

**2018 Preliminary Results**

*A strong performance in 2018 with revenue, profit and cash in excess of medium-term targets and an excellent year for M&A*

Results £m	FY 2018 AER	Growth	
		AER	CER
<b>Ongoing Revenue</b>	<b>2,455.0</b>	<b>11.5%</b>	<b>13.2%</b>
Revenue	2,472.3	2.5%	4.1%
<b>Ongoing Operating Profit</b>	<b>329.3</b>	<b>11.8%</b>	<b>13.3%</b>
Operating Profit	245.5	(16.0%)	(15.1%)
<b>Adjusted profit before tax</b>	<b>308.0</b>	<b>7.4%</b>	<b>8.8%</b>
Pension settlement (non-cash)	(341.6)	-	-
Loss before tax	(114.1)	(116.0%)	(115.7%)
<b>Free Cash Flow</b>	<b>192.0</b>		
<b>Adjusted EPS</b>	<b>13.07p</b>	7.3%	8.6%
EPS	(5.35p)	(114.4%)	(114.1%)
<b>Dividend per share</b>	<b>4.471p</b>	<b>15.2%</b>	

*This statement includes certain financial performance measures which are not GAAP measures as defined under International Financial Reporting Standards (IFRS). These include Ongoing Revenue, Ongoing Operating Profit, Adjusted Profit Before Tax and Free Cash Flow. Management believes these measures provide valuable additional information for users of the financial statements in order to understand the underlying trading performance. 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. Ongoing Profit and Adjusted Profit Before Tax exclude certain items that could distort the underlying trading performance. An explanation of the measures used along with reconciliation to the nearest IFRS measures is provided in Note 21 on page 36.*

**2018 Highlights**

- **Revenue, profit and cash all in excess of medium-term financial targets:** Ongoing Revenue up 13.2%, Ongoing Operating Profit up 13.3% and Free Cash Flow of £192.0m (94% cash conversion)
- **Organic Revenue growth of 3.7% in line with medium-term target** of 3% to 4% (adjusted for Puerto Rico 4.0%), H1: 3.0% and H2: 4.3%
- **12.6% Ongoing Revenue growth in Pest Control (+4.8% Organic)**, driven by strong innovation and digital performance, as recognised by The Queen’s Award for Enterprise - Innovation
- **26.5% Ongoing Revenue growth in Hygiene (+2.8% Organic)**, reflecting acquisitions of CWS Italy and Cannon Hygiene
- **France returned to year-on-year profitable growth, up 2.9%**
- **An excellent year for M&A:**
  - 47 businesses acquired in Growth and Emerging markets with combined annualised revenues of £170.0m for cash spend of £298.4m
  - 42 acquisitions in Pest Control, 4 in Hygiene and 1 small Ambius business
  - Acquisitions continue to build density across our key markets and deepen our expertise in new and high-growth areas including vector control and fumigation
- **UK Pension scheme buy-in secured** in contemplation of full buy-out and wind-up of the scheme which is expected to complete in 2020 with an estimated pre-tax cash surplus of £20m to £40m
- **Recommended final dividend of 3.16p** to bring total dividend for 2018 to 4.471p, an increase of 15.2%

**Andy Ransom, CEO of Rentokil Initial plc, said:**

*“We continue to execute our Right Way plan to deliver revenue and profit growth and the business has performed very well in 2018. In Pest Control, our focus on innovation and digital technology to drive growth is working well and is a core strength of the business. Hygiene has performed strongly, not only aided by the very good acquisitions of CWS Italy and Cannon Hygiene but organically, with a delivery of 2.8% towards the top of our range of growth expectations. In addition, 18 months ago we set ourselves an ambitious objective of returning our France business to year-on-year profitable growth and we are delighted to have achieved this in 2018.*

*“We have delivered a very strong year of M&A, with a record 47 high-quality acquisitions building scale and density and also enabling us to broaden our expertise in newer growth areas, such as vector control and*

fumigation. We have a very active pipeline of high quality prospects in place, so I am confident of another good year in 2019.

“Our performance this year has been underpinned by good progress across our ‘Employer of Choice’ people agenda which has a particular focus on short-term retention. I am also delighted that we were able to secure a buy-in for our UK defined benefit pension scheme. This transaction is a fantastic outcome for our pensioners, the Company and our shareholders. While many other companies will have to continue investing into their pension schemes for years to come, we can focus our future investments on delivering profitable growth.

“2018 was a very good year for Rentokil Initial 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 2019 and anticipate a slight increase in market expectations for 2019.”

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*Joint ventures: the term ‘joint venture’ is used to describe the Company’s relationship with Haniel, however our 17.8% interest in CWS-boco is accounted for as an associate. The term is also used to describe the Company’s 57% ownership of Rentokil PCI, however our interest in PCI has been consolidated in our Financial Statements.*

## Revenue

Ongoing Revenue, which excludes disposed businesses, increased by 13.2% in 2018, with all regions contributing to growth. 2018 was a very strong year for M&A with acquisitions contributing 9.5% to Ongoing Revenue growth. Group Organic Revenue growth of 3.7% was in line with financial targets, but affected in H1 by the ongoing impact of last September’s hurricane on our operations in Puerto Rico and unseasonably cold weather in March and April in North America. Organic growth improved to 4.3% in the second half from 3.0% in H1. Adjusting for the impact of Puerto Rico, Group Organic growth for the year was 4.0% and at the upper end of our medium-term target of 3% to 4%.

Ongoing Revenue in Pest Control grew by 12.6% during the year of which 4.8% was Organic Revenue growth (5.3% after adjusting for the impact of Puerto Rico) with the balance delivered from acquisitions. The business enjoyed favourable weather conditions across Europe and the UK which has supported stronger jobbing revenues, particularly in H2. Hygiene reported increased revenues of 26.5%, up 2.8% on an Organic basis and aided by the acquisition of Cannon Hygiene Services in January 2018 and CWS Italy in the second half of 2017. Ongoing Revenue in our Protect & Enhance businesses increased by 0.7%, reflecting improvements in our French Workwear business (up 0.9%) and Ambius (up 3.1%) but offset by ongoing pressures in UK Property Care (down 17.4%).

Total Revenue of £2,472.3m increased by 2.5% at AER, reflecting growth in Ongoing Revenue of 13.2% (at CER), offset by the disposal of businesses in 2017 and the adverse impact of foreign exchange. Disposals in 2017 included the transfer of the Hygiene and Workwear assets to the Haniel joint venture and the divestment of the flat-linen laundries in France.

## Profit

Ongoing Operating Profit, which excludes the results of disposed businesses, increased by 13.3% in 2018, reflecting growth in all regions and the return to profitable growth in France. Restructuring costs amounted to £7.3m at CER (2017: £7.3m) consisting mainly of costs in respect of initiatives focused on driving operational efficiency in North America, France and the UK.

In December 2018 the Company reached agreement for a bulk annuity insurance ‘buy-in’ for its UK Defined Benefit Pension scheme (“the Scheme”). The ‘buy-in’ has been secured in contemplation of a full ‘buy-out’ and winding up of the Scheme which is expected to complete in 2020. On completion of the buy-out it is anticipated that there will be a pre-tax cash surplus of £20m to £40m which will be returned to the Company. The accounting surplus at the date of agreement of £326.0m (which was £325.4m at 31 December 2017) has been written down to the estimated cash surplus, resulting in a one-off non-cash charge of £341.6m in the year. As a result the Company recorded a loss before tax for the year at actual exchange rates of £114.1m (2017: profit before tax of £713.6m). The 2017 profit before tax included a one off net profit of £449.0m on the disposal of the businesses referred to above.

Adjusted profit before tax at actual exchange rates of £308.0m, which excludes the impact of the one-off items noted above, increased by 7.4% on 2017, reflecting growth in all regions of operation partially offset by the adverse impact of foreign exchange.

### Cash (at AER)

Operating cash inflow of £283.5m was £25.1m higher than 2017. Lower levels of EBITDA following the transfer and sale of Workwear and Hygiene assets to Haniel and RLD in 2017 were more than offset by a reduction in capex levels and favourable working capital inflows of £6.6m, in part due to phasing around the 2018 year end. The first cash dividend from the Haniel joint venture in relation to the six months ended 31 December 2017 of €9.5m was received in Q3 2018.

Interest payments of £45.3m are £3.9m higher than in the prior year due to an increase in US dollar interest rates and the increased net debt levels following the successful M&A programme in the year and tax payments increased by £5.0m reflecting the higher profitability of the businesses. This resulted in Free Cash Flow of £192.0m, representing an increase of £16.2m on the prior year and an adjusted Free Cash Flow conversion of 94% (2017: 87%), ahead of our medium-term target of ~90%. Spend on current and prior-year acquisitions totalled £298.4m and dividend payments were £74.2m, an increase of £9.9m (15.4%) on the prior year. Foreign exchange translation and other items increased net debt by £42.5m, leaving an overall increase in net debt of £226.2m and closing net debt of £1,153.5m.

### M&A

2018 was a very strong year of acquisitions for the Company, particularly in regard to pest control deals in Growth and Emerging markets. In the year we acquired a record 47 businesses – 42 in Pest Control, four in Hygiene and one small Ambius business - generating annualised revenues in the year prior to purchase of £170m. Total spend, including prior year acquisitions, was £298.4m. Countries in which we have acquired new businesses include Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Dutch Antilles, France, Germany, Indonesia, Jamaica, Macau, Malaysia, Netherlands, New Zealand, Singapore, South Korea, Spain, Sweden, Turkey, United Arab Emirates, and the US.

Going forward, we will continue to execute a differentiated and disciplined approach to capital investment and M&A, with clear IRR hurdles by business line. We will continue to seek further acquisition opportunities in 2019 in both Pest Control and Hygiene and the pipeline of prospects remains strong. Our anticipated spend on M&A in 2019 is expected to be in the region of £200m to £250m. In 2019 to date we have acquired six businesses with annualised revenues of c. £25m.

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A presentation for investors and analysts will be held on **Thursday 28 February 2019 at 9.15am** 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](http://www.rentokil-initial.com).

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*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, Guidance 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 12.3% in 2018, of which 8.4% was growth through acquisition and 3.9% was organic. Pest Control grew 13.1% (+3.8% Organic). Organic Revenue growth in 2018 was lower than the 4.7% achieved in 2017 and reflects a number of factors including the impact of Hurricane Irma last September on our Puerto Rico business, an unseasonably cold March and April which delayed the start of the pest season and strong comparatives in 2017 (especially in product sales during the first half of 2017). Pest Control Organic growth in the second half was 5.0%, with less impact from the weather, Puerto Rico lapping in Q4 and less challenging comparatives than in the first half.

Ongoing Operating Profit growth of 12.8% reflects the combined impact from higher revenues and acquisitions. Net Operating Margins at 13.7% were 0.1% points above the prior year, reflecting an underlying improvement in net margin offset in part by the dilutive impact of acquisitions and stronger performance from lower-margin operations. 14 Pest Control businesses were acquired in the region in 2018 with combined annualised revenues of c. \$53m (c. £41m) in the year prior to purchase. In addition, the region acquired two further businesses in January 2019 for additional annualised revenues of \$27.5m (c. £21m).

At our Capital Markets Day in 2018 we set out our ambition for our North American business to become a \$1.5bn revenue, 18% Net Operating Margin business by the end of 2020. We have made excellent progress towards our revenue target as noted above, with ongoing revenue growth of 12.3% in the year and acquisitions with combined annualised revenues of c. \$53m. Based on our revenue growth expectations for the region of 12 to 15% per annum, we are confident that we will deliver the c.10% compound annual growth rate (CAGR) required in revenue growth in 2019/20 to achieve our \$1.5bn revenue target.

Our progress on Net Operating Margins improved in the second half of the year, rising by 50 basis points, supported by stronger organic growth and savings in property and procurement from our Best of Breed (BoB) cost savings programme. We are making steady progress with our IT transformation and, to ensure that the replatforming of the business and the deployment of Group IT applications are delivered effectively, we have put back the date for completion by 12 months to H1 2020. This will have an associated impact on our expectation for the timing of systems-dependent savings in areas such as Service Productivity and Field Administration, meaning that we expect the business to achieve 18% margins by the end of 2021.

Ongoing Revenue for **Europe** rose by 9.7% (+3.5% Organic), reflecting an excellent performance in Southern Europe (+32.3%), continued strong growth in Germany (+14.6%) and an improved performance in Benelux and France, which grew by 4.2% and 1.2% respectively. Latin America, which is reported within the Europe region, once again performed well with Ongoing Revenue growth of 17.6%. Ongoing Revenue from our European Hygiene operations grew by 20.8%, benefiting from the contribution from CWS Italy which was acquired in 2017. Ongoing Revenue from our Pest Control businesses grew by 10.1%, aided by favourable weather conditions in Q2 and Q3 which has supported stronger jobbing revenues, with good growth across all countries and particularly in our largest market in Germany. Ongoing Operating Profit for the Europe region grew by 10.4%, with good growth in Southern Europe, Germany and Latin America. We were particularly encouraged by our performance in France this year, with profit growth of 2.9% year on year, in line with our plan to return the business to profitable growth in 2018. In addition to the Cannon Hygiene businesses, the Europe region acquired 13 further businesses in 2018, including 11 in Pest Control and two in Hygiene (of which six were in Latin America), with total combined annualised revenues of c. £25m in the year prior to purchase.

