 24.0 | (26.1) | (52.9) | 22.0 | (30.9) |
| Retirement benefit asset schemes ⁴ | (1,365.2) | 1,691.4 | 326.2 | (1,433.3) | 1,706.0 | 272.7 |

¹ service costs, settlement and administration expenses are charged to operating expenses, and interest cost and return on plan assets to net interest credit from pensions

² the actuarial movement on the UK RIPS scheme comprises remeasurement gain arising from changes in demographic assumptions of £55.2 (2016: loss £18.5m), remeasurement loss arising from changes in financial assumptions of £22.2m (2016: £238.1m) and remeasurement losses arising from experience of £4.4m (2016: £2.2m loss).

³ benefit plans in an obligation position include plans situated in Ireland, UK, Martinique, Trinidad, Norway, South Africa, Germany, Austria, France, Italy, Korea, Philippines, and Hong Kong

⁴ benefit plans in an asset position include plans situated in UK, Australia and Barbados

Included in the table above is a defined benefit obligation of £1,360.7m (2016:£1,431.0m) and plan assets of £1,686.1m (2016: £1,703.0m) in relation to the UK RIPS scheme.

Of the £1,415.3 (2016: £1,486.2m) of obligations, £16.8m (2016: £18.6m) is unfunded.

Total contributions payable to defined benefit pension schemes in 2017 are expected to be between £1m and £2m.

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

| | 2017 £m | 2016 £m |
|-----------------------------|------------|------------|
| Equity instruments | 136.4 | 234.7 |
| Debt instruments – quoted | 1,548.2 | 1,466.4 |
| Debt instruments – unquoted | 13.0 | 11.4 |
| Property | 0.6 | 0.3 |
| Other | 17.2 | 15.2 |
| Total plan assets | 1,715.4 | 1,728.0 |

15. Provisions for other liabilities and charges

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

Future cash flows relating to these obligations are discounted when the effect is material. The discount rates used are based on government bond rates in the country of the cash flows, and were between 0.3% and 0.5% (2016: between 0.3% and 0.5%) for the UK, and between 0.8% and 2.3% (2016: 2.3%) for the US.

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

| | Vacant properties £m | Environmental £m | Self- insurance £m | Other £m | 2017 Total £m | 2016 Total £m |
|---|----------------------------|---------------------|--------------------------|-------------|---------------------|---------------------|
| At 1 January | 20.4 | 15.4 | 24.9 | 9.8 | 70.5 | 81.4 |
| Exchange differences | - | 0.1 | (1.7) | 0.2 | (1.4) | 7.8 |
| Additional provisions | 1.1 | 6.9 | 8.4 | 21.0 | 37.4 | 29.8 |
| Used during the year | (4.4) | (2.1) | (6.8) | (12.0) | (25.3) | (37.3) |
| Unused amounts reversed | (2.3) | - | (1.6) | (1.0) | (4.9) | (8.1) |
| Acquisition of companies and businesses | - | - | - | 3.8 | 3.8 | - |
| Unwinding of discount on provisions | - | 0.1 | 0.1 | - | 0.2 | 0.3 |
| Transferred to disposal group held-for-sale | - | - | - | - | - | (3.4) |
| At 31 December | | | | | 80.3 | 70.5 |
| Analysed as follows: | | | | | | |
| Non-current | | | | | 55.0 | 55.2 |
| Current | | | | | 25.3 | 15.3 |

Vacant properties

The Group has a number of vacant and sub-let leasehold properties, with the majority of the head leases expiring before 2020. Provision has been made for the residual lease commitments together with other outgoings, after taking into account existing sub-tenant arrangements and assumptions relating to later periods of vacancy.

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases at 31 December 2017 is £1.2m (2016: £1.1m).

Environmental

The Group owns a number of properties in Europe and the US where there is land contamination and provisions are held for the remediation of such contamination. These provisions are expected to be substantially utilised within the next seven years.

Self-insurance

The Group purchases external insurance from a portfolio of international insurers for its key insurable risks, but prior to 2008 the Group self-insured its risks. Provision is still held for self-insured past cover, primarily in relation to third party motor vehicle and employee liability. For the continuing self-insured programmes, individual claims are met in full by the Group up to agreed self-insured limits in order to limit volatility in claims. The calculated cost of self-insurance claims is based on an actuarial assessment of claims incurred at the balance sheet date and is accumulated as claims provisions. These provisions are expected to be substantially utilised within the next ten years.

