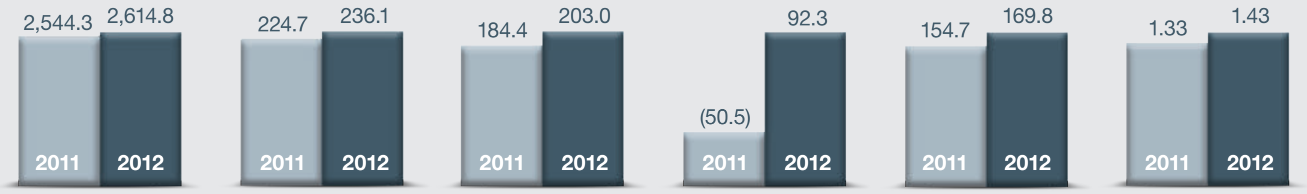
Rentokil Initial

Annual Report 2012
Experts in The Essentials

Financial Performance 2012 (CER)[1]

Revenue (£m)	Adjusted operating profit (£m)[2]	Adjusted profit before tax (£m)[2]	Profit/(loss) before tax (£m)	Operating cash flow (£m)[3]	Dividend (p)



+2.8%	+5.1%	+10.1%	n/a	+9.8%	+7.5%

1 results at constant exchange rates have been translated at the full year average exchange rates for the year ended 31 December 2011
2 before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items
3 cash flow before interest, tax, acquisitions, disposals and foreign exchange adjustments

Our Brands, Vision and Values

Our Brands

Rentokil Initial is a global leader in essential support services. Operating in 60 countries and employing 60,000 people, we service the pest control, hygiene, workwear, facilities services, plants and parcels markets. Our global brands are Rentokil, Initial and Ambius and country-specific brands include Pink, Ehrlich, Presto-X, Western, City Link and Calmic. The brand essence of all our brands is 'Experts in The Essentials'.

Our Vision

To be the best at what we do by doing what's right for our colleagues and customers.

Our Values

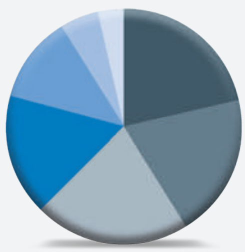
Relationships and teamwork have been identified by our colleagues across the group as the core values for the Company. By living our values we are better placed to offer outstanding and consistent customer service.

Our Business

Revenue by division (CER) (%)

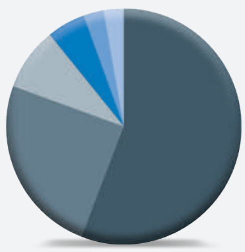
- 33.6% Textiles & Hygiene
- 28.7% Pest Control
- 22.0% Initial Facilities
- 12.0% City Link
- 3.7% Asia Pacific

Revenue by category (CER) (%)



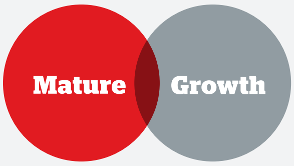
- 21.5% Facilities Services
- 21.4% Pest Control
- 19.8% Hygiene
- 16.7% Workwear
- 11.9% Parcel Delivery
- 5.2% Plants
- 3.5% Other

Employees by market (actual average) (%)



- 56.0% UK and Ireland
- 24.6% Europe
- 8.6% Asia
- 5.3% North America
- 2.9% Pacific
- 2.6% Africa/Caribbean

Mature and growth markets



Mature
Our businesses have leading positions in mature markets including Europe and the United Kingdom, the United States and Australia. Demand for our services is driven by high standards of hygiene, health and safety.

Growth
We have a growing presence in Asia, North Africa, the Middle East and Latin America. Greater awareness of public health, stricter food safety legislation and arrival of international food, pharmaceutical and hospitality companies is driving demand for our services.

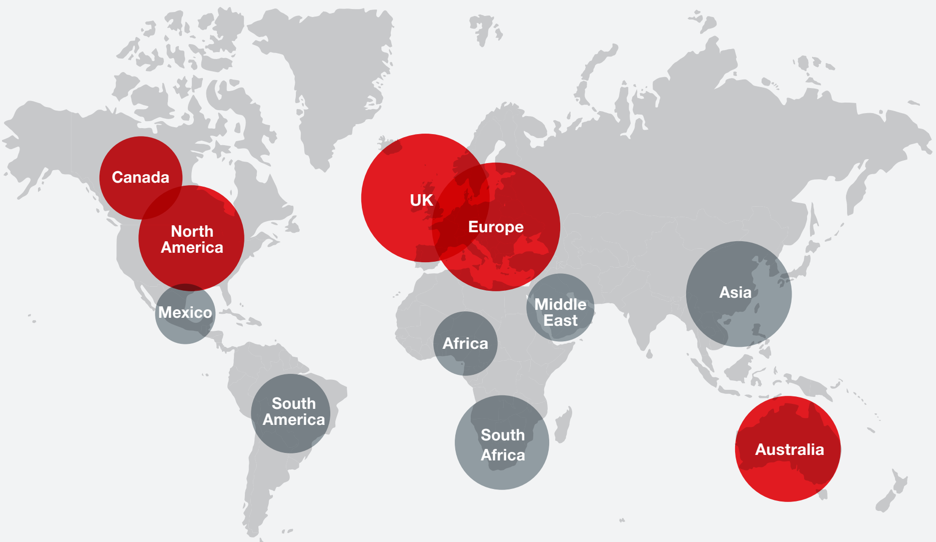
In 2008 we launched the Operational Excellence Agenda to address a range of operational and financial issues across the group. Our focus was to restore operational effectiveness to enable us to compete at the highest level in all our markets.

Over the last five years we have pursued this agenda through five strategic thrusts - customer service & care, developing capability, operational excellence, cost savings and cash delivery and growth.

Today, we have achieved much of what we planned – most of the basic restructuring and process design has been completed, freeing us to focus on growth and innovation. While there is still more to do, this on-going transformation of our business has been made possible by the dedication, hard work and commitment of our people.

Experts in The Essentials

Over the following pages 2 to 24, we will outline **what we do** through descriptions of our businesses, markets, growth opportunities, initiatives and our promises to our customers. On page 2, we will outline **how we do it** through our operating model.



Find out more online:

www.rentokil-initial.com

www.rentokil-initial.com/corporate-responsibility

Our Operating Model

Our operating model has evolved to support the implementation of our strategic thrusts across our global business.

Key aspects of our operating model

Service

To focus primarily on local and national customers through front line colleagues who are committed to delivering outstanding customer service, which requires strong country operating management with capability in service, account management and new business generation, all within a consistent operating framework.

Capability

To build a strong and consistent functional and category operating model that enables us to leverage our local density, global scale and expertise. This functional and category capability will be built around a global and regional organisation framework so that this capability can be rapidly deployed across countries.

Growth

To expand our business though world-class expertise in acquiring and integrating businesses.

Experts in The Essentials

Differentiators

Best People in our industries

Best Innovation & Technical Expertise

Best Service, Customer Care & Account Management

Transparency - Internally & Externally

Core International Businesses

For these businesses we have evolved an integrated country-based model supported by global and regional teams providing:

- General management accountability – for operational and financial performance
- Category focus – for the pest, hygiene, workwear and plants activities, including expertise in marketing & innovation, sales and increasingly in operations
- Global specialist functions, in finance, human resources and IT

Other Single Country Businesses

Our facilities services and parcels businesses are single country operations (with the exception of a facilities services operation in Spain) and are managed as stand-alone elements of our portfolio

Rentokil Initial

Core Values

Service, Relationships & Teamwork

Pest Control

We aspire to operate in every significant temperate to tropical conurbation in the world where the political and economic prospects are stable to positive. We will use pest control as our entry point for new geographies.

Hygiene

We aspire to follow our pest control business into every market except North America.

Plants

We will focus on the 11 countries where we already have a market leading position.

Workwear

We aspire to build a market leading position in Continental Europe.

Facilities Services

We aspire to be a multi-service on-site provider in the UK Total Facilities Management market offering a range of services to our clients including catering, security, cleaning, buildings M&E and technical services.

Parcel Delivery

We aim to be the UK's leading premium parcel delivery provider offering a range of products to our customers including Next Day and Same Day delivery, International and Post.

Business Review

Experts in Pest Control

“We’re committed to providing a high quality and reliable service that responds to customers’ needs and requirements.”

Tom Turner
Job Team Technician,
Rentokil Pest Control

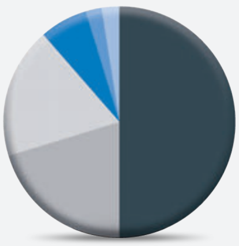
Business Description

Rentokil Pest Control is the world’s leading commercial pest control company operating in over 50 countries including recent entries in Turkey, Mexico, Brazil, Dubai and Abu Dhabi. It has leading market positions in the UK, Continental Europe, Asia and South Africa and a rapidly expanding presence in the Americas.

Market Trends & Opportunities

The global pest control market is estimated to be worth approximately £9bn, of which we have around 7%. We see further opportunities to increase our share in this growing market through a combination of organic and acquisitive actions. Rising standards of hygiene are driving greater demand for pest control services in emerging and mature economies. The sector is consolidating, presenting good opportunities to grow through acquisition. Over recent years we have broadened our geographic presence through acquisitions in North, Central and South America and the Middle East. We believe our differential capability versus our competitors is brand strength, global reach, service, products, innovation and expertise. In addition, investment in information technology is enabling us to serve our customers better, faster and more effectively.

Worldwide pest control revenue £bn



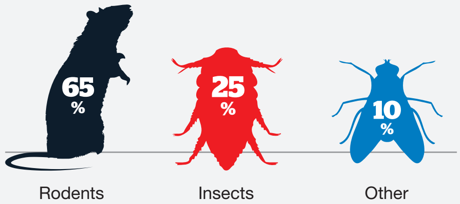
Key
4.4 North America
1.8 Europe
1.6 APAC
0.6 Latin America
0.2 MENAT
0.2 RoW

Global pest control is worth almost £9bn, of which we have around 7%

Cloud-based technology is enabling us to serve our customers more effectively and efficiently

Product & Service Innovation

- Bed bugs – early detection using natural science
- ‘**PestConnect**’ – remote monitoring system for mice that links into our online reporting tools
- ‘**Heatpod**’ – continued roll out of mobile heat treatment for insects
- Rodents – development of new delivery mechanisms for rapid-acting rodenticides
- Wood boring insects – new technology for environmentally-friendly control



Proportion of pest revenue by type

Growth Initiatives

- Deploy ‘**Where to play, How to win**’ methodology across the business
- Develop ‘**Information as a Service**’
- Roll-out ‘**Advantage**’ sales capability tablet for front-line sales colleagues to support account management and new business
- Develop remote monitoring capability
- Gain market share through new branch openings
- Continue acquisition programme in the Americas & Middle East

Experts in Hygiene

"Our tailor-made service ensures all our customers comply with hygiene and environmental regulations."

Paul Abbott
Technician, Rentokil Specialist Hygiene

Business Description

For more than 100 years Initial Hygiene has helped organisations provide pleasant and hygienic environments for staff, clients and visitors. Good hygiene is vital to the performance of organisations and applies to all areas of premises, from washrooms and kitchen areas, to work spaces and storage areas. We provide high quality hygiene products and services that minimise risk of exposure to bacteria and other infectious micro-organisms. We offer customers a range of services from convenient delivery of hygiene supplies to a complete rental maintenance service. These services are mostly provided in the washroom but also in other parts of buildings, for example floor mats and scenting.

Market Trends & Opportunities

Initial operates in a competitive market with good growth opportunities. We are well placed to increase market share through market segmentation and the introduction of value propositions to customers. Significant investment has been made in updating and delivering best-in-class product solutions.

81% of people do not revisit a premises because of a dirty washroom

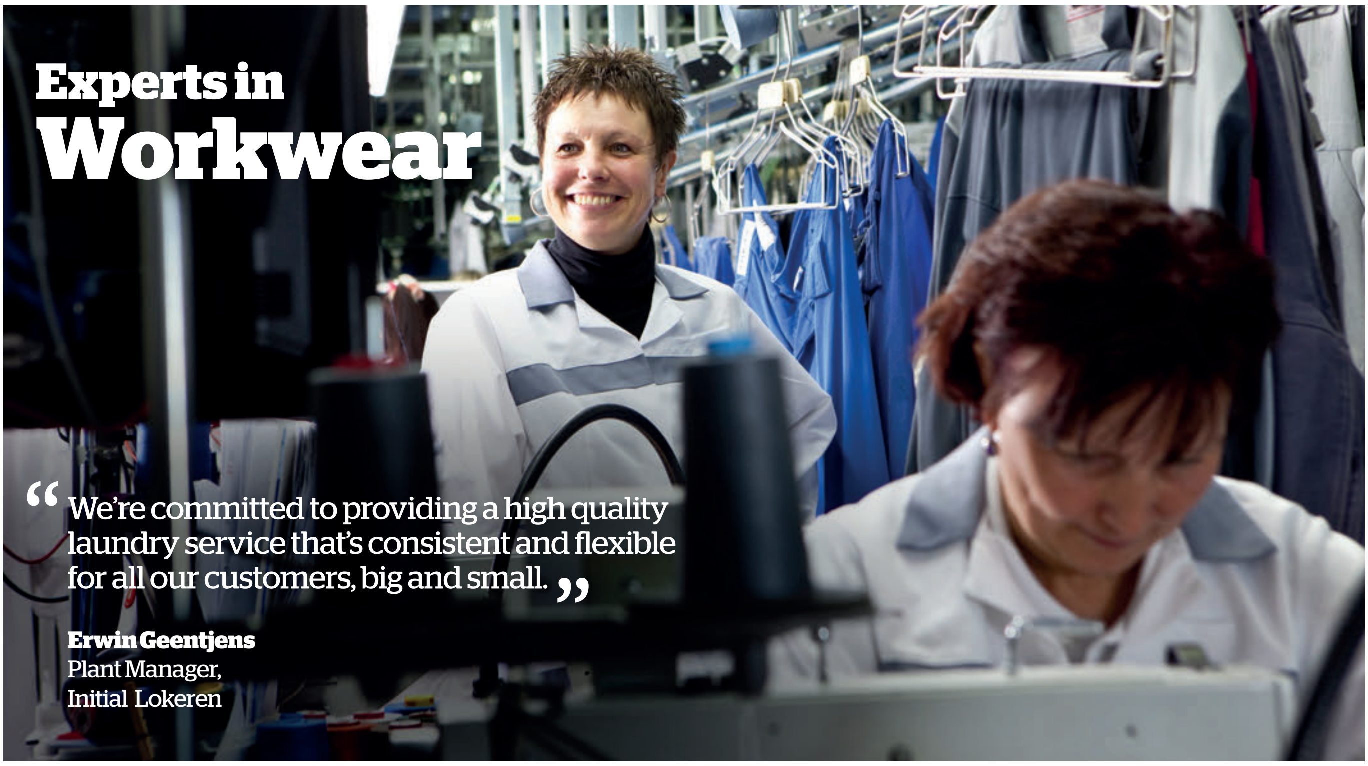
By introducing the regular use of gel and foam hand sanitizers, absenteeism through sickness can be reduced by 30%-50%

Growth Initiatives

- Deploy '**Where to play, How to win**' methodology across the business
- Launch of new '**Reflection**' range in June 2012 and '**Signature**' range in 2013
- Roll out new hygiene working practice '**On Site Service**' for feminine hygiene units
- Focus on key accounts

A marketing & innovation team has been established to drive world-class innovation across the group

Contemporary design for the new Signature range to be launched in 2013



Experts in Workwear

“We’re committed to providing a high quality laundry service that’s consistent and flexible for all our customers, big and small.”

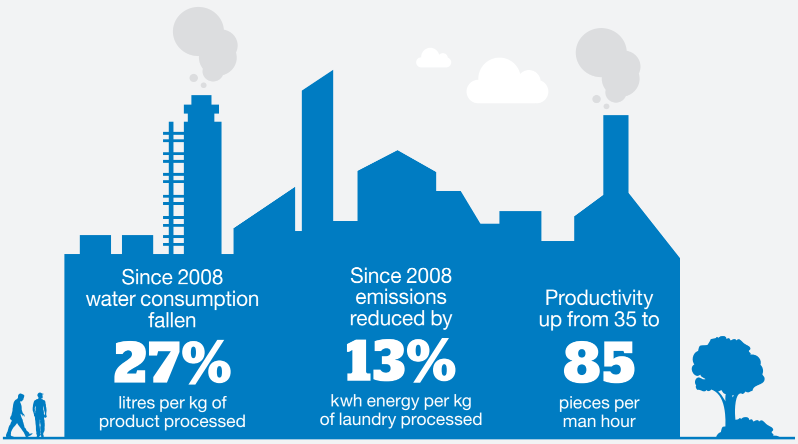
Erwin Geentjens
Plant Manager,
Initial Lokeren

Business Description

Our workwear business specialises in the supply and launder of workwear, such as uniforms and personal protective equipment, throughout Europe.

Market Trends & Opportunities

The European workwear market is estimated to be worth approximately €6bn (of which we have an estimated 7%) and growing ahead of GDP at +3%. There is an increasing trend by customers to outsource their workwear requirements, which is fuelling further growth opportunities. Customers are seeking better designed, higher quality garments and greater transparency on costs and performance. Initial is well positioned to capitalise on these trends through service differentiation and investment in plant and equipment. Our acquisition of the workwear design business CAWE in 2011 will enable Initial to take control over its supply chain, manage requirements for client customisation in both design and quality and reduce costs. Investment in efficiency improvements is being made in the Netherlands and France and we are expanding our capacity in the cleanroom market across Europe. There is a significant emphasis on sustainability in this market.



Investment in efficiency has improved our profit margins across Europe

Growth Initiatives

- Deploy ‘**Where to play, How to win**’ methodology across the business
- Launch European ranges in the industrial, driving & PPE sectors across all our businesses

Taking control of our European Workwear range has enabled us to control stock and reduce SKUs

- Roll out new Initial brand to build customer awareness and increase employee pride
- Focus on service excellence and customer care
- Acquire businesses to broaden geographic reach in Continental Europe and to target high growth sectors

Wettbewerb
Deutschlands **kunden**orientierteste Dienstleister 2012

Initial Germany has been rated within the Top 40 most customer oriented service companies in 2011 and 2012

Experts in Plants

"We're always on hand to respond rapidly to resolve any customers queries, problems or emergencies."

Belinda Jenkinson
Technician and Christmas specialist, Ambius

Business Description

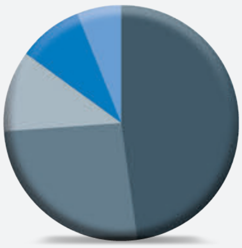
Ambius installs and services both interior and exterior plant displays, flowers, replica foliage, Christmas decorations and ambient scenting for commercial businesses including hotels, offices and shopping centres. Ambius is North America's largest office interior plants business and also operates in Europe, Australia, Canada and South Africa.

Market Trends & Opportunities

Interior landscaping has become increasingly popular during the last 30 years. Most architects now include plants in their design specification for new shopping centres, office complexes and other public areas. Research has shown that people respond positively to the presence of plants in buildings, which enhance the character and appearance of a building and improve the psychological and physical well-being of its occupants.

In addition, interior landscaping has been shown to reduce sickness absence, improve mental agility, increase use of communal facilities and positively alter an individual's perception of a building.

Share of worldwide plants market (%)



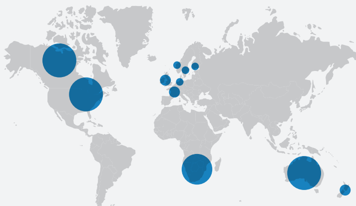
Key

- 48% North America
- 26% Other
- 11% Netherlands
- 9% Australia
- 6% Sweden

Ambius had a record breaking Christmas in 2012, generating $13m in revenue from seasonal products

Growth Initiatives

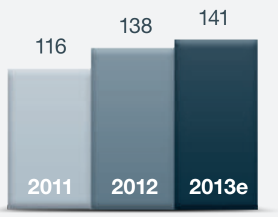
- Deploy '**Where to play, How to win**' methodology across the business
- Focus on our existing 11 core Ambius countries and on specific industry sectors within these countries



Growth initiatives will be concentrated within our 11 core countries

- Invest in high-growth premium scenting category
- Leverage full range of group operational excellence initiatives across Ambius markets, following the merger of Ambius with pest control and hygiene businesses

Growth in interior plant market £m



Interior planting is predicted to show further growth in the coming years

Experts in Facilities Services

"We build partnerships with our customers to become their partner of choice, at home and abroad."

Debra Roberts
Chef,
Initial Facilities

Business Description

Initial Facilities provides a fully integrated Total Facilities Management ('TFM') to government and commercial sector organisations of all sizes across all business sectors. We have comprehensive service capabilities in catering, cleaning, security, buildings M&E and statutory compliance. We have long-term partnering relationships and are the service partner of choice for our customers.

Our London Underground contract is worth c.£250m over five years

Market Trends & Opportunities

Initial Facilities operates in a large market with good growth potential. While margins tend to be low, returns on capital are high. The market is moving increasingly towards multi-service/TFM. Initial Facilities has restructured its business away from the single service cleaning sector and built capability to provide full service TFM organically and through acquisition. Growth will be achieved through sector focus, with innovation a key to success.

Initial Facilities' transition from single service cleaning to TFM provision is moving rapidly

UK Facilities Management %

Key

42.2%	In-house services
25.1%	Single services
18.8%	Multi services
13.9%	TFM

From catering, cleaning, security and building maintenance to other added-value services such as space management, energy and waste, our TFM solutions enable our customers to focus on what matters most: their core business. Despite a high proportion of facilities services managed in-house, the market is moving increasingly towards multi-service and TFM

Growth Initiatives

- Focus on multi-service/ TFM
- Build capability through technical services acquisitions and improve technology platforms

Knightsbridge Guarding
ModusFM

Recent acquisitions have increased our market presence

- Improve operational efficiency by business restructure and investment
- Invest in innovation (service line and technology)
- Grow through sector focus (health, transport, professional services, local government)
- Implement LEAN initiative – 8% to 12% saved on customer contracts

LEAN Initial

Experts in Parcel Delivery

“We promise to handle our customers’ parcels securely, safely and on time – Every Time.”

Garry Williams
Driver,
City Link

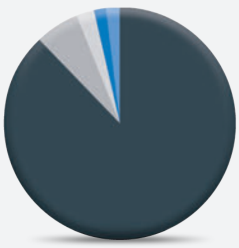
Business Description

City Link is a UK express parcels company aiming to provide high quality and flexible services across the UK and Ireland through its distinctive caged delivery network. From next-day delivery to fast worldwide services, it delivers documents, parcels, pallets and freight from a network of over 60 local depots, five regional hubs and a central hub and over 2,500 delivery vehicles.

Market Trends & Opportunities

The UK parcels market is worth an estimated £12bn and set to grow by 7% by 2016. Growth estimates for the Business to Consumer (B2C) market range from 10% to 25%. The Business to Business (B2B) segment is expected to grow in line with GDP. Growth in B2C is driven by online retailing, up 70% since 2008, with consumers attracted by convenience, choice and low prices. The ‘Click and Collect’ online delivery to store segment is growing in excess of overall growth in online retailing. Consumer confidence in direct channels is increasing, leading to higher value, bigger and bulkier goods being carried. City Link’s unique caged delivery model ideally positions it to capitalise on these growing trends. Operational specialism and market segmentation are the keys to profitability with successful players making 5% to 10% EBIT returns. The market is highly competitive with historic pressure on pricing.

City Link Revenue mix £m

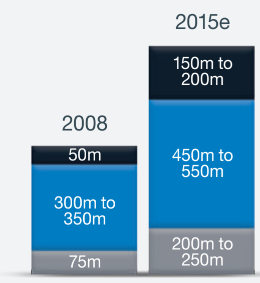


Key

283.1	Next Day
19.3	Post
7.7	Retail
6.0	International
5.6	Same Day

Next day deliveries continue to dominate the revenue opportunities of City Link

Fulfilment method for online shopping purchases in the UK (volumes of items sent)



Key
To store
To customer
Digitally fulfilled

Market growth in B2C is being driven by growth in online retailing, up 70% since 2008

Service Differentiation

- Caged delivery system – affords security, reduces damage, efficiencies in loading times

Unlike competitors, City Link transports parcels in cages from the collection depot to delivery depot, ensuring goods arrive safely and on time

City Link can provide a range of stand alone or networked solutions that have been configured to manage the shipping process

- New scanning technology – provides accuracy of product delivery
- GPS technology enables provision of Estimated Time of Arrivals to customers – 98% compliance by 2014

Statement by the Chairman and the Chief Executive

Overview of performance

Despite tough conditions in many of our markets Rentokil Initial delivered revenue and profit growth across all divisions in 2012. Full-year revenue of £2.6bn grew by 2.8% at constant exchange rates, 0.8% organic (excluding Initial Facilities Spain where we continue to scale down the business to reduce financial exposure). Recent acquisitions have performed well during the year, contributing 2.4% (£60.6m) of revenue growth.

Textiles & Hygiene grew revenue by 2.5% in 2012, aided by a continuing robust performance from Germany and steady performances from France and Australia. Benelux made further improvement in profitability as the turnaround progressed, though revenue growth of 0.5% was held back by weak economic conditions.

Pest Control grew by 2.8%, aided by a particularly strong performance in North America and solid growth in the UK. While our Central, Eastern and Northern Europe operations have traded well, our operations in Southern Europe continue to struggle in particularly depressed market conditions. Growth during 2012 has been boosted by a number of strategically significant acquisitions which have strengthened our presence in our major US market and given us footholds in Latin America and the Middle East. We are particularly pleased with the acquisition of leading US West Coast pest control and products business, Western Exterminator ('Western'), which gives us close to 90% national coverage and positions us as the third largest player in the market. Integration of this business is proceeding well. We will continue to pursue growth by acquisition in the coming year.

Initial Facilities' revenue growth of 2.1% was driven by strong performances from a number of small acquisitions providing technical services. Underlying revenue (excluding Spain and acquisitions) fell by 1.7%, reflecting a significant reduction in the cleaning sector which has masked strong growth in other sectors as we re-position the business as a Total Facilities Management (TFM) provider. Improvement in service mix coupled with improved operational efficiency has however improved profitability, with growth of 9.6% for the full year.

Revenue in Asia grew by 6.2%. Both the pest control and hygiene categories performed well, benefiting from further market development and gains in share from competitors. Our operations in India and China delivered strong revenue growth from a low base though they remain loss making. Malaysia had another exceptional year.

City Link has made good progress this year on productivity savings and in volume growth with our major customers. Over the year City Link has achieved a 13% reduction in cost per delivery, volume growth of 17% and a 16% reduction in operating losses. However, offsetting this operational progress, revenue per consignment (RPC) has declined by 10% as our sales mix has moved toward large Business to Consumer customers. Efforts to maximise retention of more profitable smaller customers is a key priority for 2013.

Organisation change

During the year the Company began the process of fully integrating Ambius into the Pest Control division under a single management structure by country or region. Ambius is now included in the pest control segmental reporting (see Note 1). This follows the implementation of integrated management in the Nordics, South Africa and elsewhere in the Rentokil Initial group. Further structural changes were implemented early in 2013 with the transfer of the pest control business units in France and Germany to the Textiles & Hygiene division.

From 1 January 2013 almost all our core businesses (with the exception of Benelux) will be run on a day-to-day basis by one country manager per country. The country manager is responsible for all our core categories in his/her country – pest control, hygiene, workwear and plants. Countries have been grouped into three geographic regions – East, West and Asia – with each region being run by a senior managing director reporting to the Chief Executive.

The countries are supported by functional and category teams organised on a global or regional basis. We believe this integrated operating model offers the best balance between driving country cost and growth synergies and also leveraging our international scale through knowledge transfer via global and regional functional and category teams.

As a result of these changes we will report group results on a major country, as well as category basis. The Americas, UK, Ireland, Nordics, Southern Europe, Middle East & Africa will form the West region. This region consists predominantly of pest control businesses but includes hygiene and the majority of our plants business. France, Benelux, the German speaking countries and Pacific will form the East region. This region contains all of our workwear category plus hygiene, pest control and plants. The Asia region will continue as before. City Link and Initial Facilities will continue to be reported separately as divisions.

The reporting structure that will be reported from 2013 onwards can be found in the Business Overview on page 19.

Funding

At 31 December 2012 the group had net debt of £989.5m and a strong liquidity position, comprising over £200m of funds and £510m of available undrawn committed facilities, with £50m of bond maturities in 2013. This follows the issuance in September of a €500m seven-year bond paying a coupon of 3.375%.

The bond has provided funding for:

- The acquisition of the Western business at a cost of $92.6m (£57.1m)
- The repurchase of the group's £75m puttable/callable resettable bond at its fair value of £103.7m
- The repurchase of €14.5m of the €500m 2014 bond at a premium of £0.6m

It will also provide funding for:

- The repayment at maturity of the group's £50m bond maturing September 2013
- An element of the group's €500m 2014 maturity

The group signed a two-year £240m revolving credit facility (RCF) in December 2012 to provide further liquidity for the €500m 2014 maturity.

Dividend

The Company resumed the payment of dividends in 2011, paying a final dividend for the year. Despite challenging market conditions the Company has made good progress in 2012 and we anticipate further progress in 2013. Taking this into consideration the board is recommending a final dividend in respect of 2012 of 1.43p per share, payable to shareholders on the register at the close of business on 19 April 2013 to be paid on 21 May 2013. This equates to a full year dividend of 2.1p per share.

People

In 2012 we have welcomed into Rentokil Initial new colleagues through the many good businesses we have acquired and through the on-going process of improving the capability of the business. We thank all our colleagues who have put in a huge effort over the last year to meet the challenges created by difficult economic trading conditions as well as to contribute to the on-going change programmes designed to improve the fitness of the group to deliver improved performance. Feedback from colleagues about their levels of motivation and enablement remains good, consistently outperforming service industry norms, and colleagues' participation in training, recognition programmes and community activities is impressive.

We also welcome Angela Seymour-Jackson who joined the board in March 2012 as a non-executive director. William Rucker stood down as a director today following a review of his commitments. The board is appreciative of his considerable contribution to the Company since joining the board in 2008.

We are grateful for the continued support of our shareholders and other stakeholders.

Outlook for 2013

Rentokil Initial finished the year strongly, with adjusted profit before tax up 15.9% in Q4 and 10.1% for 2012 as a whole at constant exchange rates. These results were broad based, with every division improving both revenue and profit. Furthermore, we increased organic revenue growth by 1.3% from negative 0.5% to positive 0.8% (excluding Initial Facilities Spain) despite difficult market conditions in most of Europe.

Our organisation has matured considerably in the past 24 months with global leadership established for major business functions including marketing & innovation. This has enabled us to evolve to an integrated country-based operating model with strong central and regional support. These changes have also given us a strong innovation pipeline for 2013 in our core categories.

While we remain mindful of continuing tough conditions across many of our markets, the operational changes we made during the year, together with the acquisition of Western in December, give us confidence that 2013 will see us sustain the momentum we achieved in the final quarter of 2012.

John McAdam
Chairman

Alan Brown
Chief Executive

14 March 2013

Transforming the Business 2008 to 2011

The business has undergone significant structural and transformational change from the second half of 2008. Key events and milestones are detailed below.

A year of change

2008 was particularly challenging for Rentokil Initial, involving significant management change and year-on-year declines across all but one division. Operating profits fell by just under 50% reflecting poor performances from five key businesses – City Link, UK Pest Control and Washrooms and Australia Pest and Washrooms. Reflecting both its dissatisfaction with performance and as a measure to preserve cash, the board decided not to recommend a final dividend for 2008.

Group assessment

A review by new management appointed in Q2 2008 concluded that while the group comprised businesses operating in leading market positions, performance had been systemically undermined by operational weakness. This included lack of focus on customer service and care, insufficient focus on operational excellence and consistent failure to execute major change or acquisition integration programmes.

-50%
Fall in operating profit

In 2008 operating profits fell by just under 50% reflecting poor performances from five key businesses

Capability
Service Cost savings
Excellence
Growth

Five key strategic thrusts were identified to improve the fortunes of Rentokil Initial

First signs of progress

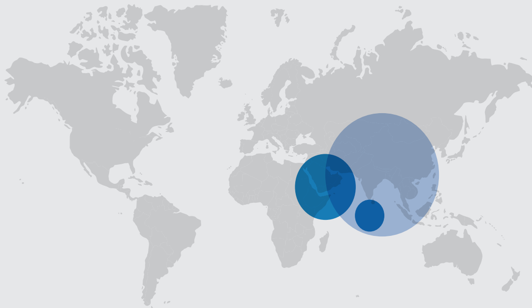
A Vision and Value set was created along with 18 key performance indicators by which to judge progress. Cash generation was identified as a top priority. By the end of the year we had made significant improvements in customer service, operational excellence and accounts receivables.

Delivering on our promises

In 2009 we delivered on our promises by substantially improving customer service, maximising cash flow and accelerating cost savings. Group state of service rose to 98%, operating cash flow grew by £187m to £317m and £82m of savings were generated across the business.

Developing capability

We made strong progress this year in driving HR initiatives, including upgrading functional and operational management, performance management and global grading. Senior management was strengthened by the appointments of new managing directors and finance directors for the Textiles & Hygiene, Asia Pacific and Pest Control divisions, and for the UK pest control business.



In 2009 our management team in Asia underwent significant change with the appointments of a new managing director, finance director and new senior country heads

Mobilising for growth

Our focus until the first half of 2009 was directed at service and operational excellence. At the beginning of H2 we turned our attention to the growth agenda. Our strategic objectives were to increase share in our established markets through effective sales & marketing, service expansion and by acquisition. In addition, we sought to develop our presence and capability in growth markets, including the Middle East, China and India.

On-going structural change

Two and a half years since the appointment of new management, considerable and, in most cases, successful structural change had been implemented. Rising service levels were reflected in improving rates of retention across our contract businesses. £60m cost savings were made, cash generation remained at an excellent 114% conversion from profit and net debt fell below £1bn. Senior management was strengthened further through the appointments of a new group Chief Financial Officer and managing director for Initial Facilities.

Disappointments at City Link and Textiles & Hygiene Benelux

Sentiment in 2010 was, however, negatively impacted by set backs at City Link and in Textiles & Hygiene Benelux. While severe weather affected trading at the beginning and at the end of 2010, overall management of City Link was weak, evidenced by high usage of ad-hoc sub-contractors, inadequate contingency planning and poor engagement of front-line colleagues. In Textiles & Hygiene Benelux several years of weak management control resulted in higher than anticipated restructuring costs and inappropriate pricing decisions. Although controls began to improve on the appointment of new management in December, recovery remained at an early stage of development.

Delivering profitable growth

Despite the weak performances in City Link and Textiles & Hygiene Benelux, adjusted profit before tax grew by 15% to £192.3m. Double digit growth in Pest Control, Initial Facilities and Asia Pacific reflected the impact of new management, robust cost control and restructuring programmes. In addition Programme Olympic piloted various initiatives to underpin sales and provide potential for growth including IT investments to aid sales productivity, cross selling, job sales and pricing, customer account management and customer complaint management. Growth was also aided by service line expansion in Initial Facilities through the acquisition of Knightsbridge Guarding.

Building momentum

In 2011 our operational excellence agenda delivered increasing revenue growth in the pest control, hygiene, textiles and facilities services categories despite no easing of market conditions. We were particularly pleased with the rates of growth achieved towards the end of Q4. During the year our acquisitions also performed well, contributing a net £41m of the increase in revenue. Cost savings of £44m were generated during the year.

Mixed performance from turnaround businesses – City Link and Textiles & Hygiene Benelux

We were pleased with the performance of Textiles & Hygiene Benelux in 2011, with the business achieving its planned revenue and profit growth targets during the year. The business was accordingly removed from the critical list. However, while considerable operational progress was made at City Link in the areas of sales & marketing, operations, customer care, and contingency planning, financial performance was disappointing with lower RPC and poor productivity resulting in increased losses for the year. We were very pleased to welcome to City Link a new, highly experienced management team from Parcelforce in Q4 2011 and during the first half of 2012.

Resumption of dividend payments

Although the board was not satisfied with the financial performance of City Link, good progress in Textiles & Hygiene Benelux and the rest of the group, continued strong cash generation, reductions in net debt and resolutions to pension funding and borrowing arrangements, gave the board sufficient confidence to recommend payment of a final dividend in respect of 2011.

Achieving our Objectives in 2012

Since 2008 the Company has invested in the capability of its people and systems. During 2012 we focused on delivering the benefits of this investment through four key objectives.

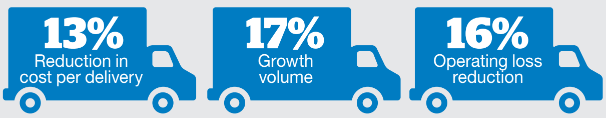
Objective 1

To turnaround the financial performance of City Link

Operational efficiencies at City Link this year included strengthening of management capability, systems and processes

In 2012 City Link's management began implementation of a comprehensive recovery plan anticipated to show material improvements by Q3. The plan has delivered productivity savings through driver efficiency (supported by 'route and round' optimisation and a move to variable pay for owner drivers) and reductions in trunking, warehouse operations and back office costs. Other initiatives have involved further strengthening of management capability, systems and processes and a review of sales effectiveness. Over the year City Link has achieved a 13% reduction in cost per delivery, volume growth of 17% and a 16% reduction in operating losses. However, offsetting this operational progress RPC has declined by 10% as our sales mix has moved toward large Tier 1 Business to Consumer customers. Efforts to maximise retention of the more profitable smaller customers is a key priority for 2013.

City Link cost reductions year on year



Objective 2

To drive greater customer satisfaction and retention through customer care and Customer Voice Counts ("CVC") initiatives

Following the successful introduction of customer care technology in City Link we have begun to roll out best practice across the group. A major pilot is underway in Textiles & Hygiene France, with both Germany and the Benelux commencing pilots from Q2 2013. The group is also rolling out proactive customer account management processes following successful Programme Olympic pilots conducted in the UK pest and hygiene businesses in 2011.

Customer Voice Counts (the group's survey of customer satisfaction), is now included in the bonus targets of many managers in order to drive outstanding customer service.

Over the year we have significantly improved customer satisfaction across the group – gaining on average 1.2 points from our CVC survey

Objective 3

To deliver £50m cost savings from productivity, procurement and back office rationalisation initiatives

The group achieved £59m of cost savings (versus a target of £50m) in 2012 through a combination of restructuring, procurement, service productivity and back office rationalisation. Textiles & Hygiene delivered £18m savings from restructuring in France and Benelux, overheads and direct/indirect procurement. Pest Control generated cost savings of £15m from restructuring in North America, the UK and Nordics Ambius, Property Care, Medical and UK Washrooms operations. City Link delivered £17m from depot driver, warehouse and hub and trunking cost initiatives. £9m cost savings were generated in Initial Facilities from business restructuring, procurement, property rationalisation, workforce management and through the application of LEAN initiatives to improve gross margins. LEAN is a collection of tools, techniques and methods used to eliminate waste, improve customer experience and reduce costs.

Cost savings in 2012 have been invested back into the group in sales & marketing and information technology – enabling us to operate more efficiently

Cost savings are calculated on a gross basis and do not take into account the impact of cost inflation in the business. In the current economic environment cost inflation in fuel, products and colleague remuneration has been running at levels in excess of our ability to recover our cost increases through price increases with our customers. In addition, we continue to invest in the capability of the business, particularly in the areas of sales & marketing and information technology. These two factors have absorbed the cost savings generated in 2012, with profit growth effectively driven by increased revenues.

Objective 4

To achieve growth through marketing & innovation, Programme Olympic and acquisitions

The group's marketing & innovation (M&I) function made good progress in 2012. Its goal is to position Rentokil Initial as the industry leader in pest control and hygiene globally for a broad range of customer types. A 'Where to Play' & 'How to Win' framework has been established. Step 1 focuses on how to prioritise resource allocation ('Where to Play'). Step 2 relates to capturing growth opportunities and considers pricing, density, and service & product differentiation ('How to Win').

The M&I function has identified nine priority projects for implementation in a number of partner countries. Examples of some of these projects are:

- The roll out of 'Advantage', giving pest control sales colleagues a professional tool to conduct thorough surveys and produce comprehensive reports for customers in the field. 'Advantage' is now in use with over 100 UK surveyors and business benefits include improved surveyor productivity and retention and introduction of new services to customers. Launch in a number of European countries is the first stage of a wider implementation plan. Development of a similar tool for hygiene is underway with pilot studies in 2012 and a phased roll out across hygiene's sales force planned for 2013
- The further development of 'PestNetOnline' with the launch of 'PestConnect' remote monitoring
- The launch of a premium hygiene product range, 'Reflection', roll-out of which commenced in June 2012. This fully-serviced solution targets high-end customers such as luxury hotels, spas, corporate head offices and premium retail stores where image and customer perceptions are paramount. This is a key element of our strategy to gain a leading position in the premium washrooms sector
- The launch of a new 'Signature' range of hygiene products following extensive research and development in 2012. This fully-serviced solution will ultimately include 32 units, covering hand hygiene, cubicle hygiene, waste management and air hygiene. The range features modern rounded designs, produced to exacting standards with antibacterial surfaces to help reduce the spread of germs. In parallel with this new product range, we will introduce a new customer-focused sales approach, incorporating new sales tools and training methods, as well as clearer sector targets. Training will focus on providing customers with a fully structured hygiene survey using diagnostic service tools. Launch is planned for April 2013
- A successful pilot of new hygiene working practices called 'On Site Service' ('OSS') for feminine hygiene units in Australia, Netherlands and South Africa was completed in 2012. Roll out will commence in a number of markets from Q1 2013 starting with Australia, in parallel with further pilot studies in South Africa

The new 'Signature' range features a new contemporary design that significantly reduces the spread of germs

Acquisitions & Disposals

The group continues to pursue a strategy of growth through carefully targeted acquisitions and purchased a number of bolt-ons in the Pest Control, Initial Facilities and Textiles & Hygiene divisions during 2012 and a significant pest control acquisition in the US. In Pest Control we acquired businesses in Italy, Turkey, Brazil, Abu Dhabi, Dubai, Canada and the United States. We were particularly pleased to have acquired California-based pest control and distribution company, Western, for an initial consideration of \$92.6m (£57.1m) in December. The company's pest control business offers both residential (52%) and commercial (48%) services from 36 locations. The company's specialty products division, Target, is the West Coast's leading wholesale distributor of specialty agricultural chemicals, application equipment, products, supplies and services and operates from 13 branch locations. The acquisition of Western significantly expands Rentokil's service footprint in the US and positions it as the third largest player in the US pest control market. In 2012 the pest control and products distribution businesses of Western generated annualised revenues of £58.6m and £37.4m respectively (please see Note 32 for financial details of acquisition activity in 2012). The integration of Western is going well with current trading in line with expectations.