The **UK and Rest of World** region delivered a good performance during the period, with an overall increase in Ongoing Revenue of 19.5%, comprising Organic Revenue growth of 2.8% and growth through acquisition of 16.7% principally due to the Cannon Hygiene acquisition at the start of the year. The region delivered continued growth from UK Pest Control and Hygiene, which grew organically by 4.2% and 4.1% respectively, with Pest Control continuing to benefit from increased jobbing work. The otherwise good performance in the region was, however, dampened by UK Property Care which continues to experience weak market conditions. The Rest of World operations delivered good Ongoing Revenue growth of 13.4% with contributions across all of its regional clusters in the Nordics, Caribbean, Africa and MENAT. Overall Ongoing Operating Profit for the region grew by 15.0%, reflecting the higher revenues. Net Operating Margins for the UK & Rest of World region fell by 0.8% points to 20.3%, again impacted by reduced profits in UK Property Care.

In January 2018 the region acquired the UK business of Cannon Hygiene. The acquisition was subject to a review by the UK Competition & Markets Authority (CMA) and it was required to be held separate from the rest of our UK business from 5 February 2018. The CMA has concluded its Phase 2 review of the transaction and announced on 25 January 2019 that the Company is required to sell a certain number of supply contracts with

larger national customers and frameworks, representing a small part of the acquired business, after identifying an issue relating to a single line of washroom service for those customers. In addition to the Cannon Hygiene business, the region also acquired seven Pest Control companies during the year, including the pest control business of Mitie in the UK in Q4 which is being held separately pending completion of a CMA review. Total acquired annualised revenues in the 12 months prior to acquisition, including Cannon Hygiene, amounted to c. £75m.

The **Asia** region has had another good year with Ongoing Revenue increasing by 17.7% (+5.9% Organic Revenue growth) with both Pest Control and Hygiene performing well. Ongoing Operating Profit in the region grew by 15.1% in 2018. Net Operating Margins decreased by 0.2% points to 10.1%, with growth in Hygiene margins being offset by the dilutive effect of the growth in the lower-margin Rentokil PCI business in India. In addition to the Cannon Hygiene businesses, the region acquired a further six Pest Control businesses and one additional Hygiene business in Malaysia, Singapore and Macau (a new market entry) with total combined annualised revenues of c. £19m in the year prior to purchase.

In the **Pacific** region Ongoing Revenue grew by 11.2%, (+2.6% organic), driven by solid performances across our core Pest Control and Hygiene categories and the acquisition of the Cannon Hygiene businesses in New Zealand and Australia. Ongoing Operating Profit in the region grew by 7.0%. Net Operating Margins declined by 0.8% points to 20.8% as a result of the dilutive impact of the Cannon acquisition. In addition to the Cannon Hygiene businesses, we acquired four small Pest Control companies in New Zealand and Australia and a small plants business in Canberra, Australia. Total combined annualised revenues acquired were c. £10m in the year prior to acquisition.

Our share of **Profits from Associates** at AER amounted to £19.6m (2017: £8.3m). 2018 includes a full 12 months of income from our joint venture with Haniel in Europe, in which we retain a 17.8% share. The JV is performing ahead of expectations. Our share of profit in the joint venture after integration costs, goodwill amortisation and tax was £12.1m. Our Japanese associate, in which we have a 49% stake, had a good year in 2018, contributing £7.5m of profits, an increase of 7.8% on the prior year.

## STRATEGY UPDATE

It has been another very positive year for Rentokil Initial plc. We have continued to execute our **RIGHT WAY** plan across our regions of North America, Europe, UK & Rest of World, Asia and Pacific - all of which continue to provide excellent opportunities for sustainable and profitable growth. We continue to witness strong demand for our services across our markets and our powerful brand, outstanding customer service and proven operating model, have delivered further operational and financial improvements across the business in 2018. We provide an update on our three categories of Pest Control, Hygiene and Protect & Enhance below.

### Pest Control

Pest Control accounts for 63% of Ongoing Revenue and 67% of Ongoing Operating Profit and generated a Net Operating Margin of 17.6% in 2018. In 2018 Ongoing Revenue and Ongoing Operating Profit in Pest Control grew by 12.6% and 9.9% respectively. Organic Revenue rose by 4.8% with growth through acquisition of 7.8%. The category has delivered a five-year revenue CAGR of 16.2%, with Organic growth more than doubling over the same period from 2.2% to 4.8% in 2018. Our strategy in Pest Control is to strengthen our position as global leaders through increased organic growth and by establishing stronger market positions particularly in Growth and Emerging markets, and through digital expertise, innovation and acquisitions.

### Growth markets

These markets include North America, the UK, the Pacific, Germany, Benelux and the Caribbean. They represent 54% of Group Revenues and 59% of Group Ongoing Operating Profit and have delivered a five-year revenue CAGR of 14.7%.

North America is particularly important and our business here provides national pest control coverage, supported by 300+ branches, 45 distribution centres and over 8,000 colleagues. Approximately 75% of revenues are contracted and 25% comprised of jobbing revenue. North America has delivered a five-year revenue CAGR of 21.1%. Our strategy in this region is to build density through organic initiatives and successful M&A. Organic initiatives include growth in national accounts, product innovation, harnessing the digital opportunity and leveraging our B2B sales capability in our core sectors of food processing, food retail, healthcare and offices. We have a proven track record in M&A and our pipeline remains particularly strong.

Since 2014 we have acquired 112 new pest control businesses in Growth markets (56 in North America). We have also established an M&A pipeline in the Pacific, acquiring 19 pest control companies and further strengthened our presence in Europe through 18 deals. We have built upon our UK growth story through the use of digital expertise, innovations, productivity and service enhancements and acquisitions. In 2018 c. 33% of new sales in the UK were delivered through our innovation pipeline.

## **Emerging markets**

We have an unrivalled position in the markets of Asia, Latin America, MENAT, Kenya, Fiji and Central America, which combined represent a strong platform for delivering sustainable, profitable growth. They represent 9% of Group Revenues and 8% of Group Ongoing Operating Profit and have delivered a five-year revenue CAGR of 28.6%. Over the last five years we have expanded our scale by acquiring 42 pest control companies in Emerging markets with strong growth characteristics.

Asia made good progress during 2018, delivering 6.4% Organic growth in Pest Control. Once again, our more mature markets of Indonesia and Malaysia delivered double-digit revenue growth of 12.8%. In India we have grown from a small loss-making unit to the country's number one pest control operator through the formation of our joint venture with PCI Pest Control Private Ltd. In China we are pursuing a city-based strategy with a focus on specific urban and industrial zones.

Latin America is our youngest region, but expanding rapidly. Rentokil has top three leadership positions in all its LatAm markets and operates in nine of the 10 most populated cities. The business is growing organically at double-digit rates (12.7% in 2018) and complementing this with a solid acquisition agenda, notably in Chile, Colombia and Brazil. We entered the Costa Rican market for the first time in February 2018 through the acquisition of Fumigadora and also acquired ISS Brazil in Sao Paulo to build further density in this key city.

We continue to explore opportunities presented by the opening up of public sector vector control contracts in Brazil, a market currently estimated to be worth c. US\$ 1bn per annum. The country reports 1.5m dengue cases across its 5,500 cities each year at a cost of around US\$1,000 per case. We have an experienced management team in vector control in place and in Q3 acquired Brazilian pest control company Multicontrol (operating principally in Portoalegre, Brazil's 5th largest metropolitan area in terms of population and GDP) which will lead our Municipality Vector Control Project going forward. Our market leadership, technical capability and proven track record in the country, cemented through the Rio Olympics, places us in a strong position to secure contract vector control mandates from Brazilian municipalities going forward.

Rentokil Pest Control is also the clear market leader in MENAT, and we acquired in 2018 National Pest Control, the market leader in the UAE with 180 colleagues. We now have the capacity and footprint to operate across all of the main Emirates

## **Driving Organic Revenue growth in Pest Control**

We provide an update on some of our Organic Revenue growth levers in Pest Control below.

### **Global and national accounts**

We continue to make good progress in targeting global customers, particularly in Food Processing and Hospitality sectors. Our 2015 acquisition of Steritech, combined with our increasingly active participation in the Global Food Safety Initiative, has strengthened our global brand presence in these sectors. We now have 18 global customers including Mondelez, ISS, Sodexo and Kerry Foods, and our pipeline of future opportunities is worth some £60m. Steritech has also significantly enhanced our capability in the US national accounts market and since 2015 we have delivered compound annual growth in national accounts revenue of 22%. Now with greater scale and density, we are more competitive and securing an increasing share of national accounts through our reputation for service quality, the careful targeting of attractive prospects, improving our sales execution and leveraging our combined national sales expertise of both Rentokil and Steritech. In 2018 we increased our North American national account sales by 15% and, as with our global accounts, our pipeline of prospects is strong.

### **Digital products and services**

We continue to see unprecedented levels of change from the impact of technology on our customers and our front-line and back office colleagues and use 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. We are also transforming our back-office system to a cloud platform

over the next two years and opening up new customer digital channels as a result. This will allow us to realise further value from our data and deploy innovations faster across the global business as they become available. We are beginning to use robotics and AI in back office functions to automate manual admin tasks in a cost effective way.

We have made further progress in digital pest control in 2018. Our myRentokil online customer portal is now being used across 34 countries, with over 140,000 premises added in 2018. Last year our customers downloaded over 4m e-reports from the portal. Approximately 85% of our commercial pest control customers now use the myRentokil portal and we aim to have 100% of commercial customers using it by the end of 2019.

Connected devices, such as PestConnect, our award-winning remote monitoring system for rodents and the world's smartest mouse trap, enables us to provide customers with a complete pest detection solution and full traceability. We now have over 70,000 devices being used in c. 3,800 customer premises across 18 countries. We are extending our Connect range with the launch of multi-catch rodent devices and are also piloting our innovative bed bug monitor across 400 sites in North America.

Other digital products developed during 2018 included Autogate and Dual Autogate Connect, and MultiMouse Trap. These three solutions, along with a number of others, will be launched through 2019. In addition to this we will have increased capability in the generation of insights that will support our pest management effectiveness by enabling our front line technicians to have greater information as they deliver service to our customers.

2018 has seen a record number of visits to our web estate, with a total 21 million visits, an increase of five million on the previous year. We have also made excellent progress in the continued roll out of smartphone and apps across the group to drive service and sales productivity and reduce costs. ServiceTrak is our smartphone field service app used by around 7,000 technicians to record service visits – for example, start time, services performed, customer recommendations, customer signatures and end time. This has now been deployed in 33 countries and used for four million service visits throughout the year, saving around £3m that would have been incurred on replacing traditional handheld devices.

## **Innovation**

We believe our innovation pipeline is unrivalled and the opening of the Power Centre in 2017, our home for innovation, science and training, has further strengthened the expertise of our people and ensures we are ideally placed to deliver the best service for our customers, today and in the future. We have a strong pipeline of 70 innovations (a 30% increase on 2017) targeting key pest groups of rodents and insects with 16 patents pending. Following the success in 2017 of our first Lumnia insect light trap product, we extended the range in 2018 to include Lumnia Standard Ultimate (which uses second generation lamps), Lumnia Compact and Lumnia Colour. Since launch we have sold over 60,000 Lumnia units across our global estate, of which 40% were in North America. We plan to expand the range in 2019, with additional models to meet customer demand.

Other notable product launches this year included our fluorescent tracking gel, Agrilaser, Fruit Fly Ninja and Entotherm Compact. In 2019 we plan to continue the roll out RapidPro (the world's fastest acting rodenticide aimed specifically at mice) into new countries and expand our range of mosquito control solutions from our Vector Control Centre of Excellence.

We were delighted that our innovation agenda has been recognised through the award of **The Queen's Award for Enterprise – Innovation** in the first half of 2018 for our RADAR and PestConnect systems.

## **Targeting growth in the \$3.1bn global Vector Control market**

Rentokil has offered mosquito and vector control services for many years in Asia where dengue fever, in particular, is a major threat to public health, but has now significantly enhanced its capabilities in North America and Latin America. The US mosquito/vector control market is estimated at c. \$600m and has significant growth potential given the demographic changes which are increasing the ways in which mosquito-borne diseases are spread.

In 2017 we acquired Vector Disease Control International (VDCI), the leading provider of municipal and commercial mosquito control in the US and also established a new global centre of excellence for mosquito control based in North America to support our growing work in this field. In Q4 we added to our expertise through the purchase of Louisiana-based Mosquito Control Services, LLC, one of the leading independent vector control companies in the US with operations across five states. The business offers similar services to VDCI plus public education and community programmes. We also acquired Multicontrol in Brazil (further details of which we gave on page 6) which will lead our Municipality Vector Control Project going forward.

## Acquisitions

Acquisitions are core to our pest control 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.