Other

Other provisions principally comprise amounts required to cover obligations arising, costs relating to disposed businesses and restructuring costs. Existing provisions are expected to be substantially utilised within the next five years.

16. Share capital

| | 2017 £m | 2016 £m |
|---|-------------|------------|
| Issued and fully paid | | |
| At 31 December – 1,837,332,965 shares (2016: 1,829,332,965) | 18.4 | 18.3 |

17. Reconciliation of net change in cash and cash equivalents to net debt

| | Opening 2017 £m | Cash flows £m | Non-cash (fair value changes) £m | Non-cash (foreign exchange and other) £m | Closing 2017 £m |
|--|--------------------|------------------|---|--|-----------------------|
| Cash and cash equivalents ¹ | 160.2 | 152.3 | - | (2.4) | 310.1 |
| Other investments – loans and receivables | 9.6 | (9.1) | - | 0.2 | 0.7 |
| Fair value of debt-related derivatives | (70.7) | 32.5 | (9.9) | 44.7 | (3.4) |
| Bank and other short-term borrowings | (60.7) | 48.3 | (0.4) | (45.4) | (58.2) |
| Bank and other long-term borrowings | (1,237.7) | 61.0 | 14.2 | 23.3 | (1,139.2) |
| Finance leases | (39.4) | 15.9 | (15.1) | 1.3 | (37.3) |
| | (1,238.7) | 300.9 | (11.2) | 21.7 | (927.3) |

¹ Excluding bank overdrafts.

18. Operating cash and Free Cash Flow

| | 2017 £m | 2016 £m |
|--|------------|------------|
| Operating profit | 741.4 | 232.4 |
| Adjustments for: | | |
| – Depreciation and impairment of property, plant and equipment | 133.9 | 188.3 |
| – Amortisation and impairment of intangible assets (excluding computer software) | 53.8 | 43.4 |
| – Amortisation and impairment of computer software | 13.2 | 12.4 |
| – Other non-cash items | (4.7) | 2.3 |
| – Profit on sale of business | (499.0) | - |
| Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation): | | |
| – Inventories | (1.8) | (3.6) |
| – Trade and other receivables | (46.1) | (34.6) |
| – Trade and other payables and provisions | 21.7 | 12.0 |
| Cash generated from operating activities before special pension contributions | 462.4 | 452.6 |
| Special pension contributions | (1.1) | (1.0) |
| Cash generated from operating activities | 461.3 | 451.6 |
| Add back: special pension contributions | 1.1 | 1.0 |
| | 462.4 | 452.6 |
| Purchase of property, plant and equipment | (174.3) | (186.2) |
| Purchase of intangible fixed assets | (19.1) | (21.0) |
| Leased property, plant and equipment | (18.7) | (14.6) |
| Proceeds from sale of property, plant and equipment | 4.9 | 6.3 |
| Dividends received from associates | 3.2 | 10.3 |
| Operating cash flow ¹ | 258.4 | 247.4 |
| Interest received | 5.1 | 12.7 |
| Interest paid | (46.5) | (67.3) |
| Income tax paid | (40.1) | (35.8) |
| Special pension contributions | (1.1) | (1.0) |
| Free Cash Flow | 175.8 | 156.0 |
| Add back: Free Cash Flow – discontinued operations | - | 0.4 |
| Free Cash Flow from continuing operations | 175.8 | 156.4 |

¹ Operating cash flow includes non-ongoing operations of £nil (2016: £(0.4)m)

19. Business combinations

During the year the Group purchased 100% of the share capital or trade and assets of 40 companies and businesses, and 57% of the share capital of PCI India. The total consideration in respect of these acquisitions was £356.5m and the cash outflow from current and past period acquisitions, net of cash acquired, was £281.1m.

19. Business combinations (continued)

The acquisition of PCI India 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 a fair value of £nil. The Group has elected not to recognise a non-controlling interest on the acquisition of PCI India. Under this accounting policy, put and call options are accounted for as an anticipated acquisition of the underlying non-controlling interest. The Group refers to this treatment as the Anticipated Acquisition Method. The Group has recognised a put option liability of £42.4m for the anticipated acquisition of the shares. The Group has also made an accounting policy choice, to recognise movements in the carrying value of the movement in the options through equity.