Some of our recent acquisitions

WESTERN EXTERMINATOR COMPANY

EDEN ADVANCED PEST TECHNOLOGIES

asseio Presente em sua vida

totalai PEST CONTROL

Jones Consulting & Pest Services, Inc.

BRAEMAR PEST CONTROL

ModusFM

Phoenix FIRE SERVICES

Strategic Plan for 2013

Outstanding Customer Service

Customer Voice Counts is now industrialised across most of our organisation and is now included in the bonus targets of many managers in order to drive outstanding customer service.

A focus for the coming year will be on driving material improvements in colleague behaviour and in the handling of customer enquiries. Further investment in processes and systems will be made in 2013.

There are specific initiatives in two of our largest businesses – City Link and France. In City Link the key aims for 2013 will be to use customer feedback consistently to drive improvements across the business.

In France a customer care pilot will be initiated from Q2. This project will draw on best practice across both the division and the group and will seek to roll out a comprehensive solution for customer care across all French operations, on a regional basis, before the end of 2013.

The group is also rolling out proactive customer account management processes following successful pilots conducted in the UK pest control and hygiene businesses in 2011.

Developing Capability

In 2012 Rentokil Initial launched its U+ 'university' to bring together all learning and development activities and maintain high levels of colleague engagement and enablement.

It also launched People Services to enhance its people management processes. The Company continues to use its Your Voice Counts (YVC) survey to ensure it listens to colleagues and takes action to enhance motivation.

Capital expenditure on IT increased from £27.5m to £31.8m in 2012 with further increases planned for 2013 as we roll out the Programme Olympic initiatives and replace 35 year old systems in our Benelux workwear and hygiene business.

Operational Excellence

Key priorities this year will include a continuation of the City Link turnaround, establishment of a Shared Service Centre (SSC) for Asia based in Malaysia, and the roll out of a consistent Target Operating Model (TOM) across the group.

The TOM will bring greater consistency and efficiency to our SSC operations and will allow us to regionalise support functions such as customer care.

Cost and Cash

Cost savings are targeted at £50m for 2013. We aim to achieve this through branch administration / back office rationalisation and efficiencies, service and IT productivity and direct materials procurement.

Particular focus will be on the Netherlands, France, Germany, Australia and North America, as we realise the benefits of the structural and operational integration that we are implementing across the group.

Growth

The group anticipates both organic revenue growth in 2013 and further growth through bolt-on acquisitions. Initiatives this year will realise the benefits of the product and service innovation that we developed during 2012 and will include the launch of the new 'Signature' hygiene range and implementation of the 'On Site Service' proposition in a number of hygiene markets.

Further roll out of the 'Advantage' sales tablet is planned in pest control, supplemented by a range of initiatives to improve sales productivity. In addition, we will launch an internally developed, unique range of workwear garments following the acquisition of workwear design company CAWE in 2011.

The group will continue to target bolt-on businesses, primarily in the pest control category, with an emphasis on North America, MENAT, Latin America and other high growth markets. We will also look to build our position in the attractive workwear and hygiene categories.

Key Performance Indicators

Measuring achievement in 2012

The CEO uses 16 key performance indicators (KPIs) to judge progress towards strategic objectives. They are grouped within three categories: Colleagues, Customers and Shareholders. The group's progress against these KPIs is shown below.

KPIs

	Results 2012	2011
Colleagues		
Colleague engagement/enablement 'Your Voice Counts' – an employee engagement survey representing aggregate engagement rating from these reports	**71% / 70%**	72% / 69%
Sales colleague retention The reciprocal of total sales heads leaving in year as percentage of sales headcount at start of year	**70%**	65%
Service colleague retention The reciprocal of total service heads leaving in year as percentage of service headcount at start of year	**77%**	72%
Health & Safety lost time through accidents (LTA) rate Defined as work-related injury/illness resulting in employee absenteeism for one day/shift or more (excluding day/shift in which the accident occurred). Number of lost time accidents expressed as rate per 100,000 standard working hours	**1.20**	1.44
Customers		
Gross sales percentage of opening portfolio Additions to portfolio (new business and additions to existing business but excluding price increases) expressed as percentage of opening portfolio	**14%**	15%
Customer retention percentage The reciprocal of total terminations (reductions and terminations) expressed as percentage of opening portfolio	**84.9%**	83.9%
Net gain percentage of opening portfolio Movement in portfolio expressed as percentage of opening portfolio	**1.6%**	1.6%
State of Service Total number of service visits performed divided by total number of visits due	**98%**	98%
Customer satisfaction (Customer Voice Counts) Measured by average net promoter score rating across all branches. The CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting	**8.8**	7.6
Shareholders		
Organic revenue growth Revenue growth (excl. acquisitions and disposals)	**0.8%***	(0.5%)
Total revenue growth (incl. acquisitions) Year on year increase in total revenue expressed as percentage of prior year revenue (at CER)	**2.8%**	1.2%
APBITA margin Before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items	**9.0%**	8.8%
Debtors (days sales outstanding – DSO) Trade debtors gross of provisions calculated on the exhaust basis (i.e. going back over relevant number of preceding days' invoicing until debt balance is zero). Number of days taken = debtor days	**49**	45
Cost savings Savings delivered in year related to permanent cost reductions	**£59m**	£44m
Cash conversion as percentage of operating profit Operating cash flow expressed as a percentage of APBITA	**92%**	92%
Gross capex as percentage of depreciation Cash capital additions (net of proceeds from disposals) expressed as percentage of depreciation	**107%**	103%

*excluding Initial Facilities Spain where the business is being scaled down to reduce financial exposure. This has impacted group performance by 0.4%.

Business Overview & Review

Business Overview

The tables below represent revenue and adjusted operating profit* (APBITA) by segment, as disclosed in Note 1 to the accounts, split across the main groups of business category and activity, as described on the inside of the front cover: pest control, hygiene, workwear, plants, facilities services and parcel delivery. "Other" represents a number of small businesses outside the other categories. The segment information disclosed in Note 1 to the accounts is presented in accordance with IFRS 8 "Operating Segments".

This additional information is designed to provide further details split by category and activity given that a number of our segments include businesses from different categories.

From 2013 onwards we propose to reflect the regional basis of our operating structure in the way we report internally and externally. The term 'division' will no longer be used and the divisional teams will be called regional teams: West, East and Asia. Initial Facilities and City Link will report under their current names.

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

	2012 Revenue (CER)								
	Pest Control £m	Hygiene £m	Workwear £m	Plants £m	Facilities Services £m	Parcel Delivery £m	Other £m	Total £m	APBITA (CER) £m
France[1]	23	76	250	5	–	–	24	378	63
Benelux[1]	51	85	110	22	–	–	12	280	56
Germany[1]	47	67	89	2	–	–	10	215	48
Pacific[1]	64	69	–	16	–	–	–	149	29
North America[2]	178	–	–	62	–	–	–	240	29
UK and Ireland[2]	80	84	–	9	–	–	47	220	32
Rest of World[2]	86	88	–	23	–	–	–	197	42
Asia	46	51	–	–	–	–	2	99	6
Initial Facilities	–	14	–	–	579	–	–	593	30
City Link	–	–	–	–	–	322	–	322	(26)
Overheads (centre and divisional)	–	–	–	–	–	–	–	–	(73)
Group	**575**	**534**	**449**	**139**	**579**	**322**	**95**	**2,693**	**236**
APBITA (CER)	**119**	**110**	**72**	**14**	**26**	**(26)**	**(79)**	**236**	

1 In 2012 the Textiles & Hygiene division constituted France, Benelux, Germany (including Austria, Switzerland and Czech Republic) and Pacific apart from the pest control and plants businesses in these countries. The division also included £33m of other revenue in the UK and Ireland.
2 In 2012 the Pest Control division constituted North America, UK and Ireland and Rest of World, as well as the pest control and plants businesses in France, Benelux and Germany but excluding the £33m of other revenue in the UK and Ireland included in Textiles & Hygiene.

	2011 Revenue								
	Pest Control £m	Hygiene £m	Workwear £m	Plants £m	Facilities Services £m	Parcel Delivery £m	Other £m	Total £m	APBITA £m
France	23	74	243	5	–	–	15	360	63
Benelux	50	84	109	21	–	–	11	275	53
Germany	44	67	87	2	–	–	11	211	43
Pacific	65	67	–	15	–	–	–	147	29
North America	158	–	–	63	–	–	–	221	26
UK and Ireland	79	90	–	10	–	–	49	228	34
Rest of World	83	89	–	22	–	–	–	194	44
Asia	41	50	–	–	–	–	2	93	5
Initial Facilities	–	13	–	–	568	–	–	581	27
City Link	–	–	–	–	–	307	–	307	(31)
Overheads (centre and divisional)	–	–	–	–	–	–	–	–	(68)
Group	**543**	**534**	**439**	**138**	**568**	**307**	**88**	**2,617**	**225**
APBITA	**115**	**108**	**67**	**12**	**27**	**(31)**	**(73)**	**225**	

Business Review

This review of performance takes a close look at each of our business divisions – Textiles & Hygiene, Pest Control, Asia, City Link and Initial Facilities. In each case we report on strategic **objectives and priorities**, **market conditions** in 2012, our **performance** during the year and our **focus for 2013**.

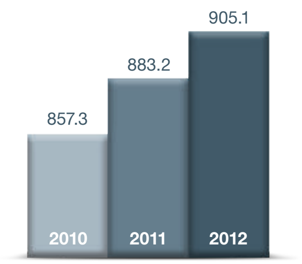
Basis of preparation

Segmental information has been presented in accordance with IFRS 8 "Operating Segments" which the group has implemented with effect from January 2009. Full details of the basis of preparation are set out in Note 1 to the Accounts on page 80.

Textiles & Hygiene

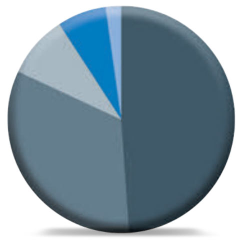
Understanding Textiles & Hygiene

Revenue (CER) (£m)

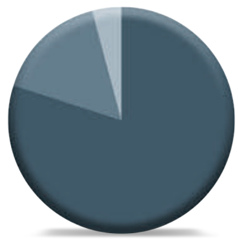


Group Revenue (%)

Business Mix (%)



Location (%)



Market Conditions

Overall performance across our markets was stable, despite difficult market conditions. Revenue growth was slow in Benelux in weak market conditions, however the business delivered significant gains in profitability reflecting further turnaround of the business and prior-year restructuring. Profit growth was negatively impacted in France by changes in profit sharing legislation and also in Australia, where the pest jobs and products business suffered from adverse weather conditions. Our German operations continue to perform robustly.

Performance

Performance from the Textiles & Hygiene division was impacted by an increasingly difficult macro-economic environment in Northern Europe. Revenue grew by 2.5% (0.8% organic) after adjusting for the acquisition of a workwear supply chain business in Q4 2011 and the disposals of Austrian flat linen and Australian towel rolls cleaning businesses in H1 2012. Despite a general slow down in the economy Germany delivered another robust performance with growth of 4.2%. France grew by 2.4% and the Benelux by 0.5%. Australia grew by 1.2% reflecting a strong increase in contract sales, offset by adverse weather conditions affecting the pest control product and job business. While new business was only 1.7% higher than the prior year, terminations improved by 17.6% leading to divisional customer retention of 89.1%, up 2.7% on 2011.

Profit rose by 3.5% (3.5% organic) driven by strong performance in Benelux as well as growth in Germany and France.

Outlook

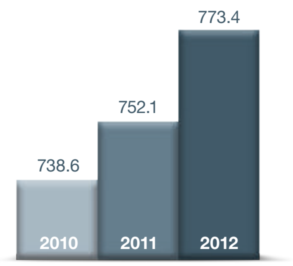
The economic outlook in the Eurozone for 2013 continues to look challenging. However, initiatives in sales & marketing will help mitigate these adverse conditions. Initiatives include further roll out of the ‘Reflection’ range, launch of the new ‘Signature’ range and launch of seven new garment collections in workwear. On-going development of our internal workwear supply chain will result in a significant increase in the internalisation of our garments development and supply, supported by a reorganisation of warehousing operations in Continental Europe. Significant investments are also being made in processing capacity in our growing cleanroom businesses. Cost efficiencies will continue to be pursued in processing and back office administration.

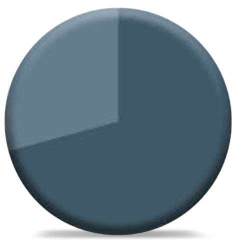
Focus for 2013

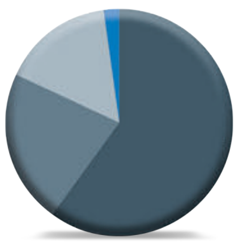
1. Integration of pest control and plants businesses into existing operations by country – division to be named as ‘East’ region
2. Launch of new innovative product lines in both workwear and hygiene categories
3. Continued focus on customer care
4. Investment in processing productivity and capacity
5. Further cost savings programmes including additional investments in processing, back office efficiencies and integration of service lines into single country structures

Pest Control

Understanding Pest Control







Market Conditions

The economy continues to be a challenge in many of our core pest control markets, including the UK, Netherlands, France, Southern Europe and Ireland. In North America, the Nordics, Central and Eastern Europe conditions have been more buoyant.

Performance

The Pest Control division delivered a solid set of results in mixed market conditions. Revenue grew 2.8% (0.4% organic) aided by a number of bolt-on acquisitions during the year. The strongest performance came from North America, up 10.3% (5.5% organic). The acquisition of Western was completed at the beginning of December 2012 and we expect a strong contribution in 2013. Despite a weak summer season the UK pest business grew by 2.4%. The performance of the UK washrooms business continues to improve with revenue decline slowing to 3.7% in H2 (H1 2012: 7.1%). In Continental Europe good performances from Germany, Austria, Switzerland, Belgium and the Nordics were partially offset by more difficult conditions in Southern Europe, with overall revenue growth of 1.0%. East Africa and the Caribbean grew by 2.6% and our presence in Central and South America (through the acquisitions in Mexico and Brazil) continues to develop. Our new operations in the Middle East (Abu Dhabi and Dubai) and Turkey are growing in line with expectations.

Profit grew by 3.6%, with slower growth in the UK and Continental Europe more than offset by North America, Germany, East Africa and the Caribbean. Profit declined in Southern Europe and Ireland, impacted by the on-going Eurozone crisis.

Outlook

The outlook for 2013 remains challenging, with difficult trading conditions expected to continue in a number of markets. Our presence in more robust and higher growth emerging economies will continue to offset more challenging conditions in Southern Europe.

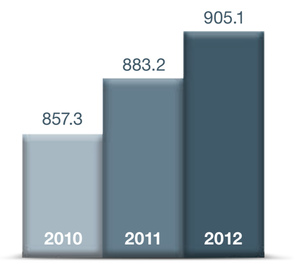
Focus for 2013

1. Integration of workwear, hygiene and plants businesses into existing operations by country – division to be named as 'West' region
2. Growth through sales, marketing & innovation
3. Integration of key acquisitions, most notably North America
4. Continued focus on cost savings through service productivity and back office administration
5. Further acquisitions in targeted regions

Asia

Understanding Asia

Revenue (CER) (£m)

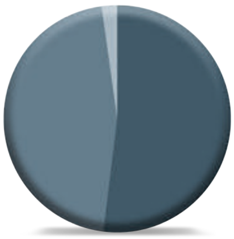


Group Revenue (%)

Key

4% of Group Revenue

Business Mix (%)



Key

52% Hygiene
46% Pest Control
2% Other

Location (%)

Key

100% Asia

Market Conditions

Trading conditions in the Asian pest control and hygiene markets softened during the year with the Singapore economy going into recession during the second half of 2012. While we saw growth in the territories of Indonesia, India and Vietnam, these regions are experiencing accelerated levels of cost inflation which is negatively impacting margins.

Performance

Revenue in Asia grew by 6.2% (7.4% organic). Pest control grew by 11.2% and hygiene by 3.9%, with both categories benefiting from a combination of market development and gains in share from competitors. Double digit growth from our operations in the emerging markets of India (+38.2%), China (+31.3%), Vietnam (+21.4%) and Taiwan (+11.6%) reflects our investment in sales & marketing over recent years while our operations in the more mature markets of Malaysia, Singapore and Brunei continue to deliver very high single digit growth. Elsewhere Indonesia grew by 4.0%, Korea by 5.2%, the Philippines by 4.4% and Hong Kong by 2.4%, with Indonesia in a period of consolidation following rapid consistent double digit growth over the last five years.

Profit in Asia rose by 39.1% driven by revenue growth. Gross margins rose slightly with traction in pricing, density and gains in productivity offsetting increasing inflationary pressures.

Outlook

The business exited 2012 with strong portfolio growth and anticipates conditions in 2013 to remain favourable, albeit with continued inflationary challenges in India, Indonesia, China and Vietnam.

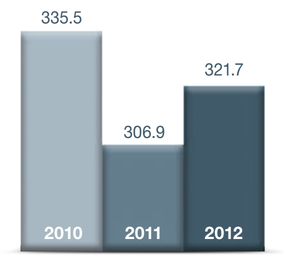
Focus for 2013

1. Growth through on-going market development, gains in share from competitors and product innovation
2. Greater sales effectiveness and productivity supported by introduction of new technology and software
3. Continued refinement of pricing policy to reflect local market conditions and offset relatively high regional cost inflation
4. Drive standardisation of operations and back office for consistency of service offering and cost reductions
5. Launch of hygiene offer in China

City Link

Understanding City Link

Revenue (CER) (£m)



Group Revenue (%)

Key
12% of Group Revenue

Business Mix (%)

Key
100% Parcel Delivery

Location (%)

Key
100% UK and Ireland

Market Conditions

During 2012 there was continued growth in the B2C sector, as a result of the growing trend in online shopping, while growth in the B2B market has remained slow, reflecting the weak economic environment. Online retailers now require greater flexibility particularly during late December with peak trading days coming later in the month as consignees buying behaviour changes. Overall the market remains very competitive with quality of service being the key requirement for our customers.

Performance

City Link's revenue increase of 4.8% has been driven primarily from growth in online shopping in 2012. This has skewed the business's customer mix towards the larger, but lower margin, Tier 1 customers leading to an overall decline in RPC of 10%. While new business was in line with expectations, declines in the smaller, higher margin Tier 2 B2B business was disappointing. A focus on further improvements in account management and customer service is underway to better meet customer requirements and drive retention.

Productivity savings were a key focus in 2012 and in this regard City Link was successful, with direct cost per consignment falling by 13%. While we have been pleased with the cost savings and the growth in Tier 1 business, the disappointing performance of higher-margin smaller customers has meant that financial performance in the year was behind our initial expectations. City Link's full year operating loss of £26.4m represents a 15.7% improvement on 2011, aided by a second half profit improvement of £5.6m (41.5%), and Q4 improvement of £4.3m (64.2%).

Outlook

The B2C market is expected to continue to grow while the B2B market remains more susceptible to economic conditions. We will focus on improving service to all customers with a particular emphasis on Tier 2 and Tier 3 customer retention. Price increases will be implemented across our customer base reflecting our value in the market.

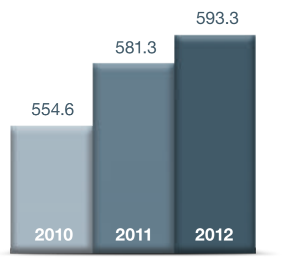
Focus for 2013

1. Stabilising quality of service and improvements in customer service and account management
2. Focus on maximising retention of Tier 2 and Tier 3 customers
3. Introduction of Estimated Time of Arrival for consignees
4. Monthly review of customer profitability and implementation of targeted price increases to ensure appropriate margin development
5. Improvements in added-value products and enhanced service offering including International and Post

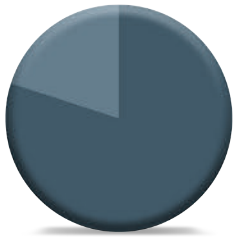
Initial Facilities

Understanding Initial Facilities

Revenue (CER) (£m)



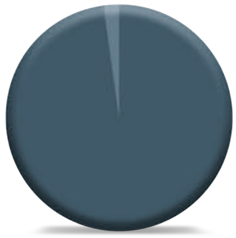
Group Revenue (%)



Key

22% of Group Revenue

Business Mix (%)



Key

98% Facilities Services
2% Hygiene

Location (%)

Key

92% UK and Ireland
8% Europe

Market Conditions

Economic conditions in 2012 continued to be challenging, with customers looking for overall cost reduction opportunities, and for opportunities to reduce discretionary expenditure.

Performance

While there was no improvement in market conditions in 2012 Initial Facilities performed well overall, growing revenue by 3.8% (excluding Spain where the business is being scaled down to reduce financial exposure). Growth was aided by the MSS, Modus and Phoenix Fire acquisitions, all of which performed strongly. Underlying revenue (excluding Spain and acquisitions) declined by 1.7%, driven largely by a number of contract reductions and terminations from retail customers.

Further progress in improving operational efficiency and on-going cost reductions have helped contribute to improvements in profitability, with growth of 9.6% for the full year. Excluding acquisitions, profit grew by 5.2% year on year.

Outlook

Continued uncertainty remains around the UK economic outlook for 2013 and consumer confidence is expected to remain weak. In the coming year Initial Facilities will continue to de-risk its Spanish business, further withdrawing from lower margin, slow paying contracts, and concentrating on growing higher margin, faster paying customers. 2013 is also likely to see a further managed contraction within the UK single service cleaning sector with greater focus being placed on providing multi-service/TFM solutions to customers.

Focus for 2013

1. Increase proportion of multi-service contracts through targeted sector offering, service innovations and operational initiatives
2. Leverage recent acquisitions to drive top line growth through increased new contract win rate
3. Improve gross margins through applying LEAN principles to service delivery
4. Drive net margin improvement through further cost savings in back office administration

Financial Review

Overview

Full year revenue of £2.6bn grew by 2.8% on 2011 at constant exchange rates, 0.8% organic (excluding the Spanish cleaning business). Acquisitions performed well, contributing 2.4% (£60.6m) of revenue growth.

Textiles & Hygiene grew revenue by 2.5% in 2012, aided by a continuing robust performance from Germany and steady performances from France and Australia.

Pest Control grew by 2.8%, aided by a particularly strong performance in North America and solid growth in the UK. While Central, Eastern and Northern Europe operations have traded well, operations in Southern Europe have struggled in notably weak markets. Growth in Pest Control was boosted by acquisitions in North and South America and the Middle East.

Initial Facilities' revenue growth of 2.1% was driven by strong performances from three technical services acquisitions, while underlying revenue (excluding Spain and acquisitions) fell by 1.7%. This decline was the result of a number of contract reductions and terminations from retail customers.

Revenue in Asia grew by 6.2%. Both the pest control and hygiene categories performed well, benefiting from further market development and gains in share from competitors. Operations in emerging markets (including India and China) delivered double digit growth while operations in the mature markets of Malaysia, Singapore and Brunei recorded very high single digit growth.

City Link grew revenue by 4.8%, driven primarily from growth in online shopping in 2012. The business delivered significant savings in productivity during the year with direct cost per consignment falling by 13%. City Link's full year operating loss of £26.4m was a 15.7% improvement on 2011, aided by a second half profit improvement of £5.6m (41.5%), and Q4 improvement of £4.3m (64.2%).

Reorganisation costs and one-off items – operating

References to adjusted operating profit and adjusted profit before tax exclude operating reorganisation costs and one-off items, totalling a net cost of £51.8m (2011: £38.2m) that have had a significant impact on the results of the group. £37.6m (2011: £34.6m) of these relate directly to the group's major reorganisation programme and consist mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties. One-off items of £14.2m (2011: £3.6m) include £2.0m of acquisition costs, £3.8m of employment costs relating to an enforceable undertaking agreed with the Australian Fair Work Ombudsman and £10.2m of impairments, property costs and redundancies relating to the Belgian flat linen business subsequently classified as held for sale. These costs have been separately identified as they are not considered to be 'business as usual' expenses and have a varying impact on different businesses and reporting periods. Details of reorganisation costs and one-off items incurred in the period are set out in Note 1.

Net debt and cash flow

£ million at actual exchange rates	2012 £m	2011 £m	*Change £m*
Adjusted operating profit[1]	**222.8**	224.7	*(1.9)*
Reorganisation costs and one-off items – operating	**(51.8)**	(38.2)	*(13.6)*
Depreciation	**203.1**	204.2	*(1.1)*
Other non-cash	**16.8**	7.0	*9.8*
EBITDA	**390.9**	397.7	*(6.8)*
Working capital	**(24.7)**	(32.1)	*7.4*
Capex – additions	**(218.4)**	(216.4)	*(2.0)*
Capex – disposals	**9.2**	5.5	*3.7*
Operating cash flow	**157.0**	154.7	*2.3*
Interest	**(44.2)**	(44.4)	*0.2*
Tax	**(35.6)**	(44.5)	*8.9*
One-off items – financing	**(31.4)**	–	*(31.4)*
Disposal of available-for-sale investments	**2.1**	0.1	*2.0*
Free cash flow	**47.9**	65.9	*(18.0)*
Acquisitions/disposals	**(82.8)**	(32.0)	*(50.8)*
Dividends	**(36.2)**	–	*(36.2)*
Special pension contribution	**(12.5)**	–	*(12.5)*
Foreign exchange translation and other items	**13.1**	0.7	*12.4*
(Increase)/decrease in net debt	**(70.5)**	34.6	*(105.1)*
Closing net debt	**(989.5)**	(919.0)	*(70.5)*

1 before amortisation and impairment of intangibles (excluding computing software), reorganisation costs and one-off items

Operating cash flow was £2.3m higher than 2011 due to reduced working capital outflows offset by lower EBITDA.

Total tax payments were £35.6m compared with £44.5m in 2011, with the decrease attributable to the phasing of payments relating to prior liabilities. Interest payments at £44.2m were in line with 2011. The acquisition/disposal outflow of £82.8m largely reflects the acquisition of Western. Foreign exchange translation and other items increased cash flow by £13.1m, leaving an overall outflow of £70.5m and net debt of £989.5m.

Central costs

Central costs of £52.0m increased by £7.4m from 2011 reflecting investment in the new marketing & innovation function and improvements in IT capabilities through Programme Olympic.

Funding

At 31 December 2012 the group had net debt of £989.5m and a strong liquidity position, comprising over £200m of funds and £510m of available undrawn committed facilities, with £50m of bond maturities in 2013. This follows the issuance in September of a €500m seven-year bond paying a coupon of 3.375%.

The bond has provided funding for:

– The acquisition of the Western business at a cost of $92.6m (£57.1m)

– The repurchase of the group's £75m puttable/callable resettable bond at its fair value of £103.7m

– The repurchase of €14.5m of the €500m 2014 bond at a premium of £0.6m

It will also provide funding for:

– The repayment at maturity of the group's £50m bond maturing September 2013

– An element of the group's €500m 2014 maturity

The group signed a two-year £240m revolving credit facility (RCF) in December 2012 to provide further liquidity for the €500m 2014 maturity.

The group's policy is to fund maturities at least 12 months in advance, in accordance with Standard & Poor's liquidity requirements for investment grade companies.

In assessing the appropriateness of the going concern assumption, the directors considered a base case using the above forecasts and sensitivity analysis including a downside scenario to ensure that headroom and covenants would not be breached.

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

On the basis of over £700m of available liquidity at 31 December 2012, positive projected operating cash flows and the levels of discretion available to management to manage cash flows, the directors continue to adopt the going concern basis in preparing the accounts.

Dividend

The Company resumed the payment of dividends in 2011, paying a final dividend for the year. Despite challenging market conditions, the Company has made good progress during the year and we anticipate further progress in 2013. Taking this into consideration, the board is recommending a final dividend in respect of 2012 of 1.43p per share, payable to shareholders on the register at the close of business on 19 April 2013 to be paid on 21 May 2013. This equates to a full-year dividend of 2.1p per share, on an approximately one third/two thirds interim/final basis.

Interest and one-off items – financing

Net interest payable of £36.3m was £8.3m lower than in 2011. Underlying interest (excluding pension interest) was £48.6m, compared to £47.8m in the prior year, an increase of £0.8m, due to higher net debt. Financing one-off items, totalling £31.4m (2011: nil), relate to the premium on the repurchase of the group's £75m bond.

Net interest payable will from 2013 exclude pension scheme interest which reduced the net charge by £12.3m in 2012.

Tax

The income tax expense for the year was £29.0m on the reported profit before tax of £82.7m. After adjusting profit for the amortisation and impairment of intangible assets (excluding computer software), reorganisation costs and one-off items, the effective tax rate for the year is 25.5% (2011: 24.9%). This compares with a blended rate of tax for the countries in which the group operates of 28% (2011: 29%). The principal factor that caused the effective tax rate to be lower than the blended rate is the release of prior-year provisions for tax no longer considered necessary as various issues were either settled or became statute barred in the year.

IFRS 8

Segmental information has been presented in accordance with IFRS 8 "Operating Segments" which the group has implemented with effect from 1 January 2009. This statement reflects internal organisation changes made in 2012 with Pacific business units transferring from the Asia division to the Textiles & Hygiene division, the integration of Ambius into the Pest Control division, the UK Specialist Hygiene business unit transferring from the Pest Control division to the Initial Facilities division and the Medical Services business units transferring from the Textiles & Hygiene division to the Pest Control division. The segmental information also reflects changes made in 2011 with our Scandinavian and Iberian Textiles & Hygiene business units and some small pest control business units transferring from the Textiles & Hygiene division to the Pest Control division. Prior-year comparisons have been restated.

Financial risk management policies

Financial risk management polices are shown in Note 24 on pages 109 to 110.

Acquisitions

The group acquired businesses in the year for a net consideration of £95.4m. Details of businesses acquired and revenue and operating profit therefrom are set out in Note 32 to the accounts.

Pensions

At 31 December 2012 the Company's UK defined benefit pension scheme, which is closed to new members, was valued at an accounting surplus of £96.9m on the Company's balance sheet. The trustees value the scheme on a different basis and a deficit at 31 March 2010 of £80m was agreed. Annual contributions of £12.5m for eight years were agreed to fund the deficit and the Company made its first annual contribution of £12.5m in January 2012 and second contribution in January 2013. A triennial valuation will take place this year, effective from 31 March 2013.

Accounting standards

The financial statements included in this annual report have been prepared and presented under IFRS as adopted by the EU. The group's accounting policies are set out on pages 80 to 87.

Risks and Uncertainties

Risk management approach

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

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

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

Some of the above responsibilities are delegated to the Audit Committee, the full remit of which is described on pages 50 to 53.

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

- setting targets and objectives for their respective teams and divisions in line with the agreed group strategic direction
- monitoring of business performance through monthly and quarterly meetings with divisional and functional leadership which include reviews of financial performance, non-financial metrics, latest financial forecasts and progress in delivering the projects to drive operational excellence and capability improvement
- compilation and regular review of the group risk register which defines the key risks that the Company faces in delivery of its strategy and ensures that the options to manage or mitigate the risks as appropriate
- ensuring that the business maintains sound systems of internal control, and that appropriate assurance mechanisms are in place to confirm that these internal controls are working effectively. This includes controls relating to the preparation of financial statements, operational controls and controls to ensure that the business meets its legal and regulatory obligations, e.g. in health and safety, tax and employment
- delegating authorities to ensure that decisions are always made at the appropriate level in the organisation taking into account the level of risk involved (financial and non-financial)
- promulgating the Code of Conduct which defines how employees, and others who act on behalf of the Company, must behave when dealing with colleagues, suppliers, customers and other stakeholders. This includes approval of policies, procedures and processes that underpin the Code of Conduct and are designed to ensure that the group meets its legal and regulatory obligations

Assurance and re-assurance

The group risk committee, chaired by the Chief Financial Officer, has oversight of the group's risk and control framework, reviews the risks that the group faces and the effectiveness of internal controls. It comprises representatives from finance, IT, HR and the company secretary.

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

Independent re-assurance of the effectiveness of risk management and internal controls across the group is provided to the chief executive and the board by group internal audit.

Principal risks

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

The principal risks most relevant to the group have been mapped against the group's five strategic thrusts and are described in the table on pages 28 to 30, together with mitigating actions. 'Assurance Risks', which relate to activities that the group must undertake in order to meet legal, fiscal and governance obligations, are also shown. Risks and mitigating activities are regularly reviewed by the board and the company executive board, but it should be noted that remedial actions taken may not be sufficient on their own to fully mitigate the risks, should they materialise.

Financial risks

Full details of the Company's financial risks can be found in Note 24 on pages 109 to 110.

Other risks

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

Risks and Uncertainties

Strategic Thrusts	Risk Description	What we are doing to manage and /or reduce the risk
1. Delivering Outstanding Customer Service	• Achieve service level targets	• Global KPIs are defined for state of service. These are reviewed monthly at local, divisional and group level and incorporated into employee reward schemes
	• Achieve or exceed customer satisfaction	• Customer account management processes have been rolled out following successful trials in the UK pest control business. Customer Voice Counts (net promoter score) surveys are regularly undertaken across the group, included in group KPI reporting

Strategic Thrusts	Risk Description	What we are doing to manage and /or reduce the risk
2. Developing the Capability of our Organisation and People	• Ensure sufficient and capable resource is in place across the group to drive the operational excellence agenda including implementation of new information systems and technologies	• A detailed project management process, PFI Lite, is used to drive all significant projects. The Company executive board prioritises the projects to ensure sufficient resources, financial and manpower (including IT), are available to deliver the projects to the agreed budget
	• Roll out a sustainable pipeline of new innovation across the business	• A group marketing & innovation function was established in 2012, focusing on innovation for the hygiene and pest control categories, leveraging the group's global scale and ensuring effective development and deployment
	• Development of a professional sales capability across the business	• A global sales leadership team (GSLT) has been established to drive improved sales capability, training and selling tools as well as to support activity at divisional/country level

Strategic Thrusts	Risk Description	What we are doing to manage and /or reduce the risk
3. Delivering Operational Excellence in all our Processes and Functions	• City Link turnaround is not delivered	• Significant improvements to the operating model have been implemented during 2012 and most KPIs showed improved performance. Losses were reduced by £5m in the year, of which £4m was achieved in Q4
	• Recruit to Reward project fails to deliver step-change in HR capability and operations	• HR processes have been globally defined and are being implemented on a rolling basis, starting with pilots in the UK, Spain, Australia, South Africa and North America. Progress is monitored regularly by the Company executive board
	• Poor implementation of new accounting systems and processes (Record to Report project) results in loss of finance transaction/reporting capability	• The business continues to rationalise its accounting systems, with Malaysia and Portugal two of several upgrades planned in 2013. Project management disciplines noted above are fully employed globally and locally to ensure that cut-over does not disrupt the operation of the business
	• Effective integration of acquisitions	• A detailed implementation checklist is in place for deployment on completion of an acquisition. Implementation is regularly monitored by senior management, and internal audit reviews the internal controls of all acquired businesses within 12 months of completion
	• Poor service scheduling and productivity	• Route optimisation techniques have been applied to categories where efficient multiple service calls are a critical part of the business model – parcels, pest control, workwear and hygiene

Strategic Thrusts	Risk Description	What we are doing to manage and/or reduce the risk
4. Operating at Lowest Possible Cost consistent with our service objectives and delivering Maximum Cash	• Identify and execute cost saving opportunities	• Cost savings programmes are in place across all divisions and are monitored monthly. Cost savings of £59m were delivered in 2012
	• Poor supply chain management (including procurement)	• An SKU rationalisation project has largely been completed in Textiles & Hygiene as a pre-cursor to centralising warehousing and distribution across Europe, which will be implemented in the first half of 2013
	• Achieve operating cash flow targets	• Cash conversion targets and days outstanding debtors targets are set for all divisions and countries and are monitored monthly
	• Deteriorating ability to collect debts due to weak economies impacting our customers, especially governments	• Aged debtors KPIs are monitored monthly. The creditworthiness of new customers and material existing customers is regularly reviewed. Credit limits are applied based on an assessment of risk
	• Financial market risks - foreign exchange risk, interest rate risk, liquidity risk, counterparty risk and settlement risk	• Detailed policies are in place that require group treasury to approve, oversee and monitor all financial market risks
	• Volatility in pension scheme funding obligations adversely impacts group profitability or cash flow	• Pension provision is via defined contribution schemes for all current employees. The Company's defined benefit scheme is funded in a way that reduces its exposure to interest rate and inflation risk

Strategic Thrusts	Risk Description	What we are doing to manage and/or reduce the risk
5. Delivering Profitable Growth through Organic and Acquisitive Actions	• Win profitable new customers	• Initiatives to win new customers such as tele-appointing, bids and tenders and online tools as well as the development of cost-to-serve models to enable more competitive pricing of the service offering continue to be rolled out, coordinated by the GSLT (see above)
	• Up-sell to existing customers	• A common sales process, supported by CRM technology, is being developed to share customer information and identify cross-selling opportunities. Sales training and improved incentive schemes are being rolled out to generate more business with existing customers
	• Retain profitable business (when renewing existing customer contracts)	• Initiatives in place to improve the monitoring of customer satisfaction and develop customer retention plans include benchmarking, market research, a cost to serve model, and senior management involvement in re-tendering and contract renewal
	• Generate profitable growth through strategically relevant acquisition/joint venture	• A number of significant acquisitions have been completed during 2012. A pipeline of potential acquisitions is regularly reviewed by group management. The group has funding capacity for the anticipated level of bolt-on acquisitions

Assurance Risks

Risk Description	What we are doing to manage and /or reduce the risk
• Fraud, financial crime or material accounting misstatement	• There is a strong focus on regular financial controls testing, including independent testing against a set of minimum control standards by the external auditors. 'Speak-up' is available for confidential whistleblowing
• Health, Safety or Environmental breach resulting in loss of life, litigation, financial penalties or reputational damage	• The group SHE board is responsible for setting SHE policies, processes and systems and monitoring and reviewing their effectiveness. External certification and review ensure that SHE standards are maintained at an adequate level. SHE metrics are reviewed monthly by the company executive board
• Non-compliance with local tax legislation/ reporting requirement leading to material unprovided tax charge	• The group tax director monitors all local tax issues above a threshold, and approves and monitors tax contingencies
• Breach of laws or regulations (including competition and anti-trust laws and regulations)	• Group policies are in place on competition law. Compulsory e-training is required for all managers on competition law and anti-corruption laws. The group legal director is informed of all potential law breaches which may give rise to litigation
• Loss of operational capability due to major incident, (e.g. fire, flood, terrorism, war, political or civil unrest, kidnap, etc.)	• The business continuity policy has been revised and is being implemented across all business units. The implementation will be tested in 2013
• Failure to act responsibly and ethically towards colleagues, customers or business partners (i.e. failure to comply with the Code of Conduct)	• The Code of Conduct that was rolled out in 2010 will be refreshed in 2013. Code of Conduct training is taken by all new starters. An e-learning programme has been developed and will be rolled out to all senior managers through 2013. 'Speak-up' hotline monitored by group internal audit

Company Executive Board

The Chief Executive chairs the company executive board comprising the heads of the group's operating divisions, finance, human resources and information services functions. They meet regularly to review performance, priorities and operational actions.

1. Alan Brown
Chief Executive

Please see page 40.

2. Xuemei Bennink-Bai
Group Marketing & Innovation Director and Managing Director, Asia region

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

Current external commitments and relevant qualifications No external commitments. PhD in Engineering from Cambridge University and BSc in Engineering from Huazhong University of Science and Technology, China. Age 46.

3. Mike Brown
Managing Director, Initial Facilities

Skills and experience Appointed in September 2010. Formerly Group Director of Operations and prior to that CEO of Integrated Services at Serco Group plc. His previous career was with BOC Group, holding managing director positions in Europe, China and South East Asia. He also worked for Nestlé Ltd and GKN. Formerly a non-executive director of NG Bailey Ltd.

Current external commitments and relevant qualifications No external commitments. A Chartered Accountant. Age 56.

4. Chris Broe
Chief Information Officer

Skills and experience Appointed in August 2011. He joined Rentokil Initial in June 2010 initially as Programme Director before assuming responsibility as Textiles & Hygiene divisional IT Director. Prior to this he held a number of positions at Unilever, most notably as Vice President, Global Application Services and CIO, Europe.

Current external commitments and relevant qualifications No external commitments. BA (Hons) in Business Studies and a postgraduate of Warwick Business School. Age 51.

5. Andy Ransom
Executive Director and Managing Director, West region

Please see page 41.

6. Martin Sawkins
Group HR Director

Skills and experience Appointed in November 2008. Previously held positions as group HR Director at HomeServe plc; group HR Director at The AA Ltd and HR Director at Centrica Home and Road Services. Prior to this held a number of senior positions in HR and operations at British Aerospace and United Biscuits.

Current external commitments and relevant qualifications Non-executive director of Wincanton plc. BSc (Hons) in Physics from Southampton University. Age 57.

7. Peter Slator
Managing Director, East region

Skills and experience Appointed in April 2009. Previously worked for 28 years with Unilever, having been Executive Chairman in Australasia and prior to that the group Head of IT and before that Managing Director of the Foods business in Japan.

Current external commitments and relevant qualifications Board member of the European Textile Services Association. BSc (Hons) in Physics from Imperial College, London. Age 52.

8. David Smith
Managing Director, City Link

Skills and experience Appointed in December 2011. Previously at the Royal Mail Group since 2002. From the end of 2010 he was a member of the Holdings Board where he served as Chief Customer Officer for Royal Mail Group responsible for the commercial direction of the UK Letters, Parcels and International Business, and driving an agenda of customer centricity. Previous roles include Managing Director of Post Office Ltd and Managing Director of Parcelforce. He also held senior roles at RS Components UK Ltd.

Current external commitments and relevant qualifications No external commitments. A Chartered Accountant. Age 48.

9. Jeremy Townsend
Chief Financial Officer

Please see page 41.

Corporate Responsibility

Training

U+

'university' launched to coordinate all learning and development

8,000+

Training days delivered in 2012

1,120

Training courses completed online

Diversity

33,350

UK headcount

Employee gender mix (%)

Key
54% Male 17,984
46% Female 15,366

Engagement

71%
Colleague engagement

+3%
Points above the Service Industry norm

24 cleaning operatives and supervisors working on the London Underground successfully completed their apprenticeships – gaining a NVQ Level 2 in Cleaning and Support Services

Our People

Rentokil Initial employs 60,000 people in some 60 countries. Our values, identified by colleagues in 2008, are Service, Relationships and Teamwork. They are embedded into our organisation and in the annual colleague engagement survey almost eight out of ten colleagues said they had a 'good understanding' of our values. More information on our colleagues is set out in the following Corporate Responsibility pages.