This year we acquired 42 pest control companies in 22 countries including Australia, Brazil, Canada, Chile, Colombia, Costa Rica, Dutch Antilles, France, Germany, Indonesia, Jamaica, Macau, Malaysia, Netherlands, New Zealand, Singapore, Spain, Sweden, Turkey, United Arab Emirates, and the US.

We acquired S&A in Westerholz, Germany which builds on our expertise in fumigation, a growing global market with an estimated CAGR of over 5%. S&A has developed a revolutionary new product which guarantees residue-free fumigation (FRISIN) and the acquisition is a good illustration of the way in which we are increasingly acquiring businesses that develop innovative products and services that we can deploy at scale across our global footprint. Further, in January 2019 we completed our acquisition of Aquatic Systems in Pompano Beach, Florida (which builds on our growing specialism in aquatic pest control and lake management solutions).

Our pipeline of pest control opportunities in both Growth and Emerging markets remains very strong and we are confident of further high-quality acquisitions in 2019.

## Initial Hygiene

Hygiene accounts for 22% of both Ongoing Revenue and Ongoing Operating Profit and generated a Net Operating Margin of 16.8% in 2018. Ongoing Revenue and Ongoing Operating Profit in Hygiene grew by 26.5% and 19.9% respectively this year. Organic Revenue rose by 2.8% with growth through acquisition of 23.7% largely from the acquisition of Cannon Hygiene at the start of the year. Hygiene has delivered a five-year revenue CAGR of 8.8%. Our strategy in Hygiene is to deliver continued growth through a combination of strong operational focus and targeted M&A to build city-density. At the heart of our strategy is the delivery of excellent customer service and product innovation. As with Pest Control, productivity can be enhanced through the overlay of digital technology. Finally, we are putting in place country-specific incentive programmes with local rewards to focus our sales force and front line colleagues on achieving greater product density and margin expansion.

### Products and innovation

Initial Hygiene has award-winning products including Signature, Reflection and Colour and one of the world's strongest brands, particularly valuable in Emerging markets. New products in 2018 included new, improved air freshener units (both fan and aerosol) along with a new range of fragrances, which will become available in our Signature colour range in 2019. We also launched a new silver feminine hygiene unit in 14 countries to accompany our most successful white sanitary waste bin. A new, cost effective toilet seat cleaner unit was launched in Asia this year with the roll out into Europe to follow in 2019. Our new incontinence waste offer has been launched with markets to commence trials in early 2019.

Further additions to our product lines will be introduced in 2019 including a new range of environmentally-friendly hand soaps, our HygienicTouch door handle cover, as well as a number of developments to enhance our air care range. Going forward, we see additional opportunities to build upon our core hygiene offer through potential service and channel extensions. We plan to exploit the growing opportunity in air care (enhancement and purification) by leveraging our current clean air solutions and developing our premium scenting portfolio and also developing sensing technologies, sharing the expertise we have gained through our pest control activities.

### Digital technology, 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 example, our online Hygiene customer portal, myInitial is being developed to highlight the full spectrum of Hygiene solutions on its home page.

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. Service+ 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, the benefits of which include better colleague retention, higher gross margins achieved through greater service productivity and cost savings, and delivery of a more professional service to customers. Our technicians use the app 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. In 2018 ServiceTrak was used by c. 2,400 Hygiene technicians in 24 countries, an increase of 500 colleagues on 2017. In 2019 we plan to drive further field service efficiencies through development of a new floor plan app which will enhance productivity through greater customer site familiarity.

### **Smarter selling and commissions linked to density**

Significant leverage is gained in Hygiene through selling multiple services to each customer premise. We continue to give our sales colleagues specialist training to help them sell multiple services to customers, supported by promotional campaigns to highlight our range proposition. In addition, we have in place country-specific incentive programmes with local rewards to focus our sales force and front line colleagues on achieving greater product density.

### **Acquisitions**

As our confidence in our Hygiene model grows, so too has our focus on securing attractive hygiene acquisitions and we have acquired 17 hygiene businesses since 2014.

In 2017 we acquired the hygiene business of CWS Italy and in January this year acquired Cannon Hygiene Services. We also acquired a small hygiene business called Mauco Products in Chile, Cleanstation in Portugal and Miju in South Korea.

We have made excellent operational progress this year with the integration of CWS Italy, establishing 49 separate projects to enhance our capability in service, IT, operational excellence, products and people. These have included migrating 20 CWS branches and four depots onto our standard network, issuing smartphones to 119 CWS colleagues, creating a single salesforce organisation, consolidating and moving 120 people into a new head office and consolidating nine branches and depots and one IT organisation.

Cannon Hygiene Services, which has businesses in Ireland, Spain, Portugal, South Africa, India, Thailand, Australia and New Zealand, is also being integrated successfully and performing well under our ownership. As stated earlier, we have held the UK business separate from our other operations during the CMA investigation, which concluded on 25 January 2019. The acquisition increases our coverage in key markets enabling us to gain a good level of synergies from enhanced density and combined infrastructures and all operations are performing very well under our ownership. The transaction also marks our entry into the attractive Indian hygiene market.

## **Protect & Enhance**

The four businesses included in this category are Workwear (France), Ambius (Global), Property Care (UK) and a very small Dental Services operation (Germany and Sweden). All are cash-generative businesses which share overheads with our Pest Control and Hygiene businesses. However, they operate in markets which typically offer lower opportunities for profitable growth. Combined, the businesses represent c. 11% of Ongoing Operating Profit and generate a Net Operating Margin of 11.7% on an annualised basis.

### **Improving performances in 2018**

2018 has been a more encouraging year for Protect & Enhance, with three of our four businesses delivering year-on-year profitable growth. We were particularly encouraged by the performance of our France Workwear business which returned to year-on-year profitability of 2.8% during 2018. Ambius grew Ongoing Operating Profit by 16.4% and Dental Services grew by 47.7%. Profits in our Property Care business declined by £1.9m.

### **Workwear**

Our Workwear operations in France specialise in the supply and laundering of workwear, uniforms, cleanroom garments and personal protective garments. After three years of declining profitability, the business returned to profitable growth in the first half of the year, some six months ahead of plan. This has been achieved through an outstanding execution of strategy by our new management team which has focused on service and product quality to drive customer retention, together with profit improvement and margin protection initiatives.

## Ambius

Ambius operates in 16 countries with leading positions in the US, Canada, Australia and New Zealand. Its product offering is broadly consistent across the world and includes interior landscaping, Christmas decorations and premium scenting. 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. Key industry trends going forward include wellness at work being recognised as a serious aspect in building design, with air quality a major concern and a younger workforce demanding better workplace environments. We are very encouraged by Ambius' performance this year and its growth in profits of 16.4% on revenues up 3.1% during the year.

## UK Property Care

Services in our Property Care business, which generated revenues of £23.1m in 2018, include dry rot and woodworm treatment and damp proofing. Trading continues to be significantly impacted by a slowdown in the UK property market following the 2016 Brexit Referendum result and General Election, resulting in a year-on-year revenue decline of 17.4%. In response to these external market pressures we have put in place a business improvement plan based on better revenue, leveraging our digital expertise from Pest Control and cost and efficiency measures. This plan includes a new area operating model with the business now fully integrated into our UK back office and shared support centres. Web enquiries have increased in second half of 2018 but are yet to convert into sales. In 2019 we plan to develop a new pest proofing service line to additional customer segments to reduce dependence on the housing market.

## Employer of Choice

Our Employer of Choice programme, which aims to improve colleague recruitment, engagement, talent development, diversity and retention, made good progress in 2018. During the year we launched a new global careers portal featuring videos and a 'job fit' tool to enhance the quality of candidates and time to hire. We also introduced on-boarding experts to help new recruits during their first months with the Company. This has resulted in good improvements in the retention of new colleagues after 0-6 months and 6-12 months.

U+, our in-house 'university', delivers online courses, face-to-face programmes, as well as compliance and induction programmes. In 2018 over 1.2 million items of online training were viewed, an increase of over 110%, and over 550 pieces of learning content (videos, courses, etc.) were created covering topics such as sales, safety, technical and operational best practice and compliance. All were developed in-house. We also undertook a series of highly-targeted line manager development programmes with ongoing coaching to develop enhanced management skills for 170 managers.

Our 2018 Gender Pay Gap Report showed an absence of a gender gap between men and women in the UK (0% mean, -2% median) versus the national median gender pay gap for full-time employees of 8.6% (Office for National Statistics as at October 2018). We have a talent pipeline of over 250 apprentices and 77 graduates. 33% of Board members are female and we were ranked 32nd in the 2018 FTSE 100 Hampton Alexander Report, up from 46th in 2017. In Australia, a new 'Women in Pest Control' initiative was launched. Our Employer of Choice programme remains a key focus for the Company and this will continue through 2019.

## FINANCIAL REVIEW

### Central and regional overheads

Central and regional overheads of £71.4m at CER were £5.2m higher than prior year (2017: £66.2m) reflecting investments in digital capability, deployment costs and higher LTIP costs, offset by central cost reductions following the Haniel joint venture.

### Restructuring costs

With the exception of integration costs for significant acquisitions, the Company reports restructuring costs within operating profit. Integration costs associated with significant acquisitions are reported as one-off items and excluded from operating profit. Restructuring costs of £7.3m at CER (2017: £7.3m) 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)

As previously noted, in December 2018 the Company reached the agreement for a bulk annuity insurance 'buy-in' for its UK Defined Benefit Pension scheme ("the Scheme"). The buy-in has been secured in anticipation of a full 'buy-out' of the Scheme which is expected to be completed by 2020 with an estimated pre-tax cash surplus of

£20m to £40m. The accounting surplus at the date of agreement of £326.0m (which was £325.4m at 31 December 2017) has been written down to the estimated cash surplus, resulting in a one off non-cash charge of £341.6m in the year.

One-off items (Operating) of £22.6m at CER (2017: £6.8m) primarily relates to the acquisition and integration costs of Cannon Hygiene Services (acquired in January 2018) and the ongoing acquisition programme in North America.

### Interest (at AER)

Interest payments of £45.7m are £2.8m higher than in the prior year due to the increased net debt levels following the successful M&A programme in the year, and an increase in US dollar interest rates. The average cost of net debt for the Group was 4.2% in 2018 (vs. 4.0% in 2017).

### Tax

The income tax credit for the year at actual exchange rates was £15.8m on the reported loss before tax of £114.1m. After adjusting the reported profit before tax for the amortisation and impairment of intangible assets (excluding computer software), one-off items, including the pension settlement and the net interest credit from pensions, the Adjusted Effective Tax Rate (ETR) for 2018 at AER was 22% (2017: 22%). This compares with a blended rate of tax for the countries in which the Group operates of 22% (2017: 24%).

### Net debt and cash flow

£m at actual exchange rates	Year to Date		
	2018 FY £m	2017 FY £m	Change £m
Adjusted Operating Profit	329.3	314.5	14.8
One-off items – operating	(22.2)	(6.8)	(15.4)
Depreciation	147.1	185.6	(38.5)
Other	17.0	(1.5)	18.5
EBITDA	471.2	491.8	(20.6)
Working capital	6.6	(16.3)	22.9
Movement on provisions	(10.8)	(9.9)	(0.9)
Capex – additions	(186.4)	(212.1)	25.7
Capex – disposals	2.9	4.9	(2.0)
Operating cash flow	283.5	258.4	25.1
Interest	(45.3)	(41.4)	(3.9)
Tax	(45.1)	(40.1)	(5.0)
Special pension contributions	(1.1)	(1.1)	-
Free Cash Flow	192.0	175.8	16.2
Acquisitions	(298.4)	(281.1)	(17.3)
Disposal of companies and businesses	(3.1)	451.9	(455.0)
Dividends	(74.2)	(64.3)	(9.9)
Foreign exchange translation and other items	(42.5)	29.1	(71.6)
(Increase) / decrease in net debt	(226.2)	311.4	(537.6)
Opening net debt	(927.3)	(1,238.7)	311.4
Closing net debt	(1,153.5)	(927.3)	(226.2)

Operating cash inflow of £283.5m was £25.1m higher than 2017. Lower levels of EBITDA following the transfer and sale of Workwear and Hygiene assets to Haniel and RLD in 2017 were more than offset by a reduction in capex levels and favourable working capital inflows of £6.6m in part due to phasing around the year end. The first cash dividend from the Haniel joint venture in relation to the six months ended 31 December 2017 of €9.5m was received in Q3 2018.

Interest payments of £45.3m were £3.9m higher, in line with the increase in the interest charge in the year, and tax payments increased £5.0m reflecting the higher profitability of the businesses. This resulted in Free Cash Flow of £192.0m representing an increase of £16.2m on the prior year and an adjusted Free Cash Flow conversion of 94% (2017: 87%), ahead of our medium term target of ~90%.

Spend on current and prior-year acquisitions totalled £298.4m and dividend payments were £74.2m, a £9.9m (15.4%) increase on the prior year. Foreign exchange translation and other items increased net debt by £42.5m, leaving an overall increase in net debt of £226.2m and closing net debt of £1,153.5m.