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

| | 2017 £m | 2016 £m |
|---|------------|------------|
| Purchase consideration: | | |
| – Cash paid | 269.9 | 82.9 |
| – Deferred and contingent consideration | 86.6 | 24.2 |
| Total purchase consideration | 356.5 | 107.1 |
| Fair value of net assets acquired | (68.2) | (60.0) |
| Goodwill from current year acquisitions | 288.3 | 47.1 |

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

Deferred consideration of £15.6m and contingent consideration of £71.0m (£42.4m relates to PCI India put options) is payable in respect of the above acquisitions. Contingent consideration is based on a variety of conditions including revenue and profit targets being met. Both deferred and contingent consideration are payable over the next four years. The Group incurred acquisition-related costs of £5.7m. The Group has included the contingent and deferred consideration based on the fair value of the consideration at the acquisition date.

The provisional fair value¹ of assets and liabilities arising from acquisitions in the year are as follows:

| | 2017 £m | 2016 £m |
|--------------------------------------|------------|------------|
| Non-current assets | | |
| – Intangible assets ² | 46.2 | 46.2 |
| – Property, plant and equipment | 18.5 | 4.0 |
| Current assets ³ | 51.6 | 39.7 |
| Current liabilities | (38.1) | (23.3) |
| Non-current liabilities ⁴ | (10.0) | (6.6) |
| Net assets acquired | 68.2 | 60.0 |

¹ the provisional fair values will be finalised in the 2018 financial statements. The fair values are provisional since the acquisition accounting has not yet been finalised as a result of the proximity of many acquisitions to the year end

² includes £39.1m (2016: £38.3m) of customer lists and relationships and £7.1m (2016: £7.9m) of other intangibles

³ includes trade and other receivables of £36.4m (2016: £24.1m) which represents the gross and fair value of the assets acquired

⁴ includes (£5.1m) of deferred tax relating to acquired intangibles (2016: £6.4m)

The cash outflow from current and past acquisitions are as follows:

| | 2017 £m | 2016 £m |
|--|------------|------------|
| Total purchase consideration | 356.5 | 107.1 |
| Consideration payable in future periods | (86.6) | (24.2) |
| Purchase consideration paid in cash | 269.9 | 82.9 |
| Cash and cash equivalents in acquired companies and businesses | (8.1) | (2.2) |
| Cash outflow on current period acquisitions | 261.8 | 80.7 |
| Deferred consideration paid | 19.3 | 28.5 |
| Cash outflow on current and past acquisitions | 281.1 | 109.2 |

From the dates of acquisition to 31 December 2017, these acquisitions contributed £135.6m to revenue and £19.1m to operating profit.

If the acquisitions had occurred on 1 January 2017 the estimated revenue and operating profit of the Group would have amounted to £2,493.9m and £298.3m respectively.

20. Related party transactions

The Group operates in a number of joint ventures and associate entities. All transactions between these entities and the Group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation.

CWS-boco became a part of the Group as a joint venture on 30 June 2017. The value of transactions and outstanding balances are shown below. There are no significant transactions between associates and other Group companies.

| | Transaction values for the year ended 31 December | | Balance outstanding as at 31 December | |
|--------------------------------|--|------------|--|------------|
| | 2017 £m | 2016 £m | 2017 £m | 2016 £m |
| Sales of goods and services | 10.2 | - | 2.0 | - |
| Purchase of goods and services | 0.5 | - | 0.1 | - |

The Group bears the costs of administration and independent pension advice of the Rentokil Initial 2015 Pension Scheme. The total amount of costs in the year ended 31 December 2017 was £1.1m (2016: £1.9m) of which £0.2m (2016: £0.2m) was recharged to the scheme.

21. Events occurring after the balance sheet date

There were no significant post balance sheet events affecting the Group since 31 December 2017.

22. 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 trading performance against the prior period. The major exchange rates used are £/\$ FY 2017 1.2968 (FY 2016 1.3556) and £/€ FY 2017 1.1461 (FY 2016 1.2299). Comparisons are to the year ended 31 December 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 and net profit on disposal of businesses (see below).

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. 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 2.