Creating a great place to work

Our colleagues play a critical role in delivering the high standards of customer service that our customers expect. The Company supports its colleagues through an HR functional team operating with a shared functional perspective across all divisions. A range of KPIs are used to monitor colleagues' performance, motivation and enablement.

In 2012 the Company launched U+, its in-house 'university'. This coordinates all learning and development activities across Rentokil Initial. It operates through various channels: online; face to face; within colleague roles; and for recruits' induction. By the end of 2012 over 8,000 training days had been delivered, a further 1,120 courses were completed in U+ Online and almost 100 managers had attended the Living Leadership programme.

The Company's General Management (GM) and finance graduate programme is now in its second year within UK and European businesses. With an intake of 15 GM graduates in 2011 and 16 GM plus seven finance graduates in 2012, the Rentokil Initial graduate population has British, French, Dutch, Italian, Spanish, African, Indian, Swedish, Polish, Greek and Portuguese national representatives.

Every colleague is given an annual opportunity to express their views through a confidential survey, Your Voice Counts. The results (with key measures of colleague engagement and enablement) are fed back to colleagues and action plans developed. 76% of colleagues responded in 2012 (68% in 2011).

A key focus for the central HR team is to deliver high quality HR systems and processes. Following the successful implementation of the global grading and performance management programmes, the People Services function was launched to a pilot population of 2,500 colleagues in March 2012. This included introducing a 'tiered' approach to providing a centralised helpdesk, HR administration and payroll services. Its objective was to enable the HR teams to achieve smarter working by automating people processes and generating information, giving them extra time to focus on strategic priorities and make better informed decisions.

People Services has four main components: People Services UK, the team which offers a SSC to improve processes right across the employee lifecycle and improve vastly case management and response times to the workforce; Workday, which is a cloud-based self-service human resources information system covering 'hire' to 'leavers' processes; JobTrain, which is an e-recruitment system to ensure more cost effective hiring and candidate tracking; and Learning Management, via the U+ portal, to improve the learning and development processes. In 2012 the People Services team handled over 23,000 cases and there were over 30,000 Workday transactions initiated by either managers or People Services.

In 2012 the Company commenced recording diversity data through People Services. In the UK it has ethnic origin data for over 60% of colleagues and this effort will continue throughout 2013. The gender breakdown for the UK is 54% male and 46% female. Of those in the UK that are work level 3 (operational management) and above, 31% are female. The Company also has worldwide data for those managers that are work level 3 and above.

These total 2,364 across the globe and 30% are female. Of the Company's graduate intake 39% are female. The Company's policy is to recruit, appoint and promote on the merit of the individual.

Within Initial Facilities, which employs the majority of the Company's colleagues, the divisional managing director chairs a Diversity Board which has reviewed and updated policies and procedures including equal opportunities, family friendly policies, recruitment and selection. The division has identified that one of the gaps in moving from operative to supervisor is literacy and numeracy and has therefore put 63 colleagues though the Values Programme which incorporates adult literacy and numeracy. 75% of managers in the Healthcare business unit have been trained to NVQ Level Two certification in equality and diversity.

Colleagues

KPI	2008	2009	2010	2011	2012
Engagement survey response rate	n/a	65%	67%	68%	76%
Colleague enablement score	n/a	68%	68%	69%	70%
Colleague engagement score	n/a	70%	70%	72%	71%
Sales colleague retention	55%	64%	64%	65%	70%
Service colleague retention	74%	74%	76%	72%	77%

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

Global management population

Work level	Female	Male	Total	% Female
Country and functional managers Work level 3	616	1,311	1,927	32%
Country and functional managers Work level 4	85	295	380	22%
Senior executives Work level 5	5	43	48	10%
Executive board Work level 6	1	7	8	13%
Total	**707**	**1,656**	**2,363**	**30%**

The Company communicates a robust framework of codes and policies which were reviewed in 2012 and will be communicated across the group in 2013. Adherence to these codes and policies is monitored through the group's internal control framework, with operational management reinforcing ethical business behaviour. In addition, the Company operates 'Speak-up', a confidential reporting process. There were 29 control incidents reported in 2012 (28 in 2011), three of which were referred to the Audit Committee.

The Company also conducts training programmes promoting responsible behaviour relating to competition and anti-trust law as well as raising awareness and understanding of the issues relating to anti-bribery and anti-corruption. The training comprises an online programme, covering four elements including European Union competition law, anti-trust law and global competition principles and practices. Since 2007, 6,124 colleagues have completed this training (2011: 2,890) with a further 3,246 colleagues currently in process. New colleagues joining the relevant functional areas undertake this course as part of their induction training. In 2011 the programme was extended to develop awareness and understanding of the issues relating to anti-bribery and anti-corruption. By the end of 2012, 2,643 colleagues had participated in this training (1,770 colleagues in 2011) with a further 1,068 colleagues in process.

Ensuring a healthy & safe workplace

The Safety, Health and Environment (SHE) Committee reviews health and safety performance regularly using two performance measures – number of Lost Time Accidents (LTA) and Working Days Lost (WDL) because of lost time accidents. The Company's performance has improved significantly during 2012 both meeting and exceeding the 2012 targets for both the LTA and WDL rates. In 2012 the LTA rate reduced by 16% and WDL rate reduced by 25%.

The Company's 'Success is No Accident' rehabilitation scheme, introduced in 2007, continues to reduce the impact of injury. It has passed the 30-year mark of 'combined saving time'. The scheme now covers ten countries and has substantially reduced days lost as well as generally improving colleague relations. The new SHE Health Check process (designed to proactively measure SHE compliance and performance) was introduced in seven businesses.

A SHE intranet site was introduced to enhance the sharing of best practice and included a U+ SHE learning plan, governance model and a SHE induction video. Also a behavioural management programme, iLead, was introduced to ensure more visible health and safety leadership.

Regrettably there were two fatalities in 2012. A colleague in the North American pest control business, Fred Hossler, sustained fatal injuries after being hit by a heavy goods vehicle that was reversing in a loading bay on a customer's premises. In the UK a heavy goods vehicle driver in the City Link business, David Smith, died in a road traffic accident. Learnings from investigations of the causes of both matters have been promulgated in the business. Early in 2013 our colleague Matt Wood sustained fatal injuries when a helicopter crashed close to the Rentokil branch in London. Support and counselling has been provided for colleagues affected by these distressing events.

Delivering outstanding customer service and innovation

In 2012 Rentokil Initial maintained high levels of customer service and improved customer satisfaction performance (measured using the Net Promoter System, branded as Customer Voice Counts). In 2012, the managers' bonus scheme included customer satisfaction, based on CVC performance.

During the first quarter the Company launched its marketing & innovation function, focused on meeting customer needs in the pest control, workwear and hygiene categories. Key projects included development of the 'Signature' hygiene range and the 'On-Site Service' ('OSS') pilot for servicing feminine hygiene units.

The 'Signature' range will launch in 2013 following extensive research, design and testing. For instance, the new 'no touch' feminine hygiene unit was laboratory tested by opening and closing the lid 300,000 times to ensure it would last the equivalent of six years in the field, while our single can air freshener has been tested for 1,971,000 operations and our soap dispenser for 101,000 operations.

As part of the OSS pilot The Carbon Trust was commissioned to undertake an independent carbon footprint study of the OSS model. The findings showed a reduction in greenhouse gas emissions in the Australian pilot of 28% and in the Netherlands pilot of 35%.

Addressing differing sectors' hygiene, the Company has developed some customised solutions. Initial Facilities is using advanced nano coatings to reduce cleaning requirements in the Healthcare sector, as well as using a Microfibre system to reduce the risk of cross infection. In the transport sector, it uses the Microfibre floor

Health & Safety

Lost time and working days rate

-16% Reduced LTA rate

-25% Reduced WDL rate

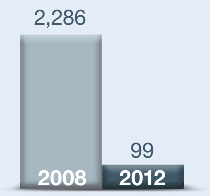
Service & Innovation

Improved customer satisfaction

+1.2 Points

Customer Voice Counts (CVC)

Stock-keeping units



Reduced stock-keeping units in Rentokil

'On-Site Service' pilots

-28% Reduced greenhouse gases in Australian pilot

'Signature' range pre-launch testing

1.9m

Air freshener 1.9m operations

101,000

Soap dispenser 101,000 operations

Health and Safety

KPI	2008	2009	2010	2011	2012
Lost Time Accidents (LTAs)	1.82	1.53	1.72	1.44	1.20
Working Days Lost (WDL)	n/a	39.66	45.63	36.16	27.03

- Number of LTAs (injuries and illnesses)/100,000 hours worked. 2012 target: 1.22
- WDL because of LTAs/100,000 hours worked. 2012 target: 30.74

Customers

KPI	2008	2009	2010	2011	2012
State of Service	89%	98%	97%	98%	98%
Customer Voice Counts (CVC)	n/a	n/a	n/a	7.6	8.8
Customer retention	81%	80%	83.9%	83.9%	84.9%

- State of Service is the total number of service visits performed divided by the total number of visits due.
- The CVC score represents the net balance of those customers promoting our service compared with those neutral or not promoting. CVC scores for Q4 2011 and Q4 2012 using Moving Annual Total analysis.
- Customer retention is the reciprocal of closing portfolio as a percentage of opening portfolios.

cleaning systems and has used its Dynamic Needs Analysis to focus on cleaning hotspots, studying peak time area usage. For the pharmaceutical, medical implants and micro electronic industries, where stringent hygiene needs are essential, Initial Cleanrooms was established, with five dedicated plants operating on a pan-European basis. For sectors, such as education, prison and medical facilities, Textiles & Hygiene launched its 'UltraProtect' products which are alcohol-free and highly effective.

Product stewardship involves considering a product's life cycle environmental and health and safety impacts. Often this involves addressing anticipated legislative requirements. This comes under the remit of the Company's Global Science Centre (GSC). Its activity has included the approval of its non-anticoagulant rodenticide, Alphachloralose, and product registration for its RADAR (mouse unit) application in both the EU and USA. The GSC has also been involved in the development of Entotherm, a heat treatment against bed bugs, moths and beetles, now offered in ten countries. In 2012 the Company also developed and launched AviGo, a non-chemical and non-invasive method to deter birds from damaging property.

Within the Rentokil pest control business the focus is on ensuring that products available to service technicians are fit for purpose and most effective. Rentokil has placed great importance in developing its Authorised Product List (APL). The selection of 'which bait is best' is made at the GSC through a rigorous evaluation procedure which includes field testing by its global network of technical managers. This approach ensures that unacceptable toxic products are not used, chemical compliance aspects are controlled and excessive dosage avoided. APL work in the USA enabled a reduction from 2,286 SKUs (stock-keeping units) in 2008 to 99 in 2012. Textiles & Hygiene has also been focused on reducing its SKUs, decreasing the number of units from 2,300 to less than 800 SKUs, excluding new products.

Working responsibly with suppliers

The priorities of Rentokil Initial's supply chain management strategy are product quality, service delivery and product cost. Group procurement includes an Asia purchasing hub, which identifies suppliers that offer innovative solutions.

A detailed analysis of spend in the key categories of direct, indirect and fleet is in progress within group procurement, as part of a programme to consolidate suppliers and products across divisions and countries. Management of suppliers includes addressing key environmental regulations, supply chain screening visits to East European suppliers and third party audits for suppliers in the developing world.

The critical supplier focus is on the use of product components that constitute potential consumer hazards or whose supply source may be in countries where corporate responsibility issues may exist. The selection of chemicals used in pesticides and fragrances is validated by the GSC against environmental, regulatory and social issues. To manage the selection of electrical components, a European quality manager covering the hygiene and pest control categories has been appointed.

Supply chain developments in 2012 include:

- Development of a central European warehouse
- Identification of new global suppliers and development of the new Signature hygiene range
- Introducing greater control in the sourcing of garments through CAWE, a recent acquisition
- Supplier partnership with Ecolab, a single chemical supplier to supply all European laundries, where the supplier is jointly responsible for washing quality, water and energy consumptions, and is encouraged to propose energy savings projects

Respect for the environment

The environmental impact of the Company's services vary significantly, hence the focus is on establishing local business protocols. However, a group environmental plan was established in 2012 to decrease emissions, together with other environmental activities relating to waste and water. The plan includes a target to reduce emissions by 10% (of tonnes per £m revenue) derived from property and vehicle energy by 2016, compared with 2011 (103.16 tonnes per £m revenue). Constant Exchange Rate (CER) is used to normalise the impact of variable exchange rates in a global Company.

Rentokil Initial's principal emissions on a normalised basis reduced by 3% in 2012, an overall reduction of 23% over five years. Its total CO_2 emissions in 2012 were 263,644 tonnes compared with 262,429 tonnes in 2011.

As vehicle fuel represents around 77% of the total energy bill for the Company, the Company's efforts to reduce energy usage have focused on optimising vehicle utilisation. Over the last five years vehicle energy efficiency (related to £m revenue at CER) has improved by nearly 30%, with an improvement of almost 3% in 2012. Key actions include whole-life company vehicle costing, pro-active UK car policy management, route optimisation systems and engine control unit technology to reduce fuel consumption.

Over the last five years energy efficiency has improved by nearly 19% for properties, with energy usage decreasing by 2% in 2012. Key actions included property portfolio consolidation; introduction of Cloud computing and four global data centres; and on-going investment in the textiles processing plants. The efficiency of these plants (KWH energy per Kg of laundry processed) has improved with emissions reducing by 2.6% in 2012 and by 13% since 2008.

For the major continental workwear processing plants, water consumption has fallen by 27% since 2008. Currently five of the 63 plants have steamless laundry processing facilities. This technology is planned for further extension with associated reduction in water and energy consumption.

Much of the Company's product based services involve the re-using of existing product. Examples include the provision of floor mats and auto towel rolls, which are constantly re-used, and repaired, if appropriate. Rentokil has introduced its plastic reusable bait insert, replacing the previous cardboard inserts. The impact of this change was both to improve the cost efficiency of these bait boxes, and to eliminate the need for incineration of waste inserts.

A measure of the cost efficiency of materials management is the amount of waste generated. In the UK Initial Facilities and Rentokil improved their waste generation efficiency during 2012.

Waste - Kgs/£000s turnover

	2012	2011
Initial Facilities	**5.6**	6.1
UK pest control business	**6.8**	8.4

Aviva, in partnership with Initial Facilities, has set a long-term objective to reduce landfill. In 2008 this began by segregating the waste at source, with the removal of all under desk bins and the implementation of 6,500 bespoke centralised bins across all UK Aviva locations, which were then distributed to a local Mixed Recycling Facility (MRF). In 2011 an 85% recycling rate was achieved across the Aviva estate with new methods for food waste and residual landfill introduced, such as composting and bio-fuel. Highlighting these achievements, Initial Facilities and Aviva won Recycling Award 2011 – Best Partnership Project for Recycling. In 2012 the progress continued posting an overall diversion from landfill rate of 95% of all waste removed by Initial Facilities from Aviva's buildings.

Supporting our communities

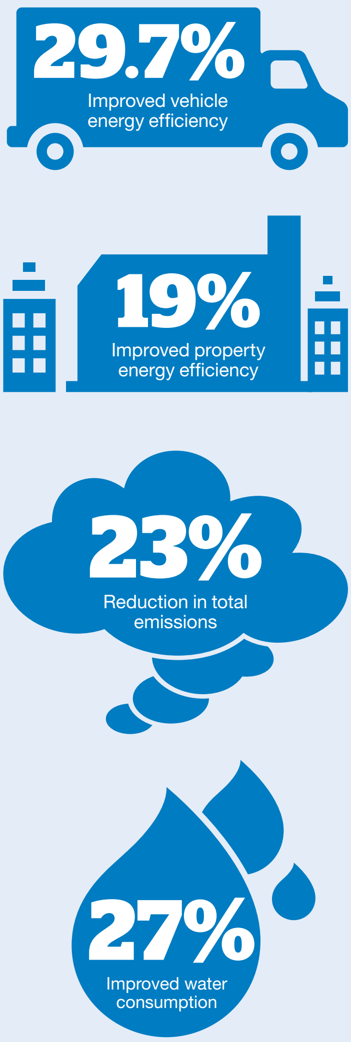
The Company's social and community leadership activities consist of three approaches - charitable cash donations, community support and community investment.

Colleagues' efforts in 2012, which were supported by the Company's matched giving scheme, assisted many charities including: Movember, Children in Need, Garden House Hospice, Malaria No More, Cancer Research, Woking Hospice, Sport Relief, British Lung Foundation, Zoe's Place, Time 4 Children, Marie Curie Cancer Care, Royal British Legion, Francis House, Leukaemia Research, Sussex Snow Drop Trust, Walk the Walk, Royal Manchester Children's Hospital, British Heart Foundation, The Christie Charity, The Meningitis Trust, Make a Wish, Bobath Scotland, Children on the Edge, Acorns Children's Hospice Trust, Scottish Huntington's Association, MacMillan Cancer Support, Combat Stress, The Christie, Help a Capital Child, Textile Benevolent Association, Whizz-Kidz, Clic Sargent Cancer, Breast Cancer Campaign and Promise Dreams Walk. In South Africa, the Zenzeleni Trust (set up by the business) continues to be successful in assisting people with HIV/AIDS related illness. The Trust has recently been registered as an independent trust fund, managing its own resources and funding in line with legislative requirements.

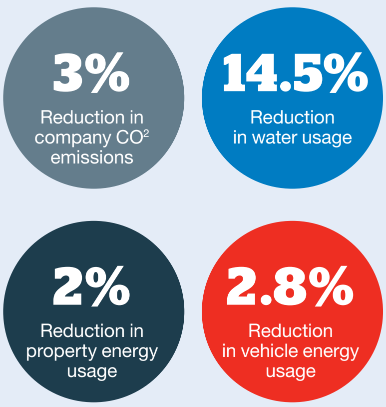
Examples of providing support to colleagues' volunteering activities include an Initial Facilities' cleaner who raised over £3,500 for the Dyspraxia Foundation by cycling 420 kilometres through Death Valley in California. In Malaysia, for the Ray of Hope (a project training 7-20 year olds with learning disabilities), 60 Rentokil colleagues volunteered to teach the trainees good personal hygiene skills. A Christmas Toy and Coat drive held by colleagues in Chicago collected new coats and toys for 200 families in need of support.

Environment

Five-year performance improvement



2012 performance



Environment

KPI	2008	2009	2010	2011	2012
Index of CO_2 emissions	100.0	95.4	79.6	79.1	76.8
Index of property energy consumption	100.0	91.43	78.32	83.50	81.50
Index of vehicle energy consumption	100.0	100.84	81.31	73.18	70.35
Water consumption	13.8	12.8	12.3	11.8	10.0

- Index of CO_2 emissions – calculated as kilogrammes per £m turnover – calculated on a constant exchange rate basis. Index shows % improvement since 2008
- Index of property energy consumption – thousand kWh per £m turnover – calculated on a constant exchange rate basis. Index shows % improvement since 2008
- Index of vehicle energy consumption – thousand litres per £m turnover – calculated on a constant exchange rate basis. Index shows % improvement since 2008
- Water consumption – calculated as litres used per kilogramme of product processed in all European plants (actual usage showing year-on-year change)

Rentokil India's managers visited the Guindy Labour Colony High School with donations of blankets and talcum powder. They also donated a full mosquito vector control programme for the school and the nearby slum area. The New Zealand business has been a long-term supporter of the Friends of Matakhoe-Limestone Island (owned by a Maori tribe), providing both annual cash donations and a regular free-of-charge pest control service. The Ambius business in South Africa donates plants returned from customers to the Embo Self-Help Project in Kwa-Zulu-Natal and repurchases resuscitated plants for subsequent resale. As well as contributing funds to the project the programme develops the community members' plant nursery skills.

The Australian business has been a sponsor of Rainforest Rescue's Daintree Buy Back and Protect Forever Project since 2006 (aimed at conserving the oldest tropical rainforest in the world). The business has donated a total of A$123,000 and has contributed significantly to the success of the project. The investment has gone beyond cash donations, and includes cause-related marketing programmes, workplace giving and colleague volunteering.

In 2012 Rentokil Initial's charitable donations amounted to £87,000 (2011: £135,000), excluding management time or value in kind donations.

Find out more online:

Further details about the Company's Corporate Responsibility activities can be found in the 2012 Corporate Responsibility Report. This is available online at www.rentokil-initial.com

Governance Report

Governance Report

Good corporate governance means that from the board through each business unit we have the right decision making processes, controls and information to drive strategy and manage the business to deliver long term shareholder value. The link between good governance and commercial success is undeniable and is a fundamental underpin to our operating framework.

General introduction

The statement at the top of the page translates into practical actions over:

- How the board is led, how it operates and plans for succession and how it monitors its effectiveness
- How the framework of controls and the management of risk forms part of the management process that ensures that the business meets its strategic and long term objectives that together build value for shareholders
- How the culture of the business is primed to not only build value but to do it in a responsible and sustainable manner

Overview

This Governance Report, containing information on the board and on how it operates, together with reports from the audit, nominations and remuneration committees, aims to provide shareholders with an understanding of the Company's governance structure and how the Company has applied the main principles and provisions of the UK Corporate Governance Code ('the Code'). I am pleased to say that we continue to be substantially compliant with the Code.

Board

The success of the board depends on having the right balance of skills and experience around the boardroom table. During the year the board was pleased to appoint Angela Seymour-Jackson as a non-executive director. Angela brings valuable experience from having led the UK RAC business and also of the management of change in large service businesses.

The board has regularly considered the balance of skills needed to steer the group through the period of turnaround and transition which has been underway since 2008. The board is satisfied that for the immediate future it is appropriate to retain as far as possible the knowledge and experience of the group's transformation journey of existing board members. We were sorry to receive today the resignation of William Rucker, following a review of his current commitments.

Diversity

The recommendations of Lord Davies last year to tackle the important issue of ensuring a stronger contribution by women in Company boardrooms were welcomed by the board and we have issued a statement of our aspiration to have two female directors by 2015. Diversity in its broader sense will be in the forefront of our thinking over future board appointments, particularly bearing in mind the increasing contribution of group revenues coming from outside the UK.

We are looking to strengthen the gender and broader diversity among the senior management population who will represent the board members of the future and more information on diversity is contained within the report of the nominations committee on page 54 and in the Business Review on page 19.

Board evaluation

The board is committed to continually improving its effectiveness and each year the board participates in a formal evaluation of its collective and individual performance. A summary of the evaluation and outcomes in 2012 is set out on page 47 and as a result of this evaluation I continue to be satisfied that the board is effective and operates well.

Code of Conduct

We have further reinforced the effectiveness of the group's Code of Conduct and updated the material we use to communicate our core business principles to our colleagues. We have developed a further suite of e-training modules geared to aid understanding of ethical principles which will be rolled out early in 2013.

Governance framework

Each year the board reviews its corporate governance framework. This includes a review of a number of corporate governance policies such as Matters Reserved for the Board and Terms of Reference for each of the committees. This review not only assists the board in being able to confirm its compliance with the Code but reflects good practice and underpins the board's day-to-day activities.

The 2012 Code changes

We have reviewed the updated Code published in 2012 ('the new Code' that will apply to the Company next year. We will report formally on compliance with the new Code in this report next year, as well as providing remuneration reporting in line with the new regulatory regime.

I hope that the information contained in this Governance Report and elsewhere in the annual report helps shareholders to understand the challenges facing the Company and the way in which the Company is managed to meet these challenges.

John McAdam
Chairman

Compliance with the UK Corporate Governance Code ('the Code')

The principal governance rules applying to UK companies listed on the London Stock Exchange are contained in the Code. The version that applies to this report was issued in 2010. The Code is published by the Financial Reporting Council and if you wish to review the full text it is available on its website at www.frc.gov.uk. We have included in this Governance Report references to the Code's main principles to assist in giving context to our compliance with the Code.

With only one exception, described in the next paragraph, the Company has complied throughout 2012 with the relevant main principles and detailed provisions set out in sections A to E of the Code.

With reference to the Code provision A.3.1 the Chairman, John McAdam, was not considered to be independent on his appointment as a result of his participation in a one-off incentive arrangement approved by shareholders in 2008 in connection with the recruitment at that time of a new leadership team for the business.

Board of Directors

Key

Executive directors

7 Non-executive directors at 14 March 2013

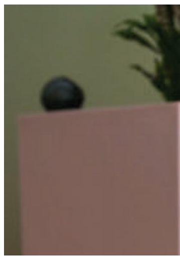
Board of directors

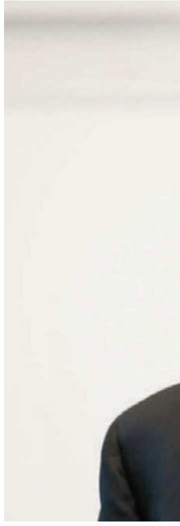
Name	Position	Audit Committee	Nominations Committee	Renumeration Committee
John McAdam	Chairman	–	Chairman	–
Alan Brown	Chief Executive	–	–	–
Andy Ransom	Executive director	–	–	–
Jeremy Townsend	Chief Financial Officer	–	–	–
Peter Bamford	Non-executive Director	○	–	–
Richard Burrows	Non-executive Director	–	–	○
Alan Giles	Non-executive Director	–	○	Chairman
Peter Long	Senior Independent Director	–	○	○
William Rucker*	Non-executive Director	○	–	–
Angela Seymour-Jackson	Non-executive Director	–	–	○
Duncan Tatton-Brown	Non-executive Director	Chairman	○	–

*Resigned 14 March 2013

○ Member of Committee

Board of Directors





1. John McAdam
Chairman

Committee memberships
Chairman, Nominations committee

Skills and experience Joined Rentokil Initial as Chairman in May 2008 and prior to that had a successful executive career as Chief Executive of Imperial Chemical Industries plc ("ICI") from 2003 to 2008. Before joining ICI in 1997 he held a number of positions at Unilever, from 1974, within Birds Eye Walls, Quest International and Unichema International. A director of Sara Lee Corporation (USA) until June 2012.

Current external commitments and qualifications Chairman of United Utilities Group plc and non-executive director of Rolls-Royce PLC and J Sainsbury plc. Graduated from Manchester University with a first class honours degree in chemical physics and, after completing his doctorate, was awarded a research fellowship. Age 64.

2. Alan Brown
Chief Executive

Committee memberships None

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

Current external commitments and relevant qualifications
A non-executive director of Intertek Group plc. Barrister and Chartered Management Accountant. Age 56.

3. Peter Bamford
Non-executive Director

Committee memberships
Member, Audit committee

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

Current external commitments and relevant qualifications
Chairman of SuperGroup plc, Chairman of MCPC-PRS Alliance Ltd (known as PRS Music) and of Six Degrees Technology Group Ltd. Age 59.

4. Richard Burrows
Non-executive Director

Committee memberships
Member, Remuneration committee

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

Current external commitments and relevant qualifications
Chairman of British American Tobacco plc and Voicesage Global Holdings Ltd. Non-executive director of Carlsberg A/S (Denmark) and Eurasian Natural Resources Corporation plc. Mr Burrows is a graduate of Wesley College, Dublin (Ireland). A Chartered Accountant. Age 67.

5. Alan Giles
Non-executive Director

Committee memberships
Chairman, Remuneration committee
Member, Nominations committee

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

Current external commitments and relevant qualifications Chairman of Fat Face Group Ltd, a director of the Office of Fair Trading and Book Tokens Ltd. Associate Fellow at Oxford University's Said Business School. Honorary visiting professor at Cass Business School. Age 58.

6. Peter Long
Non-executive Director

Senior independent director

Committee memberships
Member, Remuneration committee
Member, Nominations committee

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

Current external commitments and relevant qualifications Chief Executive of TUI Travel plc. A Chartered Management Accountant. Age 60.

7. William Rucker
Non-executive Director (to 14 March 2013)

Committee memberships
Member, Audit committee

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

Current external commitments and relevant qualifications Chief Executive of Lazard & Co. Ltd in the UK, deputy chairman of Lazard LLC. Chairman of Quintain Estates and Development plc and chairman of Crest Nicholson Holdings Ltd. A non-executive director of Newbridge Limited. A Chartered Accountant. Age 49.

8. Andy Ransom
Executive Director and Managing Director, West region

Committee memberships None

Skills and experience Joined Rentokil Initial as an executive director in May 2008. Responsible for the West region business and the group legal and M&A functions. He was responsible for Rentokil Initial's Asia-Pacific businesses in 2008/09. Formerly a senior executive at ICI (1987-2008) where he was responsible for a number of group functions and international businesses including ICI's regional and industrial divisions. He served as the executive Vice President of Mergers and Acquisitions, General Counsel and Company Secretary and was responsible for a number of group functions.

Current external commitments and relevant qualifications
No other appointments. Mr Ransom is a graduate of the University of Southampton. A Solicitor. Age 49.

9. Angela Seymour-Jackson
Non-executive Director

Committee memberships
Member, Remuneration committee

Skills and experience Joined Rentokil Initial as a non-executive director on 5 March 2012. Angela was the chief executive of RAC Motoring Services. Prior to joining the RAC she held roles as Distribution Director of Aviva UK Life and Norwich Union Insurance.

Current external commitments and relevant qualifications
Managing Director, Corporate Solutions at Aegon UK Plc. A member of the Chartered Institute of Marketing and the Chartered Insurance Institute, with a masters degree in Marketing. Age 46.

10. Duncan Tatton-Brown
Non-executive Director

Committee memberships
Chairman, Audit committee
Member, Nominations committee

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

Current external commitments and relevant qualifications Chief Financial Officer of Ocado Group plc. A Chartered Management Accountant. Age 47.

11. Jeremy Townsend
Chief Financial Officer

Committee memberships None

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

Current external commitments and relevant qualifications
No other appointments. Graduated from Manchester University with a first class honours degree in Management Science.
A Chartered Accountant. Age 49.

Paul Griffiths
Company Secretary

Relevant qualifications
Chartered Secretary. Age 60.

Code Principle: B.1
The board and its committees should have the appropriate level of skills, experience, independence and knowledge of the Company to enable them to discharge their respective duties.

Report of the Board

Director attendance

The attendance of directors at board and committee meetings during 2012 is shown in the following table.

Director attendance

Directors	Board	Audit Committee	Remuneration Committee	Nominations Committee
John McAdam	10	–	–	7
Alan Brown	10	–	–	–
Peter Bamford	8	4	–	–
Richard Burrows	8	–	7	–
Alan Giles	10	–	7	7
Peter Long	10	–	7	7
Andy Ransom	10	–	–	–
William Rucker†	9	5	–	–
Duncan Tatton-Brown	10	5	–	7
Jeremy Townsend	10	–	–	–
Angela Seymour-Jackson*	8*	–	6*	–
Total number of meetings	**10**	**5**	**7**	**7**

* Angela Seymour-Jackson joined the board on 5 March 2012 and was appointed as a member of the remuneration committee on the same date. She has attended all meetings since her appointment.

† William Rucker resigned on 14 March 2013

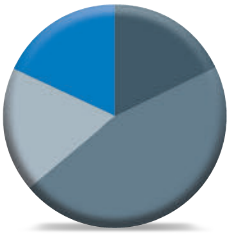
Non-attendance by individual directors was either as a result of unavoidable changes in their commitments, illness, or from ad hoc meetings called by the Company which conflicted with existing arrangements. The Chairman will seek the views of any director unable to attend a meeting and provide a briefing as required on outcomes. Directors are provided with material for all meetings, whether or not they are able to attend.

Director qualifications

Key

46% Finance
18% Science
18% Legal
9% Engineering
9% Marketing

Directors length of service



Key

18% 0-3 years
46% 4-5 years
18% 6-7 years
18% 8-10 years

Governance calendar

The overall calendar of meetings of the board and its committees for 2012 is shown below.

Governance calendar

	Feb	Mar	May	Jun	Jul	Sep	Nov	Dec
Board	○	○	○	○	○	○	○	○
Board teleconference	○					○		
AGM			○					
Strategy							○○	
Audit	○		○		○		○	○
Remuneration	○	○	○	○	○		○	○
Nominations	○○	○		○		○	○	○

○ Board and Committee meetings

Board composition

Biographical information of each director who served during the year including their knowledge and experience can be found on pages 40 and 41. Angela Seymour-Jackson joined the board on 5 March 2012.

In summary:

- We have a strong board which works hard to provide effective governance over the Company
- The board's specific knowledge and experience ranges across the UK, European and international services sector as well as in multi-national business leadership and the development and execution of strategy
- The board collectively has a high level of international experience of finance, risk, control, governance, operations and market development

The board's policy is to appoint and retain non-executive directors who can apply their wider knowledge and experience to their understanding of the Company's affairs. As mentioned in the chairman's introduction, diversity considerations are among the important factors considered by the nominations committee and the board when contemplating the future composition of the board. Appointments to the board are made on the recommendation of the nominations committee and following a rigorous selection process.

The board has considered the balance of skills needed to steer the group through the period of turnaround and transition which has been underway since 2008. The board is satisfied that for the immediate future it is appropriate to retain as far as possible the knowledge and experience of the group's transformation of existing board members.

The board has made a statement of its aspiration to have two female board members by 2015.

Code Principle: A.1
Every Company should be headed by an effective board which is collectively responsible for the long-term success of the Company.

Annual re-election

In accordance with the Code the directors are subject to annual re-election by shareholders. To enable shareholders to make an informed decision, the 2013 notice of the annual general meeting ('the AGM') includes biographical information and a statement as to why the Company believes the directors should be re-elected. The results of the individual director performance review undertaken by the chairman indicate that each director continues to be effective and demonstrates commitment to the role.

The board recommends to shareholders the re-appointment of all directors retiring at the meeting on the basis that they are all effective directors of the Company and demonstrate the appropriate level of commitment to the role.

The terms of the directors' service contracts are disclosed in the Directors' Remuneration Report starting on page 60. Directors' interests in shares are disclosed on page 72.

Directors' service contracts and the letters of appointment of the non-executive directors are available for inspection at the Company's registered office and will be available at the AGM which will take place on 15 May 2013. A pro-forma of non-executive directors' letters of appointment is available at www.rentokil-initial.com

Code Principle: B.7
All directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Induction

Following the appointment of any new director, the chairman, in conjunction with the company secretary and the group HR director ensures that a full, formal and tailored induction to the Company is made available. The company secretary is on hand to answer any questions which may arise.

The process followed on the induction of Angela Seymour-Jackson, and which would apply for other appointments, is set out below.

On appointment

The company secretary provides information on the group's businesses, including:

- Board minutes from the prior year
- Key board papers from prior year which are still relevant
- Key policies and procedures
- Governance information about the Company, including the role of the board, committees, chairman and chief executive
- Guidance for directors on the UK Listing Authority and Financial Reporting Council publications

Post appointment development

Before and after the first board meeting the new director will attend:

- Business briefing with the Chief Executive and the Chief Financial Officer
- Meetings with other members of the senior management team
- Meetings with country managers
- Visits to sites within the UK and overseas
- Meeting with auditors and financial advisers
- Meetings, with the external legal advisers on UK company law, directors' duties and regulatory requirements

Code Principle: B.4
All directors should receive induction on joining the board and should regularly update and refresh their skills and knowledge.

Report of the Board

Training

The Company is mindful that on-going training for executive directors and non-executive directors must be targeted to specific needs. Where appropriate, directors participate in peer group discussion forums and seminars related to the commercial environment, for example relating to executive remuneration, financial reporting or risk management. Training also covers the group, its business sectors and governance matters more generally. During the year individual directors attended seminars:

- run by the Financial Reporting Council, the Institute of Chartered Accountants and major accounting firms
- on the UK Corporate Governance Code, financial reporting, executive remuneration and board effectiveness

Training also included briefings on:

- the Davies Committee's and Financial Reporting Council's reports on greater diversity
- the ABI and NAPF guidance on executive remuneration
- the UK Corporate Governance Code changes
- BIS proposals on narrative reporting

How the board operates

The board has three primary functions: the provision of clear strategic leadership, the appointment and oversight of senior management including other issues of stewardship and representing and listening to the views of shareholders. The board is also committed to operating the business in a responsible and sustainable manner.

The board meets regularly, including away days to review strategy and is responsible for the overall leadership of the group. A summary of the matters reserved for the board's attention and a timeline of matters considered in 2012 is shown overleaf and a calendar of board and committee meetings is shown on page 42.

Principal matters specifically reserved for the board's approval

- determining the group's objectives and strategy
- amendments to the structure and capital of the group
- corporate governance matters
- approve the annual operating plan
- entry into material new businesses and markets or to cease a material part of the business
- determining the significant risks the Company is willing to take and review the group's risk management approach
- approve financial statements and trading updates
- approve dividend policy
- approve any significant change in accounting policies or practices
- the remuneration of the Company's auditors and recommendations for appointment or removal
- conduct of all matters requiring the issue of circulars to shareholders and listing particulars
- board membership and appointments, including of the chief executive
- changes to the Company's organisation at the level immediately below the chief executive
- terms and conditions of employment at the level immediately below the chief executive
- introduction of or major changes in long-term incentive schemes

The board is organised both in depth of experience and skills to discharge its primary duty to promote the success of the Company while exercising independent judgement, care and diligence. The board is responsible for the group's risk management approach, including evaluating and reviewing the overall level of risk that is inherent in its strategy and for the execution of that strategy. The board held ten meetings in 2012 and in addition held a two-day meeting to review and update the group's strategic plan.

In addition to the responsibilities of the board as a whole, the non-executive directors constructively challenge executive management over performance against strategic and financial goals. The board reviews strategy annually and periodically during the year. The non-executive directors contribute to the development of the strategy of the group throughout the year drawing on their knowledge and experience and expectations of shareholders.

Code Principle: A.4
As part of their role as members of a unitary board, non-executive directors should constructively challenge and help to develop proposals on strategy.

Board information

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

Code Principle: B.5
The board should be supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

The Board's year at a glance

Recurring matters

- A written report by the group head of safety, health and environment on performance metrics and operational actions
- A written report from the Chief Executive on financial, operational and strategic priorities
- A written report from the Chief Financial Officer on group and divisional financial performance, cash flow, treasury matters as well as forward-looking information on key metrics
- Reports on all committee meetings since the previous board meeting
- Approval of previous meeting minutes and updates on follow-up actions
- Reports on investor relations activity
- Reports on material litigation and disputes (quarterly)
- Consideration of on-going potential conflicts of interest and periodic authorisations of new matters
- Review, authorise and register any potential conflict of interest situations
- The financial and operational performance of City Link was considered at all meetings in 2012, many including the participation of the City Link senior management

January

- Annual operating plan considered in draft in December reviewed and finalised
- Preliminary indications of full-year performance and related investor communications considered
- Considered recommendations from the nominations committee on the appointment of Angela Seymour-Jackson in March 2012

February

- Arrangements concerning the establishment of a group function to spearhead market development and service and product innovation
- Financial results for the previous year including reports from the audit committee on the financial statements and reports on the internal control framework and going concern matters
- Board effectiveness including considerations of the NED independence and director performance
- Board committee terms of reference reviewed and amendments approved
- Corporate Responsibility report considered
- Angela Seymour-Jackson appointment made

March

- Preliminary consideration of a proposal to expand the group's pest control operations in the United States
- Prospectus update for the group's Euro medium-term note programme approved

May

- Textiles & Hygiene strategy update and discussion with the divisional managing director, Peter Slator
- First quarter results and related input from the audit committee
- Initiated a review of financial advisers to the Company
- Board calendars for 2013 and 2014

June

- Operational review of UK hygiene business and market presence
- Service and product innovation for both the pest control and hygiene category
- On-site operational review of textile and hygiene business in Germany and operational, supply chain and technology innovation in the Textile & Hygiene division
- Operational review of opportunities in European cleanroom market
- Further consideration of acquisition opportunity in North America pest control market together with a review of planned organisational improvements in the existing business

July

- Review with the director of marketing & innovation on the establishment earlier in the year of the group-wide marketing & innovation function
- First half results and related input from the audit committee
- Consideration of an interim dividend for 2012
- A proposal concerning the acquisition of the Western Exterminator Company in the United States
- Appointment of Barclays replacing UBS as joint financial advisers alongside Bank of America Merrill Lynch

September

- Medium-term financing options review
- €500 million bond under the Company's Euro medium-term note programme authorised
- Further review of proposed acquisition of Western in North America
- Operational review of the Initial Facilities division and discussion with the divisional managing director, Mike Brown
- Renewal of the group insurance programme

November

- Board strategy away-day including consideration of long-term portfolio options for the group
- Third quarter results and related input from the audit committee

December

- Additional revolving credit facility approval
- Annual operating plan for 2013 reviewed
- Senior management succession review
- Colleague engagement and enablement survey results
- Board governance and procedures review
- Corporate governance update

Report of the Board

Division of responsibilities

The division of responsibilities between the Chairman and Chief Executive is clearly established and agreed by the board and is reviewed by the Company Secretary on a regular basis.

The principal governance responsibilities of the Chairman, Chief Executive, Senior Independent Director and Company Secretary are shown in the table below.

Principal governance responsibilities

Chairman

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

Duties include:

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

Chief Executive

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

Duties include:

- Recommending strategy and strategic priorities
- Managing agreed strategies and strategic priorities
- Operational and financial performance
- With the Chief Financial Officer, explaining performance to shareholders
- Executive management capability and development
- Responsibility for all corporate responsibility matters which are reviewed at least annually by the board and by the Company executive board*

Senior Independent Director

The **Senior Independent Director**, **Peter Long**, provides a focus in the board for any communication, issue or process that needs to be led by someone other than the Chairman or the Chief Executive.

Duties include:

- Leading non-executive directors' appraisal of the Chairman
- Work with the Chairman on board effectiveness
- Providing an alternative channel of communication for investors, primarily on corporate governance matters
- Being a sounding board for the Chairman

Company Secretary

The **Company Secretary**, **Paul Griffiths**, is responsible for ensuring that board processes are followed including dealing formally with any unresolved concern that any director may have over the operation of the board.

Duties include:

- Secretary to the board and each of its committees, reporting directly to their chairmen
- Facilitating the induction and on-going training requirements of directors
- Assisting the Chairman and senior independent director in their evaluation of the board
- Keeping the board and its committees informed on governance matters and advising on these through their chairmen
- Assisting in the overall development of group policies

*A summary of the group's corporate responsibility performance is set out on pages 32 to 36 and more fully in the group's web-based 2012 Corporate Responsibility Report which is available online at www.rentokil-initial.com

Code Principle: A.2
There should be a clear division of responsibilities at the head of the Company between the running of the board and the executive responsibility for the running of the Company's business.

Code Principle: A.3
The Chairman is responsible for leadership of the board and ensuring the effectiveness of all aspects of its role.