### Funding

At 31 December 2018 the Group had net debt of £1,153.5m representing an increase of £226.2m in net debt as at 31 December 2017. At 31 December 2018 the Group had £608m of centrally held funds and available undrawn committed facilities. On 13 March 2018 the Group repaid a €50m bond using cash on the balance

sheet. In August 2018 the Company amended and extended the revolving credit facility, increasing the committed amount available for cash drawings from £360m to £600m and extending the term to 2023 with two further one-year extension options. The facility also includes an 'accordion' feature providing an additional £200m of potential liquidity if required. This will provide liquidity to cover the refinancing of the €500m bond which matures in September 2019, which is the next debt maturity.

The ratio of net debt to EBITDA at 31 December 2018 was 2.4x and reflects the timing of acquisition spend in the year. We are committed to maintaining a BBB credit rating and, based on our performance this year and expectations for 2019, 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 2018, the Board is recommending a final dividend in respect of 2018 of 3.16p per share, payable to shareholders on the register at the close of business on 12 April 2019, to be paid on 15 May 2019. This equates to a full year dividend of 4.471p per share, an increase of 15.2% compared to 2017.

### **Brexit**

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, and in particular the Brexit arrangements, continues to drive uncertainty 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 and in relation to Brexit we are taking short term measures to ensure we have access to adequate stock and equipment in both the UK and Europe in Q2 of 2019. 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.

### **IFRS 16 – Leases**

The new leasing standard IFRS 16 will be effective from 1 January 2019 and will be adopted from that date with no restatement of prior year comparatives required. This will result in a number of leases (largely vehicle and property) that were previously accounted for as operating leases (expensed as incurred) now being capitalised as Right of Use (ROU) Assets within fixed assets and depreciated over the lease term with a corresponding lease liability and interest charge.

The new standard is not expected to have a material impact on either Adjusted Profit before Tax or the underlying net cash flows of the business but it will change the presentation of the profit and loss account, the cash flow statement and the balance sheet as follows:

- On transition, fixed assets and net debt are expected to increase by c. £200m;
- The operating lease charge will be replaced with depreciation of the ROU Assets and an interest charge on the Lease liability. We currently estimate that this will result in higher operating profit of c. £5m - £10m offset by a higher interest charge of a similar amount; and
- New operating leases will be treated as capital expenditure, which will impact the way depreciation, EBITDA and capex are reported in the cash flow statement – Free Cash Flow will be provided on both the old and new basis in 2019 to allow comparability.

### **GUIDANCE FOR 2019 (at CER unless otherwise stated)**

We have made a good start to the year and we would expect the underlying outperformance in 2018 to flow into 2019.

P&L and cash interest costs are estimated in line with 2018 before any adjustment for IFRS 16, with the expected benefit of the refinancing of the €500m bond in September 2019.

Our current estimate for the Adjusted Effective Tax Rate in 2019 is expected to be in line with 2018 at ~22%.

Foreign exchange remains volatile and if the recent strength of sterling were to be maintained throughout the year, it would adversely impact 2019 profits by an estimated £5m.

Based on the above, we would anticipate a slight increase in market expectations for 2019.

## Consolidated Statement of Profit or Loss and Other Comprehensive Income

### For the year ended 31 December

	Notes	2018 £m	2017 <sup>1</sup> £m
<b>Revenue</b>	2	<b>2,472.3</b>	2,412.3
<b>Operating profit</b>		<b>245.5</b>	292.4
Net profit on disposal of businesses		-	449.0
Pension settlement <sup>2</sup>		<b>(341.6)</b>	-
<b>Profit before interest and income tax</b>		<b>(96.1)</b>	741.4
Finance income	4	<b>17.6</b>	12.3
Finance cost	3	<b>(55.2)</b>	(48.4)
Share of profit from associates, net of tax of £8.9m (2017: £4.4m)		<b>19.6</b>	8.3
<b>Profit before income tax</b>		<b>(114.1)</b>	713.6
Income tax credit/(expense) <sup>3</sup>	5	<b>15.8</b>	(30.6)
<b>Profit for the year attributable to the Company's equity holders (including non-controlling interests of £0.2m (2017: £0.2m))</b>		<b>(98.3)</b>	683.0
<b>Other comprehensive income:</b>			
<i>Items that are not reclassified subsequently to the income statement:</i>			
Re-measurement of net defined benefit asset		<b>30.1</b>	47.0
Tax related to items taken to other comprehensive income		<b>(10.2)</b>	(5.6)
<i>Items that may be reclassified subsequently to the income statement:</i>			
Net exchange adjustments offset in reserves		<b>14.9</b>	(36.0)
Cumulative exchange recycled to income statement on disposal of foreign operations		-	(46.5)
Other items		<b>9.5</b>	(2.6)
<b>Total comprehensive income for the year (including non-controlling interests of £0.2m (2017: £0.2m))</b>		<b>(54.0)</b>	639.3
Earnings per share attributable to the Company's equity holders:			
Basic	6	<b>(5.35)p</b>	37.21p
Diluted	6	<b>(5.35)p</b>	36.90p

All profit is from continuing operations.

Non-GAAP measures			
<b>Operating profit</b>		<b>245.5</b>	292.4
Adjusted for:			
Amortisation and impairment of intangible assets (excluding computer software)	2	<b>61.6</b>	53.8
One-off items – operating	2	<b>22.2</b>	6.8
Reversal of depreciation – assets held-for-sale		-	(38.5)
<b>Adjusted operating profit</b>		<b>329.3</b>	314.5
Finance income	4	<b>17.6</b>	12.3
Add back: Net interest credit from pensions	4	<b>(7.7)</b>	(6.8)
Add back: Interest fair value adjustment		<b>(0.4)</b>	-
Finance cost	3	<b>(55.2)</b>	(48.4)
Share of profit from associates, net of tax of £8.9m (2017: £4.4m)		<b>19.6</b>	8.3
One-off items - associates		<b>4.8</b>	7.0
<b>Adjusted profit before income tax</b>		<b>308.0</b>	286.9
Basic adjusted earnings per share attributable to the Company's equity holders	6	<b>13.07p</b>	12.19p
Diluted adjusted earnings per share attributable to the Company's equity holders	6	<b>12.97p</b>	12.08p

1. The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen comparative information is not restated.

2. Pension settlement consists of £36.1m of past service costs and £305.5m of settlement costs.

3. Taxation includes £35.3m (2017: £14.9m) in respect of overseas taxation.

## Consolidated Balance Sheet At 31 December

	Notes	2018 £m	2017 <sup>1</sup> £m
<b>Assets</b>			
<b>Non-current assets</b>			
Intangible assets	8	1,509.1	1,220.2
Property, plant and equipment	9	436.9	390.2
Investments in associated undertakings		291.7	278.7
Other investments		0.2	0.2
Deferred tax assets		3.5	3.4
Contract costs	2	60.9	-
Retirement benefit assets	13	21.5	326.2
Other receivables		10.8	11.0
Derivative financial instruments		5.4	13.7
		<b>2,340.0</b>	<b>2,243.6</b>
<b>Current assets</b>			
Other investments		2.5	0.5
Inventories		103.2	84.3
Trade and other receivables		485.7	449.8
Current tax assets		16.1	13.1
Derivative financial instruments		4.2	6.3
Cash and cash equivalents	11	129.8	310.1
		<b>741.5</b>	<b>864.1</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables		(607.9)	(535.7)
Current tax liabilities		(70.7)	(79.5)
Provisions for other liabilities and charges	14	(28.7)	(25.3)
Bank and other short-term borrowings		(115.7)	(68.0)
Derivative financial instruments		(15.8)	(5.3)
		<b>(838.8)</b>	<b>(713.8)</b>
Net current (liabilities)/assets		<b>(97.3)</b>	<b>150.3</b>
<b>Non-current liabilities</b>			
Other payables		(79.1)	(76.0)
Bank and other long-term borrowings		(1,149.9)	(1,166.9)
Deferred tax liabilities		(96.0)	(109.3)
Retirement benefit obligations	13	(26.2)	(26.1)
Provisions for other liabilities and charges	14	(42.5)	(55.0)
Derivative financial instruments		(16.4)	(26.6)
		<b>(1,410.1)</b>	<b>(1,459.9)</b>
<b>Net assets</b>		<b>832.6</b>	<b>934.0</b>
<b>Equity</b>			
<b>Capital and reserves attributable to the Company's equity holders</b>			
Share capital	15	18.4	18.4
Share premium account		6.8	6.8
Other reserves		(1,824.2)	(1,848.6)
Retained profits		2,631.2	2,757.1
		<b>832.2</b>	<b>933.7</b>
Non-controlling interests		0.4	0.3
<b>Total equity</b>		<b>832.6</b>	<b>934.0</b>

1. The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen comparative information is not restated.

## Consolidated Statement of Changes in Equity For the year ended 31 December

	Attributable to equity holders of the Company				Non-controlling interests £m	Total equity £m
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m		
At 1 January 2017	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 in the carrying value of put options	-	-	-	(6.2)	-	(6.2)
At 31 December 2017	18.4	6.8	(1,848.6)	2,757.1	0.3	934.0
Adjustment on initial application of IFRS 15 (net of tax of £15.7m)	-	-	-	29.0	-	29.0
Adjusted balance at 1 January 2018	18.4	6.8	(1,848.6)	2,786.1	0.3	963.0
Profit for the year	-	-	-	(98.5)	0.2	(98.3)
Other comprehensive income:						
Net exchange adjustments offset in reserves	-	-	14.9	-	-	14.9
Re-measurement of net defined benefit asset/liability	-	-	-	30.1	-	30.1
Effective portion of changes in fair value of cash flow hedge	-	-	9.5	-	-	9.5
Tax related to items taken directly to other comprehensive income	-	-	-	(10.2)	-	(10.2)
Total comprehensive income for the year	-	-	24.4	(78.6)	0.2	(54.0)
Transactions with owners:						
Dividends paid to equity shareholders	-	-	-	(74.2)	-	(74.2)
Dividends paid to non-controlling interests	-	-	-	-	(0.1)	(0.1)
Cost of share options and long-term incentive plan	-	-	-	5.7	-	5.7
Movement in the carrying value of put options	-	-	-	(7.8)	-	(7.8)
At 31 December 2018	18.4	6.8	(1,824.2)	2,631.2	0.4	832.6

Shares of £0.1m (2017: £0.1m) have been netted against retained earnings. This represents 8.2m (2017: 6.7m) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2018 was £27.6m (2017: £21.2m). 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 2017	(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 expense 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)
Net exchange adjustments offset in reserves	-	-	-	14.9	14.9
Effective portion of changes in fair value of cash flow hedge	-	-	9.5	-	9.5
Total comprehensive income for the year	-	-	9.5	14.9	24.4
At 31 December 2018	<b>(1,722.7)</b>	<b>10.4</b>	<b>1.0</b>	<b>(112.9)</b>	<b>(1,824.2)</b>

The capital reduction reserve arose in 2005 as a result of the scheme of arrangement of Rentokil Initial 1927 plc, under section 425 of the Companies Act 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	2018 £m	2017 <sup>1</sup> £m
<b>Cash flows from operating activities</b>			
Cash generated from operating activities		454.0	461.3
Interest received		7.7	5.1
Interest paid <sup>2</sup>		(53.0)	(46.5)
Income tax paid		(45.1)	(40.1)
Net cash flows from operating activities		363.6	379.8
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(147.2)	(174.3)
Purchase of intangible fixed assets		(22.9)	(19.1)
Proceeds from sale of property, plant and equipment		2.9	4.9
Acquisition of companies and businesses, net of cash acquired <sup>3</sup>	18	(298.4)	(281.1)
Disposal of companies and businesses		(3.1)	451.9
Dividends received from associates		11.9	3.2
Net cash flows from investing activities		(456.8)	(14.5)
<b>Cash flows from financing activities</b>			
Dividends paid to equity shareholders	7	(74.2)	(64.3)
Capital element of finance lease payments		(14.7)	(15.9)
Cash outflow on settlement of debt related foreign exchange forward contracts		(5.6)	(32.5)
Net investment in term deposits		(2.5)	9.1
Proceeds from new debt		25.6	386.7
Bond repayments		(44.3)	(447.7)
Net cash flows from financing activities		(115.7)	(164.6)
Net (decrease)/increase in cash and cash equivalents		(208.9)	200.7
Cash and cash equivalents at beginning of year		304.1	105.9
Exchange gains/(losses) on cash and cash equivalents		5.7	(2.5)
Cash and cash equivalents at end of the financial year		100.9	304.1

1. The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen comparative information is not restated.

2. Interest paid includes interest on finance lease payments of £1.5m (2017: £1.4m).

3. Includes £4.0m (2017: £nil) related to investment in working capital in acquired businesses.

## 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 2018:

- Amendments to IFRS 2 Share Based Payments
- Annual Improvements if IFRSs – 2014-2016 Cycle (IAS 28 Investments in Associates and Joint Ventures)
- IFRCC 22 Foreign Currency Transactions and Advance Consideration

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 2017.

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

The Group will adopt IFRS 16 Leases from 1 January 2019. As a result of the adoption of IFRS 16, the majority of existing operating leases will be accounted for as right of use (ROU) 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 phasing impact on net profit is not expected to be material.

The Group plans to apply the standard using the modified retrospective approach. Therefore, the cumulative effect of adopting IFRS 16 will be recognised as an adjustment to the opening balance of retained earnings at 1 January 2019, with no restatement of comparative information.