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. Adjusted profit measures are calculated by adding the following items back to the equivalent GAAP profit measure:

- Amortisation and impairment of intangible assets (excluding computer software)
- One-off items (operating and associates)
- Net profit on disposal of businesses
- Depreciation on 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 expenses or income which will have a distortive impact on the underlying 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. Similar adjustments where appropriate are also made to the share of profits from associates.

The net profit on disposal of businesses of £449.0m has been separately presented on the face of the profit and loss below operating profit.

In addition, following the announcement of the Joint Venture 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 £38.5m in the year. 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.

22. Alternative performance measures (continued)

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.

Adjusted earnings per share is calculated by dividing adjusted profit from continuing operations attributable to equity holders of the Company by the weighted average number of ordinary shares in issue. Note 6 shows the adjustments made in arriving at adjusted profit from continuing operations attributable to equity holders of the Company.

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

| | 2017 AER £m | 2017 CER £m | 2016 £m | % change | |
|---|-------------------|-------------------|------------|----------|---------|
| | | | | AER | CER |
| Ongoing Revenue | 2,203.8 | 2,093.0 | 1,827.5 | 20.6% | 14.5% |
| Revenue - disposed and closed businesses ² | 208.5 | 195.0 | 340.6 | (38.8%) | (42.7%) |
| Revenue | 2,412.3 | 2,288.0 | 2,168.1 | 11.3% | 5.5% |
| Ongoing Operating Profit | 294.6 | 275.4 | 240.2 | 22.8% | 14.8% |
| Operating Profit – disposed and closed businesses | 58.4 | 55.0 | 44.2 | 32.1% | 24.4% |
| Operating profit - continuing operations | 353.0 | 330.4 | 284.4 | 24.2% | 16.3% |
| Depreciation – held-for-sale assets | (38.5) | (36.4) | - | - | - |
| Adjusted Operating Profit | 314.5 | 294.0 | 284.4 | 10.7% | 3.5% |
| One-off items – Operating | (6.8) | (6.6) | (8.6) | 19.5% | 23.2% |
| Depreciation – held-for-sale assets | 38.5 | 36.4 | - | - | - |
| Amortisation and impairment of intangible assets | (53.8) | (51.5) | (43.4) | (24.5%) | (19.2%) |
| Operating profit | 292.4 | 272.3 | 232.4 | 25.8% | 17.2% |
| Profit on disposal of businesses | 449.0 | 465.7 | - | - | - |
| Share of profit from associates (net of tax) | 8.3 | 8.0 | 6.2 | 34.2% | 29.8% |
| Net interest payable (excluding pensions) | (42.9) | (40.7) | (38.5) | (11.4%) | (5.7%) |
| Net interest credit from pensions | 6.8 | 6.8 | 8.4 | (19.0%) | (19.0%) |
| Profit before tax | 713.6 | 712.1 | 208.5 | 242.3% | 241.5% |
| Net interest credit from pensions | (6.8) | (6.8) | (8.4) | (19.0%) | (19.0%) |
| One-off items – operating | 6.8 | 6.6 | 8.6 | 19.5% | 23.2% |
| One-off items – associates ¹ | 7.0 | 6.5 | - | - | - |
| Profit on disposal of businesses | (449.0) | (465.7) | - | - | - |
| Depreciation – held-for-sale assets | (38.5) | (36.4) | - | - | - |
| Amortisation and impairment of intangible assets | 53.8 | 51.5 | 43.4 | (24.5%) | (19.2%) |
| Adjusted profit before tax | 286.9 | 267.8 | 252.1 | 13.8% | 6.2% |
| Basic earnings per share | 37.21p | 37.23p | 9.19p | 304.9% | 305.1% |
| Basic adjusted earnings per share | 12.19p | 11.29p | 10.73p | 13.6% | 5.2% |

1. Rentokil Initial Group's post tax share of one-off items and amortisation of intangibles of the CWS-boco International GmbH associated undertaking.