Board committees

In order to operate effectively and to give the appropriate level of attention to the range of matters required to be addressed by the board, tasks have been delegated to committees. The terms of reference for the main committees are available from the Company's website at www.rentokil-initial.com or from the company secretary. A summary of the main committees' membership and activities is shown at the head of each committee report on pages 50, 54 and 60.

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

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

Conflicts of interest procedure

The directors have a statutory duty to avoid a situation where they have, or could have, a direct or indirect interest that conflicts, or possibly might conflict with the interests of the Company. The board is permitted (under powers from shareholders contained in the articles of association) to authorise actual or potential conflicts of interest.

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

The process for authorising potential conflicts and authorisations given under the process is reviewed on behalf of the board by the nominations committee on an annual basis.

Board and director performance evaluation

The board performance evaluation involved an external independent facilitator, Lintstock, engaging with the Chairman and company secretary to set the context for the evaluation. Lintstock is a specialist corporate governance consultancy and has no commercial dealings with the group, other than over the provision of corporate governance services to the board.

Respondents completed online questionnaires covering specifically the balance of skills, experience, independence and knowledge of the Company on the board, its diversity, including gender, how the board works together as a unit, all of which are important factors relevant to an assessment of the board's effectiveness. The review also covered: board support and time management, strategic and operational risk oversight, succession planning and priorities for change. The anonymity of all respondents was ensured in order to promote an open and frank exchange of views.

The board considered the output from the review at a meeting earlier this year and a number of enhancements to the effectiveness of board processes, information and engagement with the talent pool in the business were proposed for implementation during the year. The findings overall indicated that the board and individual director performance were effective.

Code Principle: B.6
The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors.

Independence of non-executive directors

The continuing independence of non-executive directors is critical to their on-going effectiveness over challenging executive management. The board recognises that the Code requires that at least half the membership of the board, excluding the Chairman, should comprise of independent non-executive directors.

The independence of directors is reviewed as part of the individual director performance evaluation process. The performance evaluation process provides assurance that all non-executive members of the board retain the independence of judgement which underpins the culture of constructive challenge in the boardroom. The non-executive directors bring their wide experience to the boardroom for the benefit of the execution of business strategy and as a group and individually constructively challenge the executive team both at board and committee meetings as well as during the many exchanges which occur between formal meetings.

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

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

The board considers that an individual's independence cannot be determined arbitrarily on the basis of a particular period of service. In the case of Peter Long, who has served as a director for ten years (five years with the current executive management) the board benefits from his considerable experience and knowledge resulting from the length of his service as well as from his wider business experience.

Risk management and internal control

An intrinsic part of the governance process is the identification, management and control of risk. Information on the risk management and control framework is provided in the Risks & Uncertainties section on pages 27 to 30 and in the Governance Report by the audit committee on pages 50 to 53.

Report of the Board

Governance below board level

The Chief Executive chairs the company executive board comprising the group's operational heads and heads of the finance, human resources and information services functions. They meet regularly to review performance, priorities and operational actions. Biographical information on executive directors, Alan Brown, Jeremy Townsend and Andy Ransom, is provided on pages 40 to 41 and information on other members of the company executive board is shown in their biographies on page 31.

The Chief Executive and Chief Financial Officer lead monthly and quarterly business performance reviews with business unit management teams. The group's change programmes driving capability improvements are monitored by regional and functional programme boards chaired by members of the company executive board.

The Company's disclosure committee, chaired by the Chief Financial Officer, supports the board's responsibility for the accuracy and timeliness of the disclosures made by the Company, whether in connection with its financial reporting obligations or on other matters.

The Company's risk committee, chaired by the Chief Financial Officer, has oversight of the group's risk and control functions and reviews the risks the group is facing and the effectiveness of the internal controls.

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

Corporate responsibility governance

The Chief Executive takes personal responsibility for corporate responsibility and the company executive board has authority for reviewing all aspects of corporate responsibility. The main board reviews specific corporate responsibility matters on a regular basis and on a broader basis at least once a year. A Safety, Health and Environment (SHE) committee reports regularly to the main board, with key performance indicators regularly reviewed internally and published annually. Further information on Corporate Responsibility can be found on pages 32 to 36.

Dialogue with stakeholders

The board recognises that it is managing the group ultimately on behalf of its shareholders and therefore places great importance on communications with shareholders. The board also recognises the contribution made by other providers of capital and is open to hearing the views of such providers, so far as they are relevant to the Company's overall approach to governance.

- The Chairman, Chief Executive and Chief Financial Officer make themselves available to shareholders at all appropriate times
- The Company has a regular dialogue with institutional shareholders through one-to-one and group meetings, formal investor and analyst conference calls as well as ad hoc communications, where appropriate
- Formal presentations are held after full-year and half year results, to which investors and sell and buy-side analysts are invited. These presentations are web-cast and any investor is able to hear the presentation and related questions and answers via the Company's website. Slide presentations of results are hosted on the Company's website as are recordings of meetings
- Conference calls for investors and analysts are hosted after the first and third quarter trading updates, with typical levels of participation in excess of 80 shareholders and analysts
- Investor roadshows are conducted after full-year and interim results, involving extensive investor meetings on each occasion
- The Chief Financial Officer, supported by the group treasurer, regularly meets with and hears the views of representatives of the debt capital markets
- The Chairman, the Senior Independent Director and committee chairmen are available to attend meetings with investors, as required
- The Company provides opportunities for private client investor presentations across the UK
- The board receives material issued by shareholder representative groups to ensure that the views and preferences of investors are taken into account
- The Company sees the annual general meeting as an important opportunity for all shareholders to engage with the board over performance and other matters on the agenda for the meeting and encourages both private and institutional shareholders to attend
- During 2012 the Company held three 'Investor Seminars' for shareholders, the investment community and other providers of finance giving an in-depth review of the facilities services, workwear and City Link businesses, following on from an Investor Seminar on the pest control business at the end of 2011
- The board is briefed on the Company's investor relations programme through a regular report from the head of investor relations as well as by periodic updates from the Chief Executive and the Chief Financial Officer

Code Principle: E.1
There should be a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

Code Principle: E.2
The board should use the AGM to communicate with investors and to encourage their participation.

In accordance with the Companies Act 2006, the Company will distribute its printed annual report only to shareholders who have indicated to the Company that they wish to receive it in that form. The Company will periodically canvas new shareholders on how they wish to receive their shareholder communications and did so in February this year.

The Company's annual report and other investor presentation material are available to all shareholders via the Company's website at www.rentokil-initial.com

John McAdam
Chairman
14 March 2013

Shareholder Information

Additional information for investors can be found on pages 131 and 132. The Company's website contains more information on the Company's operations and our website investor centre contains information on past results and publications, press releases and analyst presentation material. It also contains other information to help shareholders manage their holdings such as change of address or change of name notifications, transfer of shares, lost share certificates, online and telephone share dealing facilities and how to receive your shareholder communications as well as including a link to the website of our share registrars, Capita Registrars.

Audit Committee Report

The integrity of financial results and the effectiveness of internal control systems are critical to the way the business is managed for shareholders. The committee's principal activities in 2012 were to monitor corporate controls and risk management processes and compliance, to review and approve financial statements and to review auditor performance and effectiveness.

Membership

Duncan Tatton-Brown (Chairman)
Peter Bamford
William Rucker*

*to 14 March 2013

Other attendees
The Chairman, Chief Executive, Chief Financial Officer, external auditors, director of risk and internal audit, divisional finance directors (by rotation), company secretary and periodically: the group financial controller, the director of tax and other senior finance executives.

Chairman's introduction

As chairman of the audit committee my responsibility is to ensure that the committee conducts a rigorous and effective process for monitoring and reviewing:

- the integrity of the financial statements, including formal announcements and significant financial reporting judgements on which the financial statements and related announcements are based
- the internal control and risk management framework
- the effectiveness of the internal audit function
- the relationship with the external auditors and the effectiveness of their processes, together with issues relating to their appointment and remuneration

During the year the Company has continued to focus on improving the basic financial controls, processes and procedures across the group. The year has shown improvements in the control environment and the committee has reviewed data from both the internal audit function and from controls testing carried out by the external auditors which supports this view.

A programme of basic controls testing continues to be a major feature of the internal audit and external controls testing programmes.

The on-going programme of systems and process improvements and standardisation, which is part of the Company's operational excellence agenda and reported elsewhere in the annual report, will continue to contribute to an improved control environment in the group.

I am satisfied that the audit committee was provided with good quality and timely material to allow proper consideration to be given to the committee's responsibilities. The committee has met with the external and internal auditors without management present on a number of occasions and I have a regular dialogue with the external audit partner, the Chief Financial Officer and the head of risk and internal audit.

The following sections report on the activities of the committee during the year and I believe will give shareholders assurance that the control environment in the Company is being appropriately monitored and reviewed.

Governance

Committee members are all independent non-executive directors. Duncan Tatton-Brown and William Rucker are considered by the board to have recent and relevant financial experience.

Biographical information on all committee members is set out on pages 40 and 41. The committee did not find it necessary to seek external advice during the year, other than through its usual dialogue with the auditors.

The board is required by the Code to present a balanced and understandable assessment of the Company's position and prospects. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the Financial Statements set out on page 59.

Code Principle: C.1
The board should present a balanced and understandable assessment of the Company's position and prospects.

Responsibilities

The audit committee assists the board in its oversight and monitoring of financial reporting, risk management and internal controls. The committee's focus is to review and challenge in these areas both with management and with internal and external auditors.

The committee is authorised to:

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

The committee reports to the board on its activities and minutes of meetings and material considered by the committee is shared with the board.

Terms of reference

- The terms of reference of the committee are available at www.rentokil-initial.com or from the company secretary
- The committee's terms of reference were reviewed by the committee during 2012. They take full account of the Smith Guidance on the role of audit committees
- The committee's terms of reference will be reviewed by the board during 2013 in the context of the board's compliance with the revised UK Corporate Governance Code taking effect in 2013 – see accountability and audit on page 56

Activities

The committee's calendar highlighting the activities carried out at each of the meetings in the year is set out in this report on page 52. In 2012, the committee met five times and the main areas of focus are described below.

Public reporting

The committee monitors the integrity of the financial statements of the Company and formal announcements relating to the Company's financial performance, including reviewing significant financial reporting judgements made by management. One of the purposes of this process is to ensure that the financial statements and related narrative present a balanced and understandable statement of the group's position. The committee reviews half-yearly and quarterly trading updates on a similar basis.

The committee also monitors the process leading up to the preparation of financial statements, including the arrangements the Company has in place for disclosing all relevant audit information to the auditors.

Internal control and risk

The Company's approach to managing risk and ensuring an adequate internal control environment is in place and maintained is provided on pages 27 to 30 and a board statement on internal control and risk is on page 53.

Monitoring the effectiveness of the internal control processes within the Company is particularly important in an environment where a significant amount of business change is underway to harmonise core processes and drive organic growth through the pursuit of operational excellence, much of which is led by IT. This is described in Transforming the Business section on pages 12 and 13.

The committee receives regular reports from the Chief Financial Officer and the director of risk and internal audit on financial controls and process improvement programmes. These include:

- a report on the overall status of the control environment in the group including the results of testing
- a report on identified areas of weakness in controls
- action plans on control environment improvements
- status updates on the implementation of action plans

The committee also receives periodic reports from the divisional finance directors and in 2012 received an update on the control environment and other financial management issues in the Pest Control division.

Despite the scale of the change programmes there have been relatively few control breakdowns during 2012, none of which was a consequence of the transformation agenda. During the year the committee received reports on control breakdowns in a business in Australia, where state regulated pay rates had not been properly applied, and in Indonesia, where breaches of local law and regulation had been identified. In both cases the committee has been kept informed of corrective actions.

Internal audit

The internal audit function focused its work in 2012 on a review of basic business processes, undertaking 20 business reviews across the group. The processes reviewed during the year covered: financial controls, including credit debt and management, cost saving delivery and payroll related issues; IT general controls and services; project management execution; anti-corruption policy and code of conduct effectiveness and post-acquisition reviews. The internal audit reviews together with their findings and recommendations were reported to the committee and form part of the board's overall review of the effectiveness of the system of internal controls across the group. The Internal Audit Charter was revised during the year and approved by the committee.

The committee believes that the changes in structure and approach initiated in 2011 have demonstrably resulted in an improved assurance process during 2012.

Auditor

The Company's auditor, KPMG Audit Plc, attends all meetings of the committee and meets with the committee without executive management present. The main engagement with the committee in 2012 has been over the review and publication of annual and periodic financial statements. The committee considers that it has an effective working relationship with the external audit team. As noted on page 52, the committee formally reviews the effectiveness of the external auditors and is satisfied with their performance.

Non-audit services

The committee has also considered the circumstances in which the auditor is engaged to provide services other than audit or audit-related services, which might bear upon the on-going independence of the external auditor.

The board has a standing policy on the provision of non-audit or audit-related services by the Company's auditor which can be found at www.rentokil-initial.com

The committee accepts that certain work of a non-audit nature is best undertaken by the external auditor. The committee reviews regularly the amount and nature of non-audit work performed by the auditor. The Company's policy on non-audit services provides clear guidance on the categories of non-audit work which may or may not be undertaken by the auditor and describes the circumstances when consent from the committee is required. The value of these services is set out in Note 4 to the financial statements.

Audit Committee Report

Audit committee calendar for 2012

February
- Auditor re-appointment review
- Control environment update and report on control incidents
- Disclosure of information to auditors review
- Review of board statement on internal control environment
- Review of the effectiveness of risk management and internal control systems
- Going concern/liquidity review
- Financial statements for 2011 together with audit report from KPMG
- Committee effectiveness review
- Meeting with auditors without executives present

May
- Control environment update and report on control incidents
- Internal Audit Charter update and approval
- First-quarter results and related input from the auditors and a report on litigation and claims
- Group risk committee update

July
- Control environment update and report on control incidents
- Business continuity processes update
- Half-year results and related input from the auditors and report on litigation and claims
- External auditor effectiveness review
- Audit strategy for the following year
- Audit fees for the following year
- Group risk committee update

November
- Pest Control division review of controls and business risk management
- Human resources compliance review
- Control environment update and report on control incidents
- Third-quarter results and related input from the auditors and report on litigation and claims
- Group risks review for consideration by the board
- Meeting with auditors without executives present

December
- Annual review of internal audit findings
- Internal audit plan for the following year
- Annual report structure and content for the following year
- Terms of reference review and update on regulatory guidance

Code Principle: C.2
The board is responsible for determining the nature and extent of significant risks it is willing to take in achieving its strategic objectives.

Group risk committee
The Chief Executive has established a group risk committee under the chairmanship of the Chief Financial Officer which includes senior functional executives with day-to-day responsibility for the internal control environment covering financial, HR and IT systems, legal and regulatory compliance as well as the director of risk and internal audit. The group risk committee supports the audit committee and executive management through:

- providing oversight of the framework for managing risk throughout the group
- providing oversight of the processes for reviewing the effectiveness of the group risk management framework and internal control systems
- assisting the committee and the board over the assessment of the significant risks the group is willing to take
- monitoring emerging risks
- reviewing internal responsibility for appropriate mitigating strategies

Auditor effectiveness
The new Code (2012) encourages audit committees to include in the annual report an explanation of the process by which it has assessed the effectiveness of the external auditor. The Code already provides that the committee should review and monitor the effectiveness of the audit process.

The audit committee conducts an annual review of the external auditor's effectiveness, drawing input from the Chief Financial Officer, the director of risk and internal audit and senior finance management. In addition, the views of the majority of the finance directors of the group's key subsidiaries are analysed through a formal questionnaire.

The evaluation questionnaire was completed by 42 business units and the UK Shared Service Centre as well as by central functions. The questionnaire covered: resources and expertise, audit process effectiveness and the financial controls testing process. The committee considered the detailed findings of the review which included a number of detailed recommendations, none of which was material in the overall context of the group audit but was helpful in relation to improvements in the Company's processes and those of the auditor.

Taking all responses into account, the scoring mechanism demonstrated that the audit performance was effective and at a statistically similar level to the previous year.

Auditor re-appointment
The Company's audit services were last subject to a tender process in 2009 at which time KPMG Audit Plc replaced PricewaterhouseCoopers LLP as the group's auditor. The 2012 Code states that FTSE 350 companies should tender the provision of audit services at least every ten years or explain their approach, if different. As reported in the previous section, the Company is satisfied with the performance of the auditor and has no immediate plans to undertake a further competitive tender for audit services. The lead audit partner is not yet due to be subject to rotation but will be retiring from the firm after completion of the 2012 audit. A new lead partner will be responsible for the 2013 financial statements. Resolutions will be put to shareholders at the annual general meeting over the reappointment of KPMG Audit Plc and the setting of its fees.

Committee effectiveness

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

Internal control and risk

The board has overall responsibility for maintaining sound systems of risk management and internal control and for reviewing their effectiveness. The systems of internal control and risk management have been developed to ensure compliance with the Code on internal control and risk management.

The board has delegated day-to-day management of the Company to the Chief Executive and through him to other executive directors and senior executives who collectively comprise the company executive board. The system of risk management and internal control is designed to manage and mitigate risk rather than eliminate the risk of failure to achieve business objectives. In pursuing business objectives, internal controls and risk management can only provide reasonable, and not absolute, assurance against material misstatement or loss.

Risks are considered in the context of long-term strategic and emerging threats; medium-term challenges associated with business change programmes; short-term risks triggered by changes in the external and regulatory environment; short-term risks in relation to internal operations and control.

The board gains confidence over the effectiveness of control processes through regular and transparent management reporting, the governance processes and from the external and internal assurance processes. The board reviews the strategic risks facing the group and mitigating actions as part of its annual review of strategy and operational risks.

The audit committee assists the board in meeting its obligations for maintaining sound systems of risk management and internal control and a report on the committee's activities in 2012 is provided in this report.

The board has conducted a review of the effectiveness of the system of internal control for the year ended 31 December 2012 and confirms that:

- the group has an on-going process for identifying, evaluating and managing the significant risks faced by the group
- this process has been in place for the year under review and up to the date of approval of the annual report and accounts
- the process is regularly reviewed by the board
- the process accords with the Code

Code Principle: C.3
The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor.

Anti-bribery and anti-corruption policy

The group introduced an updated policy and related procedures on anti-bribery and anti-corruption in 2010. Since its introduction, over 3,000 colleagues have participated in online training to reinforce the policy and related procedures.

During 2012 the group's Code of Conduct, which includes clear guidance on anti-bribery and anti-corruption matters, was converted into a fully electronic format in 26 languages covering all the group's material operations. A communications programme and related material for workplace briefing has been prepared for launch early in 2013 to further reinforce Code of Conduct issues including the anti-bribery and anti-corruption policy. At the same time additional online training dealing with conflicts of interest, including interactive role-playing exercises simulating various situations where colleagues are faced with fictitious scenarios, is being rolled out to management level colleagues to further reinforce the anti-corruption policy and procedures. The training will continue to be rolled out to other colleagues whose roles make it particularly important for them to understand both the local law and the group's anti-corruption policy and procedures.

The committee will continue to keep the anti-bribery and anti-corruption policy and procedures under review to ensure that they are appropriate and effective.

Whistleblowing 'Speak-up'

There are policies and procedures in place for the reporting by colleagues of suspected wrongdoing, for these suspicions to be formally investigated, and for the results of the investigation to be reported to the whistleblower. The committee receives a report on control incidents arising from whistleblowing as well as from other sources. The committee also reviews periodically processes which the Company has in place to ensure that in all territories there is an effective communication process through which colleagues are kept informed about the whistleblowing process.

The 'Speak-up' process plays an important role in providing an independent and confidential channel of communication to report concerns (such as fraud, breach of competition law, misreporting, breaches of Company policies etc.). Global freephone numbers and a dedicated email address have been established. In addition to workplace material for colleagues, multiple language information on the 'Speak-up' programme is prominently displayed on the group and individual business unit intranet sites.

The process is managed internally and a dedicated email account 'speak-up@rentokil-initial.com' has been created for colleagues to report concerns directly to the head of the group internal audit function. The Company has periodically reviewed alternative mechanisms, including using third-party providers, but continues to be confident that its existing processes provide an effective mechanism for the reporting and investigation of suspected wrongdoing.

On behalf of the board,
Duncan Tatton-Brown
Chairman, Audit Committee
14 March 2013

Nominations Committee Report

The nominations committee assists the board by keeping its composition under review and reviewing succession planning to executive roles from amongst the senior management population as well as leading a rigorous and transparent process when making appointments to the board.

Membership

John McAdam (Chairman)
Alan Giles
Peter Long (Senior Independent Director)
Duncan Tatton-Brown

Other attendees
The group HR director, company secretary

Introduction

The nominations committee provides a focus for the key task of ensuring that there are proper plans in place to ensure that the board continues to comprise a group of individuals who work effectively together as a team and who possess the right mix of experience and talent to provide effective oversight and challenge to management. This report provides a summary of its work in 2012.

Board composition

All of the non-executive directors were selected through externally facilitated recruitments.

The committee believes that there is merit in retaining on the board, where possible, the existing range of skills, experience and particularly knowledge of the issues facing the group during the turnaround of its operational and financial performance under the present executive leadership appointed in 2008. At the end of 2011 and at the beginning of 2012 the committee oversaw the process of identifying a non-executive director with relevant service sector experience, resulting in the appointment of Angela Seymour-Jackson on 5 March 2012.

The process followed by the committee in relation to the appointment of Angela Seymour-Jackson, which is similar to that of previous appointments, commenced with the selection of an external recruitment agency who are briefed on the skill sets and candidate experience we were seeking to attract. The recruitment consultants (Egon Zehnder International ('EZI') in the case of Angela Seymour-Jackson) then prepare a candidate specification for approval by the committee. Thereafter, potential candidates are identified, interviews take place with members of the committee and with executive management, following which the nominations committee forms a recommendation for consideration by the board.

Code Principle: B.2
There should be a formal, rigorous and transparent procedure for the appointment of new directors to the board.

Time commitment and independence

All directors may serve on a number of other boards, provided that they can demonstrate that any such appointment will not interfere with their time commitment to the Company and that they obtain the agreement of the chairman before proceeding. This ensures that any potential conflicts of interest are considered and addressed. The major commitments of the directors are shown in their biographical information on pages 40 and 41. Currently non-executive directors are obliged to commit at least 20 days a year and the chairman is obliged to commit at least two days a week to the Company. In practice non-executive board members commit in excess of their minimum contractual requirement.

The committee reviews annually the process for considering and, if appropriate, authorising potential conflicts of interest. In addition when reviewing whether to recommend to the board the annual re-election of directors, the committee takes into account the results of the individual director and board evaluation process and the formal resolutions of the board as a whole over the on-going independence of non-executive directors.

Code Principle: B.3
All directors should be able to allocate sufficient time to the Company to discharge their responsibilities effectively.

Code Principle: B.7
…directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance.

Diversity

If we don't draw from the widest pool of talent, we can't expect to secure the best talent, either for the board or for within the business. Optimum diversity enriches debate and problem-solving.

Gender is an important element of diversity and the board welcomed the impetus Lord Davies' work has given to creating a greater pool of high-quality female candidates for non-executive director roles. The board has confirmed its aspiration to broaden gender diversity with the appointment of a second female director by 2015.

The committee is mindful that in concluding that it is currently in Rentokil Initial's interests to retain current board membership, it is necessarily constrained to bring about additional diversity within the board without increasing the size of the board unnecessarily. We are mindful that as director rotation occurs we will be keen to broaden the diversity of the board with greater representation from the group's major areas of operation outside the UK, for example by seeking candidates from Continental Europe or North America.

The gender breakdown for the UK business is 54% male and 46% female, with 31% female at an operational management level or above. The Company has worldwide data for operational managers and above (2,364 colleagues) and of this group 30% are female.

Of the Company's graduate intake in 2012, 39% are female. Further information on diversity can be found in the Corporate Responsibility report on page 32.

Gender mix in the UK (%)

Key
54% Male (17,984)
46% Female (15,366)
UK headcount (33,350)

Global management population

Work level	Female	Male	Total	% Female
Country and functional managers – Work level 3	616	1,311	1,927	32%
Country and functional managers – Work level 4	85	295	380	22%
Senior executives – Work level 5	5	43	48	10%
Executive board – Work level 6	1	7	8	13%
Total	**707**	**1,656**	**2,363**	**30%**

Succession planning

The majority of the committee's time in 2012 has been spent on ensuring that the Company has in place clear and well prepared development plans for each of the executive roles reporting to the Chief Executive, and as part of that process identifying potential gaps that might need to be filled, either through training and development of colleagues or potentially through external recruitment. The committee has utilised the services of EZI as part of this process.

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

Nominations committee calendar for 2012

Recurring

- Developed and considered plans for executive management development and succession at meetings in March, June, September and November

February

- Committee effectiveness review
- Director re-election/independence review
- Report to shareholders
- Director rotation/appointment of Angela Seymour-Jackson

December

- Terms of reference review
- Conflicts of interest approval procedure review
- Update on management development and succession

Committee effectiveness

The committee has conducted a review of how it operates, which concluded that the committee operates effectively. In 2013 the committee will have a continued focus on executive management succession as well as on continuing to address the diversity of board membership and to review board balance.

On behalf of the board,
John McAdam
Chairman, Nominations Committee
14 March 2013

Directors' Report – other Statutory Disclosures

The directors submit their report and audited financial statements of the Company and the group to the members of Rentokil Initial plc ("the Company") for the year ended 31 December 2012.

This directors' report contains certain statutory, regulatory and other information and incorporates by reference the Chairman's and Chief Executive's Statement and updates on the Operating Model, Transforming the Business, Achieving Key Objectives, Strategy, Key Performance Indicators, Business Review, Risks & Uncertainties, Operational Performance, Financial Review and the Governance Report set out on pages 2 to 73.

Business review

A review of the development of the group's businesses during the year and its future prospects is included in the chairman's and chief executive's statement, and updates on: business transformation, key objectives, strategy, key performance indicators, operational performance and Operating Model, financing, risks and uncertainties and the Governance Report set out on pages 2 to 37, which should be read in conjunction with this report of which they form a part. The information in these sections, along with this directors' report, comprises the Business Review as required by section 417 of the Companies Act 2006 and are incorporated into this directors' report by reference.

Operating model

The core operating model has evolved over the last three years, culminating at the end of 2012 with added focus on the core service of pest and hygiene services globally and workwear in Europe. Further information on the operating model can be found on page 2.

Principal activities

Rentokil Initial plc is the holding Company of a group which, through its operating businesses in some 60 countries, provides a range of principally business to business support services. A description of the group's principal activities is given on pages 2 to 24 and the principal subsidiary undertakings and joint ventures of the Company are shown on page 121.

2013 Annual general meeting

The annual general meeting of the Company will be held in the Desoutter suite at the Sofitel London Gatwick, North Terminal, Gatwick Airport, Crawley, West Sussex, RH6 0PH on 15 May 2013 at 12 noon. A separate letter to shareholders containing the notice of the annual general meeting and explanatory information on the resolutions to be proposed at the meeting accompanies this annual report. Both documents can be found on the Company's website at www.rentokil-initial.com

Results and dividends

The adjusted operating profit (before amortisation and impairment of intangibles, (excluding computer software, reorganisation costs and one-off items) for the financial year ended 31 December 2012 was £222.8 million (2011: £224.7 million). The directors recommend payment of a final dividend in respect of the year to 31 December 2012 of 1.43p per ordinary share, which subject to approval at the annual general meeting on 15 May 2013, will be paid on 21 May 2013 to shareholders on the register on 19 April 2013. When taken with the interim dividend of 0.67p per share paid on 26 October 2012 (2011: nil) this gives a total dividend of 2.1p per share (2011:1.33p).

Accountability and audit

The board is required by the Code to present a balanced and understandable assessment of the Company's position and prospects. In relation to this requirement, reference is made to the statement of directors' responsibilities for preparing the financial statements set out on page 59.

The independent auditor's report on page 130 includes a statement by the auditors about their reporting responsibilities. The board recognises that its responsibility to present a balanced and understandable assessment extends to interim and other price-sensitive public reports, reports to regulators and information required to be presented by law.

The changes to the Code published in September 2012 and coming into effect for the Company's annual report in 2013 require that the board should formally confirm that its financial statements present a fair, balanced and understandable assessment of the Company's position and prospects.

Code Principle: C.1
The board should present a balanced and understandable assessment of the Company's position and prospects.

Auditor's independence and objectivity

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

In concluding that KPMG Audit Plc should be reappointed as auditors at the 2013 annual general meeting, the board and the audit committee took into account the need to ensure that auditor independence was safeguarded. The committee also took into account the review undertaken of the effectiveness of the audit process as well as input from executive management.

The Company considers that there are sufficient controls and processes in place to ensure that the required level of independence is maintained. The Company has a formal policy on the provision of non-audit services provided by the Company's auditors. The amount of non-audit fees earned by the auditor is routinely reported to the audit committee. The board does not consider that there is any material risk of the Company's auditor withdrawing from the market.

Further information on auditor independence is provided in the report of the audit committee and the Company's policy on the provision of non-audit services by the auditor is available at www.rentokil-initial.com

Corporate governance report

The governance report for the year ended 31 December 2012, prepared in accordance with rule 7.2 of the FSA's Disclosure and Transparency rules is set out on pages 38 to 73 and forms part of the directors' report.

Change of control provisions

There are a number of agreements that take effect, alter or terminate upon a change of control of the Company, such as some commercial agreements and employee share plans. None of these are deemed to be significant in terms of their potential impact on the group as a whole. A description of the group's debt funding arrangements is set out in the finance review on pages 25 to 26 and in Note 20 to the financial statements which also describes the change of control provisions relating to the group's euro-medium term note programme.

Charitable donations, communities and political donations

The Company's approach to the community consists of three separate elements – charitable cash donations (mainly linked to colleagues' initiatives), community support and community investment. Community support and investment is locally rather than centrally driven. Donations for UK charitable purposes in 2012 amounted to £25,000 and a further £62,000 was donated in other countries. Total charitable donations amounted to £87,000 (2011: £135,000). This amount excludes value in kind donations or colleagues' time. The Company operates a matched giving scheme whereby the Company matches donations raised by colleague fundraising. No Company donation was greater than £2,000. Payments are made to a wide range of charitable organisations both in the UK and overseas. There were no payments to political organisations during 2012 (2011: nil). Further information on community and charitable activity can be found on page 36.

Directors and their interests

Details of directors and their biographies can be found in the Governance Report on pages 40 and 41 and directors' interests are given in the Directors' Remuneration Report on page 72.

Directors' indemnity and insurance

The Company has granted indemnities in favour of its directors, as is permitted by section 232-235 of the Companies Act 2006. It has also purchased insurance cover for the directors against liabilities arising in relation to the Company, as permitted by the Companies Act 2006. This insurance does not cover criminal activity.

Directors' powers and share rights

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

Under the articles, the directors are responsible for the management of the business of the Company and may exercise all the powers of the Company subject to the provisions of relevant statutes and the Company's articles of association. For example, the articles contain specific provisions and restrictions regarding the Company's power to borrow money.

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

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

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

Employment

The group is committed to employment practices that follow best practice and are based on equal opportunities for all colleagues, irrespective of age, gender, race, colour, sexual orientation, disability or marital status.

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

The Company attaches considerable importance to communicating with colleagues and systematically provides colleagues with information on matters of concern to them, consulting them or their representatives regularly. Internal communications take place at a group, divisional, business and team level in order to ensure that colleagues receive accurate information in a timely manner and a variety of structures exist for two-way communications at all levels. At a corporate level the group intranet is used to announce Company news with the support of direct email communication from the executive team. This is supplemented by a periodic electronic magazine called 'Horizon' which features interviews with senior executives about major initiatives and performance.

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

Directors' Report – other Statutory Disclosures

Going concern

The directors, having made enquiries, consider that the Company and the group have adequate resources to continue in operations for the foreseeable future. For this reason, they consider it appropriate to adopt the going concern basis in preparing the financial statements.

Further details of the group's funding position and forecasts are provided in the funding section of the Financial Review on pages 25 and 26.

Full details of the group's net debt, borrowing facilities and financial risk management policies are set out in Notes 20, 22 and 24 of the Financial Statements.

Key performance indicators and principal risks and uncertainties

See page 18 for the key performance indicators and pages 27 to 30 for the principal risks and uncertainties.

Key contracts

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

Payment of suppliers

Rentokil Initial has a variety of payment terms with its suppliers in various countries. These are either negotiated along with other contract terms or conform to standard terms applied either by the relevant group Company or by the supplier. It is the Company's policy to pay suppliers in accordance with either negotiated or standard terms, provided that the relevant invoice is properly presented in a timely manner and is not the subject of dispute. At 31 December 2012, the trade creditors of the group represented 53 days of annual purchases and the UK businesses' trade creditors represented 35 days of purchases; UK trade debtors represented 39 days of turnover. During the year the Parent Company did not have any trade creditors.

Post balance sheet events

Please refer to Note 37 to the accounts on page 120.

Related party transactions

Other than in respect of arrangements relating to the employment of directors, details of which are provided in the Directors' Remuneration Report or as set out in Note 36 on page 120, there is no indebtedness owed to or by the Company to any colleague or any other person considered to be a related party.

Research and development

The Company invests in an active programme of innovation in support of its major international business streams. This programme includes the conception, design, testing and manufacture of new products to enhance the quality, effectiveness and safety of the Company's services and minimise their environmental impact. Where appropriate, work may be sponsored at universities with expertise in relevant areas. The Company's total research and development expenditure in 2012 was £1.8 million (2011: £2.0 million).

Substantial interests in shares and share capital

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

The Company is not directly or indirectly owned or controlled by another corporation or by an individual and there are no arrangements which may at a subsequent date result in a change in control of the Company. As at 14 March 2013 the shareholders shown below had indicated that they had an interest in 3% or more of the Company's issued share capital and were not subject to the 5% disclosure exemption under the Disclosure and Transparency Directive. No other interests have been disclosed to the Company in accordance with Disclosure and Listing Rule 5 either during the year or as at 14 March 2013. There were no movements in the Company's ordinary shares during the period.

Authority for the Company to make purchases of its own shares of up to 181,483,101 shares was obtained at the annual general meeting on 1 May 2012. No purchases of its shares were made by the Company during 2012. The authority is normally renewable annually and approval will be sought from shareholders at the 2013 annual general meeting to renew the authority for a further year.

Authority for the Company to allot shares or grant rights to subscribe for shares was obtained at the annual general meeting on 1 May 2012. No allotments of shares were made by the Company during 2012 and the board has no present intention to exercise this authority, but it remains in force and approval will be sought from shareholders at the 2013 annual general meeting to renew the authority for a further year.

Substantial interests in shares

Substantial interests in shares	%	No. of ordinary shares	Nature of holding
Invesco Ltd	24.45	443,762,709	Direct
Schroders plc	12.01	218,055,571	Indirect
Aviva plc (and subsidiaries)	6.66	120,863,049	Direct
Ameriprise Financial Inc.*	5.00	90,790,221	Indirect
Blackrock Inc.	4.96	90,090,116	Indirect
Société Générale SA	4.81	87,287,805	Direct
AXA SA	4.80	87,093,421	Indirect
Legal & General Group plc	3.99	72,494,739	Indirect
Orbis Holdings Ltd	3.54	64,277,495	Indirect

*Ameriprise Financial Inc. includes Threadneedle Asset Management Holdings Ltd

Other information

Information relevant to the directors' report can be found elsewhere in this annual report on the following pages:

Statement of directors' responsibilities

(in respect of the annual report and the financial statements)

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

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and Parent Company and of their profit or loss for that period. In preparing each of the group and Parent Company financial statements, the directors are required to:

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

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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that complies with that law and those regulations. The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Each of the directors, whose name and functions are set out on pages 40 to 41, confirms that, to the best of their knowledge:

(a) the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and the undertakings included in the consolidation taken as a whole; and

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

Statement of the directors as to the disclosure of information to the auditor

The directors confirm that, insofar as each of them is aware, there is no relevant audit information (as defined by section 418 (2) of the Companies Act 2006) of which the Company's auditor is unaware; and each director has taken all of the steps that should have been taken to ensure that they are each aware of any relevant audit information (as defined) and to establish that the Company's auditors are aware of that information.

The directors' report was approved by a duly authorised committee of the board of directors on 14 March 2013 and signed on its behalf by Paul Griffiths, the company secretary.

By order of the board,
Paul Griffiths
Company Secretary
14 March 2013

Registered office:
2 City Place
Beehive Ring Road
Gatwick Airport
West Sussex RH6 0HA
Registered in England and Wales No. 5393279

Directors' Remuneration Report

Membership

Alan Giles (Chairman)
Richard Burrows
Peter Long
Angela Seymour-Jackson (from appointment in March 2012)

Other attendees
The Chairman, the Chief Executive, the Chief Financial Officer (when required), the group HR director, the company secretary and the committee's independent advisers, Deloitte LLP. The group reward director also periodically attended meetings. No individual is present during any discussion relating to their own remuneration.

Chairman's introduction

I am pleased to introduce the directors' report on remuneration for 2012.

Put simply, the job of the committee is to ensure that the remuneration of directors and senior executives supports the delivery of strategic objectives and has the following features:

- It is set at an appropriate level in the context of the markets in which we operate to attract and retain the talent needed to run the business without paying more than necessary
- It links a significant proportion of the total remuneration opportunity to demanding performance targets that are aligned to business strategy and shareholders' interests
- It should reinforce a culture of high performance and at the same time underpins retention to support stability in the management team

I was pleased that the nominations committee recommended that Angela Seymour-Jackson should join the committee when she was appointed to the board last March. Her participation not only supports the independence of the committee but also brings very recent service industry experience.

I am keen to ensure that the committee maintains strong dialogue with our shareholders and during the year I was pleased to have had the opportunity to meet with several of our larger shareholders to listen to their views on pay and incentives and to discuss how the committee is approaching these important issues. The Company will continue to consult with shareholders about remuneration generally and as necessary regarding the operation of our incentive plans.

There have been no changes to the executive management team during the year. The structure of remuneration remains broadly unchanged with the exception of minor changes to the annual bonus which are detailed later in this report. The special incentive plan put in place when the new leadership team joined in 2008 reaches its final performance test in a few months' time.

The committee is comfortable that the existing structure and opportunity of remuneration arrangements remains sufficient to incentivise and reward management and that no change is necessary this year. However, in the spring the committee will be conducting a review of the performance share plan (which has been essentially unchanged since 2009) to ensure that it continues to be aligned with strategy and to motivate management to achieve our business goals.

The committee is very conscious that in carrying out its duties we must take into account the wider pay environment in the Company. The committee's terms of reference were specifically widened last year to make this responsibility clear.

Shareholders will be aware that there has been much debate around the reporting of executive remuneration, in particular the draft regulations issued by the Department for Business Innovation and Skills of new reporting requirements which are due to apply to Rentokil Initial for the 2013 financial year. The committee has discussed the proposed new reporting requirements and in anticipation we have provided some additional disclosures in advance of being required to do so.

The 2009 performance share plan awards were tested in 2012 and these did not meet their performance targets and have lapsed. Bonus payments of between 16% and 34% were made to executive directors under the annual bonus plan as reported on page 67.

I hope that you find the report clear and informative.

Alan Giles
Chairman, Remuneration Committee
14 March 2013

Introduction

This directors' remuneration report for the year ended 31 December 2012 has been prepared on behalf of the board by the remuneration committee ('the Committee'). It has been prepared in accordance with Schedule 8 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the Regulations') and in compliance with the provisions of the UK corporate governance regime applicable to these accounts ('the Code'). The Company's auditors are required to report to shareholders on the matters set out in the Regulations and the elements of the report which have been audited are highlighted. This report will be presented to shareholders for approval at the annual general meeting on 15 May 2013.

In producing this report, the remuneration committee aims to comply with best practice guidelines, including guidance produced by the Association of British Insurers and the National Association of Pension Funds. The committee has also considered the UK Government's proposals for new pay disclosures which are due to come into force later in 2013 and has adopted some of these in advance of the requirements coming into effect.

The Committee

The role of the Committee is to:

- determine and agree with the board the framework or broad policy for the remuneration of the chairman of the Company, the executive directors and other members of the Company executive board ('senior executives') giving full regard to the matters set out in the UK Governance Code 2010 ('the Code'). When determining such framework or broad policy the committee shall consider the pay and conditions across the rest of the Company
- consult the chairman of the Company and the Chief Executive about its proposals relating to the remuneration of other executive directors
- determine on the board's behalf the entire individual remuneration packages for each executive director, and the chairman and to consider the level and structure of remuneration for senior executives, giving full consideration to the matters set out in the Code
- determine policy for the grant of awards/options to executive directors and senior executives, to ensure that they are provided with appropriate incentives consistent with the Company's policy as stated in the Directors' Remuneration Report in the Company's last audited accounts
- approve all and any awards/options to executive directors and senior executives, including consideration of the quantum of grants and vesting schedules
- set appropriate performance targets in connection with the awards and options
- determine in conjunction with the Company's auditor, whether such performance targets have been satisfied
- appoint consultants in respect of executive director remuneration and make the terms of reference of such consultants, together with a statement of whether they have any other connection with the Company, available (by placing it on the Company's website)
- ensure that contractual terms on termination affecting executive directors and senior executives, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised
- be aware of and advise on any major changes in employee benefit structures throughout the Company or group

No member of the committee has any personal financial interest, other than as a shareholder, in the matters to be decided by the committee. No member of the committee, all of whom are independent, has any conflict of interest arising from other directorships and no member of the committee participates in any of the Company's remuneration, incentive or pension arrangements nor do they have any involvement in the day-to-day running of the Company.

The committee met seven times during the year and details of attendance can be found in the corporate governance report on page 42. The activities of the committee during the year are summarised in the committee calendar below.

Terms of reference

The committee's terms of reference are available on the Company's website at www.rentokil-initial.com or from the Company secretary. They were reviewed during the year.

Advisers

Material advice and/or services were provided to the committee during the year by:

- Deloitte LLP (Deloitte)
- Towers Watson Ltd (Towers Watson)
- Martin Sawkins – Group HR Director
- Paul Griffiths – Company Secretary
- Louise Baker – Group Reward Director

The group HR director has direct access to the chairman of the committee and together with the group reward director advises the committee on remuneration matters relating to executive directors and members of the Company executive board.

The Company Chairman attends meetings and makes recommendations in relation to the remuneration and incentive arrangements for the Chief Executive and the Chief Executive attends and makes recommendations in respect of remuneration arrangements for his direct reports. No director or executive is present when their own remuneration is under consideration.