The Group will recognise new assets and liabilities for its operating leases, mainly property and motor vehicles. The nature of expenses related to those leases will now change because the Group will recognise a straight-line depreciation charge for ROU assets and interest expense on lease liabilities. Previously, the Group recognised operating lease expenses on a straight-line basis over the term of the lease, and recognised assets and liabilities only to the extent that there was a timing difference between actual lease payments and the expense recognised. The new standard is not expected to have a material impact on either profit before tax or the underlying net cash flows of the business, but it will change the presentation of the profit and loss account, the cash flow statement and the balance sheet. Under IFRS 16 it is anticipated that operating expenses will decrease by c.£5-10m and financing costs will increase by a similar amount.

Based on the information currently available, the Group estimates that it will recognise right of use assets and corresponding lease liabilities with a value of c. £200m. The Group does not expect the adoption of IFRS 16 to impact its ability to comply with any of its banking covenants.

The assessment of the impact of IFRS 16 is preliminary as not all transition work requirements have been finalised and therefore may be subject to adjustment.

#### Standards, amendments and interpretations to published standards that are mandatorily effective for the current year

Except as described below, the accounting policies applied in these financial statements are the same as those applied in the Group's consolidated financial statements as at and for the year ended 31 December 2017.

The Group has adopted IFRS 15 Revenue from Contracts with Customers and IFRS 9 Financial Instruments from 1 January 2018. The main effect of initially applying IFRS 15 Revenue from Contracts with Customers is the capitalisation and amortisation of commission fees that were previously expensed as incurred (see A below). There was no material effect of initially applying IFRS 9 Financial Instruments (see B below).

#### **A. IFRS 15 Revenue from Contracts with Customers**

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations.

## 1. Changes in accounting policies (continued)

The Group has applied IFRS 15 using the cumulative effect method (adopting all practical expedients); therefore, comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The accounting policy that applies to comparative information can be found in the 2017 financial statements (Note A1). All of the Group's revenue is within the scope of IFRS 15. No material changes to the timing of revenue recognition were required, although there were some small alignment adjustments in some countries. Under IFRS 15 revenue is recognised when a customer obtains control of goods or services in line with identifiable performance obligations. In the majority of cases the Group considers that the contracts it enters into are contracts for bundled services which should be accounted for as a single performance obligation. Therefore, as under IAS 18 previously, the majority of revenue across the Group will continue to be recognised evenly over the course of the contract because this reflects the timing of the provision of the service.

The Group previously recognised commission expenses related to contracts as selling expenses when they were incurred. Under IFRS 15, the Group capitalises incremental commission fees as costs of obtaining contracts, if they are expected to be recovered, and amortises them consistently over the lives of the contracts to which they relate. The value of the initial adjustment was £38.1m net of £15.7m tax. The related amortisation for the reporting period was £21.9m. Where the expected amortisation period is one year or less, the Group adopts the practical expedient to expense these commission fees as incurred.

The following table summarises the impacts of adopting IFRS 15 on the Group's balance sheet as at 31 December 2018. There was no material impact on the Group's statement of profit or loss and other comprehensive income or statement of cash flows for the year ended 31 December 2018.

Impact on the consolidated balance sheet:

	As reported £m	Adjustments £m	Amounts without adoption of IFRS 15 £m
<b>Assets</b>			
Contract costs	60.9	60.9	-
<b>Non-current assets</b>	60.9	60.9	-
Trade and other receivables	485.7	(5.0)	490.7
<b>Current assets</b>	485.7	(5.0)	490.7
<b>Liabilities</b>			
Contract liabilities (On transition: (£114.8m))	(133.5)	(8.9)	(124.6)
<b>Current liabilities</b>	(133.5)	(8.9)	(124.6)
Deferred tax liabilities	(92.5)	(13.8)	(78.7)
<b>Non-current liabilities</b>	(92.5)	(13.8)	(78.7)
<b>Equity</b>			
Retained profits	(2,631.2)	(33.2)	(2,598.0)
	(2,631.2)	(33.2)	(2,598.0)

## 1. Changes in accounting policies (continued)

### B. IFRS 9 Financial Instruments

IFRS 9 Financial Instruments sets out requirements for recognising and measuring financial assets, financial liabilities and certain contracts to buy or sell non-financial items. This standard replaces IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities, and the adoption of IFRS 9 has not had a significant effect on the Group's accounting policies related to financial liabilities and derivative financial instruments (for derivatives that are used as hedging instruments, see (ii) below).

The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

IFRS 9 changes the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale. Under IFRS 9, on initial recognition, a financial asset is classified as:

- amortised cost;
- fair value through other comprehensive income (FVTOCI) – debt investment;
- FVTOCI – equity investment; or
- fair value through profit or loss (FVTPL).

The classification of financial assets under IFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

Financial assets are subject to new rules regarding provisions for impairment, however as the Group has minimal financial assets (other than trade debtors), and a history of minimal impairments against these assets, the impact on transition is not material.

The Group has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses.

#### i. Classification and measurement of financial assets

The following table and the accompanying notes below explain the original measurement categories under IAS 39 and the new measurement categories under IFRS 9 for each class of the Group's financial assets as at 1 January 2018.

	Original classification under IAS 39	New classification under IFRS 9	Original carrying amount under IAS 39 £m	New carrying amount under IFRS 9 £m
<b>Financial assets</b>				
Interest rate swaps used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	19.0	19.0
Forward exchange contracts used for hedging	Fair value – hedging instrument	Fair value – hedging instrument	1.0	1.0
Trade and other receivables	Loans and receivables	Amortised cost	449.8	449.8
Cash and cash equivalents – Cash and short-term deposits	Loans and receivables	Amortised cost	225.2	225.2
Cash and cash equivalents – Liquidity funds	Loans and receivables	FVTPL	84.9	84.9
Derivatives	FVTPL	FVTPL	-	-
<b>Total financial assets</b>			<b>779.9</b>	<b>779.9</b>

#### ii. Hedge accounting

The Group has elected to adopt the new general hedge accounting model in IFRS 9. This requires the Group to ensure that hedge accounting relationships are aligned with its risk management objectives and strategy, and to apply a qualitative and forward-looking approach to assessing hedge effectiveness.

The Group uses forward foreign exchange contracts to hedge the variability in cash flows arising from changes in foreign exchange rates relating to foreign currency borrowings, receivables, sales and inventory purchases. The Group designates only the change in fair value of the spot element of the forward exchange contract as the

hedging instrument in cash flow hedging relationships. The effective portion of changes in fair value of hedging instruments is accumulated in a cash flow hedge reserve as a separate component of equity.

The Group has not changed the accounting for forward contracts under IFRS 9.

The Group generally uses cross currency interest rate swaps to achieve appropriate net debt currency mix. Cross currency swaps are generally either a cash flow hedge or a net investment hedge accounting relationship, except where there is a natural translation risk offset in the profit and loss account. A cross currency swap in a net investment hedge will be accounted on the forward basis where all changes in fair value will be recognised in other comprehensive income except basis risk which is amortised over the remaining term of the swap contract.

Under IAS 39, for all cash flow hedges, the amounts accumulated in the cash flow hedge reserve were reclassified to profit or loss as a reclassification adjustment in the same period as the hedged expected cash flows affected profit or loss. The same approach also applies under IFRS 9 except the amounts related to basis risk which excluded from the hedge relationship. The changes in swap valuation related to basis risk are reported in a separate component of equity (cost of hedging reserve) and amortised over the life of the swap.

### **Transition**

Changes in accounting policies resulting from the adoption of IFRS 9 have been applied retrospectively, except as described below.

- Changes to hedge accounting policies have been applied prospectively.
- All hedging relationships designated under IAS 39 at 31 December 2017 met the criteria for hedge accounting under IFRS 9 at 1 January 2018 and are therefore regarded as continuing hedging relationships.

## **2. Revenue recognition and operating segments**

### Revenue recognition

Revenue represents the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group expects to be entitled. All revenue is considered revenue from contracts with customers as defined by IFRS 15, including non-contract service revenue (job work) and sale of goods. Under IFRS 15, revenue is recognised when a customer obtains control of goods or services in line with identifiable performance obligations. In the majority of cases the Group considers that the contracts it enters into are contracts for bundled services which are accounted for as a single performance obligation. Accordingly the majority of revenue across the Group is recognised evenly over the course of the contract because this reflects the timing of the provision of the service. Job work is short-term contract revenue whereby the period of service is less typically less than one month in duration. The performance obligations linked to this revenue type are individual to each job due to their nature with revenue being recognised on a percentage of completion basis. Where consumables are supplied separately from the service contract, revenue is recognised at the point the goods transfer.

The transaction price reported for all contracts is the price agreed in the contract and there are no material elements of variable consideration, financing component or non-cash consideration. The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations because the Group has a right to consideration from customers in an amount that corresponds directly with the value to the customer of the performance obligations completed to date.

Disaggregation of revenue into category, region and major type of revenue stream is shown below under Segment reporting and in Note 21.

## 2. Revenue recognition and operating segments (continued)

### Contract costs

Contract costs are mainly incremental costs of obtaining contracts (primarily sales commissions), and to a lesser extent costs to fulfil contracts which are not within the scope of other standards (mainly incremental costs of putting resources in place to fulfil contracts).

It is anticipated that these costs are recoverable over the life of the contract to which they relate. Accordingly the Group capitalises them as contract costs and amortises them over the expected life of the contracts. The expected length of contracts across the Group and associated amortisation periods are between 3 and 6 years.

The contract costs recognised in the balance sheet at the period end amounted to £60.9m. The amount of amortisation recognised in the period was £21.9m and impairment losses were nil.

Applying the practical expedient in paragraph 94 of IFRS 15, the Group recognises the incremental costs of obtaining contracts as an expense when incurred if the amortisation period of the assets that the Group otherwise would have recognised is one year or less.

### Contract assets

Contract assets relate to the Group's right to consideration for performance obligations satisfied but where the customer has yet to be invoiced. The contract assets are transferred to receivables when the rights become unconditional. This usually occurs when the Group issues an invoice to the customer. All opening balances have been invoiced in the year.

### Contract liabilities

Contract liabilities relate to advance consideration received from customers where the performance obligations have yet to be satisfied. All opening balances have subsequently been satisfied in the year. In most business categories where revenue is recognised over time customers are invoiced in advance or simultaneously with performance obligations being satisfied.

### Segmental reporting

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 exchange 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 21.

## 2. Revenue recognition and operating segments (continued)

	Revenue 2018 £m	Revenue 2017 £m	Operating profit 2018 £m	Operating profit 2017 £m
France	297.4	293.7	45.4	44.1
Benelux	89.4	85.8	25.9	25.2
Germany	95.4	83.2	28.8	25.2
Southern Europe	128.2	96.9	18.8	14.8
Latin America	52.7	44.8	7.2	5.0
<b>Europe</b>	<b>663.1</b>	<b>604.4</b>	<b>126.1</b>	<b>114.3</b>
UK & Ireland	303.4	247.1	57.5	48.9
Rest of World	151.4	133.5	34.6	31.2
<b>UK &amp; Rest of World</b>	<b>454.8</b>	<b>380.6</b>	<b>92.1</b>	<b>80.1</b>
<b>Asia</b>	<b>220.7</b>	<b>187.5</b>	<b>22.3</b>	<b>19.4</b>
<b>North America</b>	<b>959.5</b>	<b>854.7</b>	<b>131.3</b>	<b>116.5</b>
<b>Pacific</b>	<b>194.9</b>	<b>175.3</b>	<b>40.5</b>	<b>37.8</b>
<b>Central and regional overheads</b>	<b>-</b>	<b>-</b>	<b>(71.4)</b>	<b>(66.2)</b>
<b>Restructuring costs</b>	<b>-</b>	<b>-</b>	<b>(7.3)</b>	<b>(7.3)</b>
<b>Ongoing operations at constant exchange rates</b>	<b>2,493.0</b>	<b>2,202.5</b>	<b>333.6</b>	<b>294.6</b>
Disposed businesses <sup>1, 2</sup>	17.3	209.8	-	58.4
<b>Continuing operations at constant exchange rates</b>	<b>2,510.3</b>	<b>2,412.3</b>	<b>333.6</b>	<b>353.0</b>
Foreign exchange	(38.0)	-	(4.3)	-
<b>Continuing operations at actual exchange rates</b>	<b>2,472.3</b>	<b>2,412.3</b>	<b>329.3</b>	<b>353.0</b>
One-off items – operating			(22.2)	(6.8)
Amortisation of intangible assets <sup>3</sup>			(61.6)	(53.8)
<b>Operating profit</b>			<b>245.5</b>	<b>292.4</b>

1. Disposed business for 2017 is restated for businesses disposed in 2018.

2. Includes revenue of £13.9m (2017: £8.8m) 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.

3. Excluding computer software.

One-off items – operating primarily relates to the acquisition and integration costs of Cannon Hygiene Services (acquired in January 2018) and the ongoing acquisition programme in North America.