2. Includes revenue of £8.8m (2016: £nil) from product sales by the Group to CWS-boco International GmbH. Prior to 30th June 2017, this revenue was classified as intergroup revenue and eliminated on consolidation

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 (pro forma revenue).

| | Europe | | UK and ROW | | Asia | | North America | | Pacific | | Total | |
|---|--------------|------------|--------------|------------|--------------|-------------|---------------|-------------|--------------|------------|----------------|-------------|
| | £m | % | £m | % | £m | % | £m | % | £m | % | £m | % |
| 2016 Ongoing Revenue (as reported) | 518.7 | - | 346.7 | - | 130.4 | - | 680.4 | - | 151.3 | - | 1,827.5 | - |
| Pro forma revenue from 2016 and 2017 acquisitions | 22.8 | 4.4 | 18.8 | 5.4 | 38.8 | 29.7 | 110.8 | 16.3 | 5.2 | 3.5 | 196.4 | 10.7 |
| Organic Revenue growth | 15.1 | 2.9 | 4.9 | 1.4 | 9.9 | 7.6 | 32.8 | 4.8 | 6.4 | 4.2 | 69.1 | 3.8 |
| 2017 Ongoing Revenue (as reported) | 556.6 | 7.3 | 370.4 | 6.8 | 179.1 | 37.3 | 824.0 | 21.1 | 162.9 | 7.7 | 2,093.0 | 14.5 |

| | Pest Control | | Hygiene | | Protect & Enhance | | Total | |
|---|----------------|-------------|--------------|------------|-------------------|------------|----------------|-------------|
| | £m | % | £m | % | £m | % | £m | % |
| 2016 Ongoing Revenue (as reported) | 1,094.5 | - | 374.0 | - | 359.0 | - | 1,827.5 | - |
| Pro forma revenue from 2016 and 2017 acquisitions | 170.2 | 15.6 | 20.8 | 5.5 | 5.4 | 1.6 | 196.4 | 10.7 |
| Organic growth | 63.7 | 5.8 | 7.7 | 2.1 | (2.3) | (0.7) | 69.1 | 3.8 |
| 2017 Ongoing Revenue (as reported) | 1,328.4 | 21.4 | 402.5 | 7.6 | 362.1 | 0.9 | 2,093.0 | 14.5 |

22. Alternative performance measures (continued)

Segmental analysis

Segmental information has been presented in accordance with IFRS 8 Operating Segments (Note 2). 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 businesses of workwear, plants and property care).

Segmental analysis is presented at CER unless otherwise stated.

Regional Analysis

| | Ongoing Revenue | | | | Ongoing Operating Profit | | | |
|---|-----------------|----------------|------------------------|-------------|--------------------------|--------------|------------------------|-------------|
| | 2017 | | Change from FY 2016 | | 2017 | | Change from FY 2016 | |
| | AER £m | CER £m | AER % | CER % | AER £m | CER £m | AER % | CER % |
| France | 294.7 | 274.6 | 8.6 | 1.2 | 44.1 | 41.1 | (0.5) | (7.2) |
| Benelux | 85.8 | 79.9 | 7.7 | 0.4 | 25.2 | 23.5 | 7.9 | 0.6 |
| Germany | 83.2 | 78.0 | 16.1 | 8.6 | 25.2 | 23.6 | 12.7 | 5.5 |
| Southern Europe | 96.9 | 90.3 | 38.6 | 29.1 | 14.8 | 13.7 | 23.3 | 14.9 |
| Latin America | 37.4 | 33.8 | 43.8 | 30.1 | 4.6 | 4.2 | 16.6 | 6.7 |
| Total Europe | 598.0 | 556.6 | 15.3 | 7.3 | 113.9 | 106.1 | 7.5 | 0.2 |
| UK & Ireland | 247.1 | 245.6 | 4.8 | 4.2 | 48.9 | 47.6 | 7.0 | 4.0 |
| Rest of World | 133.5 | 124.8 | 20.3 | 12.5 | 31.2 | 29.2 | 17.1 | 9.7 |
| UK & Rest of World | 380.6 | 370.4 | 9.8 | 6.8 | 80.1 | 76.8 | 10.7 | 6.1 |
| Asia | 187.8 | 179.1 | 44.0 | 37.3 | 19.4 | 18.7 | 44.2 | 39.5 |
| North America | 862.1 | 824.0 | 26.7 | 21.1 | 116.9 | 111.7 | 27.4 | 21.7 |
| Pacific | 175.3 | 162.9 | 15.8 | 7.7 | 37.8 | 35.2 | 17.8 | 9.6 |
| Central and regional overheads | - | - | - | - | (66.2) | (66.2) | 2.1 | 2.2 |
| Restructuring costs | - | - | - | - | (7.3) | (6.9) | 9.4 | 13.2 |
| Ongoing operations | 2,203.8 | 2,093.0 | 20.6 | 14.5 | 294.6 | 275.4 | 22.8 | 14.8 |
| Disposed businesses | 208.5 | 195.0 | (38.8) | (42.7) | 58.4 | 55.0 | 32.1 | 24.4 |
| Continuing operations | 2,412.3 | 2,288.0 | 11.3 | 5.5 | 353.0 | 330.4 | 24.2 | 16.3 |
| Depreciation – held for sale | - | - | - | - | (38.5) | (36.4) | - | - |
| Adjusted - Continuing operations | 2,412.3 | 2,288.0 | 11.3 | 5.5 | 314.5 | 294.0 | 10.7 | 3.5 |