Deloitte has been retained by the Committee to provide independent advice on executive remuneration matters and on the Company's long-term incentive arrangements. Deloitte is a founding member of the Remuneration Consultants Group and adheres to its Code in relation to executive remuneration consulting in the UK.

During the year Deloitte provided the Company with a limited level of advice over non-remuneration matters, such as taxation and due diligence on acquisitions, although they are not the Company's main source of advice in such areas. Deloitte also acted as a co-source partner providing support to the internal audit function. Neither the quantum nor the nature of non-remuneration services provided by Deloitte represented a conflict of interest over the firm's role as advisers to the committee.

Towers Watson's involvement with the committee is limited to the provision of market data on competitiveness and current trends for use in connection with remuneration matters. Towers Watson also advises the Company on UK pension scheme matters.

Directors' Remuneration Report

Committee effectiveness

The committee conducted a review of its performance during the year with the assistance of Lintstock, an external independent specialist consultancy. The review concluded that the committee continued to operate effectively and that individual directors serving on the committee continued to have access to appropriate advice and information.

Remuneration policy

The Company's remuneration policy for executive directors and senior executives, which is summarised in the table below and overleaf is designed to do the following:

- attract and retain the leadership talent needed to drive and deliver business growth, financial performance and other key strategic priorities
- recognise and reward individual contribution to delivering long-term, sustainable business performance
- ensure alignment of executives with the overall shareholder objective of long-term value creation through linking a substantial part of the remuneration package to long-term performance targets
- deliver a total reward package that is market aligned and provides upside for exceptional business performance whilst being affordable
- encourage executive behaviours consistent with Rentokil Initial's business values and risk appetite

The committee reviews the total reward packages of the executive directors and senior executives regularly to ensure that they are in line with policy. The remuneration of colleagues throughout the group is also considered by the committee when making recommendations for executive directors, as is feedback received from shareholders.

Code Principle: D1
Levels of remuneration should be sufficient to attract, retain and motivate directors of the quality required to run the Company successfully but a Company should avoid paying more than is necessary for this purpose.

Key elements of Remuneration policy

Base salary

Objective and link to strategy	Principles and operation	Opportunity	Performance measure	Changes to policy in year
To attract and retain executives of the calibre required to implement our strategy	Salaries are reviewed annually and set on 1 January. The decision takes into account: • the market competitive range for companies of a similar size and complexity • individual skills and experience • contribution to overall business performance • pay conditions across the group • external economic environment	Salaries are set taking into account the factors described under 'Principles and operation'.	The payment of salary is not dependent on achieving performance targets but salary levels are set taking into account individual performance, delivery against key personal objectives and experience.	None.

Annual bonus

Objective and link to strategy	Principles and operation	Opportunity	Performance measure	Changes to policy in year
Recognises and rewards the delivery of exceptional business performance against annual financial, strategic and operational goals and individual contribution to Company performance	The structure is reviewed periodically to ensure that it continues to support the business's short-term and long-term goals. The committee reviews the annual bonus opportunity periodically to ensure that it is competitive provided that targets are achieved. The annual bonus is normally paid in cash each year after the committee has reviewed performance against targets for each executive director. A 'clawback' provision exists to allow the committee to reduce any future bonus payments (potentially to nil) in the event of a material misstatement of performance or in any other circumstances where the committee considers that this treatment is appropriate.	On target bonus opportunity: 50% of salary. Maximum bonus opportunity: 100% of salary. Individual performance modifiers, based on the outcome of the Company's performance development review process, can increase or decrease the opportunity stated above to further recognise individual contribution to business performance. For the operation of the modifier in 2012 see page 67. For the operation of the modifier in 2013 see page 68.	Group and regional profit, cash flow, revenue and other key strategic performance targets. The weighting of each metric reflects executive director role and responsibilities across the group and regions.	Minor changes to individual performance modifier outlined on page 68.

Long-term incentive – The Performance Share Plan ('The PSP')

Objective and link to strategy	Principles and operation	Opportunity	Performance measure	Changes to policy in year
To motivate and incentivise delivery of specified objectives which have been selected to create alignment with our business strategy to deliver performance over the long-term and create sustained value for shareholders	Awards are made each year over shares with a face value set by reference to a multiple of base salary and vest three years later subject to performance conditions and the individual performance modifier. Award levels and performance conditions are reviewed periodically to ensure they continue to support the business's long-term goals. Award levels are set at a market competitive level, relative to companies of comparable size and complexity. A 'clawback' provision exists to allow the committee to scale back awards that have not yet vested (potentially to nil) in the event of a material misstatement of performance or in other circumstances where the committee considers that this treatment is appropriate.	Target award: 120% of base salary for the chief executive and 100% of base salary for other executive directors. Target awards are subject to an individual performance modifier which is based on annual bonus performance over the three years of the plan. This individual peformance modifier can increase the PSP award to 200% of base salary if exceptional individual performance is delivered. If bonus targets are not met in each of the three years of the performance period the PSP award will reduce to 0%. The maximum award is therefore 200% of base salary (250% in exceptional circumstances).	Performance conditions have been selected to reward achievements against financial performance and the creation of shareholder value. Awards are subject to: • Relative Total Shareholder Return performance against the FTSE 350 (excluding financial services, property and natural resources companies) • Individual Performance Modifier A relative TSR measure is used to ensure executives are incentivised to outperform key peers and to ensure that the interests of executives are aligned with shareholders. TSR was also selected to reflect market practice and shareholder preferences. Achievement under the relative TSR performance measure is modified based on individual achievement of annual bonus targets in each of the three years of the performance period using the individual performance modifier. The individual performance modifier is designed to incentivise and reward individual and business unit performance.	None during the year. Changes for 2013 to apply below board and company executive board level are shown on page 69.

Pensions

Objective and link to strategy	Principles and operation	Opportunity	Performance measure	Changes to policy in year
To attract and retain executives of the calibre required to implement our strategy	Executive director pension arrangements are by way of a defined contribution arrangement or through a cash alternative of a similar value.	Contribution of up to 25% of base salary.	None.	None.

Benefits

Objective and link to strategy	Principles and operation	Opportunity	Performance measure	Changes to policy in year
To attract and retain executives of the calibre required to implement our strategy	Positioned to ensure broad competitiveness with market practice. The main benefits for executive directors are: • family healthcare • car or allowance • life assurance • permanent health insurance	Levels of benefits are reviewed periodically and set in line with market practice.	None.	None.

Policy on new hires

In the event of hiring a new executive director, the committee will seek to align the remuneration package with our remuneration policy outlined above. However, the committee retains the discretion to make appropriate remuneration proposals outside the standard policy to facilitate the recruitment of an individual of the calibre required to deliver the group's strategy. The committee will seek to ensure that such arrangements are cost effective and in the best interests of both the Company and its shareholders.

Directors' Remuneration Report

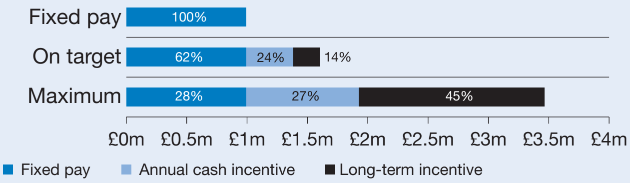
Total remuneration opportunity

Our remuneration arrangements are designed so that a significant proportion of pay is dependent on the delivery of short and long-term goals that our aligned with our strategic objectives and the creation of shareholder value.

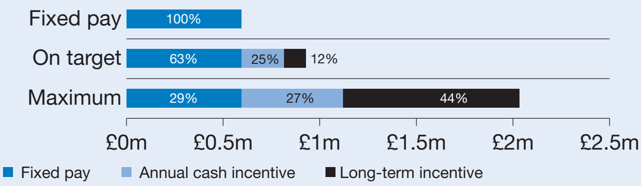
The methodology used to calculate the below tables is based on the research carried out by the Financial Reporting Lab.

For the purposes of these illustrations, no share price growth or receipt of dividends is assumed.

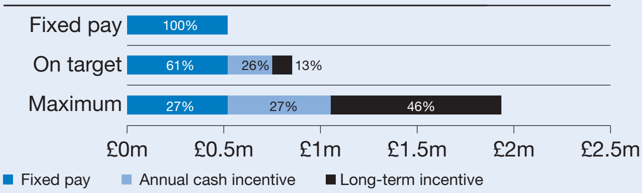
Chief Executive Alan Brown – Current value of remuneration package



Executive Director & Managing Director, West region Andy Ransom – Current value of remuneration package



Chief Financial Officer Jeremy Townsend – Current value of remuneration package



In developing the scenarios above, the following assumptions have been made:

	Base (£k)	Benefits (£k)	Pension (£k)	Total fixed (£k)
Alan Brown	775	22	194	991
Andy Ransom	450	20	113	583
Jeremy Townsend	442	16	66	524

Target — Based on what a director would receive if performance was at target
- Annual bonus pays out at 50% of the maximum
- PSP performance at median, therefore 25% of the total award vests
- This assumes a neutral individual performance modifier

Maximum
- Full payout of annual bonus i.e. 120% of base salary
- Full vesting of PSP award i.e. 200% of base salary
- This assumes a maximum individual performance modifier

These charts illustrate the current remuneration policy and therefore it does not take into account the one-off awards which were made in 2008 under the 2008 Share Incentive Plan to facilitate the appointment of the Chief Executive, Alan Brown and the Executive Director, Andy Ransom (further details relating to these awards are provided on page 69).

Contracts of service

The Company's policy is for executive directors to have rolling contracts subject to one year's notice.

The Company's policy in respect of the notice periods for the termination of executive directors' contracts conforms to the Code. The remuneration and contractual arrangements for the executive directors and senior management do not contain any matters that are required to be disclosed under The Takeovers Directive. The contracts of service for executive directors during the year are as set out below. The terms of the contracts have not changed during the year.

Contracts of service

Executive director	Effective date of service agreement	Type of agreement	Notice by the Company	Notice by the director
Alan Brown	7 October 2008	Rolling contract	12 months	12 months
Andy Ransom	7 October 2008	Rolling contract	12 months	12 months
Jeremy Townsend	4 March 2010	Rolling contract	12 months	6 months

Exit payments policy

The committee is fully aware that under the Code, and acting within the contractual framework, it should take a robust line over payments to departing directors. The policy on termination (other than by reason of resignation or unacceptable performance or conduct) is as follows:

Exit payments policy

Element	Provision
Base pay and benefits	On termination without notice, executive directors are entitled to a payment equal to base pay and the value of benefits only for the duration of the notice period, subject to mitigation.
Bonus	Executive directors may receive a pro-rated bonus based on business and individual performance and the number of months service during the year to the date of leaving.
LTIP – The Performance Share Plan	Where an executive director leaves in 'good leaver' circumstances they may receive a pro-rated award, scaled back to reflect the date of leaving based on the number of complete months worked during the performance period. If the reason for leaving is a result of disability or death, relative TSR performance and the Individual Performance Modifier will be measured up to the date of leaving and any awards vested will be released immediately. In all other circumstances, relative TSR performance will be measured over the full three-year period with an average individual performance modifier applied to the level of awards based on relative TSR performance. The average individual performance modifier is based on the average of the calculated individual performance modifiers during employment. Any vested awards will be released at the end of the performance period. In the event of a change of control, outstanding awards may vest taking into account the time elapsed and performance to the date of the change of control.

Chairman

The Chairman, John McAdam, has a revised letter of appointment, dated 13 December 2012, setting out his responsibilities for the management of the board under which he receives fees of £350,000 per annum. Fees have not changed since appointment in 2008. A number of minor adjustments were made to the chairman's appointment terms during the year. On termination of the appointment before May 2013 the Company and the Chairman are entitled to four months' notice, reducing to two months' notice in the year to May 2014 with no notice provision on either side thereafter. The Chairman received an award on appointment under the 2008 Plan, approved by shareholders, details of which are described below and in the schedule of interests in shares shown on page 72. The Chairman is not eligible to participate in the Company's annual bonus plan or in the Company's Performance Share Plan.

Non-executive director appointment policy

The appointment policy for non-executive directors is that, subject to annual re-election at the annual general meeting, they should be appointed for an initial period of three years, which would be extended for a further period of three years by mutual consent and thereafter reviewed annually, subject to acceptable tests of performance and independence. Non-executive directors do not have service contracts and they do not participate in any of the Company's incentive schemes, nor are they eligible to join the Company's pension scheme. There are no provisions for notice periods or compensation in the event of termination of the appointment of a non-executive director and no element of their remuneration is performance related. No non-executive director has any personal interest (other than as a shareholder) in the matters under consideration, or any conflicts of interest arising from other directorships which would impinge upon their independence or objectivity or any day-to-day involvement in running the business. No director plays a part in any discussion about their own remuneration. Expenses reasonably incurred in the performance of their duties are reimbursed.

Appointment policy

Director	Letter of appointment	Appointment period*
John McAdam	13 December 2012	3 years
Peter Bamford	15 December 2011	Annual
Richard Burrows	15 December 2011	3 years
Alan Giles	15 December 2011	Annual
Peter Long	15 December 2011	Annual
William Rucker†	15 December 2011	3 years
Angela Seymour-Jackson	5 March 2012	3 years
Duncan Tatton-Brown	15 December 2011	Annual

* All directors are subject to annual re-election at the annual general meeting.
† Resigned on 14 March 2013.

Non-executive director fees

Non-executive director fees

Position	Fees for year ended 31.12.2012
Non-executive director	£55,000 per annum
Senior independent director	Additional £5,000 per annum
Chairman of Audit Committee	Additional £15,000 per annum
Chairman of Remuneration Committee	Additional £15,000 per annum

The above amounts are included in the pay and benefits table on page 70 which has been audited.

The non-executive directors' remuneration is determined by the board on the recommendation of the non-executive directors' fees committee of the board (comprising the Chairman, the Chief Executive and the Chief Financial Officer) within the limits set by the articles of association and based on independent surveys of fees paid to non-executive directors of similar companies.

The levels of fees for non-executive directors were increased by the committee in 2009 based on external market data at which time they were set at the levels shown in the table. The level of fees was reviewed during the year and considered to remain appropriate for 2013.

Directors' Remuneration Report

Executive directors' external appointments

Executive directors are entitled, subject to board approval of the specific appointment, to accept one non-executive directorship or similar appointment outside the Company and to retain the fees in connection with such appointment.

The Chief Executive, Alan Brown, joined the board of Intertek Group plc on 15 April 2011 as a non-executive director. He received and retained non-executive directors' fees for the period ended 31 December 2012 of £60,000 (2011: £32,000). No other executive director currently holds an external non-executive director post.

Jeremy Townsend is a director of a business run by a member of his family for which he received no remuneration. He has no executive involvement in the business and the appointment does not represent a conflict of interest.

Executive shareholding requirements

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

Contracts and appointment letters

Copies of Executive directors' service contracts and non-executive directors' letters of appointment are available for inspection by shareholders at the Company's registered office and on the Company's website at www.rentokil-initial.com

Remuneration committee calendar

The committee met seven times in 2012 and in addition was consulted on various remuneration issues between formal meetings. A summary of the matters considered by the committee during the year is shown in the calendar below and further information on remuneration and incentive arrangements relating to the year under review is set out in this report.

February

- Considered and approved bonus outcomes for executive directors and senior management for the previous year
- Reviewed key trends in market practice and market competitiveness of remuneration packages for executive directors and senior management
- Considered and approved salary, bonus structure, targets and performance objectives for the current year, including 'clawback' provisions in bonus plans
- Considered preliminary proposals for Performance Share Plan ('PSP') awards to be considered at the next meeting including plan rule changes to introduce 'clawback' provisions
- Approved the committee's report to shareholders for the prior year
- Reviewed findings of the performance evaluation of the committee's effectiveness

May

- Approved changes to PSP rules introducing clawback provisions
- Reviewed and approved PSP vesting methodology
- Approved PSP awards for the current year
- Reviewed changes to legislation relating to retirement provisions affecting colleagues in the UK

June

- Confirmed the non-vesting and lapse of PSP awards made in June 2009 under the performance share plan
- Approved outcome of performance against targets set in respect of long-term incentive share awards to John McAdam, Alan Brown and Andy Ransom showing that no further awards vested at the second vesting date
- Authorised the lapse of options issued in 2002 under the previously operated executive share option scheme
- Undertook a review of government proposals on executive remuneration reporting for 2014

December

- Undertook a forward-looking remuneration review with input and analysis provided by Deloitte
- Discussed executive remuneration reporting for the year and changes for 2013
- Undertook a preliminary review of LTIP performance conditions for the following year
- Initiated a longer-term review of the structure of LTIP performance criteria
- Discussed provisional proposals for bonus plan structure for the following year
- Reviewed the committee's terms of reference

Ad-hoc meetings

- To deal with adjustments on engagement and incentive terms for executives reporting to the Chief Executive below board level, including to provide short-term incentives to the management of the City Link business

2013

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

- approved the base salaries of executive directors and the senior management team for 2013
- approved the outcomes of the 2012 annual bonus plan for executive directors and the senior management team and the structure of targets for the 2013 annual bonus plan
- approved this directors' remuneration report contained within the 2012 annual report and accounts
- approved targets for 2013 long-term incentive awards

Code Principle: D2

There should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors.

Base salaries

Executive directors and senior management salaries are reviewed with effect from 1 January each year. Base salaries reflect the role, individual experience, skills and contribution to overall business performance as well as external market conditions in accordance with the remuneration policy set out earlier in this report.

The base salaries for the Chief Executive, Alan Brown, and the Executive Director, Andy Ransom, have not changed since their appointment in 2008. Whilst these base salaries are considered to be market competitive, the majority of their earning opportunity is linked to variable pay and aligned to the interests of shareholders.

On a review of the economic and market considerations in the UK, where average pay increases in the Company were in the order of 2%, the committee agreed that base salaries of executive directors for 2013 should be as set out below. The committee also took into account pay across the group.

Salary with effect from 1 January 2013

Director	2013 Salary
Alan Brown	£775,000 (no increase)
Jeremy Townsend	£442,170 (2% increase)
Andy Ransom	£450,000 (no increase)

Levels of pay changes agreed locally will vary depending on local economic and market conditions, statutory requirements and on individual business performance.

Annual bonus plan

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

The annual bonus opportunity for the Chief Executive and other executive directors continues to be 100% of base salary (before the application of the personal modifier), subject to meeting the stretching performance targets described below. This can be increased or decreased by an individual performance modifier, based on the outcome of the Company's performance development review process.

2012 bonus structure

For 2012 the committee approved a bonus plan for executive directors and the group's senior management, which was broadly similar in structure to the 2011 bonus plan. The metrics for the executive directors are set out in the second annual bonus plan table below.

Payout for the achievement of revenue targets and key performance indicators may only be made if profit thresholds are achieved.

The committee believes that these metrics provide the right combination of incentivising executives to focus on top and bottom line financial performance while strengthening our cash position and delivering upon agreed strategic goals.

The individual performance modifiers (based on the outcome of the Company's performance development review process) continued to be as follows:

Individual performance modifiers

Rating of 1	Rating of 2	Rating of 3	Rating of 4	Rating of 5
0%	85%	100%	110%	120%

In addition to executive directors, over 500 senior executives also participate in the annual bonus plan. The performance measures relate to group, divisional and business revenue, profit and cash performance as well as customer care and non-financial personal objectives, where appropriate.

Annual bonus plan

Metrics		Profit	Cash	Revenue	Key performance indicators
Threshold to maximum as range around budget		95% to 110%	95% to 110%	99% to 102%	Individually measured based on agreed goals linked to business strategy
Alan Brown	Chief Executive	40% group	20% group	20% group	20%
Andy Ransom	Executive Director & Managing Director, West region	10% group 40% division	5% group 10% division	5% group 30% division	n/a
Jeremy Townsend	Chief Financial Officer	50% group	30% group	n/a	20%

Business Review Governance Financial Statements

Directors' Remuneration Report

2012 bonus outcome

The committee reviewed the 2012 bonus plan outcome for the group's senior management population based on the targets set at the start of the financial year. At executive director level for group performance, bonus was earned only in respect of cash generation where plan targets were exceeded. Alan Brown therefore received a bonus of 16% of base salary and Jeremy Townsend received a bonus of 24% of base salary. Andy Ransom's bonus included a small element relating to group cash but the majority related to the revenue, profit and cash performance of the businesses for which he is responsible. Andy Ransom's bonus was 34% of base salary.

Bonus outcomes for executive directors are shown in the total pay and benefits table on page 70.

2013 bonus structure

For 2013 the committee has approved the following structure of bonuses for the executive directors. The 2013 bonus is broadly the same as the structure in place for the 2012 bonus. However, during the year the Committee reviewed the operation of the individual performance modifier and decided that in order to incentivise strong personal performance the impact (both positive and negative) of this modifier would be enhanced. The individual performance multiplier has therefore been changed as shown in the second table below.

Payment will only be made in respect of other measures if profit thresholds are achieved. The committee believes that these measures continue to support the delivery of long-term, sustained business growth and financial performance.

To continue to reinforce the link between bonus payment and individual contribution, personal performance modifiers have been set as follows:

Personal performance modifiers

Rating of 1	Rating of 2	Rating of 3	Rating of 4	Rating of 5
0%	75% (85% for 2012)	100%	110%	125% (120% for 2012) The total bonus payment is subject to a cap of 120% of base salary

2013 bonus structure

Metrics		Profit	Cash	Revenue	Key performance indicators
Threshold to maximum as range around budget		95% to 110%	95% to 110%	99% to 102%	Individually measured based on agreed goals linked to business strategy
Alan Brown	Chief Executive	50% group	20% group	20% group	10%
Andy Ransom	Executive Director & Managing Director, West region	20% group 40% region	20% region	20% region	n/a
Jeremy Townsend	Chief Financial Officer	50% group	30% group	n/a	20%

Long-term share incentive plans

There are two plans covering the executive and senior management team, the Performance Share Plan ('the PSP') and the 2008 Share Incentive Plan ('the 2008 Plan'). In the event of a change of control, outstanding awards may vest taking into account the time elapsed and performance to the date of the change of control.

The Performance Share Plan

The PSP enables participants, selected on a discretionary basis, to earn shares in the Company based on achieving stretching performance targets. In normal circumstances awards are made annually, with the maximum value ranging from 25% to 200% of base salary, depending on seniority. In exceptional circumstances an award of up to 250% of base salary could be made in any one year. Details of awards made to executive directors are set out in the share incentive awards table on page 71.

PSP performance conditions

Awards are subject to the two performance measures described below.

- **Relative TSR performance:** measured relative to the constituents of the FTSE 350 index, excluding financial services, property and primary resources sectors. 25% of the initial award will vest if Rentokil's performance is positioned at median against the comparator group with the full initial award vesting for upper quartile TSR performance. Vesting is on a straight-line basis between these two points.

  A relative TSR measure is used to ensure participants are incentivised to outperform key peers and to ensure that the interests of management are aligned with shareholders. TSR was also selected to reflect market practice and shareholder preferences. The FTSE 350 is recognised as a broad index and is considered to be an appropriate benchmark for measuring performance given the Company's membership of the FTSE 250, the scope and scale of the Company's international operations, and the diverse nature of companies in the business services sector.
- **Individual performance modifier** For executive directors, the effect of the individual performance modifier as set out in the table below, is to reduce the level of award that would otherwise vest if an individual fails to reach threshold performance under the annual bonus in each of the three years of the performance period to zero, and increase vesting to a maximum of 200% if above bonus target performance is achieved

Individual performance modifiers

Achievement against annual bonus targets in respect of each financial year (average over performance period)	Below threshold	Threshold	Target	Maximum
Individual performance modifier	0%	20%	100%	200%

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

Accordingly, there is the possibility that awards could vest at two times the target number of shares, if the business achieves upper quartile TSR performance over the performance period and financial performance that result in maximum bonus outcomes in each of the three consecutive financial years for the relevant business unit.

For other participants in the plan, the individual performance modifier range is 50% to 150%, as described in the 2011 report.

As reported last year, PSP awards from 2012 are subject to a 'clawback' provision allowing the committee to scale back awards prior to vesting in the event of a material misstatement of performance or in other circumstances where the committee considers that this treatment is appropriate.

2009 PSP vesting

Relative TSR performance for 2009-2011 was tested in June 2012 and as the Company's position relative to the comparator group was below median, no award vested and the award lapsed.

2012 PSP award

277 senior managers across the group received awards under the PSP plan in 2012. A target award of 120% of base salary for the chief executive and 100% of base salary for the other executive directors was made during the year, with the opportunity of a maximum vesting of 200% of salary for maximum outperformance under the individual performance modifier. PSP opportunities are unchanged from previous years. The awards are subject to the achievement of stretching relative TSR performance conditions over a three-year period, as described above, and are also subject to the individual performance modifier. Awards to executive directors are shown in the share incentive awards table on page 71.

2013 PSP award

There are no changes proposed for the 2013 award for executive directors.

The committee has reviewed the operation of the individual performance modifier for other participants, following feedback on complexity of design and its impact on understanding and future retention. As a result it is planned that the individual performance modifier will be removed for awards in 2013 for participants (other than for executive directors and members of the company executive board) and a full review of the on-going effectiveness and structure of the PSP will take place during 2013 covering all participants for 2014 onwards.

Directors' Remuneration Report

The 2008 Plan

The 2008 Plan was approved by shareholders in 2008 to facilitate the appointment of John McAdam, Alan Brown and Andy Ransom and to motivate them to deliver a turnaround in corporate performance. Details of awards made under the 2008 Plan are set out in the share incentive awards table on page 71. No further awards may be made under the Plan.

The key features of the Plan were that awards would vest based on absolute share price performance targets. A minimum share price of £1.20 achieved over a sustained period (60 consecutive dealing days during the performance measurement period) would allow 20% of the award to be earned, rising on a straight-line basis to full vesting at a share price of £1.80. For achieving growth in market value between £1.80 and £2.80, further shares may be earned on a straight-line basis up to a maximum of a further 50% of the original award.

During the first half of 2010 the Company's share price achieved a 60 day highest average share price of 130.82p and therefore 34.43% of the award was earned, with one third vesting in 2011, a further one third in 2012 and the remaining third in 2013. No further shares were earned when performance was tested in 2012. The Plan is subject to a final performance test in May 2013.

Share plan funding

Typically, shares granted under the executive incentive plans are satisfied by shares purchased in the market or by transfer from the Company's employee share trust. To the extent shares are newly issued to satisfy awards, the Company complies with ABI dilution guidelines on their issue.

Pensions

Executive directors participate in defined contribution pension arrangements or receive additional gross salary in lieu of pension contributions from the Company at a rate of up to 25% of base salary. Alan Brown and Andy Ransom received a cash supplement in lieu of a pension contribution in 2012. Jeremy Townsend participated in the Company's defined contribution pension scheme on the basis of 77% of the 15% of salary employer contribution to which he is entitled under current group policy and received a cash supplement for the balance. A cash supplement in lieu of pension scheme contribution is not counted as salary for bonus purposes.

Pay and benefits

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

	Base salary/fees £000	Allowances/ benefits £000	Pension related benefit £000	Bonus £000	Termination payments £000	**2012 Total £000**	2011 Total £000
John McAdam	350	–	–	–	–	**350**	350
Alan Brown(i)	775	22	194	124	–	**1,115**	991
Peter Bamford	55	–	–	–	–	**55**	55
Richard Burrows	55	–	–	–	–	**55**	55
Alan Giles	70	–	–	–	–	**70**	55
Peter Long	60	–	–	–	–	**60**	75
Andy Ransom(i)	450	20	113	156	–	**739**	678
William Rucker(ii)	55	–	–	–	–	**55**	55
Angela Seymour-Jackson	41	–	–	–	–	**41**	–
Jeremy Townsend(i)	434	16	65	104	–	**619**	505
Duncan Tatton-Brown	70	–	–	–	–	**70**	70
2012	**2,415**	**58**	**372**	**384**	**–**	**3,229**	
2011	2,365	58	371	95	–		2,889

(i) Executive directors are provided with life insurance, private health cover and a Company car or a car allowance. The value of the benefits is included under 'Allowances/ benefits' in the above table.
(ii) William Rucker stood down as a director on 14 March 2013. His fees were paid to Lazard & Co. Ltd up to 30 September 2012.

Share incentive awards

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

	Date of award	Plan	Market price at award	Scheme interest at 1 January 2012	Shares vested during 2011	Shares released during 2011	Shares released during 2012	Shares lapsed during 2012	Shares exercisable during 2012	Shares exercised during 2012	Shares vested but not yet exercisable	Outstanding at 31 December 2012	Vesting period
SIP 2008													
John McAdam	26/06/08	2008 Plan(i)	100.50p	7,500,000	2,618,485(ii)	872,828	872,828	–	1,745,656	–	872,828	4,917,750(ii)	2011/13
Alan Brown	26/06/08	2008 Plan(i)	100.50p	7,500,000	2,618,485(ii)	872,828	872,828	–	1,745,656	–	872,828	4,917,750(ii)	2011/13
Andy Ransom	26/06/08	2008 Plan(i)	100.50p	7,500,000	2,618,485(ii)	872,828	872,828	–	1,745,656	–	872,828	4,917,750(ii)	2011/13

	Date of award	Plan	Market price at award	Scheme interest at 1 January 2012	Shares vested during 2012	Shares awarded during 2012	Shares lapsed during 2012	Shares exercisable during 2012	Shares exercised during 2012	Outstanding at 31 December 2012	Vesting date
PSP 2009											
Alan Brown	12/06/09	2009 PSP(iii)	88.25p	2,144,092(iii)	–	–	2,144,092(iii)	–	–	–	12/06/12
Andy Ransom	12/06/09	2009 PSP(iii)	88.25p	1,037,464(iii)	–	–	1,037,464(iii)	–	–	–	12/06/12
PSP 2010											
Alan Brown	14/05/10	2010 PSP(iv)	125.00p	1,240,000	–	–	–	–	–	1,240,000(iv)	14/05/13
Andy Ransom	14/05/10	2010 PSP(iv)	125.00p	720,000	–	–	–	–	–	720,000(iv)	14/05/13
Jeremy Townsend	30/09/10	2010 PSP(iv)	103.00p	825,242	–	–	–	–	–	825,242(iv)	14/05/13
Compensatory award 2010											
Jeremy Townsend	01/09/10	2010 APPT(v)	96.75p	90,618(v)	90,618(v)	–	–	90,618(v)	–	90,618(v)	01/09/12
PSP 2011											
Alan Brown	01/08/11	2011 PSP(iv)	89.55p	1,688,453	–	–	–	–	–	1,688,453(iv)	01/08/14
Andy Ransom	01/08/11	2011 PSP(iv)	89.55p	980,394	–	–	–	–	–	980,394(iv)	01/08/14
Jeremy Townsend	01/08/11	2011 PSP(iv)	89.55p	925,926	–	–	–	–	–	925,926(iv)	01/08/14
PSP 2012											
Alan Brown	08/05/12	2012 PSP(iv)	83.5p	–	–	1,864,101	–	–	–	1,864,101	08/05/15
Andy Ransom	08/05/12	2012 PSP(iv)	83.5p	–	–	1,082,380	–	–	–	1,082,380	08/05/15
Jeremy Townsend	08/05/12	2012 PSP(iv)	83.5p	–	–	1,042,692	–	–	–	1,042,692	08/05/15

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

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

(iii) The PSP 2009 award was tested in June 2012. The median TSR performance condition for the three-year performance measurement period was not met. Therefore the PSP 2009 share awards lapsed on 12 June 2012.

(iv) The maximum PSP plan vesting is only applicable in the event of upper quartile TSR performance and maximum annual bonus outperformance for participants for the three-year performance measurement period. No shares will vest if TSR performance is below median at the end of the vesting period or if threshold financial performance conditions are not met.

(v) Jeremy Townsend was awarded compensatory share awards on 1 September 2010. 113,273 shares vested on 1 September 2011 ('the first award vesting date') and were acquired on 29 September 2011. 58,902 shares were sold to satisfy the related tax liability. The balance of 54,371 shares held by Mr. Townsend is included in the directors' interests in shares table on page 72. The second tranche of 90,618 shares vested on 1 September 2012 ('the second award vesting date') and have not yet been exercised.

Directors' Remuneration Report

Directors' interests in shares

The interests of the directors and their families in the share capital of the Company on 1 January 2012 or their date of appointment if later, and at 31 December 2012, are set out below. No director has any beneficial interest in the shares of any of the Company's subsidiaries. Any changes in the interests of the directors and their families in the Company and its subsidiary companies during the year and from the end of the year to 14 March 2013 are shown below. This table has been audited.

Directors' shares

Rentokil Initial plc (ordinary shares of 1p each)	31 December 2012 Beneficial interests number	1 January 2012 Beneficial interests number
John McAdam	20,800	20,800
Alan Brown	20,800	20,800
Andy Ransom	52,000	52,000
Jeremy Townsend	99,371	99,371
Peter Bamford	38,000	38,000
Richard Burrows	25,000	25,000
Alan Giles	12,000	12,000
Peter Long	2,000	2,000
William Rucker*	100,000	100,000
Angela Seymour-Jackson	–	–
Duncan Tatton-Brown	12,000	12,000
Total	**381,971**	**381,971**

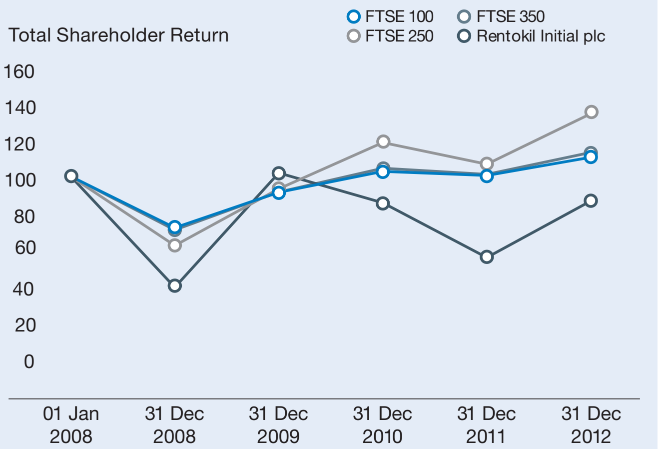
*Resigned on 14 March 2013

TSR performance

This report is required to include a graph showing total shareholder return (TSR) over a five-year period reflecting a holding of the Company's shares, plotted against the movement of a broad equity market index. The following graph shows the Company's TSR performance relative to the FTSE 100 Index and FTSE 250 Index, on a consistent basis with the graph shown last year, and is compliant with these requirements. The Company has been a constituent of both these indices over the five-year period that is shown. The FTSE 350 index is also shown, on the basis that the constituents of the comparator group for LTI purposes are drawn from this index (although the comparator group excludes financial services. property and primary resources companies). The basis of assessment of relative TSR performance in respect of awards made under the Company's PSP differs from the basis on which the chart is prepared, and is described on pages 68 and 69 in this report.

This chart has been prepared by Deloitte LLP for Rentokil Initial plc, for inclusion in the annual report for the year ended 31 December 2012. This is based on data sourced from Thomson Reuters DataStream, and uses spot Return Index data.

Rentokil Initial's total shareholder return compared against total shareholder return of the FTSE 100, the FTSE 250 and the FTSE 350



On behalf of the board,

Alan Giles
Chairman, Remuneration committee
14 March 2013

Financial Statements

Consolidated Income Statement

For the year ended 31 December

	Notes	2012 £m	2011 £m
Revenue	1	**2,546.3**	2,544.3
Operating expenses	2	**(2,400.5)**	(2,554.5)
Operating profit/(loss)		**145.8**	(10.2)
Analysed as:			
Operating profit before amortisation and impairment of intangible assets[1], reorganisation costs and one-off items	1	**222.8**	224.7
Reorganisation costs	1	**(37.6)**	(34.6)
One-off items – operating	1	**(14.2)**	(3.6)
Amortisation and impairment of intangible assets[1]	11	**(25.2)**	(196.7)
Operating profit/(loss)		**145.8**	(10.2)
Interest payable and similar charges	5	**(110.2)**	(109.7)
Interest receivable	6	**73.9**	65.1
One-off items – financing	20	**(31.4)**	–
Share of profit from associates, net of tax of £3.4m (2011: £3.5m)		**4.6**	4.3
Profit/(loss) before income tax		**82.7**	(50.5)
Income tax expense[2]	7	**(29.0)**	(16.6)
Profit/(loss) for the year		**53.7**	(67.1)
Attributable to:			
Equity holders of the Company		**51.4**	(69.7)
Non-controlling interests		**2.3**	2.6
		53.7	(67.1)
Basic earnings per share	8	**2.83p**	(3.84p)
Diluted earnings per share	8	**2.82p**	(3.84p)
Basic adjusted earnings per share[3]	8	**7.73p**	7.48p
Diluted adjusted earnings per share	8	**7.71p**	7.46p

1 excluding computer software
2 taxation includes £19.6 million (2011: £23.4 million) in respect of overseas taxation
3 earnings per share before the after tax effects of amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items

The results for the year were wholly derived from continuing operations.

Consolidated Statement of Comprehensive Income

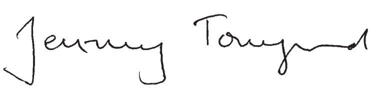
For the year ended 31 December

	Notes	2012 £m	2011 £m
Profit/(loss) for the year		**53.7**	(67.1)
Other comprehensive income:			
Net exchange adjustments offset in reserves		**(10.8)**	(6.4)
Actuarial (loss)/gain on defined benefit pension plans	26	**(79.7)**	130.2
Revaluation of available-for-sale investments		**0.3**	0.8
Movement on cash flow hedge reserve		**1.9**	1.2
Recycling of cash flow hedge reserve on settlement		**2.1**	–
Tax on items taken directly to other comprehensive income		**20.7**	(32.8)
Net (loss)/profit not recognised in income statement		**(65.5)**	93.0
Total comprehensive (expense)/income for the year		**(11.8)**	25.9
Attributable to:			
Equity holders of the Company		**(13.8)**	24.3
Non-controlling interests		**2.0**	1.6
		(11.8)	25.9

Consolidated Balance Sheet
At 31 December

	Notes	2012 £m	2011 £m
Assets			
Non-current assets			
Intangible assets	11	**452.1**	390.4
Property, plant and equipment	12	**550.3**	573.7
Investments in associated undertakings	13	**13.9**	22.2
Other investments	14	**56.5**	1.4
Deferred tax assets	25	**8.0**	9.5
Retirement benefit assets	26	**96.9**	144.0
Other receivables	15	**25.3**	26.3
Derivative financial instruments	21	**48.1**	49.5
		1,251.1	1,217.0
Current assets			
Other investments	14	**1.0**	2.1
Inventories	16	**54.0**	49.6
Trade and other receivables	15	**459.5**	433.5
Current tax assets		**3.0**	3.3
Assets held for sale	10	**9.4**	–
Derivative financial instruments	21	**2.4**	3.5
Cash and cash equivalents	17	**166.6**	89.9
		695.9	581.9
Liabilities			
Current liabilities			
Trade and other payables	18	**(563.3)**	(540.8)
Current tax liabilities		**(68.2)**	(81.1)
Provisions for other liabilities and charges	19	**(28.3)**	(31.0)
Bank and other short-term borrowings	20	**(91.4)**	(56.4)
Derivative financial instruments	21	**(3.6)**	(0.8)
		(754.8)	(710.1)
Net current liabilities		**(58.9)**	(128.2)
Non-current liabilities			
Other payables	18	**(14.7)**	(13.4)
Bank and other long-term borrowings	20	**(1,120.8)**	(952.5)
Deferred tax liabilities	25	**(75.1)**	(90.7)
Retirement benefit obligations	26	**(24.3)**	(18.6)
Provisions for other liabilities and charges	19	**(70.1)**	(76.7)
Derivative financial instruments	21	**(36.3)**	(41.1)
		(1,341.3)	(1,193.0)
Net liabilities		**(149.1)**	(104.2)
Equity			
Capital and reserves attributable to the Company's equity holders			
Called up share capital	27	**18.1**	18.1
Share premium account		**6.8**	6.8
Other reserves		**(1,757.0)**	(1,750.8)
Retained profits		**1,576.3**	1,616.2
		(155.8)	(109.7)
Non-controlling interests		**6.7**	5.5
Total equity		**(149.1)**	(104.2)

The financial statements on pages 74 to 120 were approved by the board of directors on 14 March 2013 and were signed on its behalf by:



Alan Brown
Chief Executive

Jeremy Townsend
Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December

	Attributable to equity holders of the Company					
	Called up share capital £m	Share premium account £m	Other reserves £m	Retained earnings £m	Non-controlling interests £m	Total equity £m
At 1 January 2011	18.1	6.8	(1,747.4)	1,586.8	10.5	(125.2)
Loss for the year	–	–	–	(69.7)	2.6	(67.1)
Other comprehensive income:						
Net exchange adjustments offset in reserves	–	–	(5.4)	–	(1.0)	(6.4)
Actuarial gain on defined benefit pension plans	–	–	–	130.2	–	130.2
Revaluation of available-for-sale investments	–	–	0.8	–	–	0.8
Movement on cash flow hedge reserve	–	–	1.2	–	–	1.2
Tax on items taken directly to other comprehensive income	–	–	–	(32.8)	–	(32.8)
Total comprehensive income for the year	–	–	(3.4)	27.7	1.6	25.9
Transactions with owners:						
Cost of share options and long-term incentive plan	–	–	–	6.3	–	6.3
Transactions with non-controlling interests:						
Acquisition of non-controlling interests	–	–	–	(4.6)	(0.4)	(5.0)
Dividends paid to non-controlling interests	–	–	–	–	(6.2)	(6.2)
At 31 December 2011	18.1	6.8	(1,750.8)	1,616.2	5.5	(104.2)
At 1 January 2012	**18.1**	**6.8**	**(1,750.8)**	**1,616.2**	**5.5**	**(104.2)**
Profit for the year	**–**	**–**	**–**	**51.4**	**2.3**	**53.7**
Other comprehensive income:						
Net exchange adjustments offset in reserves	**–**	**–**	**(10.5)**	**–**	**(0.3)**	**(10.8)**
Actuarial loss on defined benefit pension plans	**–**	**–**	**–**	**(79.7)**	**–**	**(79.7)**
Revaluation of available-for-sale investments	**–**	**–**	**0.3**	**–**	**–**	**0.3**
Movement on cash flow hedge reserve	**–**	**–**	**1.9**	**–**	**–**	**1.9**
Recycling of cash flow hedge reserve on settlement	**–**	**–**	**2.1**	**–**	**–**	**2.1**
Tax on items taken directly to other comprehensive income	**–**	**–**	**–**	**20.7**	**–**	**20.7**
Total comprehensive expense for the year	**–**	**–**	**(6.2)**	**(7.6)**	**2.0**	**(11.8)**
Transactions with owners:						
Dividends paid to equity shareholders	**–**	**–**	**–**	**(36.2)**	**–**	**(36.2)**
Cost of share options and long-term incentive plan	**–**	**–**	**–**	**3.9**	**–**	**3.9**
Transactions with non-controlling interests:						
Dividends paid to non-controlling interests	**–**	**–**	**–**	**–**	**(0.8)**	**(0.8)**
At 31 December 2012	**18.1**	**6.8**	**(1,757.0)**	**1,576.3**	**6.7**	**(149.1)**

Treasury shares of £11.1 million (2011: £11.1 million) have been netted against retained earnings. Treasury shares represent 6.1 million (2011: 6.4 million) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2012 was £5.9 million (2011: £4.0 million). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

Analysis of other reserves

	Capital reduction reserve £m	Legal £m	Cash flow hedge reserve £m	Translation reserve £m	Available for sale £m	Total £m
At 1 January 2011	(1,722.7)	10.4	(6.3)	(29.7)	0.9	(1,747.4)
Net exchange adjustments offset in reserves	–	–	–	(5.4)	–	(5.4)
Revaluation of available-for-sale investments	–	–	–	–	0.8	0.8
Movement on cash flow hedge reserve	–	–	1.2	–	–	1.2
Total comprehensive income for the year	–	–	1.2	(5.4)	0.8	(3.4)
At 31 December 2011	(1,722.7)	10.4	(5.1)	(35.1)	1.7	(1,750.8)
At 1 January 2012	**(1,722.7)**	**10.4**	**(5.1)**	**(35.1)**	**1.7**	**(1,750.8)**
Net exchange adjustments offset in reserves	**–**	**–**	**–**	**(10.5)**	**–**	**(10.5)**
Revaluation of available-for-sale investments	**–**	**–**	**–**	**–**	**0.3**	**0.3**
Movement on cash flow hedge reserve	**–**	**–**	**1.9**	**–**	**–**	**1.9**
Recycling of cash flow hedge reserve on settlement	**–**	**–**	**2.1**	**–**	**–**	**2.1**
Total comprehensive income for the year	**–**	**–**	**4.0**	**(10.5)**	**0.3**	**(6.2)**
At 31 December 2012	**(1,722.7)**	**10.4**	**(1.1)**	**(45.6)**	**2.0**	**(1,757.0)**

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

Consolidated Cash Flow Statement

For the year ended 31 December

	Notes	2012 £m	2011 £m
Cash flows from operating activities			
Cash generated from operating activities before special pension contribution	29	**357.3**	363.3
Special pension contribution		**(12.5)**	–
Cash generated from operating activities	29	**344.8**	363.3
Interest received		**2.7**	5.4
Interest paid		**(46.0)**	(49.0)
Income tax paid		**(35.6)**	(44.5)
Net cash generated from operating activities		**265.9**	275.2
Cash flows from investing activities			
Purchase of property, plant and equipment (PPE)		**(182.7)**	(191.0)
Purchase of intangible fixed assets		**(23.4)**	(19.2)
Proceeds from sale of PPE		**9.2**	5.5
Acquisition of companies and businesses, net of cash acquired	32	**(83.7)**	(29.8)
Disposal of companies and businesses		**0.9**	2.8
Disposal of available-for-sale investments		**2.1**	0.1
Dividends received from associates		**8.9**	2.3
Net cash flows from investing activities		**(268.7)**	(229.3)
Cash flows from financing activities			
Dividends paid to equity shareholders		**(36.2)**	–
Dividends paid to non-controlling interests		**(0.8)**	(6.2)
Acquisition of non-controlling interests		**–**	(5.0)
Interest element of finance lease payments		**(0.9)**	(0.8)
Capital element of finance lease payments		**(6.6)**	(6.6)
Foreign exchange gain on translation of foreign denominated assets and liabilities		**6.4**	–
One-off items – financing	20	**(31.4)**	–
Proceeds from issue of debt		**402.9**	–
Loan repayments		**(180.4)**	(24.1)
Net cash flows from financing activities		**153.0**	(42.7)
Net increase in cash and bank overdrafts	30	**150.2**	3.2
Cash and bank overdrafts at beginning of year	17	**71.0**	73.7
Exchange losses on cash and bank overdrafts		**(2.3)**	(5.9)
Cash and bank overdrafts at end of the financial year	17	**218.9**	71.0

Accounting Policies

Basis of preparation

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ('IFRSs') and International Financial Reporting Interpretations Committee ('IFRIC') interpretations as adopted by the European Union as at 31 December 2012.