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

	Amortisation and impairment of intangibles <sup>1</sup> 2018 £m	Amortisation and impairment of intangibles <sup>1</sup> 2017 £m
Europe	7.5	7.0
UK & Rest of World	10.0	7.3
Asia	3.6	5.3
North America	32.9	27.4
Pacific	4.1	2.8
Central and regional	4.8	4.0
Total at constant exchange rates	62.9	53.8
Foreign exchange	(1.3)	-
Total at actual exchange rates	61.6	53.8
Tax effect	(15.4)	(16.6)
Total after tax effect	46.2	37.2

1. Excluding computer software.

### 3. Interest payable and similar charges

	2018 £m	2017 £m
Hedged interest payable on medium term notes issued <sup>1</sup>	28.6	24.7
Interest payable on bank loans and overdrafts <sup>1</sup>	3.2	1.2
Interest payable on revolving credit facility <sup>1</sup>	2.3	7.5
Interest payable on foreign exchange swaps	19.3	12.5
Interest payable on finance leases	1.5	1.4
Amortisation of discount on provisions	0.3	0.3
Fair value loss on other derivatives <sup>2,3</sup>	-	0.3
Foreign exchange gain on translation of foreign denominated assets and liabilities	-	0.5
<b>Total interest payable and similar charges</b>	<b>55.2</b>	<b>48.4</b>

1. Interest expense on financial liabilities held at amortised cost.

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

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

### 4. Interest receivable

	2018 £m	2017 £m
Bank interest	2.0	1.0
Interest receivable on foreign exchange swaps	7.5	4.5
Fair value gain on hedge ineffectiveness <sup>1</sup>	0.4	-
Interest on net defined benefit asset	7.7	6.8
<b>Total interest receivable</b>	<b>17.6</b>	<b>12.3</b>

1. Gain at fair value through the income statement, includes £18.3m gain on foreign exchange translation offset by £17.9m loss on €400m bond hedge ineffectiveness.

### 5. Income tax expense

	2018 £m	2017 £m
Analysis of charge in the year:		
UK corporation tax at 19.00% (2017: 19.25%)	7.0	6.4
Overseas taxation	34.5	35.2
Adjustment in respect of previous periods	4.0	2.4
<b>Total current tax</b>	<b>45.5</b>	<b>44.0</b>
Deferred tax credit	(57.2)	(7.0)
Deferred tax adjustment in respect of previous periods	(4.1)	(6.4)
<b>Total deferred tax</b>	<b>(61.3)</b>	<b>(13.4)</b>
<b>Total income tax expense</b>	<b>(15.8)</b>	<b>30.6</b>

Income tax expense for the period includes both current and deferred tax. 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.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries and associates operate and generate taxable income.

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 have estimated the quantum of future UK taxable profits over the next three years.

## 5. Income tax expense (continued)

A deferred tax asset of £6.7m (2017: £12.3m) has been recognised in respect of UK losses carried forward at 31 December 2018. 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 £151.8m have not been recognised as at 31 December 2018. The reduction in the deferred tax asset recognised on the UK tax losses is due to a decline in intra-group income earned in the UK post the transfer of certain overseas subsidiaries to the joint venture with CWS-boco.

At the balance sheet date the Group has tax losses of £216.3m (2017: £206.0m) on which no deferred tax asset is recognised. Of the losses £19.2m (2017: £23.2m) will expire at various dates between 2019 and 2037. In addition, there are capital losses carried forward of £276.9m (2017: £276.9m) on which no deferred tax asset is recognised. Other deferred tax assets relating to gross temporary timing differences of £2.7m (2017: £6.7m) have not been recognised due to the uncertainty regarding their utilisation.

Deferred tax assets and liabilities are only offset where there is a legally enforceable right of offset and there is an intention to settle the balances net.

## 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 intangibles<sup>1</sup> 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:

	2018 £m	2017 £m
<b>(Loss)/profit from continuing operations attributable to equity holders of the Company</b>	<b>(98.5)</b>	682.8
One-off items - operating	22.2	6.8
One-off items - associates	4.8	7.0
Pension settlement	341.6	-
Net gain on disposal of businesses	-	(449.0)
Reversal of depreciation – assets held-for-sale	-	(38.5)
Amortisation and impairment of intangibles <sup>1</sup>	61.6	53.8
Net interest credit from pensions	(7.7)	(6.8)
Interest fair value adjustment	(0.4)	-
Tax on above items <sup>2</sup>	(82.9)	(26.1)
US tax reform – net deferred tax credit	-	(6.4)
<b>Adjusted profit from continuing operations attributable to equity holders of the Company</b>	<b>240.7</b>	223.6
<b>Weighted average number of ordinary shares in issue</b>	<b>1,841.2</b>	1,834.8
Adjustment for potentially dilutive shares	14.5	15.7
<b>Weighted average number of ordinary shares for diluted earnings per share</b>	<b>1,855.7</b>	1,850.5
Basic earnings per share	<b>(5.35)p</b>	37.21p
Diluted earnings per share	<b>(5.35)p</b>	36.90p
Basic adjusted earnings per share	<b>13.07p</b>	12.19p
Diluted adjusted earnings per share	<b>12.97p</b>	12.08p

1. Excluding computer software.

2. One-off items operating £4.3m (2017: £5.1m), net gain on disposal of businesses £nil (2017: £5.7m), one-off pension settlement £64.8 (2017: £nil), amortisation and impairment of intangibles £15.4m (2017: £16.6m), net interest credit from pensions £(1.6)m (2017: £(1.3)m), interest fair value adjustments £nil (2017: £nil).

## 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.

	2018 £m	2017 £m
2016 final dividend paid – 2.38p per share	-	43.5
2017 interim dividend paid – 1.14p per share	-	20.8
2017 final dividend paid – 2.74p per share	<b>50.2</b>	-
2018 interim dividend paid – 1.311p per share	<b>24.0</b>	-
	<b>74.2</b>	64.3

An interim dividend of 1.311p per share was paid on 12 September 2018 amounting to £24.0m. A final dividend in respect of 2018 of 3.16p (2017: 2.74p) per share amounting to £58.2m (2017: £50.2m) is to be proposed at the Annual General Meeting on 8 May 2019. 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	2018 Total £m	2017 Total £m
<b>Cost</b>							
At 1 January	1,004.8	604.2	63.0	22.9	96.6	1,791.5	1,526.8
Exchange differences	38.5	17.8	2.5	-	1.3	60.1	(86.7)
Additions	-	-	0.1	5.2	17.6	22.9	19.1
Disposals/retirements	-	-	-	-	(1.1)	(1.1)	(4.1)
Acquisition of companies and businesses	146.7	149.4	0.9	-	0.1	297.1	344.4
Disposal of companies and businesses	-	-	-	-	(0.2)	(0.2)	(8.0)
At 31 December	1,190.0	771.4	66.5	28.1	114.3	2,170.3	1,791.5
<b>Accumulated amortisation and impairment</b>							
At 1 January	(32.6)	(431.2)	(34.0)	(9.7)	(63.8)	(571.3)	(527.2)
Exchange differences	(0.6)	(10.2)	(1.2)	-	(1.0)	(13.0)	14.3
Disposals/retirements	-	-	-	-	0.7	0.7	3.4
Disposal of companies and businesses	-	-	-	-	0.1	0.1	5.2
Impairment charge	-	-	-	(0.4)	-	(0.4)	(2.2)
Amortisation charge	-	(52.3)	(4.6)	(4.3)	(16.1)	(77.3)	(64.8)
At 31 December	(33.2)	(493.7)	(39.8)	(14.4)	(80.1)	(661.2)	(571.3)
<b>Net book value</b>							
At 1 January	972.2	173.0	29.0	13.2	32.8	1,220.2	999.6
At 31 December	1,156.8	277.7	26.7	13.7	34.2	1,509.1	1,220.2

## 9. Property, plant and equipment

	Land and buildings £m	Service contract equipment £m	Other plant and equipment £m	Vehicles and office equipment £m	2018 Total £m	2017 Total £m
<b>Cost</b>						
At 1 January	79.0	419.7	157.0	224.9	880.6	939.2
Exchange differences	1.3	2.5	2.5	6.9	13.2	12.7
Additions	2.1	106.4	17.4	35.1	161.0	192.7
Disposals	(0.8)	(60.6)	(6.6)	(20.6)	(88.6)	(119.0)
Acquisition of companies and businesses	1.8	7.8	1.6	7.8	19.0	18.2
Disposal of companies and businesses	-	(0.6)	-	-	(0.6)	(163.2)
At 31 December	83.4	475.2	171.9	254.1	984.6	880.6
<b>Accumulated depreciation and impairment</b>						
At 1 January	(23.9)	(222.4)	(113.4)	(130.7)	(490.4)	(522.9)
Exchange differences	(0.4)	(0.9)	(1.7)	(4.0)	(7.0)	(8.4)
Disposals	0.3	57.5	6.2	16.7	80.7	113.3
Disposal of companies and businesses	-	-	-	-	-	61.5
Impairment charge	(0.1)	-	-	-	(0.1)	-
Depreciation charge	(2.9)	(90.1)	(10.4)	(27.5)	(130.9)	(133.9)
At 31 December	(27.0)	(255.9)	(119.3)	(145.5)	(547.7)	(490.4)
<b>Net book value</b>						
At 1 January	55.1	197.3	43.6	94.2	390.2	416.3
At 31 December	56.4	219.3	52.6	108.6	436.9	390.2

## 10. 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.

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

## 11. Cash and cash equivalents

Cash and cash equivalents include cash in hand, short-term bank deposits, 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 £11.7m (2017: £1.9m) 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. Cash at bank and in hand also includes £33.2m (2017: £27.1m) of cash held in countries with foreign exchange regulations. This cash is repatriated to UK where possible.

## 11. Cash and cash equivalents (continued)

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 2018			
Cash at bank and in hand	679.5	(553.9)	125.6
Short-term bank deposits	4.2	-	4.2
Cash and cash equivalents	683.7	(553.9)	129.8
Bank overdraft	(582.8)	553.9	(28.9)
	100.9	-	100.9
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

## 12. 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 %
<b>Non-current</b>				
£600m RCF due August 2023	600.0	20.0	580.0	1.13
\$50m term loan due June 2020	39.2	39.2	-	2.17
Average cost of bank debt at year end rates	639.2	59.2	580.0	1.82

In August 2018 the Group amended and extended its main revolving credit facility (RCF). £360m available for cash drawings was increased to £600m, and the £60m available for guarantees and letters of credit was cancelled and the guarantees previously issued under the RCF were transferred to an uncommitted bilateral facility. The maturity date of the RCF was extended to August 2023 with two one -year extension options. At the year end, £20m was drawn under the RCF.

The commitment under a \$25m bilateral revolving credit facility that matures in December 2019 was cancelled and the commitment was transferred to the main RCF.

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
<b>Current</b>		
€50m bond due September 2019	Fixed 3.375%	Fixed 3.65%
<b>Non-current</b>		
€350m bond due October 2021	Fixed 3.25%	Fixed 4.31%
€400m bond due November 2024	Fixed 0.95%	Float 3.43%
£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		3.49%

## 12. Analysis of bank and bond debt (continued)

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 profit and cash flow which are mainly EUR and USD. As a result the group has swapped a proportion of the 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. The rate on the USD swaps was floating for the first year at 3 month Libor+1.08% and fixed at 3.38% from November 2018 until maturity.

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

## 13. 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. On 4 December 2018 the Group signed an agreement with Pension Insurance Corporation plc (PIC) to take over the payment of the liabilities in the scheme via a buy-in, which is anticipated to convert to a full buy-out before the end of 2020.

A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee-administered funds or insurance companies.

Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions. Significant judgement is required in determining these actuarial assumptions.

On 4 December 2018 the Trustee entered into a binding agreement with Pension Insurance Corporation (PIC) to insure the liabilities of the scheme, known as a buy-in. PIC has 162,800 insured pension scheme members<sup>1</sup>, £27.9bn of financial investments<sup>2</sup> and an Insurer Financial Strength rating of A+ with Fitch<sup>3</sup>. The Group is committed to convert to a full buy-out within 2 years and therefore, while the legal form of the transaction at the balance sheet date is a buy-in, it has been accounted for as a full buy-out with the loss on settlement of £305.5m and past service cost of £36.1m being recognised in the income statement.