Category Analysis¹

| | Ongoing Revenue | | | | Ongoing Operating Profit | | | |
|---|-----------------|----------------|------------------------|-------------|--------------------------|--------------|------------------------|---------------|
| | 2017 | | Change from FY 2016 | | 2017 | | Change from FY 2016 | |
| | AER £m | CER £m | AER % | CER % | AER £m | CER £m | AER % | CER % |
| Pest Control | 1,396.6 | 1,328.4 | 27.6 | 21.4 | 252.0 | 239.8 | 24.1 | 18.1 |
| - Growth | 1,194.3 | 1,137.0 | 22.8 | 16.9 | 221.1 | 210.3 | 19.5 | 13.7 |
| - Emerging | 202.3 | 191.4 | 66.1 | 57.1 | 30.9 | 29.5 | 70.5 | 62.8 |
| Hygiene | 424.3 | 402.5 | 13.4 | 7.6 | 75.3 | 71.4 | 15.6 | 9.7 |
| Protect & Enhance | 382.9 | 362.1 | 6.6 | 0.9 | 40.8 | 37.3 | (13.9) | (21.2) |
| Central and regional overheads | - | - | - | - | (66.2) | (66.2) | 2.1 | 2.2 |
| Restructuring costs | - | - | - | - | (7.3) | (6.9) | 9.4 | 13.2 |
| Ongoing operations | 2,203.8 | 2,093.0 | 20.6 | 14.5 | 294.6 | 275.4 | 22.8 | 14.8 |
| Disposed businesses | 208.5 | 195.0 | (38.8) | (42.7) | 58.4 | 55.0 | 32.1 | 24.4 |
| Continuing operations | 2,412.3 | 2,288.0 | 11.3 | 5.5 | 353.0 | 330.4 | 24.2 | 16.3 |
| Depreciation – held for sale | - | - | - | - | (38.5) | (36.4) | - | - |
| Adjusted - Continuing operations | 2,412.3 | 2,288.0 | 11.3 | 5.5 | 314.5 | 294.0 | 10.7 | 3.5 |

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

22. 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:

| | 2017 % | 2016 % | Variance % points |
|--|-------------|-------------|----------------------|
| France | 15.0 | 16.3 | (1.3) |
| Benelux | 29.4 | 29.3 | 0.1 |
| Germany | 30.4 | 31.3 | (0.9) |
| Southern Europe | 15.2 | 17.1 | (1.9) |
| Latin America | 12.4 | 15.1 | (2.7) |
| Total Europe | 19.1 | 20.4 | (1.3) |
| UK & Ireland | 19.4 | 19.4 | - |
| Rest of World | 23.4 | 24.0 | (0.6) |
| UK & Rest of World | 20.7 | 20.9 | (0.2) |
| Asia | 10.5 | 10.3 | 0.2 |
| North America | 13.6 | 13.5 | 0.1 |
| Pacific | 21.6 | 21.2 | 0.4 |
| Ongoing operations¹ | 13.2 | 13.1 | 0.1 |
| Disposed businesses | 9.5 | 13.0 | (3.5) |
| Continuing operations¹ | 12.9 | 13.1 | (0.2) |

| | 2017 % | 2016 % | Variance % points |
|--|-------------|-------------|----------------------|
| Pest Control | 18.1 | 18.6 | (0.5) |
| - Growth | 18.5 | 19.0 | (0.5) |
| - Emerging | 15.4 | 14.9 | 0.5 |
| Hygiene | 17.7 | 17.4 | 0.3 |
| Protect & Enhance | 10.3 | 13.2 | (2.9) |
| Ongoing operations¹ | 13.2 | 13.1 | 0.1 |
| Disposed businesses | 9.5 | 13.0 | (3.5) |
| Continuing operations¹ | 12.9 | 13.1 | (0.2) |