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

After reviewing group and Company cash balances, borrowing facilities and projected cash flows, the directors believe that the group and Company have adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the consolidated financial statements (see the Report of the Board on page 43).

Consolidation

(a) Subsidiaries

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

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

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

On the loss of control, the group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in profit or loss. If the group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost.

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

(b) Associates

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

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

Gains and losses on transactions between the group and its associates are eliminated to the extent of the group's interest in the associates.

Segment reporting

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

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

Segmental revenues and profits are shown at constant exchange rates consistent with our internal reporting and review process. Other segmental information is stated at actual exchange rates. Constant exchange rate refers to the translation of two different periods using the same exchange rate for a particular currency (the prior year's average rate of exchange). Both the current and prior years' currencies are translated at the prior year's rate of exchange (£/$:1.6057, £/€:1.1532). This gives a clearer indication of the actual performance of the business when measured against the previous year by separately identifying the impact of foreign exchange by providing information on both an actual and constant exchange rate basis. When using actual exchange rates, currencies are translated using the rate of exchange for that year.

Reorganisation costs and one-off items

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

Reorganisation costs relate directly to the group's major reorganisation programme and consists mainly of redundancy costs, consultancy and plant and office closure costs net of the profit on sale of certain properties. One-off items in the current year include acquisition costs, impairments on classification as held for sale, redundancy costs, consultancy and plant and office closure costs.

Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

(c) Group companies

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

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of the balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates; and

(iii) all resulting exchange differences are recognised as a separate component of equity.

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

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

Property, plant and equipment

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

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

Vehicles:	4 to 5 years
Plant and equipment (including equipment for rental):	3 to 10 years
Office equipment, furniture and fittings:	3 to 10 years

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

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

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

Business combinations

Under the requirements of IFRS 3, all business combinations are accounted for using the purchase method ('acquisition accounting'). The cost of a business combination is the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed and equity instruments issued by the acquirer. The cost of a business combination is allocated at the acquisition date by recognising the acquiree's identifiable assets, liabilities and contingent liabilities that satisfy the recognition criteria, at their fair values at that date. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree. An intangible asset, such as customer relationships, brands, patents and royalties, is recognised if it meets the definition of an intangible asset in IAS 38, "Intangible Assets". The intangible assets identified in all acquisitions made since 1 January 1998 are goodwill, customer lists and relationships, reacquired franchise rights and contract portfolios. Consideration in excess of net identifiable assets acquired in respect of non-controlling interests in existing subsidiary undertakings is taken directly to reserves. Costs directly attributable to business combinations made after 1 January 2010 are charged to the income statement as incurred. Costs directly attributable to business combinations prior to this date were included as part of the purchase price of the business combination. Contingent consideration is accounted for at fair value at the acquisition date with subsequent changes to the fair value being recognised in the consolidated income statement.

Intangible assets

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

Intangible assets – indefinite useful lives

Goodwill

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

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

Intangible assets – finite useful lives

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

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

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

The following are the main categories of intangible assets:

(a) Customer lists and relationships

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

(b) Brands and patents

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

(c) Reacquired franchise rights

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

(d) Computer software

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

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

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

(e) Research and development

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

Other development expenditure is recognised as an expense as incurred.

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

Inventories

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

Trade receivables

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

Cash and cash equivalents

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

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital (Treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company's equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company's equity holders.

Borrowings

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

Borrowings are classified as current liabilities unless the group has a continuing right to defer settlement of the liability for at least 12 months after the balance sheet date.

Deferred income tax

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

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

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

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

Employee benefits

(a) Defined benefit pension plans

The group operates a number of pension schemes throughout the world. The principal scheme is the UK scheme, which has a number of defined benefit sections, which are now closed to new entrants (other than the Initial No 2 section, accounting for 0.5% of the total scheme's liabilities, which remains open) and a defined contribution section.

The defined benefit scheme is funded through payments to a trustee-administered fund, determined by periodic actuarial calculations.

A number of much smaller defined benefit and defined contribution schemes operate elsewhere which are also funded through payments to trustee-administered funds or insurance companies. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation. A defined contribution plan is a pension plan under which the group pays fixed contributions into a separate entity.

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

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

(b) Defined contribution pension plans

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

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

(d) Share-based compensation
The group operates a number of equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the income statement equivalent to the fair value of the benefit awarded. The fair value is determined by reference to option pricing models, principally Monte Carlo and adjusted Black-Scholes models. The charge is recognised in the income statement over the vesting period of the award. At each balance sheet date, the group revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimates is reflected in the income statement with a corresponding adjustment to equity immediately to the extent it relates to past service and the remainder over the rest of the vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

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

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

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

Provisions

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

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

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

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

Revenue recognition

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

(a) Service revenue
Revenue excludes VAT and other similar sales-based taxes, rebates and discounts and represents the fair value of consideration receivable from the customer for services rendered outside the group.

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

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

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

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

Taxation
The tax expense for the period comprises current and deferred tax.

Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity.

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

Assets held for sale
Non-current assets, or disposal groups comprising assets and liabilities are classified as held for sale if it is highly probable that they will be recovered primarily through sale rather than through continuing use.

Immediately before classification as held for sale, the assets, or components of a disposal group, are remeasured in accordance with the group's other accounting policies. Thereafter generally, the assets, or disposal group are measured at the lower of their carrying amount and fair value less costs to sell. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis. Impairment losses on initial classification as held or sale and subsequent gains and losses on remeasurement are recognised in the income statement. Gains are not recognised in excess of any cumulative impairment loss.

Once classified as held for sale, intangible assets and property, plant and equipment are no longer amortised or depreciated.

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

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

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

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

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

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

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

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

(a) Financial assets at fair value through the income statement
Assets are classified as current if they are expected to be realised within 12 months of the balance sheet date.

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

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

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

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

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

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

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

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

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

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

(d) Cash flow hedge
The portion of the gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in equity. Any ineffective portion is immediately recognised in the income statement. The gains or losses that are recognised in equity are transferred to the consolidated income statement in the same period in which the hedged cash flows affect the consolidated income statement. In the event the hedge item is no longer expected to occur or the hedge relationship ceases to be effective, accumulated gains or losses held in the cash flow hedge reserve are immediately recognised in the income statement.

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

Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate and currency swaps is calculated as the present value of the estimated future cash flows.

The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The group uses a variety of methods and makes assumptions that are based on market conditions existing at each balance sheet date.

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

Critical accounting estimates and assumptions

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

The group makes estimates and assumptions concerning the future.

The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. Sensitivities to the estimates and assumptions are provided, where relevant, in the relevant notes to the accounts.

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

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

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

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

(e) Provision for vacant property and environmental restoration
Significant judgement is required in determining the worldwide provision for vacant property and environmental restoration. Vacant property and environmental restoration tend to be long-term in nature and the required use of an appropriate market discount rate and forecast future utilisation based upon management's best estimate determines the level of provision required at the balance sheet date.

The phasing and actual cash spend may be different from the original forecast utilisation spend.

(f) Retirement benefits
Defined benefit schemes are reappraised annually by independent actuaries based upon actuarial assumptions. Significant judgement is required in determining these actuarial assumptions. Refer to Note 26 for the principal assumptions used for the Rentokil Initial Pension Scheme in the UK.

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

There were no new standards and amendments to standards as adopted by the European Union at 31 December 2012 that are mandatory for the first time for the financial year beginning 1 January 2012 which were relevant to the group.

The following new standards and amendments to standards which have been endorsed by the European Union are applicable to the group for the financial year beginning 1 January 2013 and are considered to have a material impact on the consolidated results and financial position of the group.

- Defined Benefit Plans – Amendment to IAS 19. The impact of this is disclosed in Note 26.

The following new standards and amendments to standards which have been endorsed by the European Union are applicable to the group for the financial year beginning 1 January 2013. The group does not believe the adoption of the below standards and amendments to standards will have a material impact on the consolidated results or the financial position of the group.

- Presentation of Items of Other Comprehensive Income – Amendments to IAS 1
- IFRS 13 Fair Value Measurement
- Disclosures – Offsetting Financial Assets and Financial Liabilities – Amendments to IFRS 7

The following new standards and amendments to standards have been endorsed by the European Union and are applicable to the group for the financial year beginning 1 January 2014:

- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements
- IAS 28 Investments in Associates and Joint Ventures

Notes to the Accounts

1. Segment information

Revenue and profit

	Revenue 2012 £m	Revenue 2011 £m	Operating profit/(loss) 2012 £m	Operating profit/(loss) 2011 £m
At constant exchange rates[1]				
Textiles & Hygiene	**905.1**	883.2	**143.2**	138.4
Pest Control	**773.4**	752.1	**135.2**	130.5
Asia	**99.0**	93.2	**6.4**	4.6
City Link	**321.7**	306.9	**(26.4)**	(31.3)
Initial Facilities	**593.3**	581.3	**29.7**	27.1
Central costs	**–**	–	**(52.0)**	(44.6)
Total segmental	**2,692.5**	2,616.7	**236.1**	224.7
Intra-group revenue	**(77.7)**	(72.4)	**–**	–
	2,614.8	2,544.3	**236.1**	224.7
Exchange	**(68.5)**	–	**(13.3)**	–
At actual exchange rates	**2,546.3**	2,544.3	**222.8**	224.7
Reorganisation costs	**–**	–	**(37.6)**	(34.6)
One-off items – operating	**–**	–	**(14.2)**	(3.6)
Amortisation of intangible assets[2]	**–**	–	**(23.9)**	(47.5)
Impairment of goodwill	**–**	–	**(1.3)**	(111.5)
Impairment of customer lists and relationships	**–**	–	**–**	(37.7)
Operating profit/(loss)	**–**	–	**145.8**	(10.2)
Interest payable and similar charges	**–**	–	**(110.2)**	(109.7)
Interest receivable	**–**	–	**73.9**	65.1
One-off items – financing	**–**	–	**(31.4)**	–
Share of profit from associates (net of tax) – Asia	**–**	–	**4.6**	4.3
Profit/(loss) before income tax	**–**	–	**82.7**	(50.5)
Income tax expense	**–**	–	**(29.0)**	(16.6)
Total for the year	**2,546.3**	2,544.3	**53.7**	(67.1)

1 revenue and operating profit for both 2012 and 2011 have been translated using 2011 average exchange rates. Consequently, revenue and operating profit for 2011 has been restated from the amounts disclosed in the 2011 financial statements which were translated using 2010 average exchange rates. See accounting policies for basis of calculation
2 excluding computer software

Revenue from external customers attributed to the UK amounted to £1,001.9 million (2011: £974.2 million), with overseas countries accounting for the balance of £1,544.4 million (2011: £1,570.1 million). The only other country accounting for more than 10% of revenue from external customers is France, totalling £351.1 million (2011: £358.6 million). No major customer accounts for more than 10% of total revenue. Intra-group revenue represents trading with other Rentokil Initial business units which is eliminated on consolidation.

	Intra-group revenue[2]		Reorganisation costs and one-off items – operating[3]		Amortisation and impairment of intangibles[1,3]	
	2012 £m	2011 £m	2012 £m	2011 £m	2012 £m	2011 £m
Textiles & Hygiene	**37.9**	36.7	**26.7**	9.0	**4.3**	13.9
Pest Control	**7.2**	7.3	**8.8**	14.3	**13.5**	21.2
Asia	**0.3**	0.3	**–**	1.0	**4.0**	7.8
City Link[4]	**2.1**	1.2	**3.8**	2.4	**–**	150.3
Initial Facilities	**30.2**	26.9	**9.1**	8.8	**3.1**	3.2
Central costs	**–**	–	**3.4**	2.7	**0.3**	0.3
Total	**77.7**	72.4	**51.8**	38.2	**25.2**	196.7
Tax effect	**–**	–	**(12.4)**	(6.0)	**(7.0)**	(23.4)
After tax effect	**77.7**	72.4	**39.4**	32.2	**18.2**	173.3

1 excluding computer software
2 at constant exchange rates
3 at actual exchange rates
4 included in the 2011 amortisation and intangibles charge of £150.3 million is an impairment charge of £145.8 million for City Link

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

	2012 £m	2011 £m
Textiles & Hygiene		
Reorganisation costs – Shared Service Centres[1]	–	4.4
Reorganisation costs – Benelux processing[2]	6.2	–
Reorganisation costs – other businesses	5.2	4.5
Impairment of Belgian flat linen business[3]	10.2	–
Product rationalisation[4]	1.4	–
Fair work undertaking – Australia[5]	3.8	–
Profit on disposal	(0.2)	–
Acquisition costs – see Note 32	0.1	0.1
Total – Textiles & Hygiene	26.7	9.0
Pest Control		
Reorganisation costs – UK Hygiene business[6]	1.3	5.7
Reorganisation costs – Ambius[7]	3.2	1.2
Reorganisation costs – other businesses	3.3	2.7
Libya (write back)/write off[8]	(0.5)	4.8
Acquisition costs – see Note 32	1.5	1.2
Negative goodwill credit	–	(1.3)
Total – Pest Control	8.8	14.3
Asia		
Reorganisation costs	0.9	0.5
Release of prior-period accruals	(0.9)	–
Acquisition costs	–	0.5
Total – Asia	–	1.0
City Link		
Reorganisation costs[9]	6.4	2.4
Release of prior-year provisions[10]	(2.6)	–
Total – City Link	3.8	2.4
Initial Facilities		
Reorganisation costs – project Chablis[11]	7.7	8.0
Reorganisation costs – other	0.8	1.2
Write down of property	0.2	–
Acquisition costs – see Note 32	0.4	2.2
Negative goodwill credit	–	(2.6)
Total – Initial Facilities	9.1	8.8
Central costs		
Reorganisation costs – Programme Olympic[12]	2.1	4.0
Reorganisation costs – other	0.5	–
Vacant property provisions[13]	0.8	(1.3)
Total – Central costs	3.4	2.7
Total	51.8	38.2
Classified as:		
Reorganisation costs	37.6	34.6
One-off items	14.2	3.6
Total	51.8	38.2

Additional notes in respect of 2011/12 reorganisation costs and one-off items

1 relates to the introduction of Shared Service Centres in Europe for back office processing and includes redundancy of employees and consultancy incurred in the implementation of these Shared Service Centres
2 relates to rationalisation of processing plants in the Netherlands and includes redundancy of employees and provision for the exit of properties
3 relates to the impairment of assets of the Belgian flat linen business unit subsequentiy classified as held for sale (£8.1 million) and provision for clean-up costs and redundancy
4 relates to rationalisation of the Hygiene product range including asset write-offs
5 relates to an enforceable undertaking agreed with the Australian Fair Work Ombudsman, covering back pay obligations and related employment costs
6 relates to the restructuring of front line and back office operations in the UK including redundancy costs net of the profit on the disposal of certain properties
7 relates to the integration of the Ambius business units into the Pest Control division and includes redundancy of employees and provision for the exit of non-operational properties
8 provision against our full financial exposure arising from the suspension of our Libyan pest control business and subsequent write-back of the Libyan joint venture following recommencement of trading in 2012
9 costs associated with the reorganisation of City Link businesses and represents redundancy and provision for the exit of non-operational properties
10 relates to the release of the Camberley City Link head office vacant property provision as now sublet
11 consultancy and redundancy costs associated with the reorganisation of the Initial Facilities division
12 consultancy and pilot running costs associated with Programme Olympic
13 increase in existing provisions including vacant property cost

Segmental information has been presented in accordance with IFRS 8 “Operating Segments” which the group has implemented with effect from 1 January 2009. This statement reflects internal organisation changes made in 2012 with Pacific business units transferring from the Asia division to the Textiles & Hygiene division, the integration of Ambius into the Pest Control division, the UK Specialist Hygiene business unit transferring from the Initial Facilities division to the Pest Control division and the Medical Services business units transferring from the Textiles & Hygiene division to the Pest Control division. This statement also reflects changes made in 2011 with our Scandinavian and Iberian Textiles & Hygiene units and some small pest control business units transferring from the Textiles & Hygiene division to the Pest Control division. Prior-year comparisons have been restated.

Reported segments represent groups of businesses headed by a divisional managing director. Businesses in Asia are grouped together under one segment and one divisional managing director. Central costs represent corporate expenses that are not directly attributable to any reportable segment.

Segmental revenue and segmental profit (adjusted operating profit) are presented at constant exchange rates (2011: average exchange rates) to give a clearer indication of the actual performance of the business when measured against the previous year by separately identifying the impact of foreign exchange by providing information on both an actual and constant exchange rate basis. See Segment reporting under Accounting Policies on page 80 for further details.

Revenue and operating profit relate to the following main groups of business category and activity, as described on the inside of the front cover: pest control, hygiene, workwear, plants, facilities services and parcel delivery. ‘Other’ represents a number of small businesses outside of the other categories. A reconciliation of segmental revenue and operating profit to business category and activity is shown in the Business Overview on page 19.

Other segmental information is shown at actual exchange rates.

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

	Depreciation 2012 £m	Depreciation 2011 £m	**Amortisation[1] 2012 £m**	Amortisation[1] 2011 £m
Textiles & Hygiene	**131.7**	136.2	**7.3**	15.5
Pest Control	**37.6**	43.3	**14.9**	22.8
Asia	**5.5**	7.1	**3.0**	5.9
City Link	**4.6**	4.5	**1.4**	5.2
Initial Facilities	**5.6**	5.1	**3.7**	3.8
Central costs	**1.1**	0.9	**2.5**	1.4
Total for the year	**186.1**	197.1	**32.8**	54.6

1 including computer software

The consolidated segment operating assets and liabilities at 31 December 2012 and 31 December 2011 and capital expenditure for the years then ended are as follows:

	Assets 2012 £m	Assets 2011 £m	**Liabilities 2012 £m**	Liabilities 2011 £m	**Capital expenditure 2012 £m**	Capital expenditure 2011 £m
Textiles & Hygiene	**694.1**	716.5	**214.5**	204.7	**142.8**	159.4
Pest Control	**487.7**	411.4	**199.1**	172.0	**125.9**	53.7
Asia[1]	**91.3**	104.0	**23.4**	25.7	**8.0**	8.1
City Link	**77.6**	77.9	**54.3**	62.5	**6.0**	6.9
Initial Facilities	**155.4**	141.6	**101.9**	104.2	**14.5**	12.9
Central costs	**263.3**	244.8	**147.4**	153.3	**11.3**	8.9
Total	**1,769.4**	1,696.2	**740.6**	722.4	**308.5**	249.9

1 includes associates

Non-current assets other than derivative financial instruments, other investments, deferred tax assets and post-employment assets located in the UK amount to £152.2 million (2011: £138.3 million), with overseas countries accounting for the balance of £889.4 million (2011: £874.3 million). The only other countries accounting for more than 10% of the total are France (£212.8 million, 2011: £219.6 million) and the USA (£181.3 million, 2011: £121.2 million).

Reconciliation of segment assets/liabilities to total assets/liabilities

	Assets 2012 £m	Assets 2011 £m	Liabilities 2012 £m	Liabilities 2011 £m
Segment assets/liabilities as above	**1,769.4**	1,696.2	**740.6**	722.4
Deferred tax assets	**8.0**	9.5	**–**	–
Current tax assets	**3.0**	3.3	**–**	–
Cash and cash equivalents	**166.6**	89.9	**–**	–
Current tax liabilities	**–**	–	**68.2**	81.1
Bank and other short-term borrowings	**–**	–	**91.4**	56.4
Bank and other long-term borrowings	**–**	–	**1,120.8**	952.5
Deferred tax liabilities	**–**	–	**75.1**	90.7
Total assets/liabilities	**1,947.0**	1,798.9	**2,096.1**	1,903.1

Segment assets primarily consist of property, plant and equipment, investments, intangible assets, inventories and receivables. Segment liabilities primarily consist of payables and provisions for other liabilities and charges. Cash and cash equivalents and bank and other short-term/long-term borrowings are managed by group treasury and therefore it is not considered appropriate to analyse these by reportable segment. Assets and liabilities are allocated to reportable segments on a specific basis.

Capital expenditure comprises additions to property, plant and equipment and intangible assets, including additions resulting from acquisitions through business combinations.

Analysis of revenue by category

	Total 2012 £m	Total 2011 £m
Contract service revenue (including rental income)	**1,871.5**	1,904.6
Non-contract service revenue	**589.8**	558.4
Sales of goods	**85.0**	81.3
	2,546.3	2,544.3

2. Operating expenses by nature

Operating expenses include the following items:

	Total 2012 £m	Total 2011 £m
Employee costs (Note 3)	**1,131.3**	1,164.0
Depreciation – owned assets	**179.5**	190.8
– under finance leases	**6.6**	6.3
Amortisation – intangible assets[1]	**23.9**	47.5
– computer software	**8.9**	7.1
Impairment of intangibles	**1.3**	149.2
Impairment of PPE	**8.1**	–
Cost of inventories expensed	**71.9**	76.2
Loss on disposal of PPE	**4.7**	1.5
Loss on disposal/retirement of intangible assets	**0.2**	0.8
Audit and non-audit services (Note 4)	**3.6**	3.2
Hire of machinery and equipment	**3.3**	3.6
Other operating lease rentals	**81.1**	83.5
Net foreign exchange losses	**0.6**	0.1
Research and development costs (external)	**1.8**	2.0

1 excluding computer software

3. Employee benefit expense

	Total 2012 £m	Total 2011 £m
Wages and salaries	**954.2**	979.0
Social security costs	**152.0**	156.0
Share-based payments	**3.9**	6.3
Pension costs		
defined contribution plans	**19.0**	21.4
defined benefit plans (Note 26)	**2.2**	1.3
	1,131.3	1,164.0

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

	Number	Number
Processing and service delivery	**50,997**	57,474
Sales and marketing	**3,556**	3,385
Administration and overheads	**4,966**	5,611
	59,519	66,470

Emoluments of directors of Rentokil Initial plc are included in staff costs above and in the key management compensation table in Note 36.

Further details are also given in the Directors' Remuneration Report on pages 60 to 72.

4. Audit and non-audit services

	2012 £m	2011 £m
Fees payable to the Company's auditor for the audit of the Parent Company and group accounts	**0.5**	0.5
Fees payable to the Company's auditor and its associates for other services:		
The audit of accounts of any associate of the Company	**2.0**	2.1
Audit-related assurance services	**0.4**	0.4
Total audit and audit-related assurance services	**2.9**	3.0
Fees payable to the Company's auditor and its associates for other services:		
Taxation compliance services	**0.1**	0.1
Taxation advisory services	**0.1**	0.1
All other non-audit services	**0.5**	–
Total non-audit services	**0.7**	0.2
Total audit and non-audit services	**3.6**	3.2

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

5. Interest payable and similar charges

	2012 £m	2011 £m
Interest payable on medium term notes issued[1]	**45.6**	44.7
Interest payable on bank loans and overdrafts[1]	**0.7**	1.9
Interest payable on revolving credit facility[1]	**3.7**	2.8
Interest payable on foreign exchange swaps	**5.3**	1.7
Interest payable on finance leases	**0.9**	0.8
Amortisation of discount on provisions	**0.6**	1.6
Fair value loss on other derivatives[2,3]	**0.5**	–
Underlying interest payable	**57.3**	53.5
Interest on defined benefit plan liabilities	**52.9**	56.2
Total interest payable and similar charges	**110.2**	109.7

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 of £0.3 million (2011: £nil) and fixed price commodity contracts of £0.2 million (2011: £nil)

6. Interest receivable

	2012 £m	2011 £m
Bank interest[1]	**2.0**	2.7
Interest receivable on foreign exchange swaps	**5.2**	2.2
Foreign exchange gain on translation of foreign denominated assets and liabilities[2]	**1.1**	0.2
Fair value gain on other derivatives[3,4]	**0.4**	0.6
Underlying interest receivable	**8.7**	5.7
Return on defined benefit plan assets	**65.2**	59.4
Total interest receivable	**73.9**	65.1

1 interest income on loans and receivables
2 comprises retranslation gains on financing instruments of £49.4 million offset by losses of £48.3 million (2011: gains of £58.3 million offset by losses of £58.1 million)
3 gain on financial assets/liabilities at fair value through the income statement
4 the fair value gain on other derivatives includes fair value gains relating to interest rate swaps of £0.4 million (2011: £0.4 million) and fixed price commodity contracts of £nil (2011: £0.2 million)

7. Income tax expense

	2012 £m	2011 £m
Analysis of charge in the year		
UK Corporation tax at 24.5% (2011: 26.5%)	**3.0**	2.3
Overseas taxation	**30.1**	37.6
Adjustment in respect of previous periods	**(10.3)**	(13.0)
Total current tax	**22.8**	26.9
Deferred tax charge/(credit)	**6.8**	(7.9)
Deferred tax adjustment in respect of previous periods	**(0.6)**	(2.4)
Total deferred tax*	**6.2**	(10.3)
Total income tax expense	**29.0**	16.6
*The deferred tax charge/(credit) comprises movements on the following major components of deferred tax assets and liabilities (Note 25):		
Accelerated tax depreciation	**7.3**	(3.0)
Deferred tax on retirement benefit obligations	**5.1**	4.1
Unremitted overseas profits	**(1.0)**	1.6
Customer lists and other intangibles amortisation and impairment	**(3.1)**	(14.3)
Tax losses	**(3.9)**	1.5
Share-based payments	**0.3**	0.3
Other temporary differences	**1.5**	(0.5)
Deferred tax charge/(credit)	**6.2**	(10.3)
Tax on items charged to equity		
Deferred tax (credit)/debit in respect of actuarial gain on defined benefit pensions	**(20.7)**	32.8
Total tax (credited)/debited to equity	**(20.7)**	32.8

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

	2012 £m	2011 £m
Profit/(loss) before income tax	**82.7**	(50.5)
Tax calculated at domestic tax rates applicable to profits in the respective countries	**23.7**	(10.7)
Adjustment in respect of previous periods	**(10.9)**	(15.4)
Expenses not deductible for tax purposes – reorganisation costs and one-off items	**10.0**	4.9
Expenses not deductible for tax purposes – interest payable	**1.8**	0.5
Expenses not deductible for tax purposes – other	**2.3**	2.4
Income not subject to tax	**(0.7)**	(1.0)
Goodwill deduction for which no deferred tax asset was recognised	**(0.4)**	(0.3)
Utilisation of previously unrecognised tax losses	**(0.7)**	(0.3)
Deferred tax on unremitted profits	**–**	1.6
Goodwill impairment	**0.2**	29.6
Overseas withholding tax suffered	**2.4**	2.3
Losses not relieved	**1.7**	1.9
Provisions utilised for which no deferred tax assets were recognised	**(2.4)**	(1.0)
Local business taxes	**2.7**	2.6
Other	**(0.7)**	(0.5)
Total tax expense	**29.0**	16.6

Adjustments in respect of previous periods represent the release of tax provisions in respect of previous periods which are no longer required following agreement of the relevant liabilities with fiscal authorities.

As a substantial proportion of profits are generated outside the UK, the standard rate of tax has been determined as the weighted average of the standard rates of tax in each of the different countries where profits are generated. The relevant rates were approximately 28% (2011: 29%).

The 2012 Budget on 21 March 2012 announced that the UK corporation tax rate will reduce to 22% by 2014. A reduction in the rate from 26% to 24% (effective from 1 April 2012) and 23% (effective from 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. This will reduce the Company's future current tax charge accordingly. The deferred tax at 31 December 2012 has been calculated based on the rate of 23% substantively enacted at the balance sheet date.

The 2012 Autumn Statement on 5 December 2012 announced a further planned reduction to the phased reduction in rate, taking the rate from 23% to 21% (previously 22% in the 2012 Budget) with effect from 1 April 2014. It is expected that this will be substantively enacted during 2013. It has not yet been possible to quantify the full anticipated effect of this further rate reduction, although this will further reduce the Company's future tax charge.

8. Earnings per share

Basic

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

	2012 £m	2011 £m
Profit/(loss) attributable to equity holders of the Company	**51.4**	(69.7)
Weighted average number of ordinary shares in issue	**1,816.9**	1,813.0
Basic earnings/(loss) per share	**2.83p**	(3.84p)

Diluted

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

	2012 £m	2011 £m
Profit/(loss) attributable to equity holders of the Company	**51.4**	(69.7)
Weighted average number of ordinary shares in issue	**1,816.9**	1,813.0
Adjustment for share options and LTIPs[1]	**5.2**	–
Weighted average number of ordinary shares for diluted earnings per share	**1,822.1**	1,813.0
Diluted earnings/(loss) per share	**2.82p**	(3.84p)

Adjusted

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

	2012 £m	2011 £m
Profit/(loss) attributable to equity holders of the Company	**51.4**	(69.7)
Amortisation and impairment of intangibles[2], reorganisation costs and one-off items before tax	**108.4**	234.9
Tax on amortisation and impairment of intangibles[2], reorganisation costs and one-off items	**(19.4)**	(29.4)
After tax effect of amortisation and impairment of intangibles[2], reorganisation costs and one-off items attributable to non-controlling interests	**–**	(0.2)
Adjusted profit attributable to equity holders of the Company	**140.4**	135.6
Weighted average number of ordinary shares in issue	**1,816.9**	1,813.0
Adjusted earnings per share	**7.73p**	7.48p

Diluted adjusted

	2012 £m	2011 £m
Adjusted profit attributable to equity holders of the Company	**140.4**	135.6
Weighted average number of ordinary shares in issue	**1,816.9**	1,813.0
Adjustment for share options and LTIPs	**5.2**	5.5
Weighted average number of ordinary shares for diluted earnings per share	**1,822.1**	1,818.5
Diluted adjusted earnings per share	**7.71p**	7.46p

1 potential issue of shares under share option and LTIPs schemes were not dilutive in 2011 as the group reported a loss
2 excluding computer software

9. Dividends

	2012 £m	2011 £m
2011 final dividend paid – 1.33p per share	**24.1**	–
2012 interim dividend paid – 0.67p per share	**12.1**	–
	36.2	–

An interim dividend of 0.67p per share was paid on 26 October 2012 amounting to £12.1 million. A dividend in respect of 2012 of 1.43p (2011: 1.33p) per 1p share amounting to £25.9 million (2011: £24.1 million) is to be proposed at the annual general meeting on 15 May 2013. These financial statements do not reflect this recommended dividend.

10. Disposal group held for sale

The Belgian flat linen business within the Textiles & Hygiene division is presented as a disposal group held for sale following the commitment of group management to sell the business in 2013. This business does not represent a separate major line of business for the group.

An impairment loss of £8.1 million on the remeasurement of the property, plant and equipment to the lower of its carrying amount and its recoverable amount prior to classification as held for sale has been included in 'One-off items – operating' in the income statement.

At 31 December 2012, the disposal group comprised the following assets:

Assets of disposal group held for sale

	2012 £m
Property, plant and equipment	**9.4**
	9.4

Cumulative income or expense included in other comprehensive income

There are no cumulative income or expenses included in other comprehensive income relating to the disposal group.

11. Intangible assets

	Goodwill £m	Customer lists and relationships £m	Brands £m	Reacquired franchise rights £m	Computer software £m	Total £m
Cost						
At 1 January 2011	503.8	473.4	27.0	25.4	46.7	1,076.3
Exchange differences	(3.8)	(6.4)	(0.1)	–	(0.9)	(11.2)
Additions	–	–	–	–	19.2	19.2
Disposals/retirements	–	–	–	–	(1.9)	(1.9)
Acquisition of companies and businesses	15.2	14.3	0.2	–	0.1	29.8
Disposal of companies and businesses	(0.2)	(1.2)	–	–	–	(1.4)
At 31 December 2011	515.0	480.1	27.1	25.4	63.2	1,110.8
At 1 January 2012	**515.0**	**480.1**	**27.1**	**25.4**	**63.2**	**1,110.8**
Exchange differences	**(6.5)**	**(9.3)**	**(0.8)**	**–**	**(0.8)**	**(17.4)**
Additions	**–**	**–**	**–**	**–**	**23.4**	**23.4**
Disposals/retirements	**–**	**–**	**–**	**–**	**(1.7)**	**(1.7)**
Acquisition of companies and businesses	**23.8**	**47.7**	**9.7**	**–**	**0.1**	**81.3**
Disposal of companies and businesses	**(0.6)**	**(1.3)**	**–**	**–**	**–**	**(1.9)**
Reclassification to assets held for sale	**–**	**–**	**–**	**–**	**(1.9)**	**(1.9)**
At 31 December 2012	**531.7**	**517.2**	**36.0**	**25.4**	**82.3**	**1,192.6**
Accumulated amortisation and impairment						
At 1 January 2011	(114.9)	(343.6)	(12.3)	(25.4)	(28.0)	(524.2)
Exchange differences	0.4	5.0	–	–	0.6	6.0
Disposals	–	–	–	–	1.1	1.1
Disposal of companies and businesses	–	0.5	–	–	–	0.5
Impairment charge[1]	(111.5)	(37.7)	–	–	–	(149.2)
Amortisation charge	–	(44.4)	(3.1)	–	(7.1)	(54.6)
At 31 December 2011	(226.0)	(420.2)	(15.4)	(25.4)	(33.4)	(720.4)
At 1 January 2012	**(226.0)**	**(420.2)**	**(15.4)**	**(25.4)**	**(33.4)**	**(720.4)**
Exchange differences	**0.3**	**7.8**	**0.5**	**–**	**0.4**	**9.0**
Disposals	**–**	**–**	**–**	**–**	**1.5**	**1.5**
Disposal of companies and businesses	**0.3**	**1.3**	**–**	**–**	**–**	**1.6**
Impairment charge	**(1.3)**	**–**	**–**	**–**	**–**	**(1.3)**
Amortisation charge	**–**	**(21.8)**	**(2.1)**	**–**	**(8.9)**	**(32.8)**
Reclassification to assets held for sale	**–**	**–**	**–**	**–**	**1.9**	**1.9**
At 31 December 2012	**(226.7)**	**(432.9)**	**(17.0)**	**(25.4)**	**(38.5)**	**(740.5)**
Net book value						
At 1 January 2011	388.9	129.8	14.7	–	18.7	552.1
At 31 December 2011	289.0	59.9	11.7	–	29.8	390.4
At 31 December 2012	**305.0**	**84.3**	**19.0**	**–**	**43.8**	**452.1**

1 includes an impairment charge for City Link of £145.8 million, comprising goodwill impairment of £108.1 million and customer lists impairment of £37.7 million

Amortisation of £32.8 million (2011: £54.6 million) has been charged to operating expenses.

Impairment tests for goodwill

Goodwill is allocated to the group's cash-generating units (CGUs) identified according to country of operation and reportable business unit. A summary of the 2012 goodwill allocation by reportable segment is shown below:

	UK £m	Europe £m	North America £m	Asia Pacific £m	Africa £m	2012 Total £m	2011 Total £m
Textiles & Hygiene	–	52.1	–	54.8	–	106.9	112.1
Pest Control	8.7	38.5	93.2	1.3	0.2	141.9	125.6
Asia	–	–	–	27.8	–	27.8	29.2
City Link	–	–	–	–	–	–	–
Initial Facilities	28.4	–	–	–	–	28.4	22.1
31 December 2012	37.1	90.6	93.2	83.9	0.2	305.0	
31 December 2011	30.8	94.4	78.1	85.5	0.2		289.0

Key assumptions

The recoverable amount of a CGU is determined based on the higher of value-in-use calculations using cash flow projections and fair value less costs to sell if appropriate. The cash flow projections are based on financial budgets and long-range plans approved by management and the board covering a three-year period which are prepared as part of the group's normal planning process. Cash flows for years four and five use management's expectation of sales growth, operating costs and margin, based on past experience and expectations regarding future performance and profitability for each CGU. Cash flows beyond the five-year period are extrapolated using estimated long-term growth rates.

The key assumptions used by individual CGUs for value-in-use calculations were long-term growth rates of between 2% and 4% (2011: 2% and 3%) and pre-tax discount rates of between 10% and 11% (2011: 10% and 13%). The growth rates used by individual CGUs are based on the long-term growth rates predicted for the relevant sector and country in which a business operates. They do not exceed the long-term average growth rate for that industry or country. The pre-tax discount rates are based on the group's weighted average cost of capital adjusted for specific risks relating to the relevant sector and country.

Impairment charges

	2012 £m	2011 £m
Textiles & Hygiene		
– Europe	–	1.1
Asia	1.3	2.3
City Link	–	108.1
	1.3	111.5

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

The City Link impairment charge of £108.1 million in 2011 was triggered by reduced actual and forecast future cash flows with City Link struggling in 2011 to take out operating costs in line with revenue and volume decline. There is no remaining City Link goodwill.

Apart from the impaired business in Asia, which is not considered material to the group, all other CGUs are not considered to be sensitive to changes in inputs.