The Group achieved buy-in within the value of the assets held by the scheme and was not required to make any further contributions. While there are still some adjustments expected to the final price it is anticipated that there will be surplus assets when the scheme finally winds up in 2020. These assets are recognised as a Retirement benefit asset. This asset has been recognised at management's estimate of the value of surplus that will be returned from the scheme to the Group, however the actual surplus realised will be subject to a number of factors as shown in the table below:

The defined benefit schemes are reappraised semi-annually by independent actuaries based upon actuarial assumptions in accordance with IAS 19R requirements (including schemes which are insured under a buy-in contract). The assumptions used for the RIPS scheme are shown below:

	2018	2017
<b>Weighted average %</b>		
Discount rate	<b>2.8%</b>	2.5%
Future salary increases	<b>N/A</b>	N/A
Future pension increases	<b>3.4%</b>	3.4%
RPI inflation	<b>3.5%</b>	3.5%
CPI inflation	<b>2.4%</b>	2.4%

1. From [www.pensioncorporation.com/about-us/](http://www.pensioncorporation.com/about-us/) 31 December 2018.

2. PIC HY2018 results.

3. PIC press release 7 March 2018

### 13. 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 2018 £m	Fair value of plan assets 2018 £m	Total 2018 £m	Present value of obligation 2017 £m	Fair value of plan assets 2017 £m	Total 2017 £m
At 1 January	(1,415.3)	1,715.4	300.1	(1,486.2)	1,728.0	241.8
Current service costs <sup>1</sup>	(1.2)	-	(1.2)	(0.5)	-	(0.5)
Past service costs <sup>1</sup>	(36.2)	-	(36.2)	(0.3)	-	(0.3)
Settlement of defined benefit obligation <sup>1</sup>	44.6	(350.0)	(305.4)	-	-	-
Administration expenses <sup>1</sup>	(1.1)	-	(1.1)	(1.2)	-	(1.2)
Interest on net defined benefit asset <sup>1</sup>	(34.0)	41.7	7.7	(36.8)	43.6	6.8
Exchange difference	(0.7)	0.5	(0.2)	(1.0)	0.3	(0.7)
Total pension income	(28.6)	(307.8)	(336.4)	(39.8)	43.9	4.1
<u>Remeasurements:</u>						
Remeasurement of (loss)/gain on scheme assets	-	(20.2)	(20.2)	-	20.1	20.1
Remeasurement gain on obligation <sup>2</sup>	50.3	-	50.3	26.9	-	26.9
<u>Transfers</u>						
Transferred on disposal of business	-	-	-	1.3	-	1.3
Transferred on acquisition of business	(4.3)	4.0	(0.3)	(0.9)	-	(0.9)
Other transfers	(11.2)	8.5	(2.7)	-	-	-
<u>Contributions:</u>						
Employers	0.7	1.3	2.0	(0.6)	1.8	1.2
Participants	(0.1)	0.1	-	(0.1)	0.1	-
Benefit payments	65.4	(64.0)	1.4	82.9	(78.5)	4.4
Administration costs	1.1	-	1.1	1.2	-	1.2
At 31 December	(1,342.0)	1,337.3	(4.7)	(1,415.3)	1,715.4	300.1
Retirement benefit obligation schemes <sup>3</sup>	(59.5)	33.3	(26.2)	(50.1)	24.0	(26.1)
Retirement benefit asset schemes <sup>4</sup>	(1,282.5)	1,304.0	21.5	(1,365.2)	1,691.4	326.2

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 £10.0m (2017: gain £55.2m), remeasurement loss arising from changes in financial assumptions of £60.1m (2017: £22.2m) and remeasurement losses arising from experience of £22.0m (2017: £4.4m 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, India and Hong Kong.

4. Benefit plans in an asset position include plans situated in UK, Australia, India and Barbados.

Included in the table above is a net defined benefit surplus in relation to the UK RIPS scheme of £20.5m (2017: £325.4m) recognised as defined benefit obligation of £1,277.6m (2017: £1,360.7m) and plan assets of £1,298.1m (2017: £1,686.1m). Of the £1,342.0m (2017: £1,415.3m) of obligations, £15.5m (2017: £16.8m) is unfunded.

Total contributions payable to defined benefit pension schemes in 2018 are expected to be between £1m and £2m.

### 13. Retirement benefit obligations (continued)

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

	2018	2017
	£m	£m
Equity instruments	3.7	136.4
Debt instruments – quoted	-	1,548.2
Debt instruments – unquoted	14.0	13.0
Property	0.6	0.6
Insurance policies	1,261.6	-
Other	57.4	17.2
<b>Total plan assets</b>	<b>1,337.3</b>	<b>1,715.4</b>

### 14. 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 0.7% (2017: between 0.3% and 0.5%) for the UK, and between 0.8% and 2.8% (2017: between 0.8% and 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	2018 Total £m	2017 Total £m
<b>At 1 January</b>	<b>14.8</b>	<b>20.4</b>	<b>23.3</b>	<b>21.8</b>	<b>80.3</b>	70.5
Exchange differences	-	0.3	0.8	0.1	1.2	(1.4)
Additional provisions	0.2	0.6	10.6	9.0	20.4	37.4
Used during the year	(5.5)	(4.3)	(7.0)	(15.3)	(32.1)	(25.3)
Unused amounts reversed	(0.9)	-	(1.2)	(0.1)	(2.2)	(4.9)
Acquisition of companies and businesses	-	-	0.1	3.2	3.3	3.8
Unwinding of discount on provisions	-	0.1	0.2	-	0.3	0.2
<b>At 31 December</b>	<b>8.6</b>	<b>17.1</b>	<b>26.8</b>	<b>18.7</b>	<b>71.2</b>	80.3
Analysed as follows:						
<b>Non-current</b>					<b>42.5</b>	55.0
<b>Current</b>					<b>28.7</b>	25.3

#### Vacant properties

The Group has a number of vacant and sub-let leasehold properties, with the majority of the head leases expiring in 2020. Provision has been made for the residual lease commitments together with other outgoing, 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 2018 is £0.5m (2017: £1.2m).

#### 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.

#### 14. Provisions for other liabilities and charges (continued)

##### 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.

#### 15. Share capital

	2018 £m	2017 £m
Issued and fully paid		
At 31 December – 1,843,332,965 shares (2017: 1,837,332,965)	18.4	18.4

#### 16. Reconciliation of net change in cash and cash equivalents to net debt

	Opening 2018 £m	Cash flows £m	Non-cash (fair value changes) £m	Non-cash (foreign exchange and other) £m	Closing 2018 £m
Cash and cash equivalents <sup>1</sup>	310.1	(186.0)	-	5.7	129.8
Other investments – loans and receivables	0.7	2.5	-	(0.7)	2.5
Fair value of debt-related derivatives	(3.4)	15.1	(13.8)	(18.0)	(20.1)
Bank and other short-term borrowings	(58.2)	28.0	(28.4)	0.4	(58.2)
Bank and other long-term borrowings	(1,139.2)	(3.8)	(5.8)	(17.0)	(1,165.8)
Finance leases	(37.3)	14.7	(17.0)	(2.1)	(41.7)
	(927.3)	(129.5)	(65.0)	(31.7)	(1,153.5)

1. Excluding bank overdrafts.

## 17. Operating cash and Free Cash Flow

	2018 £m	2017 <sup>1</sup> £m
Operating (loss)/profit	(96.1)	741.4
Adjustments for:		
– Depreciation and impairment of property, plant and equipment	131.0	133.9
– Amortisation and impairment of intangible assets (excluding computer software)	61.6	53.8
– Amortisation and impairment of computer software	16.1	13.2
– Other non-cash items	5.1	(4.7)
– Profit on sale of business	-	(449.0)
– Pension settlement	341.6	-
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	(10.9)	(1.8)
– Contract costs	(6.9)	-
– Trade and other receivables	1.9	(46.1)
– Contract assets	(16.3)	-
– Trade and other payables and provisions	18.1	21.7
– Contract liabilities	9.9	-
Cash generated from operating activities before special pension contributions	455.1	462.4
Special pension contributions	(1.1)	(1.1)
Cash generated from operating activities	454.0	461.3
Add back: special pension contributions	1.1	1.1
	455.1	462.4
Purchase of property, plant and equipment	(147.2)	(174.3)
Purchase of intangible fixed assets	(22.9)	(19.1)
Leased property, plant and equipment	(16.3)	(18.7)
Proceeds from sale of property, plant and equipment	2.9	4.9
Dividends received from associates	11.9	3.2
Operating cash flow <sup>1</sup>	283.5	258.4
Interest received	7.7	5.1
Interest paid	(53.0)	(46.5)
Income tax paid	(45.1)	(40.1)
Special pension contributions	(1.1)	(1.1)
Free Cash Flow from continuing operations	192.0	175.8

1. The Group has initially applied IFRS 15 and IFRS 9 at 1 January 2018. Under the transition methods chosen comparative information is not restated.

## 18. Business combinations

During the year the Group purchased 100% of the share capital or trade and assets of 47 companies and businesses. The total consideration in respect of these acquisitions was £289.6m and the cash outflow from current and past period acquisitions, net of cash acquired, was £294.4m.

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

	2018 £m	2017 £m
Purchase consideration:		
– Cash paid	258.4	269.9
– Deferred and contingent consideration	31.2	86.6
Total purchase consideration	289.6	356.5
Fair value of net assets acquired	(123.9)	(68.2)
Goodwill from current year acquisitions	165.7	288.3

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

Deferred consideration of £14.5m and contingent consideration of £16.7m is payable in respect of the above acquisitions. Contingent consideration is payable based on a variety of conditions including revenue and profit targets being met. Both deferred and contingent consideration are payable over the next five years. The Group has recognised the contingent and deferred consideration based on the fair value of the consideration at the acquisition date.

## 18. Business combinations (continued)

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

	2018 £m	2017 £m
Non-current assets		
– Intangible assets <sup>2</sup>	124.7	46.2
– Property, plant and equipment	16.5	18.5
Current assets <sup>3</sup>	29.6	51.6
Current liabilities	(22.4)	(38.1)
Non-current liabilities <sup>4</sup>	(24.5)	(10.0)
Net assets acquired	123.9	68.2

1. The provisional fair values will be finalised in the 2019 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 £124.3m (2017: £39.1m) of customer lists and relationships and £0.4m (2017: £7.1m) of other intangibles.

3. Includes trade and other receivables of £18.8m (2017: £36.4m) which represents the gross and fair value of the assets acquired.

4. Includes (£19.4m) of deferred tax relating to acquired intangibles (2017: £5.1m).

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

	2018 £m	2017 £m
Total purchase consideration	289.6	356.5
Consideration payable in future periods	(31.2)	(86.6)
Purchase consideration paid in cash	258.4	269.9
Cash and cash equivalents in acquired companies and businesses	(4.4)	(8.1)
Cash outflow on current period acquisitions	254.0	261.8
Deferred consideration paid	40.4	19.3
Cash outflow on current and past acquisitions	294.4	281.1

From the dates of acquisition to 31 December 2018, these acquisitions contributed £122.7m to revenue and £19.2m to operating profit.

If the acquisitions had occurred on 1 January 2018 the estimated revenue and operating profit of the Group would have amounted to £2,520.0m and £251.2m respectively.

## 19. 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.

The value of transactions and outstanding balances with joint ventures and associate entities are shown below.

	Transaction values for the year ended 31 December		Balance outstanding as at 31 December	
	2018 £m	2017 £m	2018 £m	2017 £m
Sales of goods and services	14.5	10.2	1.4	2.0
Purchase of goods and services	7.5	5.9	0.5	0.9

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 2018 was £1.5m (2017: £1.1m) of which £0.5m (2017: £0.2m) was recharged to the scheme.

## 20. Events occurring after the balance sheet date

There were no significant post balance sheet events affecting the Group since 31 December 2018.

## 21. 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 2018 1.3321 (FY 2017 1.2968) and £/€ FY 2018 1.1288 (FY 2017 1.1461). Comparisons are to the year ended 31 December 2017 (2017) 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) – including the pension settlement on buy out of the UK RIPS
- Net profit on disposal of businesses
- Net interest credit from pensions
- Interest fair value adjustments

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.

Other non-cash gains and losses that can cause material fluctuations and distort understanding of the performance of the business such as net interest on pension schemes and interest fair value adjustments are also adjusted.

The net profit on disposal of businesses of £nil (2017: £449.0m) and the pension settlement (non-cash) of £341.6m (2017: £nil) have been separately presented on the face of the profit and loss below operating profit.

Restructuring costs are presented in the segmental analysis in order to provide comparability.