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

Free Cash Flow

The Group aims to generate sustainable cash flow (Free Cash Flow) in order to 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:

| | 2017 AER £m | 2016 AER £m |
|--|-------------------|-------------------|
| Net cash from operating activities | 379.8 | 361.2 |
| Purchase of property, plant, equipment and intangible fixed assets | (193.4) | (207.2) |
| Leased property, plant and equipment | (18.7) | (14.6) |
| Proceeds from sale of property, plant, equipment and software | 4.9 | 6.3 |
| Dividends received from associates | 3.2 | 10.3 |
| Free Cash Flow | 175.8 | 156.0 |
| Free Cash Flow – continuing operations | 175.8 | 156.4 |
| Free Cash Flow – discontinued operations | - | (0.4) |

22. Alternative performance measures (continued)

Adjusted Free Cash Flow Conversion

Adjusted Free Cash Flow Conversion is calculated by dividing Adjusted Profit from continuing operations attributable to equity holders of the Company (further adjusted for any post tax profits and one-offs from the CWS-boco International GmbH associate) by Adjusted Free Cash Flow, expressed as a percentage. Adjusted Free Cash Flow is measured as Free Cash Flow adjusted for one-off items - operating and product development additions.

| | 2017 AER £m | 2016 AER £m |
|--|-------------------|-------------------|
| Adjusted profit after tax from continuing operations attributable to equity holders of the Company | 223.6 | 195.9 |
| Share of profit of CWS-boco International GmbH associate (net of tax) | (1.3) | - |
| One-off items - associates | (7.0) | - |
| | 215.3 | 195.9 |
| Free Cash Flow from continuing operations | 175.8 | 156.0 |
| One-off items - operating | 6.8 | 8.6 |
| Product development additions | 4.7 | 6.0 |
| | 187.3 | 170.6 |
| Adjusted Free Cash Flow conversion | 87.0% | 87.1% |

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.

| | 2017 AER £m | 2017 CER £m | 2016 £m |
|--|-------------------|-------------------|--------------|
| Unadjusted income tax expense | 30.6 | 29.2 | 40.7 |
| Tax adjustments on: | | | |
| Amortisation and impairment of intangible assets (excluding computer software) | 16.6 | 15.8 | 14.1 |
| One-off items - operating | 5.1 | 4.7 | 3.1 |
| Disposal of businesses | 5.7 | 5.4 | - |
| Net interest credit from pensions | (1.3) | (1.3) | (1.6) |
| US tax reforms – net impact | 6.4 | 6.5 | - |
| Adjusted income tax expense (a) | 63.1 | 60.3 | 56.3 |
| Adjusted profit before income tax (b) | 286.9 | 267.8 | 252.1 |
| Adjusted Effective Tax Rate (a/b) | 22.0% | 22.5% | 22.3% |

23. Legal statements

The financial information for the year ended 31 December 2017 contained in this preliminary announcement was approved by the Board on 28 February 2018.

The financial information in this statement does not constitute the company's statutory accounts for the years ended 31 December 2017 or 2016. The financial information for 2016 and 2017 is derived from the statutory accounts for 2016 (which have been delivered to the registrar of companies) and 2017 (which will be delivered to the registrar of companies following the AGM in May 2017). The auditors have reported on the 2016 and 2017 accounts; their report was (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

The statutory accounts for 2017 are prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted for use in the European Union. The accounting policies (that comply with IFRS) used by Rentokil Initial plc ("the Group") are consistent with those set out in the 2016 Annual Report. A full list of policies will be presented in the 2017 Annual Report. For details of new policies applicable to the Group in 2017 and their impact please refer to Note 1.

24. 2017 Annual Report

Copies of the 2017 Annual Report will be sent to shareholders who have elected to receive hard copies on 5 April 2018 and will also be available from the company's registered office at Riverbank, Meadows Business Park, Blackwater, Camberley, Surrey, GU17 9AB and at www.rentokil-initial.com in PDF format.

25. Financial calendar

The Annual General Meeting will be held at the Hilton Hotel (Ascot Suite), Gatwick Airport, South Terminal, Crawley, West Sussex, RH6 0LL on Wednesday 9 May 2018 at 12 noon.