12. Property, plant and equipment

	Land and buildings £m	Equipment for rental £m	Other plant and equipment £m	Vehicles and office equipment £m	Total £m
Cost					
At 1 January 2011	191.6	683.9	282.5	243.0	1,401.0
Exchange differences	(4.5)	(20.5)	(6.8)	(5.7)	(37.5)
Additions	4.8	141.9	16.0	38.7	201.4
Disposals	(7.4)	(110.7)	(15.1)	(35.0)	(168.2)
Acquisition of companies and businesses	1.1	–	0.2	1.4	2.7
Disposal of companies and businesses	(1.6)	(0.8)	(0.3)	(0.5)	(3.2)
Reclassification	0.8	(0.3)	(1.3)	0.8	–
At 31 December 2011	184.8	693.5	275.2	242.7	1,396.2
At 1 January 2012	**184.8**	**693.5**	**275.2**	**242.7**	**1,396.2**
Exchange differences	**(3.9)**	**(17.0)**	**(5.5)**	**(6.5)**	**(32.9)**
Additions	**4.3**	**128.4**	**25.1**	**39.4**	**197.2**
Disposals	**(8.4)**	**(88.4)**	**(12.7)**	**(31.7)**	**(141.2)**
Acquisition of companies and businesses	**5.5**	**–**	**0.4**	**4.0**	**9.9**
Disposal of companies and businesses	**(0.3)**	**(0.7)**	**(0.2)**	**(0.2)**	**(1.4)**
Reclassification to assets held for sale	**(9.5)**	**(31.6)**	**(14.9)**	**(2.3)**	**(58.3)**
Reclassification	**–**	**0.8**	**(0.8)**	**–**	**–**
At 31 December 2012	**172.5**	**685.0**	**266.6**	**245.4**	**1,369.5**
Accumulated depreciation and impairment					
At 1 January 2011	(50.8)	(434.0)	(184.3)	(142.2)	(811.3)
Exchange differences	1.3	12.9	4.7	3.4	22.3
Disposals	4.4	109.7	14.7	32.4	161.2
Disposal of companies and businesses	1.0	0.8	0.2	0.4	2.4
Depreciation charge	(7.4)	(127.7)	(23.5)	(38.5)	(197.1)
Reclassification	–	–	0.3	(0.3)	–
At 31 December 2011	(51.5)	(438.3)	(187.9)	(144.8)	(822.5)
At 1 January 2012	**(51.5)**	**(438.3)**	**(187.9)**	**(144.8)**	**(822.5)**
Exchange differences	**1.2**	**11.1**	**3.9**	**3.9**	**20.1**
Disposals	**2.3**	**85.7**	**9.9**	**29.4**	**127.3**
Disposal of companies and businesses	**0.3**	**0.6**	**0.1**	**0.2**	**1.2**
Depreciation charge	**(5.3)**	**(122.7)**	**(20.6)**	**(37.5)**	**(186.1)**
Impairment[1]	**(0.9)**	**(7.2)**	**–**	**–**	**(8.1)**
Reclassification to assets held for sale	**4.3**	**31.6**	**11.3**	**1.7**	**48.9**
Reclassification	**–**	**(0.7)**	**0.7**	**–**	**–**
At 31 December 2012	**(49.6)**	**(439.9)**	**(182.6)**	**(147.1)**	**(819.2)**
Net book value					
At 1 January 2011	140.8	249.9	98.2	100.8	589.7
At 31 December 2011	133.3	255.2	87.3	97.9	573.7
At 31 December 2012	**122.9**	**245.1**	**84.0**	**98.3**	**550.3**
The net carrying amounts of assets held under finance leases are as follows:					
At 31 December 2011	0.8	–	0.3	9.7	10.8
At 31 December 2012	**–**	**–**	**0.6**	**16.8**	**17.4**

1 relates to impairment of the assets of the Belgian flat linen business unit to their recoverable value prior to classification as held for sale

The category of equipment for rental consists of equipment leased by the group to third parties under operating leases.

13. Investments in associated undertakings

	2012 £m	2011 £m
At 1 January	**22.2**	18.7
Exchange differences	**(4.0)**	1.5
Share of profit[1]	**4.6**	4.3
Dividends	**(8.9)**	(2.3)
At 31 December	**13.9**	22.2

1 share of profit is after tax

Investments in associates at 31 December 2012 includes goodwill of £nil (2011: £nil).

The group's interest in its principal associate, which is unlisted, was as follows:

Name	Country of incorporation	Assets £m	Liabilities £m	Revenue £m	Profit £m	Interest held
2012						
Nippon Calmic Ltd	**Japan**	**25.0**	**(10.0)**	**40.2**	**4.6**	**49%**
2011						
Nippon Calmic Ltd	Japan	34.0	(10.7)	38.4	4.3	49%

14. Other investments

	2012 £m	2011 £m
At 1 January	**3.5**	3.7
Additions	**56.1**	–
Disposals	**(2.1)**	(0.2)
At 31 December	**57.5**	3.5
Less: non-current portion	**56.5**	1.4
Current portion	**1.0**	2.1
Financial assets include the following:		
Available-for-sale		
– UK Government gilts and US Treasury bonds	**1.3**	3.4
– Unlisted equity securities – Continental Europe	**0.1**	0.1
	1.4	3.5
Held to maturity		
– Euro deposits	**56.1**	–
	57.5	3.5

Other investments classified as available-for-sale financial assets are valued based on public price quotations as appropriate (fair value hierarchy level 1). Changes in fair values of available-for-sale financial assets are recorded directly in equity. Other investments classified as held to maturity are held at amortised cost. Held to maturity financial assets are Euro deposits placed with counterparty banks receiving interest at a rate of 0.5% per annum. Other investments were not impaired in 2012 or 2011.

	2012 £m	2011 £m
Financial assets are denominated in the following currencies:		
– Pounds sterling	**1.0**	3.1
– US dollar	**0.3**	0.3
– Euro	**56.2**	0.1
	57.5	3.5

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

Investments

Fixed rate cash deposits include £1.3 million (2011: £3.4 million) invested in UK and US Government bonds which are held by the group's insurance operations in accordance with local insurance regulations and are used to meet insurance liabilities as they fall due. The weighted average effective interest rate earned is 5.3% (2011: 5.3%) and the weighted average rate is fixed for 1.2 years (2011: 1.1 years). Fixed rate cash deposits include £56.1 million (2011: £nil) of Euro deposits placed with counterparty banks. The weighted average effective interest rate earned is 0.5% and the weighted average rate is fixed for 1.2 years.

15. Trade and other receivables

	2012 £m	2011 £m
Trade receivables	**397.5**	380.2
Less: provision for impairment of receivables	**(21.2)**	(20.1)
Trade receivables – net	**376.3**	360.1
Other receivables	**46.9**	48.7
Prepayments	**61.6**	51.0
Total	**484.8**	459.8
Less non-current portion:		
Other receivables	**25.3**	26.3
	25.3	26.3
Current portion	**459.5**	433.5

Book value approximates fair value because of the short-term nature of the receivable and the low interest environment in which they are held.

There is limited concentration of credit risk with respect to trade receivables due to the group's customer base being large and diverse.

Analysis of the group's provision for impairment of trade receivables:

	2012 £m	2011 £m
At 1 January	**20.1**	21.1
Acquisition of companies and businesses	**0.3**	0.9
Disposal of companies and businesses	**–**	(0.3)
Additional provision	**8.4**	12.6
Receivables written off as uncollectable	**(5.0)**	(11.6)
Unused amounts reversed	**(2.1)**	(2.2)
Exchange differences	**(0.5)**	(0.4)
At 31 December	**21.2**	20.1

The ageing of trade receivables is as follows:

	2012 £m	2011 £m
Neither impaired nor past due	**154.9**	164.5
Not impaired but overdue by less than 1 month	**110.7**	100.2
Not impaired but overdue by between 1 and 3 months	**83.3**	64.0
Not impaired but overdue by between 3 and 6 months	**13.4**	10.6
Not impaired but overdue by between 6 and 12 months	**6.1**	4.6
Not impaired but overdue by more than 12 months	**2.7**	2.7
Impaired	**26.4**	33.6
Allowance for doubtful debts	**(21.2)**	(20.1)
	376.3	360.1

The maximum amount of credit risk with respect to customers is represented by the carrying amount on the balance sheet. Customer credit facilities for new customers are approved by designated managers at business level. Credit limits are set with reference to trading history and reports from credit rating agencies. Overdue accounts are regularly reviewed and impairment provisions are created where necessary with due regard to the historical risk profile of the customer. There were no new customers in 2012 where the group considered there was a risk of significant credit default. There are no trade receivables that would otherwise be past due or impaired whose terms have been renegotiated.

The carrying amounts of the group's trade receivables are denominated in the following currencies:

	2012 £m	2011 £m
Pounds sterling	**134.6**	122.0
Euro	**179.3**	185.3
US dollar	**29.3**	20.5
Other currencies	**54.3**	52.4
	397.5	380.2

The creation and release of provisions for impaired receivables have been included within operating expenses in the income statement. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The other receivables and prepayments do not contain impaired assets.

Other receivables include £17.0 million (2011: £17.7 million) of interest bearing notes. The interest bearing notes relate to the part disposal of our business in South Africa and are classified as available-for-sale.

16. Inventories

	2012 £m	2011 £m
Raw materials	**8.6**	10.4
Work in progress	**2.7**	1.5
Finished goods	**42.7**	37.7
	54.0	49.6

There were no material inventory impairment charges in 2012 and 2011.

17. Cash and cash equivalents

	2012 £m	2011 £m
Cash at bank and in hand	**160.5**	82.4
Short-term bank deposits	**6.1**	7.5
	166.6	89.9
Cash and bank overdrafts include the following for the purposes of the cash flow statement:		
Cash and cash equivalents	**166.6**	89.9
Other investments - held to maturity (Note 14)	**56.1**	–
Bank overdrafts (Note 20)	**(3.8)**	(18.9)
	218.9	71.0

Included within cash at bank and in hand is £15.7 million (2011: £14.7 million) of restricted cash. This cash is held in respect of specific contracts and can only be utilised in line with terms under the contractual arrangements.

Credit interest rates on bank balances range between nil and 5.0% and debit interest rates range between 2.0% and 9.0%. As far as practical, cash balances are held centrally and are used first to repay borrowings under the group's Revolving Credit Facilities before being placed on deposit. Cash at bank and in hand receives interest at rates of up to 0.5% per annum.

Cash

Floating rate cash earns interest at commercial rates in line with local market practice. Central treasury companies invest all significant cash surpluses in major currencies (£, US$ and Euro) at money market rates. Short-term deposits are placed with banks usually for maturities of up to three months and earn interest at market rates related to the currency and the sums invested.

18. Trade and other payables

	2012 £m	2011 £m
Trade payables	**149.3**	145.8
Social security and other taxes	**90.6**	88.4
Other payables	**63.9**	63.2
Accruals and deferred income	**259.3**	249.9
Deferred and contingent consideration on acquisitions	**14.9**	6.9
Total	**578.0**	554.2
Less non-current portion:		
Other payables	**12.5**	13.4
Deferred and contingent consideration on acquisitions	**2.2**	–
	14.7	13.4
Current portion	**563.3**	540.8

19. Provisions for other liabilities and charges

	Vacant properties £m	Environmental £m	Self-insurance £m	Other £m	Total £m
At 1 January 2011	53.4	20.1	28.4	16.0	117.9
Exchange differences	–	(0.3)	–	(0.2)	(0.5)
Additional provisions	10.7	0.6	3.5	8.7	23.5
Acquisition of companies and businesses	–	–	–	0.9	0.9
Unused amounts reversed	(3.5)	–	–	(4.3)	(7.8)
Unwinding of discount on provisions	1.1	0.4	–	–	1.5
Used during the year	(8.6)	(1.4)	(8.7)	(9.1)	(27.8)
At 31 December 2011	53.1	19.4	23.2	12.0	107.7
At 1 January 2012	**53.1**	**19.4**	**23.2**	**12.0**	**107.7**
Exchange differences	**(0.1)**	**(0.5)**	**(0.7)**	**(0.2)**	**(1.5)**
Additional provisions	**5.3**	**0.3**	**4.5**	**14.7**	**24.8**
Acquisition of companies and businesses	**0.5**	**–**	**–**	**(0.4)**	**0.1**
Unused amounts reversed	**(2.8)**	**(0.2)**	**(2.1)**	**(1.0)**	**(6.1)**
Unwinding of discount on provisions	**0.4**	**0.2**	**–**	**–**	**0.6**
Used during the year	**(10.1)**	**(1.8)**	**(6.0)**	**(9.3)**	**(27.2)**
At 31 December 2012	**46.3**	**17.4**	**18.9**	**15.8**	**98.4**

Provisions analysed as follows:

	2012 £m	2011 £m
Non-current	**70.1**	76.7
Current	**28.3**	31.0
	98.4	107.7

Vacant properties

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

The total future minimum sub-lease payments expected to be received under non-cancellable sub-leases at 31 December 2012 is £4.5 million (2011: £4.6 million).

Environmental
The group owns a number of properties in the UK, Europe and the USA where there is land contamination and provisions are held for the remediation of such contamination. These provisions are expected to be substantially utilised within the next ten years.

Self-insurance
The group purchases external insurance from a portfolio of international insurers for its key insurable risks. The group has historically self-insured its risks but during the latter part of 2008, other than for third party motor liability and workers compensation in the USA and the global property damage/business interruption, this practice was stopped and these became fully covered in the insurance market. Provision is still held for self-insured past cover, primarily in relation to workers compensation and third party motor 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, based on an actuarial assessment of claims incurred at the balance sheet date, is accumulated as claims provisions.

Other
Other provisions principally comprise amounts required to cover obligations arising, warranties given and costs relating to disposed businesses together with amounts set aside to cover certain legal and regulatory claims. These provisions are expected to be substantially utilised within the next five years.

The above provisions have been discounted where appropriate using discount rates of 1.3% (2011: 0.3% to 2.0%) for the UK, 0.7% (2011: 1.1%) for Europe and 1.8% (2011: 1.8%) for the USA.

20. Bank and other borrowings

	2012 £m	2011 £m
Non-current		
RCF and other bank borrowings	–	90.0
Bond debt	1,108.8	855.0
Finance lease liabilities	12.0	7.5
	1,120.8	952.5
Current		
Bank overdrafts (Note 17)	3.8	18.9
Bank borrowings	–	3.6
Bond debt	50.0	–
Bond accruals	30.7	28.3
Finance lease liabilities	6.9	5.6
	91.4	56.4
Total bank and other borrowings	1,212.2	1,008.9

Medium-term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Non-current		
£300m bond due March 2016	Fixed 5.75%	Fixed 4.47%
€500m bond due September 2019	Fixed 3.375%	Fixed 3.49%
€500m bond due March 2014	Fixed 4.625%	Fixed 4.98%
£1.3m debentures	Fixed 5.00%	Fixed 5.00%
£0.3m debentures	Fixed 4.50%	Fixed 4.50%
Current		
£50m bond due September 2013	Floating 3 month LIBOR + 3.25%	Fixed 7.34%
Average cost of bond debt at year end rates		4.39%

The group has two committed Revolving Credit Facilities, a £270 million facility expiring in December 2016 and a £240 million facility expiring in December 2014. Both facilities accrue interest at LIBOR for the period drawn plus a margin. The cost of borrowing under the group's Revolving Credit Facilities at the year end was 1.5%.

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

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

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

	Carrying amount 2012 £m	Carrying amount 2011 £m	Fair value 2012 £m	Fair value 2011 £m
Bank borrowings	–	90.0	–	90.0
£50m bond due September 2013 (current in 2012)	–	49.9	–	50.4
£75m bond due August 2013/2033	–	74.9	–	97.5
€500m bond (€14.5m repaid in 2012) due March 2014	392.5	414.0	411.3	432.7
£300m bond due March 2016	312.4	315.2	326.5	312.8
€500m bond due September 2019	402.9	–	422.8	–
£1.6m perpetual debentures	1.0	1.0	2.7	2.7
Finance lease liabilities	12.0	7.5	12.0	7.5
	1,120.8	952.5	1,175.3	993.6

The carrying values and the fair values of the group's bonds due for repayment in the next year are shown below. Fair values are based on cash flows discounted at the current market rates:

	Carrying amount 2012 £m	Carrying amount 2011 £m	Fair value 2012 £m	Fair value 2011 £m
£50m bond due September 2013 (non-current in 2011)	50.0	–	50.8	–

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

In the year £31.4 million (2011: £nil) of one-off costs were recognised in the income statement in respect of the following transactions:

In October 2012 the group repaid the £75 million Puttable Callable Resettable floating rate bond, due in September 2033. The loan included an option, which gave the right to the Investors to call the bond at fair value in September 2013. The bond was redeemed early, at a net cost of £28.7 million, which has been recognised under 'one-off items – financing' in the income statement. As the 2013 bond was repaid, the group recycled £2.1 million of accumulated losses, held in the cash flow hedge reserve, which were recognised under 'one-off items – financing' in the income statement, and hedge accounting was discontinued prospectively.

In October 2012 the group also repaid €14.5 million of the €500 million bonds due in March 2014 and recognised the associated premium cost of £0.6 million (€0.7 million) in 'one-off items – financing' in the income statement.

Finance leases

Finance lease payments fall due as follows:

	2012 £m	2011 £m
Not later than one year	7.1	5.8
Between:		
– one and two years	5.1	4.6
– two and three years	3.7	2.3
– three and four years	2.4	1.0
– four and five years	1.2	0.1
– over five years	–	–
	19.5	13.8
Future finance charges on finance leases	(0.6)	(0.7)
Present value of finance lease liabilities	18.9	13.1

Undrawn committed borrowing facilities

The group's committed borrowing facilities comprise two Revolving Credit Facilities, a £270 million facility maturing in December 2016, and a £240 million facility maturing in December 2014. The group's committed borrowing also includes a £40 million Letter of Credit facility maturing December 2016. At 31 December 2012, both Revolving Credit Facilities were undrawn (2011: £90.0 million) and £33.6 million (2011: £39.2 million) of letters of credit were in issue.

	2012 £m	2011 £m
Expiring within:		
– one year, or on demand	**–**	–
– one and two years	**240.0**	–
– two and three years	**–**	–
– three and four years	**276.4**	–
– four and five years	**–**	180.8
– over five years	**–**	–
	516.4	180.8

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

21. Derivative financial instruments

	Fair value assets 2012 £m	Fair value assets 2011 £m	**Fair value liabilities 2012 £m**	Fair value liabilities 2011 £m
Interest rate swaps:				
– non-hedge	**49.6**	49.5	**(38.2)**	(35.7)
– cash flow hedge	**–**	–	**(1.2)**	(5.4)
Foreign exchange swaps:				
– non-hedge	**0.2**	2.1	**(0.4)**	(0.2)
– net investment hedge	**0.7**	0.1	**–**	(0.5)
Foreign exchange forwards:				
– non-hedge	**–**	0.7	**(0.1)**	(0.1)
– net investment hedge	**–**	0.4	**–**	–
Commodity futures:				
– non-hedge	**–**	0.2	**–**	–
	50.5	53.0	**(39.9)**	(41.9)
Analysed as follows:				
Current portion	**2.4**	3.5	**(3.6)**	(0.8)
Non-current portion	**48.1**	49.5	**(36.3)**	(41.1)
	50.5	53.0	**(39.9)**	(41.9)

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge') in accordance with IAS 39. Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedges is taken directly to finance costs. There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship.

Cash flow hedge accounting was applied to floating to fixed interest rate swaps relating to the group's £50 million and £75 million bonds. A net credit of £4.0 million (2011: £1.2 million) has been recognised in reserves during the year of which £2.1 million (2011: £nil) relates to the discontinuation of hedge accounting on the £75 million interest rate swap at the point that the debt was repaid (note 20).

The effective nominal value of foreign exchange swaps is £97.3 million (2011: £94.6 million) and foreign exchange forwards is £20.3 million (2011: £26.0 million).

The group had no outstanding commodity contracts at year end.

Fair value hierarchy of derivative financial instruments

For all financial instruments held by the group, those that are held at fair value are to be classified by reference to the source of inputs used to derive the fair value. The following hierarchy is used:

Level 1 – unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices that are observable for the asset or liability either directly as prices or indirectly through modelling based on prices;

Level 3 – inputs for the asset or liability that are not based on observable market data.

The group holds all derivatives at fair value using discounted cash flow models based on market rates which are observable. Therefore all derivative financial instruments and available-for-sale assets held by the group fall into Level 2. Contingent consideration payable by the group falls into Level 3. No financial instruments have moved between levels in the year.

The table below analyses the group's derivative financial instruments, which will be settled on a gross basis into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows and so may not reconcile to the balance sheet.

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2012					
Cross-currency swaps:					
– outflow	**(209.6)**	**(84.6)**	**–**	**–**	**(294.2)**
– inflow	**210.7**	**85.0**	**–**	**–**	**295.7**
Foreign exchange swaps:					
– outflow	**(126.0)**	**–**	**–**	**–**	**(126.0)**
– inflow	**127.0**	**–**	**–**	**–**	**127.0**
Foreign exchange forwards:					
– outflow	**(20.3)**	**–**	**–**	**–**	**(20.3)**
– inflow	**20.3**	**–**	**–**	**–**	**20.3**
Net inflow	**2.1**	**0.4**	**–**	**–**	**2.5**
At 31 December 2011					
Foreign exchange swaps:					
– outflow	(135.3)	–	–	–	(135.3)
– inflow	136.9	–	–	–	136.9
Foreign exchange forwards:					
– outflow	(51.4)	–	–	–	(51.4)
– inflow	52.6	–	–	–	52.6
Net inflow	2.8	–	–	–	2.8

22. Financial liabilities

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

	Less than 1 year £m	Between 1 and 2 years £m	Between 2 and 5 years £m	Over 5 years £m	Total £m
At 31 December 2012					
Borrowings	**104.4**	**443.5**	**375.6**	**433.4**	**1,356.9**
Derivative financial instruments	**212.8**	**85.0**	**–**	**–**	**297.8**
Trade and other payables	**364.5**	**12.5**	**–**	**–**	**377.0**
Finance leases	**7.1**	**5.1**	**7.3**	**–**	**19.5**
Other	**20.6**	**12.6**	**17.7**	**10.3**	**61.2**
	709.4	**558.7**	**400.6**	**443.7**	**2,112.4**
At 31 December 2011					
Borrowings	62.1	163.0	868.5	–	1,093.6
Derivative financial instruments	3.6	2.8	–	–	6.4
Trade and other payables	350.3	13.4	–	–	363.7
Finance leases	5.8	4.6	3.4	–	13.8
Other	18.4	9.3	17.3	15.0	60.0
	440.2	193.1	889.2	15.0	1,537.5

Other includes £46.3 million (2011: £53.1 million) in respect of provisions related to underlying onerous lease contracts and £14.9 million (2011: £6.9 million) in respect of deferred consideration.

The carrying amounts of the group's financial liabilities are denominated in the following currencies (before the effect of any derivatives used to transform the currency of the cash flows):

	Borrowings 2012 £m	Borrowings 2011 £m	**Trade payables and other 2012 £m**	Trade payables and other 2011 £m	**Total 2012 £m**	Total 2011 £m
Pounds sterling	**376.9**	555.4	**205.9**	211.6	**582.8**	767.0
Euro	**821.9**	443.2	**135.7**	134.1	**957.6**	577.3
US dollar	**11.0**	3.2	**46.2**	28.4	**57.2**	31.6
Other currencies	**2.4**	7.1	**50.6**	49.6	**53.0**	56.7
	1,212.2	1,008.9	**438.4**	423.7	**1,650.6**	1,432.6

Further information on the currency of the group's debt and foreign currency management policies is shown in Note 24.

23. Reconciliation of total financial instruments

The table below reconciles the group's accounting categorisation of financial assets and liabilities (based on initial recognition) to the classes of assets and liabilities as shown on the face of the balance sheet.

	Fair value through income statement £m	Loans and receivables £m	Available-for-sale £m	Held to maturity £m	Financial liabilities held at amortised cost £m	Not categorised as a financial instrument £m	Total £m	Non-current £m	Current £m
At 31 December 2012									
Assets									
Other investments	–	–	1.4	56.1	–	–	57.5	56.5	1.0
Trade and other receivables	–	406.2	17.0	–	–	61.6	484.8	25.3	459.5
Derivative financial instruments	50.5	–	–	–	–	–	50.5	48.1	2.4
Cash and cash equivalents	–	166.6	–	–	–	–	166.6	–	166.6
Liabilities									
Derivative financial instruments	(39.9)	–	–	–	–	–	(39.9)	(36.3)	(3.6)
Trade and other payables	–	–	–	–	(391.9)	(186.1)	(578.0)	(14.7)	(563.3)
Bank and other borrowings	–	–	–	–	(1,212.2)	–	(1,212.2)	(1,120.8)	(91.4)
At 31 December 2011									
Assets									
Other investments	–	–	3.5	–	–	–	3.5	1.4	2.1
Trade and other receivables	–	391.1	17.7	–	–	51.0	459.8	26.3	433.5
Derivative financial instruments	53.0	–	–	–	–	–	53.0	49.5	3.5
Cash and cash equivalents	–	89.9	–	–	–	–	89.9	–	89.9
Liabilities									
Derivative financial instruments	(41.9)	–	–	–	–	–	(41.9)	(41.1)	(0.8)
Trade and other payables	–	–	–	–	(370.6)	(183.6)	(554.2)	(13.4)	(540.8)
Bank and other borrowings	–	–	–	–	(1,008.9)	–	(1,008.9)	(952.5)	(56.4)

24. Financial risk factors

The group operates a central treasury function which manages cash and borrows on behalf of the group and provides finance to group companies in their home currencies.

The main financial risks faced by the group relate to the availability of funds to meet business needs, fluctuations in interest and foreign exchange rates and credit risks relating to the risk of default by counterparties to financial transactions. The management of these risks is set out below.

Capital risk

The group is committed to maintaining a debt/equity structure which allows continued access to a broad range of financing sources and sufficient flexibility to pursue commercial opportunities in a timely manner as they present themselves, without onerous financing terms and conditions.

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

Debt credit rating

The group's debt is rated by Standard & Poor's and the group targets a rating of BBB or above for debt issuance over the medium term. A rating of BBB- or above is an "investment grade" rating. Financial markets which have been closed to new debt issues from certain borrowers at times since 2008 have been receptive to debt issuance for investment grade borrowers throughout this period. Currently the group is rated BBB– with a stable outlook.

The group's new €500 million 3.375% bond maturing 24 September 2019 contains a "coupon step-up" increasing the coupon from 3.375% to 4.625% in the event that the group is downgraded to BB+ or below (sub-investment grade).

Financial covenants

The group has in issue bonds issued under its Medium Term Note Programme and Revolving Credit Facilities (see Note 20 for details). The group's Revolving Credit Facilities contain covenants requiring that EBITDA : Interest should be at least 4.0 : 1.0 and that Net Debt : Adjusted EBITDA should be no greater than 3.5 : 1.0 at each semi-annual reporting date. The group remains compliant.

Change of control

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

(a) the group's debt is downgraded below investment grade or the rating is withdrawn; and

(b) the rating agency confirms in writing, either publicly or in writing to the issuer or the Trustee, that the rating action occurred either wholly or in part due to the change of control.

Liquidity risk

The group is committed to ensuring it has sufficient liquidity to meet its payables as they fall due. To achieve this, and in accordance with the liquidity ratio requirements of the credit rating agency Standard & Poor's significant maturities are financed at least 12 months in advance, either through existing cash balances, forecast cash flows or new debt issuance. Management models financing requirements at least 12 months ahead and aims to maintain average headroom of at least £150 million and minimum headroom of at least £100 million. At 31 December 2012 the group had a £50 million maturity in 2013 and approximately £400 million of bonds maturing in March 2014. The group had available funds of £203 million at 31 December 2012 and £510 million of undrawn available committed headroom under its Revolving Credit Facilities (2011: £180 million headroom).

Market risk

Interest rate risk

While we currently have market risk sensitive instruments related to interest rates, we have no significant exposure to changing interest rates on our long-term debt because the interest rates are fixed on all of our long-term bond debt.

Within net debt the group holds cash balances net of floating rate borrowings amounting to approximately £160 million, while all of the group's bond debt is at fixed rates of interest. Assuming no change in these balances throughout the year, the impact on the profit and loss of a 1% shift in interest rates would be an increase/decrease of £1.6 million (2011: £0.2 million).

As disclosed in Note 20 the group had outstanding debt at 31 December with a fair value of £1,175.3 million. Market risk for fixed-rate, long-term debt is estimated as the potential decrease in fair value resulting from a hypothetical 100bps increase in interest rates and amounts to £38 million at 31 December 2012. The income statement impact is nil as changes in interest rates do not change the expected cash flows on the bonds. However, in the event it is decided to redeem bonds early, it will be necessary to pay the fair value.

The group's £50 million bond was issued at a floating rate and swapped to a fixed rate. Changes in the valuation of the fixed rate instrument are recorded in equity. The impact on equity of a 1% shift in interest rates would be a maximum increase/decrease of £0.3 million (2011: £1.3 million).

Foreign exchange risk

The group's primary exposure is to the sterling euro exchange rate which impacts earnings, euro denominated debt and intra-group borrowings.

At 31 December 2012 the group's net debt was approximately 50% Euro. The retranslation of the interest element of this Euro debt provides a partial income statement offset to the retranslation of earnings.

The group calculates the impact on the income statement and equity of a 10% shift in foreign exchange rates. The group's principal foreign currency exposure is to Euro, and a 10% shift in GBP/EUR would result in a £18.2 million (2011: £17.2 million) increase/decrease in adjusted operating profit, offset by a £2.9 million (2011: £1.9 million) decrease/increase in interest payable.

Where possible, currency cash flows are used to settle liabilities in the same currency in preference to selling currency in the market through netting cash flows in currency and using short dated currency borrowings. At 31 December 2012 approximately €100 million of Euro debt was due within 15 months.

Foreign currency balances, including cash, debt and intra group balances are hedged on a net basis. To the extent that balances naturally offset, retranslation gains and losses are recognised in the income statement. At 31 December 2012 a 10% shift in the GBP/EUR rate would result in a net impact of nil, made up of a gain of £205.4 million offset by an equal loss (2011: nil net impact, made up of a £184.4 million gain offset by an equal loss).

Foreign currency debt is designated by the group for hedge accounting as a hedge of its currency net assets, so reducing its net currency assets. Retranslation gains and losses are recognised in reserves, rather than in the income statement. At 31 December 2012 a 10% shift in foreign exchange rates would decrease/increase equity reserves by £14.8 million (2011: £7.4 million).

Credit risk

The group has no significant concentration of credit risk. Sales are typically low value, high volume, spreading the risk across a number of customers. Policies are in place to ensure that sales are only made to customers with an appropriate credit history. Derivative counterparties and cash transactions are limited to high-credit-quality financial institutions and there is no significant concentration of exposure to any single counterparty. The group monitors the creditworthiness of its derivative counterparties using a combination of credit ratings and other market indicators. All of the group's banking and derivative counterparties were graded A- or above by Standard & Poor's or equivalent at 31 December 2012. The group operates in some territories where there is increased exposure to trade credit risks and in those cases the group puts in place appropriate additional measures where possible to manage its credit exposure.

The group's funding trade of £591.2 million (2011: £546.5 million) as shown in Note 26 is invested with Barclays Bank plc, rated A by Standard & Poor's, and collaterised by gilts. Barclays are entitled to post cash and gilts as collateral. Corporate bonds rated A or above and asset backed securities rated AAA may be provided as collateral but more than 100% of the value of the trade must be provided as collateral. The board continue to monitor this exposure.

Treasury risk

The Company utilises financial instruments to manage known financial exposures in line with policies agreed by the board and outlined above.

The Company does not enter into any speculative derivative contracts.

25. Deferred income tax

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

	2012 £m	2011 £m
At 1 January	**(81.2)**	(59.6)
Exchange differences	**1.1**	1.9
Acquisition of companies and businesses	**(2.3)**	(1.1)
Disposal of companies and businesses	**–**	0.1
Transfers to current taxation	**0.8**	–
(Charged)/credited to the income statement	**(6.2)**	10.3
Credited/(charged) to equity	**20.7**	(32.8)
At 31 December	**(67.1)**	(81.2)
Deferred taxation has been presented on the balance sheet as follows:		
Deferred tax asset within non-current assets	**8.0**	9.5
Deferred tax liability within non-current liabilities	**(75.1)**	(90.7)
	(67.1)	(81.2)

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

	Customer lists/ intangibles £m	Accelerated tax depreciation £m	Retirement benefits £m	Unremitted earnings from subsidiaries £m	Tax losses £m	Share-based payments £m	Other £m	Total £m
At 31 December 2011	19.5	49.0	25.9	6.5	(0.8)	(3.4)	(15.5)	81.2
Recognised in income statement	**(3.1)**	**7.3**	**5.1**	**(1.0)**	**(3.9)**	**0.3**	**1.5**	**6.2**
Recognised directly in equity	**–**	**–**	**(20.7)**	**–**	**–**	**–**	**–**	**(20.7)**
Exchange differences recognised in other comprehensive income	**(0.1)**	**(1.0)**	**–**	**–**	**–**	**–**	**–**	**(1.1)**
Transferred to current taxation	**–**	**–**	**–**	**(0.8)**	**–**	**–**	**–**	**(0.8)**
Acquired in business combinations	**2.3**	**–**	**–**	**–**	**–**	**–**	**–**	**2.3**
At 31 December 2012	**18.6**	**55.3**	**10.3**	**4.7**	**(4.7)**	**(3.1)**	**(14.0)**	**67.1**

At the balance sheet date the group has tax losses of £443.0 million (2011: £394.6 million) on which no deferred tax asset is recognised. Of the losses, £75.9 million will expire at various dates between 2013 and 2032. In addition, there are capital losses carried forward of £294.4 million (2011: £294.4 million) on which no deferred tax asset is recognised. Other deferred tax assets relating to gross temporary timing differences of £11.8 million (2011: £14.5 million) 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.

26. Retirement benefit obligations

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

The principal scheme in the group is the Rentokil Initial Pension Scheme ('RIPS') in the UK, which has a number of defined benefit sections which are now closed to new entrants (other than the Initial No 2 Section, accounting for 0.5% of the total schemes liabilities, which remains open). Actuarial valuations of the UK scheme are usually carried out every three years.

At 31 December 2012 the group's UK defined benefit pension scheme, which is closed to new members was valued at an accounting surplus of £96.9 million on the group's balance sheet. The trustees value the scheme on a different basis and a deficit at 31 March 2010 of £80 million was agreed. Annual contributions of £12.5 million for eight years were agreed to fund the deficit and the group made its first annual contribution of £12.5 million in January 2012 and second contribution in January 2013.

The group has put in place a guarantee in favour of the trustees of the Rentokil Initial Pension Scheme which provides that the group will make payments to the Scheme up to a maximum amount equal to the lowest non-negative amount which, when added to the assets of the Scheme, would result in the Scheme being at least 105% funded on the date on which any liability arises, calculated on the basis set out in section 179 of the Pensions Act 2004. This amount will vary and is in any event capped at £219 million, the amount assessed at 31 March 2009. The provision of the guarantee is reviewed on an annual basis.

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

	2012	2011
Weighted average %		
Discount rate	**4.4%**	4.8%
Expected return on plan assets	**5.0%**	5.2%
Future salary increases	**3.9%**	4.0%
Future pension increases	**3.1%**	3.2%
RPI inflation	**3.2%**	3.3%
CPI inflation	**2.5%**	2.4%

The expected return on plan assets in the above table is a long-term rate of return. Assets with higher historic volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is a weighted average of the expected return for each asset class over the benchmark asset allocation for the scheme at 31 December 2012, less an appropriate allowance for the cost of maintaining the swap portfolio.

Mortality assumptions

The mortality assumptions are based on 90% of the SAPS Heavy tables for "staff" members, and 100% of the SAPS Light tables for "management" members. In both instances the post-retirement mortality used allows for future mortality improvements in line with CMI_2009 Core Projections with a long-term rate of future improvement of 1.0% per annum. This equates to an assumption that a man currently aged 65 will live on average for a further 20.8 years if he is a "staff" member and for a further 23.9 years if he is a "management" member. The corresponding figures for a woman are 23.9 and 24.7 years respectively.

The same assumptions were adopted at 31 December 2011.

Sensitivity of assumptions

		Impact on pension obligations (£m)	
	Sensitivity	Increase	Decrease
Discount rate	1.0%	180.9	(217.1)
Inflation	1.0%	(104.6)	99.7
Mortality	1 year	(44.9)	45.6

Pension benefits

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

	UK RIPS 2012 £m	Other[1] 2012 £m	Total 2012 £m	UK RIPS 2011 £m	Other[1] 2011 £m	Total 2011 £m
Present value of funded obligations	**(1,179.1)**	**(33.0)**	**(1,212.1)**	(1,109.9)	(27.6)	(1,137.5)
Fair value of plan assets	**1,276.0**	**22.2**	**1,298.2**	1,253.9	20.5	1,274.4
	96.9	**(10.8)**	**86.1**	144.0	(7.1)	136.9
Present value of unfunded obligations	**–**	**(13.5)**	**(13.5)**	–	(11.5)	(11.5)
Asset/(liability) in the balance sheet	**96.9**	**(24.3)**	**72.6**	144.0	(18.6)	125.4
Presented on the balance sheet as:						
Retirement benefit assets	**96.9**	**–**	**96.9**	144.0	–	144.0
Retirement benefit obligations	**–**	**(24.3)**	**(24.3)**	–	(18.6)	(18.6)
	96.9	**(24.3)**	**72.6**	144.0	(18.6)	125.4

The amounts recognised in the income statement are as follows:

	UK RIPS 2012 £m	Other[1] 2012 £m	Total 2012 £m	UK RIPS 2011 £m	Other[1] 2011 £m	Total 2011 £m
Current service cost[2]	**0.7**	**1.5**	**2.2**	0.3	1.0	1.3
Interest cost[2]	**52.1**	**0.8**	**52.9**	55.1	1.1	56.2
Amount charged to pension liability	**52.8**	**2.3**	**55.1**	55.4	2.1	57.5
Expected return on plan assets[2]	**(64.6)**	**(0.6)**	**(65.2)**	(58.4)	(1.0)	(59.4)
Total pension (income)/cost	**(11.8)**	**1.7**	**(10.1)**	(3.0)	1.1	(1.9)

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

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

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

	UK RIPS 2012 £m	Other[1] 2012 £m	Total 2012 £m	UK RIPS 2011 £m	Other[1] 2011 £m	Total 2011 £m
At 1 January	**1,253.9**	**20.5**	**1,274.4**	1,048.4	21.8	1,070.2
Exchange differences	**–**	**(0.4)**	**(0.4)**	–	(0.5)	(0.5)
Expected return on plan assets	**64.6**	**0.6**	**65.2**	58.4	1.0	59.4
Actuarial (loss)/gain during the year	**(6.1)**	**1.3**	**(4.8)**	193.0	(1.3)	191.7
Contributions received from employees	**0.1**	**0.1**	**0.2**	0.1	0.1	0.2
Contributions received from employer	**13.4**	**0.9**	**14.3**	0.3	0.6	0.9
Benefits paid	**(49.9)**	**(0.8)**	**(50.7)**	(46.3)	(1.2)	(47.5)
At 31 December	**1,276.0**	**22.2**	**1,298.2**	1,253.9	20.5	1,274.4

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

	UK RIPS 2012 £m	Other[1] 2012 £m	Total 2012 £m	UK RIPS 2011 £m	Other[1] 2011 £m	Total 2011 £m
Equity instruments	**339.0**	**8.4**	**347.4**	223.1	8.0	231.1
Debt instruments	**250.4**	**7.2**	**257.6**	392.4	6.4	398.8
Property	**–**	**1.1**	**1.1**	–	1.1	1.1
Other	**2.2**	**5.5**	**7.7**	2.9	5.0	7.9
Interest and inflation rate hedging instruments	**93.2**	**–**	**93.2**	89.0	–	89.0
Funding trade	**591.2**	**–**	**591.2**	546.5	–	546.5
Total plan assets	**1,276.0**	**22.2**	**1,298.2**	1,253.9	20.5	1,274.4

Where available, the bid value of assets has been used. In other cases the market value as provided by the investment managers has been used.

Pension plan assets include the Company's ordinary shares with a fair value of £nil (2011: £nil).

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

	UK RIPS 2012 £m	Other[1] 2012 £m	Total 2012 £m	UK RIPS 2011 £m	Other[1] 2011 £m	Total 2011 £m
At 1 January	**1,109.9**	**39.1**	**1,149.0**	1,043.4	38.7	1,082.1
Exchange differences	**–**	**(0.7)**	**(0.7)**	–	(0.9)	(0.9)
Total expense charged in the income statement	**52.8**	**2.3**	**55.1**	55.4	2.1	57.5
Actuarial loss during the year	**68.7**	**6.2**	**74.9**	59.8	1.7	61.5
Contributions received from employees	**0.1**	**0.1**	**0.2**	0.1	0.1	0.2
Expenses paid by employer	**(2.5)**	**–**	**(2.5)**	(2.5)	–	(2.5)
Benefits paid	**(49.9)**	**(0.5)**	**(50.4)**	(46.3)	(2.6)	(48.9)
At 31 December	**1,179.1**	**46.5**	**1,225.6**	1,109.9	39.1	1,149.0

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

	2012 £m	2011 £m	2010 £m	2009 £m	2008 £m
Present value of defined benefit plan liabilities	**(1,225.6)**	(1,149.0)	(1,082.1)	(1,065.4)	(914.4)
Fair value of plan assets	**1,298.2**	1,274.4	1,070.2	1,001.1	1,049.3
Net surplus/(deficit)	**72.6**	125.4	(11.9)	(64.3)	134.9
Experience adjustments on plan liabilities	**(13.6)**	(5.3)	2.8	29.5	(9.6)
Experience adjustments on plan assets	**(4.8)**	191.7	56.9	(65.0)	3.0

The group made a contribution of £13.4 million to the UK defined benefit scheme in 2012 (2011: £0.3 million).

The expected return on plan assets is based on market expectations at the beginning of the year. The actual return on plan assets was £60.4 million (2011: £251.1 million).

The cumulative actuarial loss recognised in the consolidated statement of comprehensive income was £129.6 million (2011: £49.9 million).

An actuarial loss of £79.7 million (2011: £130.2 million gain) was recognised during the year.

Amendments to IAS 19 which come into effect on 1 January 2013 are expected to reduce the net credit to the income statement by approximately £9 million (operating expenses: £3 million; net interest: £6 million) and reduce the net pension asset by approximately £30 million.

27. Share capital

	2012 £m	2011 £m
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid		
At 1 January and 31 December – 1,814,831,011 shares (2011: 1,814,831,011)	**18.1**	18.1

28. Share-based payments

The Company has share option schemes for approximately 500 senior executives worldwide. The exercise price for share options is the mid-market closing price immediately preceding the date of grant. Share options are equity-settled. The total net charge for the year relating to equity-settled share-based payment plans was £3.9 million (2011: £6.3 million).

Executive Share Option Schemes

No awards have been made under these schemes since 2005. Grants of share options under the Discretionary Approved and Discretionary Schemes (the 'Discretionary Schemes') are calculated by reference to base salaries and management grade in the Company. There were two levels of qualification under the Discretionary Schemes. Level 1 applied to senior executives (including executive directors) and all awards have now lapsed. Level 2 schemes applied to executive directors and sector managing directors and are summarised as follows:

The exercise condition under Level 2 is by reference to total shareholder return, i.e. the appreciation of the share price (including reinvested dividends) in comparison with the performance of the FTSE 100 index and a defined group of support services companies being used as comparators, during three consecutive calendar years commencing in the year in which the option is granted, on the following basis:

If the Company achieves a median performance in relation to the FTSE 100 index, then 25% of the Level 2 share options will vest, rising pro rata to 50% if the Company achieves a performance in the upper quartile of the FTSE 100 and, in addition, if the Company achieves a median performance in the group of support services companies, then 25% of the Level 2 share options will vest, rising pro rata to 50% if the Company achieves a performance in the upper quartile in the group of support services companies.

Movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	Weighted average exercise price p per share	Number of share options 000
Outstanding at 1 January 2011	199.184	5,293
Expired	203.235	1,712
Outstanding at 31 December 2011	197.247	3,581
Expired	235.729	1,423
Outstanding at 31 December 2012	171.863	2,158

No options were exercised during the period.