## 21. Alternative performance measures (continued)

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:

	2018	2018	2017	% change	
	AER	CER		AER	CER
	£m	£m	£m		
Ongoing Revenue	2,455.0	2,493.0	2,203.8	11.5%	13.2%
Revenue - disposed and closed businesses <sup>1</sup>	17.3	17.3	208.5	(91.7%)	(91.8%)
<b>Revenue</b>	<b>2,472.3</b>	<b>2,510.3</b>	2,412.3	2.5%	4.1%
Ongoing Operating Profit	329.3	333.6	294.6	11.8%	13.3%
Operating Profit – disposed and closed businesses	-	-	58.4	(99.9%)	(99.9%)
<b>Operating profit - continuing operations</b>	<b>329.3</b>	<b>333.6</b>	353.0	(6.7%)	(5.5%)
Depreciation – held-for-sale assets	-	-	(38.5)	100.0%	100.0%
<b>Adjusted Operating Profit</b>	<b>329.3</b>	<b>333.6</b>	314.5	4.7%	6.1%
One-off items – Operating	(22.2)	(22.6)	(6.8)	(225.6%)	(231.3%)
Depreciation – held-for-sale assets	-	-	38.5	(100.0%)	(100.0%)
Amortisation and impairment of intangible assets	(61.6)	(62.9)	(53.8)	(14.5%)	(16.9%)
<b>Operating profit</b>	<b>245.5</b>	<b>248.1</b>	292.4	(16.0%)	(15.1%)
Profit on disposal of businesses	-	-	449.0	(100.0%)	(100.0%)
Pension settlement (non-cash)	(341.6)	(341.6)	-	-	-
Share of profit from associates (net of tax)	19.6	19.5	8.3	136.3%	135.0%
Net interest payable (excluding pensions)	(45.7)	(45.8)	(42.9)	(6.5%)	(6.9%)
Net interest credit from pensions	7.7	7.7	6.8	13.2%	14.0%
Interest fair value adjustments	0.4	0.4	-	-	-
<b>Profit before tax</b>	<b>(114.1)</b>	<b>(111.7)</b>	713.6	(116.0%)	(115.7%)
Net interest credit from pensions	(7.7)	(7.7)	(6.8)	13.2%	14.0%
Interest fair value adjustments	(0.4)	(0.4)	-	-	-
One-off items – operating	22.2	22.6	6.8	(225.6%)	(231.3%)
One-off items – associates <sup>2</sup>	4.8	4.7	7.0	(31.4%)	(32.5%)
Profit on disposal of businesses	-	-	(449.0)	(100.0%)	(100.0%)
Depreciation – held-for-sale assets	-	-	(38.5)	100.0%	100.0%
Pension settlement (non-cash)	341.6	341.6	-	-	-
Amortisation and impairment of intangible assets	61.6	62.9	53.8	(14.5%)	(16.9%)
<b>Adjusted profit before tax</b>	<b>308.0</b>	<b>312.0</b>	286.9	7.4%	8.8%
Basic earnings per share	(5.35p)	(5.25p)	37.21p	(114.4%)	(114.1%)
Basic adjusted earnings per share	13.07p	13.24p	12.19p	7.3%	8.6%

1. Includes revenue of £13.9m (2017: £8.8m) 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.

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

## 21. Alternative performance measures (continued)

### 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	%
2017 Ongoing Revenue (as reported)	604.4	-	380.6	-	187.5	-	854.7	-	175.3	-	2,202.5	-
Pro forma revenue from 2017 and 2018 acquisitions	37.5	6.2	63.5	16.7	22.2	11.8	71.3	8.4	15.0	8.6	209.5	9.5
Organic Revenue growth	21.2	3.5	10.7	2.8	11.0	5.9	33.5	3.9	4.6	2.6	81.0	3.7
<b>2018 Ongoing Revenue (as reported)</b>	<b>663.1</b>	<b>9.7</b>	<b>454.8</b>	<b>19.5</b>	<b>220.7</b>	<b>17.7</b>	<b>959.5</b>	<b>12.3</b>	<b>194.9</b>	<b>11.2</b>	<b>2,493.0</b>	<b>13.2</b>

	Pest Control		Hygiene		Protect & Enhance		Total	
	£m	%	£m	%	£m	%	£m	%
2017 Ongoing Revenue (as reported)	1,396.6	-	424.3	-	381.6	-	2,202.5	-
Pro forma revenue from 2017 and 2018 acquisitions	108.5	7.8	100.6	23.7	0.4	0.1	209.5	9.5
Organic growth	66.8	4.8	11.8	2.8	2.4	0.6	81.0	3.7
<b>2018 Ongoing Revenue (as reported)</b>	<b>1,571.9</b>	<b>12.6</b>	<b>536.7</b>	<b>26.5</b>	<b>384.4</b>	<b>0.7</b>	<b>2,493.0</b>	<b>13.2</b>

## 21. 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.

Segmental analysis is presented at CER unless otherwise stated.

### Regional Analysis

	Ongoing Revenue				Ongoing Operating Profit			
	2018		Change from FY 2017		2018		Change from FY 2017	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
France	302.0	297.4	2.8	1.2	46.1	45.4	4.5	2.9
Benelux	90.8	89.4	5.8	4.2	26.3	25.9	4.5	3.0
Germany	96.2	95.4	15.7	14.6	29.1	28.8	15.1	14.2
Southern Europe	130.2	128.2	34.3	32.3	19.1	18.8	29.5	27.5
Latin America	49.9	52.7	11.4	17.6	6.9	7.2	37.5	43.2
<b>Total Europe</b>	<b>669.1</b>	<b>663.1</b>	<b>10.7</b>	<b>9.7</b>	<b>127.5</b>	<b>126.1</b>	<b>11.5</b>	<b>10.4</b>
UK & Ireland	303.9	303.4	23.0	22.8	58.3	57.5	19.1	17.7
Rest of World	148.5	151.4	11.3	13.4	34.0	34.6	9.0	10.8
<b>UK &amp; Rest of World</b>	<b>452.4</b>	<b>454.8</b>	<b>18.9</b>	<b>19.5</b>	<b>92.3</b>	<b>92.1</b>	<b>15.2</b>	<b>15.0</b>
Asia	214.2	220.7	14.2	17.7	21.7	22.3	12.4	15.1
North America	934.2	959.5	9.3	12.3	127.9	131.3	9.8	12.8
Pacific	185.1	194.9	5.6	11.2	38.5	40.5	1.7	7.0
Central and regional overheads	-	-	-	-	(71.4)	(71.4)	(7.8)	(7.8)
Restructuring costs	-	-	-	-	(7.2)	(7.3)	0.6	(1.3)
<b>Ongoing operations</b>	<b>2,455.0</b>	<b>2,493.0</b>	<b>11.5</b>	<b>13.2</b>	<b>329.3</b>	<b>333.6</b>	<b>11.8</b>	<b>13.3</b>
Disposed businesses	17.3	17.3	(91.7)	(91.8)	-	-	(99.9)	(99.9)
<b>Continuing operations</b>	<b>2,472.3</b>	<b>2,510.3</b>	<b>2.5</b>	<b>4.1</b>	<b>329.3</b>	<b>333.6</b>	<b>(6.7)</b>	<b>(5.5)</b>
Depreciation – held for sale	-	-	-	-	-	-	100.0	100.0
<b>Adjusted - Continuing operations</b>	<b>2,472.3</b>	<b>2,510.3</b>	<b>2.5</b>	<b>4.1</b>	<b>329.3</b>	<b>333.6</b>	<b>4.7</b>	<b>6.1</b>

### Category Analysis

	Ongoing Revenue				Ongoing Operating Profit			
	2018		Change from FY 2017		2018		Change from FY 2017	
	AER £m	CER £m	AER %	CER %	AER £m	CER £m	AER %	CER %
<b>Pest Control</b>	<b>1,537.9</b>	<b>1,571.9</b>	<b>10.1</b>	<b>12.6</b>	<b>273.0</b>	<b>277.0</b>	<b>8.3</b>	<b>9.9</b>
- Growth	1,316.8	1,341.4	10.3	12.3	241.9	244.9	9.4	10.8
- Emerging	221.1	230.5	9.3	13.9	31.1	32.1	0.7	4.0
<b>Hygiene</b>	<b>533.0</b>	<b>536.7</b>	<b>25.6</b>	<b>26.5</b>	<b>89.2</b>	<b>90.2</b>	<b>18.5</b>	<b>19.9</b>
<b>Protect &amp; Enhance</b>	<b>384.1</b>	<b>384.4</b>	<b>0.7</b>	<b>0.7</b>	<b>45.7</b>	<b>45.1</b>	<b>12.1</b>	<b>10.6</b>
Central and regional overheads	-	-	-	-	(71.4)	(71.4)	(7.8)	(7.8)
Restructuring costs	-	-	-	-	(7.2)	(7.3)	0.6	(1.3)
<b>Ongoing operations</b>	<b>2,455.0</b>	<b>2,493.0</b>	<b>11.5</b>	<b>13.2</b>	<b>329.3</b>	<b>333.6</b>	<b>11.8</b>	<b>13.3</b>
Disposed businesses	17.3	17.3	(91.7)	(91.8)	-	-	(99.9)	(99.9)
<b>Continuing operations</b>	<b>2,472.3</b>	<b>2,510.3</b>	<b>2.5</b>	<b>4.1</b>	<b>329.3</b>	<b>333.6</b>	<b>(6.7)</b>	<b>(5.5)</b>
Depreciation – held for sale	-	-	-	-	-	-	100.0	100.0
<b>Adjusted - Continuing operations</b>	<b>2,472.3</b>	<b>2,510.3</b>	<b>2.5</b>	<b>4.1</b>	<b>329.3</b>	<b>333.6</b>	<b>4.7</b>	<b>6.1</b>

## 21. 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 (on a trailing 12 month basis):

	2018 %	2017 %	Variance % points
France	15.3	15.0	0.3
Benelux	29.0	29.4	(0.4)
Germany	30.2	30.4	(0.2)
Southern Europe	14.7	15.2	(0.5)
Latin America	13.6	11.2	2.4
<b>Total Europe</b>	<b>19.0</b>	<b>18.9</b>	<b>0.1</b>
UK & Ireland	19.0	19.8	(0.8)
Rest of World	22.8	23.4	(0.6)
<b>UK &amp; Rest of World</b>	<b>20.3</b>	<b>21.1</b>	<b>(0.8)</b>
<b>Asia</b>	<b>10.1</b>	<b>10.3</b>	<b>(0.2)</b>
<b>North America</b>	<b>13.7</b>	<b>13.6</b>	<b>0.1</b>
<b>Pacific</b>	<b>20.8</b>	<b>21.6</b>	<b>(0.8)</b>
<b>Ongoing operations<sup>1</sup></b>	<b>13.4</b>	<b>13.4</b>	<b>-</b>
Disposed businesses	0.2	9.5	(9.3)
<b>Continuing operations<sup>1</sup></b>	<b>13.3</b>	<b>13.0</b>	<b>0.3</b>

	2018 %	2017 %	Variance % points
<b>Pest Control</b>	<b>17.6</b>	<b>18.0</b>	<b>(0.4)</b>
- Growth	18.3	18.5	(0.2)
- Emerging	13.9	15.3	(1.4)
<b>Hygiene</b>	<b>16.8</b>	<b>17.7</b>	<b>(0.9)</b>
<b>Protect &amp; Enhance</b>	<b>11.7</b>	<b>10.7</b>	<b>1.0</b>
<b>Ongoing operations<sup>1</sup></b>	<b>13.4</b>	<b>13.4</b>	<b>-</b>
Disposed businesses	0.2	9.5	(9.3)
<b>Continuing operations<sup>1</sup></b>	<b>13.3</b>	<b>13.0</b>	<b>0.3</b>

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:

	2018 AER £m	2017 AER £m
Net cash from operating activities	363.6	379.8
Purchase of property, plant, equipment and intangible fixed assets	(170.1)	(193.4)
Leased property, plant and equipment	(16.3)	(18.7)
Proceeds from sale of property, plant, equipment and software	2.9	4.9
Dividends received from associates	11.9	3.2
<b>Free Cash Flow</b>	<b>192.0</b>	<b>175.8</b>

## 21. 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.

	2018	2017
	AER	AER
	£m	£m
Adjusted profit after tax from continuing operations attributable to equity holders of the Company	240.7	223.6
Share of profit of CWS-boco International GmbH associate (net of tax)	(12.1)	(1.3)
One-off items - associates	(4.8)	(7.0)
	<b>223.8</b>	215.3
Free Cash Flow from continuing operations	192.0	175.8
Dividend received from CWS-boco International GmbH	(8.5)	-
One-off items - operating	22.2	6.8
Product development additions	5.2	4.7
	<b>210.9</b>	187.3
<b>Adjusted Free Cash Flow conversion</b>	<b>94.2%</b>	87.0%

### Effective Tax Rate

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.

	2018	2018	2017
	AER	CER	
	£m	£m	£m
Unadjusted income tax expense	(15.8)	(15.3)	30.6
Tax adjustments on:			
Amortisation and impairment of intangible assets (excluding computer software)	15.4	15.7	16.6
One-off items - operating	4.3	4.4	5.1
Disposal of businesses	-	-	5.7
Pension settlement	64.8	64.8	-
Net interest credit from pensions	(1.6)	(1.6)	(1.3)
US tax reforms – net impact	-	-	6.4
<b>Adjusted income tax expense (a)</b>	<b>67.1</b>	<b>68.0</b>	63.1
Adjusted profit before income tax (b)	<b>308.0</b>	<b>312.0</b>	286.9
<b>Adjusted Effective Tax Rate (a/b)</b>	<b>21.8%</b>	<b>21.8%</b>	22.0%

## 22. Legal statements

The financial information for the year ended 31 December 2018 contained in this preliminary announcement was approved by the Board on 27 February 2019.

The financial information in this statement does not constitute the Company's statutory accounts for the years ended 31 December 2018 or 2017. The financial information for 2017 and 2018 is derived from the statutory accounts for 2017 (which have been delivered to the registrar of companies) and 2018 (which will be delivered to the registrar of companies following the AGM in May 2018). The auditors have reported on the 2017 and 2018 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 2018 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 2017 Annual Report. A full list of policies will be presented in the 2018 Annual Report. For details of new policies applicable to the Group in 2018 and their impact please refer to Note 1.

### **23. 2018 Annual Report**

Copies of the 2018 Annual Report will be sent to shareholders who have elected to receive hard copies on 27 March 2019 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](http://www.rentokil-initial.com) in PDF format.

### **24. 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 8 May 2019 at 12 noon.