Share options outstanding at the end of the year have the following expiry dates and exercise prices:

	Granted	Exercise period	Exercise price (p)	Number of shares
Executive schemes	2003	2006–2013	204.500	816,287
	2004	2007–2014	152.000	1,341,222
				2,157,509

Performance Share Plan

The Company introduced a new share-based Performance Plan in 2006 and granted 16,593,718 shares at various dates throughout 2012.

Year of grant	Vesting year	Scheme interest at 1 January 2012	Shares awarded during 2012	Shares vested during 2012	Shares lapsed during 2012	Outstanding at 31 December 2012	Shares exercisable at 1 January 2012	Shares exercised during 2012	Shares exercisable at 31 December 2012
2008	2011	–	–	–	–	–	689,474	309,152	380,322
2009	2012	9,563,748	–	–	9,563,748	–	–	–	–
2010	2013	9,162,919	–	–	790,183	8,372,736	–	–	–
2011	2014	13,716,294	–	–	1,064,012	12,652,282	–	–	–
2012	2015	–	16,593,718	–	443,924	16,149,794	–	–	–

The performance conditions for the 2008 awards were share price and the financial performance ('bonus multiplier') of the group, division or business whichever is applicable to the award holder. The share price condition was based on the highest average share price of Rentokil Initial plc over any 60 consecutive dealing days during the initial three-year period. The performance period for the share price element of the award began on 1 April 2008 and ended 61 dealing days following the announcement of the Company's results for the financial year ended 31 December 2010. The annual bonus multiplier measured the extent to which the annual bonus targets had been achieved in respect of each financial year during the performance period. The 2008 awards in the above table reflect that during the first half of 2010 the Company's share price achieved a 60 day highest average price of 130.82p. Participants were entitled to the value of dividends that were paid during the vesting period on the number of shares that ultimately vested, in the form of additional shares transferred at the end of the vesting period.

The performance conditions for the 2009, 2010, 2011 and 2012 awards are total shareholder return ('TSR') and the financial performance ('bonus multiplier') of the group, division or business whichever is applicable to the award holder. The TSR condition is measured relative to the TSR achieved by constituents of a comparator group, made up of the FTSE 350 companies at the date of grant but excluding financial services and basic resources companies. The performance period for the share price element of the 2012 award began on 1 April 2012, running to 31 March 2015. The TSR performance is measured using a three-month average with the start period average being 1 January 2012 to 31 March 2012 and the end period average being 1 January 2015 to 31 March 2015. The annual bonus multiplier measures the extent to which the annual bonus targets have been achieved in respect of each financial year during the performance period. The 2009, 2010, 2011 and 2012 awards in the above table assume a TSR performance in the upper quartile or above is reached at the end of the vesting period and that participants achieve their target bonus in each of the three years over the vesting period. For the 2009 and 2010 awards no shares will vest if the share price does not reach median TSR performance at the end of the vesting period and 200% will vest if the TSR performance is above the upper quartile and all participants attain maximum bonus targets. For the 2011 and 2012 awards no shares will vest if the share price does not reach median TSR performance at the end of the vesting period and 150% will vest if the TSR performance is above the upper quartile and all participants attain maximum bonus targets. Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period.

The fair value of the 2012 awards made under the 2006 Performance Share Plan is charged to the income statement over the vesting period based on values derived from a model developed by Deloitte LLP. This is a closed-form solution (similar to a Monte Carlo simulation) which takes account of the correlation between share price performance and the likelihood of a TSR performance condition being met. For the shares awarded on 8 May 2012, the significant inputs into the model were a share price of 83.15p (2011: 95.0p), an expected share price volatility of 32%, a share price correlation of the companies in the comparator group of 28% and an expected life commensurate with the performance/vesting period. The share price volatility assumption is based on analysis of historical daily share prices. As the awards are nil-cost (i.e. there is no exercise price), the assumed risk-free rate of return has minimal impact on the fair value of the awards. Similarly, as dividend equivalents are paid on the vesting portion of awards, the fair value of these awards is not reduced to reflect dividends paid during the vesting period.

The fair value of shares granted during 2012 was £12.5 million.

2008 Share Incentive Plan

In 2008 the Company also introduced a long-term incentive plan for the Chairman, Chief Executive and one other Executive director and granted 22,500,000 shares during the year.

Year of grant	Exercise period	Scheme interest at 1 January 2012	Shares vested during 2012	Shares outstanding at 31 December 2012 and still subject to performance criteria	Shares exercisable at 1 January 2012	Shares released during 2012	Shares exercisable at 31 December 2012	Shares vested but not yet exercisable at 31 December 2012
2008	2011–2013	14,753,250	–	14,753,250	2,618,485	2,618,485	5,236,970	2,618,485

The performance condition for the award is share price and is only satisfied if the share price target is achieved over a sustained period, demonstrating realisable value creation for shareholders. This is measured on the basis of an average share price over any 60 consecutive trading days during the performance measurement period. Until a minimum share price of 120p per share has been met over a sustained period, no shares are earned. At 120p per share, 20% of the award is earned, rising on a straight-line basis to full vesting at a share price of 180p per share. For achieving growth in market value between a share price of 180p per share and 280p per share further shares may be earned up to a maximum of a further 50% of the original award. The 2008 awards in the same table assume an on target share price of 180p per share is reached at the end of the vesting period. Up to one-third of the award may vest following the end of the third year, another one-third following the end of the fourth year and a further one-third following the end of the fifth year, based on the extent to which performance targets are achieved. Any unvested portion of the award following the end of the fifth year will lapse. Participants are entitled to the value of dividends that are paid during the vesting period on the number of shares that ultimately vest, in the form of additional shares transferred at the end of the vesting period. See the Directors' Remuneration Report on pages 60 to 72 for further details.

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

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

29. Cash generated from operating activities

	2012 £m	2011 £m
Profit/(loss) for the year	**53.7**	(67.1)
Adjustments for:		
– Tax	**29.0**	16.6
– Share of profit from associates	**(4.6)**	(4.3)
– One-off items – financing (Note 20)	**31.4**	–
– Interest income	**(73.9)**	(65.1)
– Interest expense	**110.2**	109.7
– Depreciation and impairment of tangible assets	**194.2**	197.1
– Amortisation and impairment of intangible assets[1]	**25.2**	196.7
– Amortisation of computer software	**8.9**	7.1
– LTIP charges	**3.9**	6.3
– Loss on sale of property, plant and equipment	**4.7**	1.5
– Loss on disposal/retirement of intangible assets	**0.2**	0.8
– Profit on disposal of companies and businesses	**(0.9)**	–
– Negative goodwill credited to the income statement	**–**	(3.9)
Changes in working capital (excluding the effects of acquisitions and exchange differences on consolidation):		
– Inventories	**0.2**	(1.7)
– Trade and other receivables	**(19.4)**	(12.5)
– Trade and other payables and provisions	**(5.5)**	(17.9)
Cash generated from operating activities before special pension contribution	**357.3**	363.3
Special pension contribution	**(12.5)**	–
Cash generated from operating activities	**344.8**	363.3

1 excluding computer software

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

	2012 £m	2011 £m
Net book amount	**13.9**	7.0
Loss on sale of property, plant and equipment	**(4.7)**	(1.5)
Proceeds from sale of property, plant and equipment	**9.2**	5.5

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

	2012 £m	2011 £m
Net increase in cash and bank overdrafts	**150.2**	3.2
Movement on finance leases	**(5.9)**	0.4
Movement on loans	**(222.5)**	24.1
Decrease in debt resulting from cash flows	**(78.2)**	27.7
Foreign exchange translation and other items	**7.7**	6.9
Movement on net debt in the year	**(70.5)**	34.6
Opening net debt	**(919.0)**	(953.6)
Closing net debt	**(989.5)**	(919.0)
Closing net debt comprises:		
Cash and cash equivalents	**166.6**	89.9
Other investments – held to maturity	**56.1**	–
Bank and other short-term borrowings	**(91.4)**	(56.4)
Bank and other long-term borrowings	**(1,120.8)**	(952.5)
Total net debt	**(989.5)**	(919.0)

31. Operating and free cash flow

	2012 £m	2011 £m
Cash generated from operating activities	**344.8**	363.3
Add back: special pension contribution	**12.5**	–
	357.3	363.3
Purchase of property, plant and equipment (PPE)	**(182.7)**	(191.0)
Purchase of intangible fixed assets	**(23.4)**	(19.2)
Leased property, plant and equipment	**(12.3)**	(6.2)
Proceeds from sale of PPE	**9.2**	5.5
Dividends received from associates	**8.9**	2.3
Operating cash flow	**157.0**	154.7
Interest received	**2.7**	5.4
Interest paid	**(46.0)**	(49.0)
Interest element of finance lease payments	**(0.9)**	(0.8)
Income tax paid	**(35.6)**	(44.5)
One-off items – financing	**(31.4)**	–
Disposal of available-for-sale investments	**2.1**	0.1
Free cash flow	**47.9**	65.9

32. Business combinations

The group purchased the trade and assets of Western Exterminator, a pest control and distribution business on the West coast of the USA, on 10 December 2012 in order to expand the group's service footprint in the USA. The group also purchased 100% of the share capital or the trade and assets of 17 smaller companies and businesses. The total consideration in respect of all acquisitions was £95.4 million and the cash outflow from current period acquisitions, net of cash acquired, was £83.7 million.

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

	Western Exterminator £m	Other £m	2012 £m
Purchase consideration:			
– Cash paid	**57.1**	**25.2**	**82.3**
– Contingent and deferred consideration	**4.3**	**8.8**	**13.1**
Total purchase consideration	**61.4**	**34.0**	**95.4**
Fair value of net assets acquired	**(55.6)**	**(13.7)**	**(69.3)**
Goodwill from current year acquisitions	**5.8**	**20.3**	**26.1**

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

Contingent consideration up to a maximum of £6.1 million is payable over the next three years based on earn out conditions on revenue, profit and customer retention. Deferred consideration of £8.5 million is payable over the next three years. The group has included the contingent and deferred consideration based on the fair value of consideration at the acquisition date.

The group incurred acquisition related costs of £2.0 million in respect of the above acquisitions.

The provisional fair value[1] of assets and liabilities arising from acquisitions in the year are as follows:

	Western Exterminator £m	Other £m	2012 £m
Non-current assets			
– Intangible assets	**44.0**	**13.5**	**57.5**
– Property, plant and equipment	**7.4**	**1.8**	**9.2**
Current assets[2]	**15.1**	**7.5**	**22.6**
Current liabilities	**(10.4)**	**(6.3)**	**(16.7)**
Non-current liabilities[3]	**(0.5)**	**(2.8)**	**(3.3)**
Net assets acquired	**55.6**	**13.7**	**69.3**

1 the provisional fair values will be finalised in the 2013 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 trade and other receivables of £15.7 million (Western Exterminator: £9.8 million; Other: £5.9 million) which represents the gross and fair value of the assets acquired
3 includes £2.3 million of deferred tax relating to acquired intangibles (Western Exterminator: £nil; Other: £2.3 million)

The £57.5 million of intangible assets acquired relate to customer lists and relationships £47.7 million (Western Exterminator: £34.3 million; Other: £13.4 million), brands £9.7 million (Western Exterminator: £9.7 million; Other: £nil) and computer software £0.1 million (Western Exterminator: £0.1 million; Other: £nil).

The 2011 comparative information is adjusted retrospectively to reflect changes in fair values of acquired assets and liabilities and consideration in respect of provisional assets and liabilities recorded as at 31 December 2011, as follows:

	2011 Adjustment £m
Purchase consideration:	
– Consideration (refunded)	(0.9)
– Contingent consideration	(1.4)
Total purchase consideration	(2.3)
Fair value of net assets acquired	–
Goodwill on prior-period acquisitions	(2.3)

The adjustments to fair value of assets and liabilities in respect of prior-period acquisitions are as follows:

	2011 Adjustment £m
Non-current assets	
– Property, plant and equipment	0.7
Current liabilities	(1.2)
Non-current liabilities (deferred tax)	0.5
Net assets acquired	–

	Western Exterminator £m	Other £m	2012 £m
Total purchase consideration	**61.4**	**34.0**	**95.4**
Consideration payable in future periods	**(4.3)**	**(8.8)**	**(13.1)**
Deferred consideration from current period paid	**–**	**0.8**	**0.8**
Purchase consideration (paid in cash)	**57.1**	**26.0**	**83.1**
Debt/(cash and cash equivalents) in acquired companies and businesses	**0.2**	**(0.8)**	**(0.6)**
Cash outflow on current period acquisitions	**57.3**	**25.2**	**82.5**
Deferred consideration from prior periods paid	**–**	**2.1**	**2.1**
Prior period consideration refund	**–**	**(0.9)**	**(0.9)**
Cash outflow on current and past acquisitions	**57.3**	**26.4**	**83.7**

From the dates of acquisition to 31 December 2012, these acquisitions contributed £19.4 million to revenue and £1.5 million to operating profit.

If the acquisitions had occurred on 1 January 2012, the revenue and operating profit of the combined entity would have amounted to £2,669.3 million and £151.8 million respectively.

33. Contingent liabilities

The group has contingent liabilities relating to guarantees in respect of pensions, third parties, environmental issues and tax and litigation, none of which are expected to give rise to any significant loss.

34. Capital commitments

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

	2012 £m	2011 £m
Property, plant and equipment	**20.1**	15.3
Intangible assets	**4.0**	1.8
	24.1	17.1

35. Operating leases

The group leases properties, vehicles, plant and equipment under non-cancellable operating lease agreements. The leases have varying terms, escalation clauses and renewal rights. The lease expenditure charged to the income statement during the year is disclosed in Note 2.

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	2012 £m	2011 £m
Not later than one year	**55.6**	54.1
Later than one year and not later than five years	**119.3**	138.4
Later than five years	**41.4**	55.9
	216.3	248.4

36. Related party transactions

The group's strategy and policy are managed by the executive board (executive directors and senior management as shown on pages 40 to 41). Their compensation and the compensation payable to the non-executive directors is shown below:

	2012 £m	2011 £m
Salaries and other short-term employee benefits	**5.4**	3.9
Post-employment benefits	**0.4**	0.4
Share-based payments	**2.1**	3.6
	7.9	7.9

Rentokil Initial (Pty) Ltd (74.9%), Yu Yu Calmic Co Ltd (50%), Rentokil Initial (B) Sdn Bhd (85%) and Rentokil Delta Libya for Environmental Protection JSCO (65%) are non-wholly owned subsidiaries of Rentokil Initial plc. All transactions between these entities and the group were transacted at arm's length during the ordinary course of business and have been eliminated on consolidation.

Nippon Calmic Ltd (49%) was an associate during 2012 and 2011 and its balances are disclosed in Note 13. There are no significant transactions between Nippon Calmic Ltd and other group companies.

The group recharges the Rentokil Initial Pension Scheme with costs of administration and independent pension advice borne by the group. The total amount of recharges in the year ended 31 December 2012 was £2.5 million (2011: £2.5 million).

The group has made a loan to a consortium of private investors which enabled them to purchase a 25.1% stake in the South African business. The group has a receivable from this consortium of £17.0 million (2011: £17.7 million) at the end of the year, classified as available for sale in Note 23. The loan is expected to be repaid during 2013.

37. Post balance sheet events

There were no significant post balance sheet events affecting the group since 31 December 2012.

Principal Operating Subsidiary and Associated Undertakings

At 31 December 2012

Subsidiary undertakings

UK
City Link Ltd
Dudley Industries Ltd
Initial Catering Services Ltd
Initial Facilities Management Ltd
Initial Medical Services Ltd
Knightsbridge Guarding Ltd
Lancaster Office Cleaning Company Ltd
Modus FM Ltd
Phoenix Fire Services Ltd
Rentokil Initial 1927 plc
Rentokil Initial Facilities Services (UK) Ltd
Rentokil Initial Holdings Ltd
Rentokil Initial Services Ltd
Rentokil Initial UK Ltd
Rentokil Insurance Ltd

Australia
Rentokil Initial Pty Ltd

Austria
Initial Austria GmbH
Initial Hygiene (Austria) GmbH
Rentokil Initial GmbH

Bahamas
Rentokil Initial (Bahamas) Ltd

Barbados
Rentokil Initial (Barbados) Ltd

Belgium
Ambius NV
Initial NV
Rentokil NV

Brazil
Asseio Saneamento Ambiental Ltda

Brunei
Rentokil Initial (B) Sdn Bhd (85%)

Canada
Ambius Inc
Rentokil Pest Control Canada Ltd

Czech Republic
Initial Ecotex sro

Denmark
Rentokil Initial A/S

Estonia
Rentokil Oü

Fiji
Rentokil Initial Ltd

Finland
Oy Rentokil Ambius AB
Oy Initial AB

France
Ambius SAS
Initial SAS
Rentokil Initial SAS
Technivap SAS

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

Greece
Rentokil Initial Hellas EPE

Guadeloupe
Rentokil Initial Guadeloupe Sarl

Guyana
Rentokil Initial Guyana Ltd

Hong Kong
Rentokil Initial Hong Kong Ltd
Po Hong Services Ltd

India
Rentokil India Pte Ltd

Indonesia
PT Calmic Indonesia
PT Rentokil Indonesia

Italy
Initial Italia Srl
Rentokil Italia Srl

Jamaica
Rentokil Initial (Jamaica) Ltd

Kenya
Rentokil Initial Kenya Ltd

Libya
Rentokil Delta Libya for Environmental Protection JSCO (65%)

Lithuania
UAB Dezinfa

Luxembourg
Initial Sàrl
R-Control Desinfections SA
Rentokil Luxembourg Sàrl

Malaysia
Rentokil Initial (M) Sdn Bhd

Martinique
Rentokil Initial Martinique Sarl

Mexico
Balance Urbano Contol de Plagas S.A. de C.V.

Netherlands
Ambius BV
Holland Herstel Groep/Ureco BV
Initial BV
Rentokil Initial BV

New Zealand
Rentokil Initial Ltd

Norway
Rentokil Initial Norge AS

People's Republic of China
Rentokil Tai Ming China Co Ltd

Philippines
Rentokil Initial (Philippines) Inc

Poland
Initial Matador Sp z.o.o.

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

Republic of Ireland
Initial Medical Services (Ireland) Ltd
Rentokil Initial Ltd
Singapore
Pesterminator Pte Ltd
Rentokil Initial Singapore Pte Ltd

Slovak Republic
Initial Textile Services Sro

South Africa
Rentokil Initial (Pty) Ltd (74.9%)

South Korea
Rentokil Initial Korea Ltd
Yu Yu Calmic Co Ltd (50%)

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

Sweden
Ambius AB
Initial Sverige AB
Rentokil AB
Sweden Recycling AB

Switzerland
Initial Schweiz AG
Rentokil Schweiz AG

Taiwan
Initial Hygiene Co Ltd
Rentokil Ding Sharn Company Ltd

Thailand
Rentokil Initial (Thailand) Ltd

Trinidad
Rentokil Initial (Trinidad) Ltd

Tunisia
CAP Tunis

Turkey
NB Çevre Sağlığı Sistemleri Ticaret ve Sanayi AS

UAE
Rentokil Initial Pest Control LLC

USA
Ambius LLC
J.C. Ehrlich & Co Inc

Vietnam
Rentokil Initial (Vietnam) Co Ltd

Associated undertakings

Japan
Nippon Calmic Ltd (49%)

The activities of the major subsidiaries are referred to in the Business Review on pages 19 to 24.

Notes:
1 Rentokil Initial plc owns directly 100% of the shares of Rentokil Initial Holdings Ltd and indirectly 100% of the shares in all subsidiaries except where a lower percentage is shown
2 undertakings operate and are incorporated in the country underneath which each is shown
3 the group's 50% interest in Yu Yu Calmic Co Ltd is consolidated as a subsidiary to reflect the group's control over this Company because of its shareholding, its involvement in the management and because the businesses are conducted under licence from the group
4 a full list of subsidiaries will be attached to the Company's annual return

Five-Year Summary

	2008 £m	2009 £m	2010 £m	2011 £m	**2012 £m**
Revenue from continuing operations	2,409.9	2,530.8	2,496.5	2,544.3	**2,546.3**
Operating profit/(loss) from continuing operations	82.1	119.3	61.5	(10.2)	**145.8**
Adjusted operating profit[1] from continuing operations	167.2	220.8	239.3	224.7	**222.8**
Profit/(loss) before income tax from continuing operations	22.8	65.0	14.5	(50.5)	**82.7**
Profit/(loss) for the year from continuing operations	16.4	48.9	(20.3)	(67.1)	**53.7**
Profit for the year from discontinued operations	5.0	–	–	–	**–**
Profit/(loss) for the year (including discontinued)	21.4	48.9	(20.3)	(67.1)	**53.7**
Profit/(loss) attributable to equity holders of the Company	18.8	47.6	(23.4)	(69.7)	**51.4**
Profit attributable to non-controlling interests	2.6	1.3	3.1	2.6	**2.3**
	21.4	48.9	(20.3)	(67.1)	**53.7**
Basic earnings per share:					
Continuing operations	0.76p	2.63p	(1.29p)	(3.84p)	**2.83p**
Continuing and discontinued operations	1.04p	2.63p	(1.29p)	(3.84p)	**2.83p**
Adjusted earnings per share[2] – continuing operations	4.31p	6.61p	7.81p	7.48p	**7.73p**
Dividends per 1p share	0.65p	–	–	1.33p	**2.10p**
Gross assets	2,396.9	2,001.0	1,801.5	1,798.9	**1,947.0**
Gross liabilities	(2,458.8)	(2,151.1)	(1,926.7)	(1,903.1)	**(2,096.1)**
Net (liabilities)/assets	(61.9)	(150.1)	(125.2)	(104.2)	**(149.1)**
Share capital	18.1	18.1	18.1	18.1	**18.1**
Reserves	(89.0)	(177.5)	(153.8)	(127.8)	**(173.9)**
Non-controlling interests	9.0	9.3	10.5	5.5	**6.7**
Capital employed	(61.9)	(150.1)	(125.2)	(104.2)	**(149.1)**

1 before amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items
2 earnings per share before the after tax effects of amortisation and impairment of intangibles (excluding computer software), reorganisation costs and one-off items
3 prior years' figures have not been restated for the effect of discontinued operations

Parent Company Balance Sheet

	Notes	2012 £m	2011 £m
Investments	4	**262.5**	260.5
Other investments	5	**56.1**	–
Derivative financial instruments (due after more than one year)	7	**48.1**	49.5
		366.7	310.0
Current assets			
Debtors – amounts falling due within one year	6	**278.8**	281.4
Debtors – amounts falling due after more than one year	6	**2,457.9**	2,457.9
Derivative financial instruments (due within one year)	7	**1.5**	–
Short-term deposits and cash		**117.3**	4.5
		2,855.5	2,743.8
Creditors – amounts falling due within one year			
Creditors	8	**(1,012.1)**	(1,138.4)
Bank and other borrowings	9	**(138.6)**	(28.3)
Derivative financial instruments	7	**(3.1)**	–
		(1,153.8)	(1,166.7)
Net current assets		**1,701.7**	1,577.1
Creditors – amounts falling due after more than one year			
Bank and other borrowings	9	**(1,107.8)**	(944.0)
Derivative financial instruments	7	**(36.3)**	(41.1)
		(1,144.1)	(985.1)
Net assets		**924.3**	902.0
Equity capital and reserves			
Share capital	10	**18.1**	18.1
Share premium	11	**6.8**	6.8
Profit and loss account	12	**899.4**	877.1
Capital employed		**924.3**	902.0

The financial statements on pages 123 to 129 were approved by the board of directors on 14 March 2013 and were signed on its behalf by:

Alan Brown
Chief Executive

Jeremy Townsend
Chief Financial Officer

Notes to the Parent Company Accounts

1. Accounting convention

The financial statements have been prepared under the historical cost convention as modified by the revaluation of certain financial assets and liabilities (including derivatives) and are in accordance with generally accepted accounting principles and standards in the UK and comply with the Companies Act 2006.

2. Principal accounting policies

Investments

Investments held as fixed assets are stated at cost less provision for any impairment. In the opinion of the directors the value of such investments are not less than shown at the balance sheet date.

Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost (where hedge accounting is not applied); any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Where fair value hedge accounting is applied, the borrowings are subsequently revalued at each balance sheet date and the difference is offset against the fair value movement of the derivative (the hedging instrument) in the profit and loss account.

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

Deferred tax

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the taxable profits and results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in periods different from those in which they are recognised in the financial statements.

A net deferred tax asset is regarded as recoverable and therefore recognised only when, on the basis of all the available evidence, it can be regarded as more likely than not that there will be suitable profits which the future reversal of the underlying timing differences can be deducted.

Deferred tax is not recognised when fixed assets are sold and it is more likely than not that the taxable gain will be rolled over, being charged to tax only if and when the replacement assets are sold. Neither is deferred tax recognised on overseas profits where there is no commitment to remit those profits to the UK.

Deferred tax is measured at the average rates that are expected to apply in the periods in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date. Deferred tax is measured on a non-discounted basis.

Pension commitments

Rentokil Initial plc is the sponsoring company of a multi-employer defined benefit pension scheme, Rentokil Initial Pension Scheme (RIPS).

An actuarial valuation of the defined benefit scheme is carried out every three years. The most recent actuarial valuation was at 31 March 2010. It was carried out using the projected unit credit method and the principal assumptions made by the independent professional actuary are disclosed in the consolidated financial statements of Rentokil Initial plc.

As the Company is unable to identify its share of the underlying assets and liabilities in RIPS, it treats the scheme on a defined contribution basis, in accordance with FRS 17, “Retirement Benefits”.

Financial instruments and risk management

The Company and group’s policy in respect of financial instruments and risk management are disclosed in the Accounting Policies section of the consolidated financial statements. Disclosures have been made on financial instruments as required by the Companies Act 2006.

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where the Company purchases the Company’s equity share capital (treasury shares), the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity attributable to the Company’s equity holders until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, is included in equity attributable to the Company’s equity holders.

Share-based compensation

The Company operates a number of equity-settled, share-based compensation plans. The economic cost of awarding shares and share options to employees is recognised as an expense in the profit and loss account equivalent to the fair value of the benefit awarded. The fair value of options over the Company's shares awarded to employees of subsidiary companies is treated as a capital contribution, resulting in an increase in investments. The fair value is determined by reference to option pricing models, principally Monte Carlo and adjusted Black-Scholes models. The charge is recognised in the profit and loss account over the vesting period of the award. At each balance sheet date, the Company revises its estimate of the number of options that are expected to become exercisable. Any revision to the original estimates is reflected in the profit and loss account with a corresponding adjustment to equity immediately to the extent it relates to past service and the remainder over the rest of the vesting period.

The proceeds received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium when the options are exercised.

Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the financial statements in the period in which the dividends are approved by the Company's shareholders. Interim dividends are recognised when paid. See Note 9 of the consolidated financial statements for details of dividends paid in the year.

3. Company profit and loss account

Under section 408 of the Companies Act 2006, a profit and loss account for the Company alone is not presented. The profit attributable to shareholders in the year was £47.5 million (2011: £87.2 million) which includes a special pension contribution of £12.5 million (2011: £nil), a charge of £1.3 million (2011: £0.8 million charge) in respect of exchange adjustments and £0.4 million (2011: £0.4 million) in respect of audit fees.

4. Investments

	2012 £m	2011 £m
At 1 January	**260.5**	257.8
Share-based payments to employees of subsidiaries	**2.0**	2.7
At 31 December	**262.5**	260.5

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

5. Other investments

	2012 £m	2011 £m
At 1 January	**–**	–
Additions	**56.1**	–
At 31 December	**56.1**	–
Held to maturity financial assets include the following:		
– Euro deposits	**56.1**	–

Other investments classified as held to maturity are held at amortised cost. Held to maturity financial assets are Euro deposits placed with counterparty banks receiving interest at a rate of 0.5% per annum. Other investments were not impaired in 2012 or 2011.

	2012 £m	2011 £m
Held to maturity financial assets are denominated in the following currencies:		
– Euro	**56.1**	–

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

6. Debtors

	2012 £m	2011 £m
Amounts falling due within one year:		
Amounts owed by subsidiary undertakings	**276.5**	279.0
Other debtors	**2.3**	2.4
	278.8	281.4
Amounts falling due after more than one year:		
Amounts owed by subsidiary undertakings	**2,457.9**	2,457.9

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

7. Derivative financial instruments

	Fair value assets 2012 £m	Fair value assets 2011 £m	Fair value liabilities 2012 £m	Fair value liabilities 2011 £m
Interest rate swaps:				
– non-hedge	**49.6**	49.5	**(38.2)**	(35.7)
– cash flow hedge	**–**	–	**(1.2)**	(5.4)
	49.6	49.5	**(39.4)**	(41.1)
Analysed as follows:				
Due within one year	**1.5**	–	**(3.1)**	–
Due after more than one year	**48.1**	49.5	**(36.3)**	(41.1)
	49.6	49.5	**(39.4)**	(41.1)

Cash flow hedge accounting has been applied to derivatives (marked as 'cash flow hedge') in accordance with FRS 26, "Financial Instruments: Measurement". Where no hedge accounting has been applied, related derivatives have been marked as 'non-hedge'. Any ineffectiveness on the cash flow hedges is taken directly to finance costs. There was no ineffectiveness to be recorded from net investment in foreign entity hedges or those derivatives in a cash flow hedge relationship.

Cash flow hedge accounting was applied to floating to fixed interest rate swaps relating to the group's £50 million and £75 million bonds. A net credit of £4.0 million (2011: £1.2 million) has been recognised in reserves during the year of which £2.1 million (2011: £nil) relates to the discontinuation of hedge accounting on the £75 million interest rate swap at the point that the debt was repaid (Note 20 of the consolidated financial statements).

8. Creditors – amounts falling due within one year

	2012 £m	2011 £m
Amounts due to subsidiary undertakings	**1,011.8**	1,137.9
Other creditors	**0.3**	0.5
	1,012.1	1,138.4

9. Bank and other borrowings

	2012 £m	2011 £m
Amounts falling due within one year	**138.6**	28.3
Amounts falling due after one year	**1,107.8**	944.0

Current and non-current loans include £80.6 million (2011: £28.3 million) and £1,107.8 million (2011: £854.0 million) respectively of notes issued under the Company's 2.5 billion Euro Medium Term Note programme.

Medium term notes and bond debt comprises:

	Bond interest coupon	Effective hedged interest rate
Non-current		
£300m bond due March 2016	Fixed 5.75%	Fixed 4.47%
€500m bond due September 2019	Fixed 3.375%	Fixed 3.49%
€500m bond due March 2014	Fixed 4.625%	Fixed 4.98%
Current		
£50m bond due September 2013	Floating 3 month LIBOR + 3.25%	Fixed 7.34%
Average cost of bond debt at year end rates		4.39%

The Company has two committed Revolving Credit Facilities, a £270 million facility expiring in December 2016 and a £240 million facility expiring in December 2014. Both facilities accrue interest at LIBOR for the period drawn plus a margin. The cost of borrowing under the group's Revolving Credit Facilities at the year end was 1.5%.

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

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

10. Share capital

	2012 £m	2011 £m
Authorised		
4,100,000,000 ordinary shares of 1p each	**41.0**	41.0
Issued and fully paid:		
At 1 January and 31 December – 1,814,831,011 shares of 1p each (2011: 1,814,831,011)	**18.1**	18.1

At 31 December 2012 the following options had been granted and remain outstanding in respect of the Company's ordinary shares of 1p each under the Company's share option schemes:

	Granted	Exercise period	Exercise price (p)	Number of shares
Executive schemes	2003	2006–2013	204.500	816,287
	2004	2007–2014	152.000	1,341,222
				2,157,509

Performance Share Plan

The Company introduced a new share-based Performance Plan in 2006 and granted 16,593,718 shares at various dates throughout 2012.

Year of grant	Vesting year	Scheme interest at 1 January 2012	Shares awarded during 2012	Shares vested during 2012	Shares lapsed during 2012	Outstanding at 31 December 2012	Shares exercisable at 1 January 2012	Shares exercised during 2012	Shares exercisable at 31 December 2012
2008	2011	–	–	–	–	–	689,474	309,152	380,322
2009	2012	9,563,748	–	–	9,563,748	–	–	–	–
2010	2013	9,162,919	–	–	790,183	8,372,736	–	–	–
2011	2014	13,716,294	–	–	1,064,012	12,652,282	–	–	–
2012	2015	–	16,593,718	–	443,924	16,149,794	–	–	–

2008 Share Incentive Plan

In 2008 the Company also introduced a long-term incentive plan for the Chairman, Chief Executive and one other Executive director and granted 22,500,000 shares during the year.

Year of grant	Exercise period	Scheme interest at 1 January 2012	Shares vested during 2012	Shares outstanding at 31 December 2012 and still subject to performance criteria	Shares exercisable at 1 January 2012	Shares released during 2012	Shares exercisable at 31 December 2012	Shares vested but not yet exercisable at 31 December 2012
2008	2011–2013	14,753,250	–	14,753,250	2,618,485	2,618,485	5,236,970	2,618,485

For more information regarding the Company's share option schemes, Performance Share Plan and 2008 Share Incentive Plan see Note 28 of the consolidated financial statements.

11. Share premium

	2012 £m	2011 £m
At 1 January and 31 December	**6.8**	6.8

12. Profit and loss account

	2012 £m	2011 £m
At 1 January	**877.1**	782.4
Profit for the financial period (Note 3)	**47.5**	87.2
Share-based payments charged to profit and loss	**1.9**	3.6
Share-based payments debited to investments	**2.0**	2.7
Movement on cash flow hedge	**1.9**	1.2
Recycling of cash flow hedge reserve on settlement	**2.1**	–
Net exchange adjustments offset in reserves	**3.1**	–
Dividends paid to equity shareholders	**(36.2)**	–
At 31 December	**899.4**	877.1

Treasury shares of £11.1 million (2011: £11.1 million) have been netted against retained earnings. Treasury shares represent 6.1 million (2011: 6.4 million) shares held by the Rentokil Initial Employee Share Trust. The market value of these shares at 31 December 2012 was £5.9 million (2011: £4.0 million). Dividend income from, and voting rights on, the shares held by the Trust have been waived.

13. Contingent liabilities

The Company has provided guarantees in respect of bank and other borrowings held by its subsidiary undertakings. In addition, there are contingent liabilities in respect of litigation, none of which are expected to give rise to any material loss.

14. Employees

The Company has six employees (2011: seven employees). For information on employee costs, see Note 36 of the consolidated financial statements. Services for finance, taxation, treasury, legal, HR and IT are provided by Rentokil Initial 1927 plc and recharged to the Company.

15. Pension commitments

At 31 December 2012 the RIPS pension asset under IAS 19, “Employee Benefits” amounted to £96.9 million (2011: £144.0 million). The directors are of the opinion that there is no material difference between an FRS 17, “Retirement Benefits” and an IAS 19 valuation. For more information on pension commitments, see Note 26 of the consolidated financial statements.

16. Share-based payments

Share-based payments for the financial period were £3.9 million (2011: £6.3 million) of which £1.9 million (2011: £3.6 million) was charged to the profit and loss account and £2.0 million (2011: £2.7 million) debited to investments. Share options relating to the board are disclosed in the Directors’ Remuneration Report and detailed share-based payment disclosures are shown in Note 28 of the consolidated financial statements.

17. Related party transactions

The Company has not undertaken any transactions with related parties during the year, other than transactions with wholly owned fellow members of Rentokil Initial plc. Such transactions are exempt from disclosure under FRS 8. There were no transactions with non-wholly owned fellow members of Rentokil Initial plc.

18. Post balance sheet events

There were no significant post balance sheet events affecting the Company since 31 December 2012.

Independent Auditor's Report to the Members of Rentokil Initial plc

We have audited the financial statements of Rentokil Initial plc for the year ended 31 December 2012 set out on pages 74 to 120 and 123 to 129.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice).

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006.

Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of directors and auditor

As explained more fully in the Directors' Responsibilities Statement set out on page 59, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate

Opinion on financial statements

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the Parent Company's affairs as at 31 December 2012 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the EU;
- the Parent Company financial statements have been properly prepared in accordance with UK Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are required to report by exception

We have nothing to report in respect of the following:

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

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

Under the Listing Rules we are required to review:

- the directors' statement, set out on page 58, in relation to going concern;
- the part of the Corporate Governance Statement on page 39 relating to the Company's compliance with the nine provisions of the UK Corporate Governance Code specified for our review; and
- certain elements of the report to shareholders by the board on directors' remuneration.

Simon Figgis (Senior Statutory Auditor)
for and on behalf of KPMG Audit Plc, Statutory Auditor
Chartered Accountants
15 Canada Square
London
E14 5GL
14 March 2013

Shareholder Information

2013 Key dates

Preliminary results	15 March 2013
Q1 trading update	03 May 2013
Annual general meeting	15 May 2013
Interim results	02 August 2013
Q3 trading update	08 November 2013

Registrars

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

Capita Registrars ('Capita')
The Registry
34 Beckenham Road
Beckenham
Kent
BR3 4TU

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

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

Email: ssd@capitaregistrars.com

Capita share portal

An online service at www.capitashareportal.com gives shareholders access to more detailed information including;

- Cast your proxy vote online
- View your holding balance, any movements on your holding and get an indicative valuation
- View the dividend payments you have received and register/ change bank mandate instructions
- Update your address and contact details
- Elect to receive shareholder communications electronically

The Share Portal has a dedicated helpline and email for enquiries:

- Telephone (from the UK): 0871 664 0391
(Calls cost 10p per minute plus network extras, lines are open 8.30 a.m. to 5.30 p.m. Mon-Fri.)
- Telephone (from overseas): +44 20 8639 3367
(Call charges depend on local network rates, lines are open 8.30 a.m. to 5.30 p.m. Mon-Fri.)
- Email: shareportal@capita.co.uk

Share dealing services

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

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

- Telephone share dealing: 0871 664 0454 (Calls cost 10p per minute plus network extras, lines are open 8.00 a.m. to 4.30 p.m. Mon-Fri.)
- Online share dealing: www.capitadeal.com

ShareGift

Shareholders with small holdings in shares, whose value makes them uneconomical to sell, may wish to donate them to ShareGift (registered charity no. 1052686). Further information about ShareGift and the charities it supports may be obtained from their website www.sharegift.org or by calling +44 (0) 20 7930 3737.

Share price information and history

The primary listing is on the London Stock Exchange and the current price of the Company's shares is available on the Company's website at www.rentokil-initial.com

Mid-market price 31 March 1982 – 7.5375p*
(* adjusted for the 1983 bonus issue and the 1990, 1992, and 1997 share splits)

Mid-market price 31 December 2012 – 95.75p

2012 high/low – 96.3p/63.55p

Dividend history

	Payment date	Payment rate	Record date	Year-end date
2012 Interim Dividend	26 Oct 2012	0.67p	14 Sep 2012	31 Dec 2012
2011 Final Dividend	15 May 2012	1.33p	10 Apr 2012	31 Dec 2011
2010 Final Dividend	No Final Dividend			
2009 Final Dividend	No Final Dividend			
2008 Final Dividend	No Final Dividend			
2008 Interim Dividend	17 Oct 2008	0.65p	12 Sep 2008	31 Dec 2008
2007 Final Dividend	23 May 2008	5.25p	18 Apr 2008	31 Dec 2007
2007 Interim Dividend	19 Oct 2007	2.13p	14 Sep 2007	31 Dec 2007
2006 Final Dividend	18 May 2007	5.25p	13 Apr 2007	31 Dec 2006
2006 Interim Dividend	27 Oct 2006	2.13p	29 Sep 2006	31 Dec 2006
2005 Final Dividend	02 Jun 2006	5.25p	05 May 2006	31 Dec 2005
2005 Interim Dividend	28 Oct 2005	2.13p	30 Sep 2005	31 Dec 2005

Dividend reinvestment plan

This is a convenient way to build up your shareholding by using your cash dividends to buy more shares in the Company. If you would prefer to receive shares for your next dividend instead of cash please complete an application online at www.capitashareportal.com or call the Capita IRG Trustees on 0871 664 0381 from the UK. (Calls cost 10p per minute plus network extras, lines are open 9.00 a.m. to 5.30 p.m. Mon-Fri.) or +44 20 8639 3402 from overseas.

American depository receipts ('ADR')

Rentokil Initial plc has an ADR programme that trades on the over-the-counter market in the United States. This is a sponsored Level 1 ADR programme for which the the Bank of New York Mellon acts as Depositary. Each ADR is equivalent to five Rentokil Initial plc ordinary shares. For shareholder enquiries, please contact:

The Bank of New York Mellon, Shareowner Services
PO. Box 358516
Pittsburgh
PA 15252-8516
USA
Email: shrrelations@bnymellon.com
www.bnymellon.com/shareowner

Indirect owners of shares with "information rights"

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

Share fraud warning (boiler room scams)

The Company is aware that Rentokil Initial shareholders have received unsolicited telephone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders out of the blue and offer shares that often turn out to be worthless or non-existent, or an inflated price for shares they own. While high profits are promised, those who buy or sell shares in this way usually lose their money. These operations (mostly based abroad) are commonly known as "boiler rooms". These "brokers" can be very persistent and extremely persuasive.

Tips on protecting your shares:

- Get the correct name of the person and organisation contacting you
- Check that they are properly authorised by the FSA before getting involved by visiting the FSA register: www.fsa.gov.uk/fsaregister
- Report the matter to the FSA helpline by calling 0845 606 1234 or by filling in an unauthorised firms reporting form on the FSA website: http://www.fsa.gov.uk/pages/doing/Regulated/Law/Alerts/form.shtml
- If the calls persist, hang up

Unsolicited mail

The Company is legally obliged to make its register of members available, subject to a proper purpose test, to the public. As a consequence of this, some shareholders may receive unsolicited mail. Shareholders wishing to limit the amount of such mail should write to the Mailing Preference Service (MPS) at:

MPS FREEPOST LON20771
London W1E 0ZT
or call on 0845 703 4599
or online at www.mpsonline.org.uk

Annual general meeting

To be held at the Sofitel London Gatwick (Desoutter Suite), North Terminal, Gatwick Airport, Crawley, West Sussex RH6 0PH on Wednesday 15 May 2013 at 12 noon. The notice of meeting is available on the Company's website: www.rentokil-initial.com

Registered office and headquarters

Rentokil Initial plc, 2 City Place, Beehive Ring Road,
Gatwick Airport, West Sussex, RH6 0HA
Telephone: +44 (0) 1293 858000

Contact: investor@rentokil-initial.com
Company website: www.rentokil-initial.com
Registered in England and Wales, No. 5393279

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